



Date: November 19, 2020

Chimerix P/B: 0.97

Company Ticker: CMRX

Sector P/B: 2.39

Sector: Health Care

Market Price: \$3.41

Industry: Biotechnology

Forecasted Price: \$1.42

Recommendation: SELL

Company Summary:

Chimerix is a drug company located in Durham, North Carolina that specializes in creating drugs that help fight off deadly diseases. Chimerix has currently been struggling over the past several years while they have pushed for research into new drugs that could potentially bring them massive amounts of revenue over the next 7-8 years. Chimerix currently has two different drugs in the FDA pipeline that will most likely be cleared. The first of these drugs is BARDA, a smallpox antiviral that is in the final round of FDA screening, and DSTAT, a COVID related drug that would help patients with acute lung inflammation. We have projected that both of these drugs would bring Chimerix upwards of 60 million dollars of revenue for each of the next eight years that they are protected. This new pipeline of revenue will be well received by the executives at Chimerix who have been struggling for the past several years.

Industry Outlook:

The Healthcare industry is a very interesting industry right now. Because of the nature of the pandemic there is a push towards companies that specialize in drug manufacturing and PPE to combat the virus, and a pushing away from expensive hardware companies that a hospital/ clinic would do business with during a normal year. The reason for this odd dynamic is quite simple. The Healthcare industry in allocating a large amount of their funds to combat the Corona Virus which streamlines a lot of resources to companies that are actively battling the virus. Companies that are not currently fighting the virus head-on are forced to wait until the virus recedes.

Earnings Forecast:

	FY 2018A	FY 2019A	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E
Revenues:							
Revenues	\$ 7,216.00	\$ 12,519.00	\$ 5,286.00	\$ 63,622.00	\$ 63,622.00	\$ 63,622.00	\$ 63,622.00
Operating expenses:							
Research and development	\$ 55,239.00	\$ 42,288.00	\$ 41,908.00	\$ 41,908.00	\$ 41,908.00	\$ 41,908.00	\$ 41,908.00
General and administrative	\$ 23,582.00	\$ 21,169.00	\$ 17,503.00	\$ 17,503.00	\$ 17,503.00	\$ 17,503.00	\$ 17,503.00
Acquired in-process research and development	\$ 0.00	\$ 65,045.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Total operating expenses	\$ 78,821.00	\$ 128,502.00	\$ 59,411.00	\$ 59,411.00	\$ 59,411.00	\$ 59,411.00	\$ 59,411.00
Loss/Gain from operations	\$ (71,605.00)	\$ (115,983.00)	\$ (54,125.00)	\$ 4,211.00	\$ 4,211.00	\$ 4,211.00	\$ 4,211.00
Other income:							
Interest income and other, net	\$ 2,131.00	\$ 3,407.00	\$ 5,538.00	\$ 2,769.00	\$ 2,769.00	\$ 2,769.00	\$ 2,769.00
Net Gain/ (Loss)	\$ (69,474.00)	\$ (112,576.00)	\$ (48,587.00)	\$ 6,980.00	\$ 6,980.00	\$ 6,980.00	\$ 6,980.00
Other comprehensive loss:							
Unrealized gain (loss) on investments, net	\$ 871.00	\$ 127.00	\$ 998.00	\$ 499.00	\$ 499.00	\$ 499.00	\$ 499.00
Comprehensive loss	\$ (68,603.00)	\$ (112,449.00)	\$ (47,589.00)	\$ 7,479.00	\$ 7,479.00	\$ 7,479.00	\$ 7,479.00
Earnings Per Share							
Net loss, basic and diluted (in USD per share)	\$ (1.43)	\$ (2.03)	-\$0.3838	\$0.1206	\$0.1206	\$ 0.1206	\$ 0.1206
Weighted-average shares outstanding, basic and diluted (in shares)	\$ 48,593.44	\$ 55,501.97	62,000	62,000	62,000	62,000	62,000

Chimerix's earnings forecast is driven by its' revenue calculation that is quite complex in nature. The revenue calculation is as follows. Chimerix's drug sales account for almost the entirety of their revenue in a given year. BARDA, Chimerix's smallpox antiviral is reaching the final stages of FDA approval and is expected by all investors to hit the market in the beginning of 2021. Chimerix expects that this will generate somewhere between \$300 and \$500 million dollars over the next 6 to 7 years. DSTAT is different in the fact that it is still in Phase 2 of the FDA's screening process. There is only a 48.6% chance that drugs are released from the market when they are in phase 2

of this process. With this being said DSTAT is projected to make Chimerix anywhere from \$80-\$100 million dollars over the next 6-7 years. The future Revenues were calculated by taking the probability that drug would be cleared by the FDA and multiplying that by expected revenue, and then dividing by number of useful years. R&D and G&A were calculated by taking their averages but putting an extra emphasis on the last half year because it more accurately reflects the R&D Cost of BARDA which is nearly finished.

Valuation:

Valuation					
	<u>FY 2020 E</u>	<u>FY 2021 E</u>	<u>FY 2022 E</u>	<u>FY 2023 E</u>	<u>FY 2024 E</u>
Net Income	\$ (11,897.25)	\$ 7,479.00	\$ 7,479.00	\$ 7,479.00	\$ 7,479.00
+ D&A	1.00	4.00	4.00	4.00	4.00
- Capex	-2.00	-8.00	-8.00	-8.00	-8.00
- Change in NWC	0.09	40.36	7.71	-3.86	1.93
+ Change in Debt Balance	0	0	0	0	0
FCFE	\$ (11,898.16)	\$ 7,515.36	\$ 7,482.71	\$ 7,471.14	\$ 7,476.93
PV of FCFE	-11625.68	6693.32	6074.42	5528.24	386.79
Terminal Value	120,401.42				
Sum of Discounted FCFE	7057.10				
Discounted Terminal Value	81,205.46				
Equity Value	88,262.56				
Shares Outstanding	62000				
Target Share Price	1.42				
Current Share Price	3.44				
Recommendation	Sell				

The long term growth rate that we used while valuing Chimerix is the standard 3.5% and the discount rate that we were able to calculate for the Healthcare industry was 9.71% after using these different variables we were able to calculate the Equity Value of the company which we divided by the number of shares outstanding. After doing this we found a target price of \$1.42. After finding this number me and my groupmates were skeptical about the outcome and ran a more aggressive analysis which ended up giving us very similar results. The current share price of Chimerix is \$3.44.

Sensitivity Analysis:

Sensitivity Analysis		Target Price
		\$ 1.42
	9.0%	1.639
Discount Rate	9.7%	1.424
	10.0%	1.349

After running the sensitivity analysis, we found that Chimerix was quite sensitive to change.

Conclusion:

In conclusion we believe that we should sell Chimerix. Even though Chimerix is bound to bring in a large amount of revenue in the future we believe that their R&D costs are too high and offset the amount of revenue that they are generating. The R&D cost was calculated by using a historical average.