**Quarterly Report (Q4– 2022)**

**-Arvind Krishna Report Date: Mar 14, 2023**

**VRTX**

Vertex beat Q4 estimates for earnings & sales. **Q1 -2023 Earnings Announcement Expected:** 5/3/2023.

The stock has outperformed the industry in the past year. Vertex’s shares have risen 27.9% in the past year against a decrease of 7.4% for the industry

Percentage change in Sales from year ago quarter: 11.1%

Percentage change in Earnings per Share from year ago quarter: 5.0%

**Is company meeting our target sales & earnings estimates?** Vertex beat Q4 estimates for earnings and sales. For 2022, Vertex generated revenues of $8.9 billion, reflecting 18% growth year over year. For the same period, the company reported earnings of $14.88 per share, up 54% year over year.

On Feb 1, Vertex’s board of directors approved a new share repurchase program, authorizing repurchase of up to $3.0 billion of its common Stock.

**SSG Sales 2 yrs. Estimate** +08.3%

**SSG EPS LT estimate** +47.7%

Pre-tax Profit on sales trend? **UP**

Return on equity trends? **Down**

Debt? (Up, even, down) **Down**

5 Yr. LT Historical Sales Forecast: 10% (14,383) Historical EPS Forecast: 6.3% (17.40) Calculated based on Preferred Procedure Method

Current P/E is **22.9** where does it fall in my estimated High/Low range of P/E's? **In-line with High**

Signature (Average) P/E = (**22.4** Corrected with deleting High and Low P/Es for 2017 & 2019)

**Dividend Yield:** None

MICNOVA Club cost basis: **$220.20** Current Price (3/14/2023) is **$294.33**

(From latest valuation) 52 WK. Range: **$233.01** (2022) **- $325.19** (2022)

**Morningstar** Current Fair Value (2/8/23): **$306** – **3 star** (2/8/23) **HOLD**

**CFRA 12 - Month Target (**3/11/23**): $337.0 Fair Value Calculation (**3/11/23**): $473.85 – 4 star – BUY**

**VL (12/2/2022)** 18-Month Target Price Range Low-High Midpoint (% to Mid) $252-$459 - Mid Pt $356 (20%) **2026-28 PROJECTIONS** Ann’l Total Price Gain Return High 445 (+50%) 11% Low 325 (+10%) 3%

**ZACK:** 6 – 12 Months target - $308 **(**2/17/23**) Recommend: Neutral**

**Fidelity Equity Ratings: Bullish Schwab Rating: HOLD**

**Reuters: Outperform** – Buy **ARGUS 12 mo. Rating** - BUY

**Manifest Investing (3/14/23):** Quality – 55; PAR – 7.2%; Financial – 84; EPS - 42 CAPS rating: 4 star

**My SSG Results – HOLD (3/14/23)** Forecasted Low Price: **$231** High Price: **$452**

Total Return (HIGH P/E) is **9.0%**  Projected Return (AVG. P/E) is **5.5%**

Upside downside Ratio: **2.5 to 1** Market Appreciation based on Forecasted High Price: **54.2%**

Buy price to satisfy US/DS of 3 to 1 (15% return): **$225; Recommend BUY at or below: $286**

**SSG Recommendation: HOLD –** .**Buy Zone** is from $231 - $286; **Hold Zone** is from $286 - $397

**Sell Zone** is from $397 - $452

**What Will Drive Future Growth?**

**ZACK** (2/17/23**)** –Vertex’s CF sales continue to grow driven by its triple therapy, Trikafta/Kaftrio. New reimbursement agreements in ex-U.S. markets and label expansions to younger age groups in US are driving its sales higher. Consistent Rise in CF Product Sales; Strong CF Portfolio; Rapidly Progressing Non-CF Pipeline; Collaborations Broadening Pipeline; and Favorable Debt Profile:

**Negatives:** VRTX dependence on just the CF franchise for growth is concerning. Several other companies are working on bringing their CF products to market. Competing Therapies are in Development. Any set backs on the pipeline/regulatory front on non CF therapies undergoing clinical trials can have an adverse impact on shares

**VL** (03/03/2023) **–** Efforts to bolster the core CF franchise continue. Other R&D programs beyond CF are making headway, too. Good-quality Vertex stock is timely. But, while an expanding CF lineup and other pipeline opportunities should boost profits out to 2026-2028, the issue’s appreciation potential is unexciting at this price.

**CFRA** (3-11-23) **–** VRTX has a dominant, first mover advantage in cystic fibrosis (CF) treatment, complemented by potential early- to mid-stage clinical programs outside of CF. Strong patient reliance on VRTX’s CF drugs (TRIKAFTA/KAFTRIO) and currently limited competition to the CF franchise support the cost of diversifying into non-CF businesses. VRTX’s non-CF pipeline includes promising therapeutics in 6 disease areas. CFRA are particularly  
optimistic about CTX001, a potential one-time cure for sickle cell disease. CFRA also see continued opportunities for Trikafta to outperform consensus expectations as VRTX obtains additional reimbursement agreements outside the U.S. and expands the treatable population.

**NEGATIVES**: Risks to CFRA opinion and target price include unfavorable regulatory rulings, the emergence of competitive threats (including Abbvie’s potential CF drug), weaker-than-expected margins, and pricing or reimbursement pressures. While there is some risk from competing CF drugs, VRTX has an advantage.

**MS (Bulls) 2-**28-23 – The firm's CF therapies are poised to dominate the lucrative market for the foreseeable future, based on the disease-modifying potential of the drugs, chronic use by patients, and limited competition. Vertex's leading drug candidates were mostly discovered in-house, lending credibility to its drug-discovery technology and potential to generate additional pipeline candidates. Vertex's combination therapies have lengthy patents, protecting the profitable CF portfolio from generics.

**MS (BEARS)** - Vertex is highly dependent on the success of its cystic fibrosis franchise, and it could fail to diversify if its other pipeline candidates are not successful. Pricing pressure could erode returns, given the high price tag of Vertex's therapies. Gene-editing programs could disrupt Vertex's hold in the CF market.

**ECONOMIC MOAT: Narrow**

Vertex's portfolio of patent-protected CF drugs forms the basis of narrow economic moat. The company is well supported by lengthy patent protections extending as far as 2037 and first mover status in the lucrative CF market. Additionally, Vertex holds significant patient share as nearly 50% of patients worldwide are currently treated for CF using its medicines.