



FEATURED OPTIONS RADAR REPORT



Vertex Pharma Bulls Position into Sell-Off Opportuntiy

Ticker/Price: VRTX (\$215)

Analysis:

Vertex Pharmaceuticals (VRTX) with a 20.7% decline on 10/15 as the VX-814/AAT program failed and ended development but some large trades came in thinking the move was an over-reaction. In particular the January \$220 puts were sold to open 2000X for over \$4M while 1000 of the \$250/\$280 call spreads were bought, a name that otherwise lacks any notable open interest. VRTX shares fell to a notable level, a 38.2% retracement of the 2016/2020 range at \$216 as a potential level to hold as support though a 50% retracement lines up with trend support and a retest of the key range breakout from 2019 at the \$188 level. The \$55.8B Biotech now trades 19X Earnings, 21.8X FCF and 10.3X Sales. VRTX has been a best-in-class operator for a few years delivering strong results every quarter with revenues hitting \$4.16B in 2019 from \$1B in 2015 and seen rising to \$6B in 2020. VRTX has a dominant position with its Cystic Fibrosis (CF) franchise. VRTX is also partnered with CRSP in a gene editing program for beta-thalassemia and sickle cell disease. Analysts have an average target of \$305 and short interest low at 1.3% of the float. Truist defended shares this morning with a \$305 target reducing \$1B in sales from its model and sees no credit given to its pipeline with multiple readouts over the next 12 months. JPM notes that it was a major disappointment and will take some successes in the pipeline to rebuild confidence for the next leg of growth to the VRTX story. Citi called the weakness a buying opportunity seeing far value for shares at \$260-\$270 for the CF franchise alone and though the AAT program was worth no more than \$10-\$15 per share. VRTX should still deliver strong numbers from Trikafta with the EU launch a likely driver of upside to estimates. CSFB noted in July VRTX is the most insulated Biotech from COVID issues. Phase 1/2 CTX001 CRISPR/Cas9 gene editing data in transfusion-dependent beta thalassemia and severe sickle cell disease was positive and Goldman sees a 60% chance of success for that program. Hedge Fund ownership fell 7% in Q2 filings.

Hawk Vision:



Hawk's Perspective: VRTX certainly looks like an opportunity to own a top large cap Biotech franchise on this over-reaction though ideal entry is \$190 the \$215 may be worth 1/2 entry for those wanting to build a long term position, or can utilize put sales.

Confidence Ranking: \$\$