



Agios Bulls Positioning, Potential Biotech M&A Target

Ticker/Price: AGIO (\$44.80)

Analysis:

Agios Pharma (AGIO) with bullish activity this week as August \$55 calls bought 2500X to open on 2/27 at \$4 and came after 2500 of the May \$40 puts were sold to open on 2/26. AGIO shares are pulling back to near the 200 day MA and the low-end of its 2020 range. AGIO did a secondary offering in late 2019 and the CEO bought \$1.25M in stock and a Director purchased \$250K. The \$3.1B Biotech trades 5.5X Cash and 11X FY21 sales estimates with revenues seen growing 34% in 2020 and 67% in 2021. AGIO has three approved drugs (two with primary rights and one shared with CELG) with a focus on acute myeloid leukemia (AML). They also have a deep clinical pipeline with seven Phase 3 studies ongoing. AGIO recently unveiled its “2025 Vision” where it seeks expanding to 4 commercial medicines, expanding labels to 8 or more indications, and becoming cash flow positive. AGIO expects significant milestones in 2020, including “overall survival readout for our cholangiocarcinoma trial, and we’re proceeding to regulatory approval for that and IDH1 inhibition for cholangiocarcinoma. Very importantly, we will have data readouts on 3 indications for our first pyruvate kinase reaction activator molecule, mitapivat, where we expect readouts on our Phase -- 2 Phase III trials at the end of this year, and we expect data presentations at EHA in June for thalassemia and sickle cell disease, and then we’ll be discussing with you how we carry those programs forward.” Analysts have an average target of \$65 on shares and short interest elevated at 15% of the float. Jefferies out with a note this week noting AGIO as an attractive M&A target. Guggenheim upgrading to Buy on 9-23 stating that the current valuation reflects no value beyond Tibsovo and Idhifa. Even with more conservative estimates, he believes Tibsovo alone is worth \$35 per share and Idhifa royalties from Celgene (CELG) are worth \$4, giving the stock a one-year “floor valuation” of \$39 per share. Piper on 2/13 called AGIO a favorite for 2020 noting AGIO “could reacquire rights to Idhifa from Bristol-Myers (BMY) in the near-term, which would be” significantly value-creating. Further, thinks significant value is yet to be created with mitapivat and notes that positive AG-636 data could lead to another meaningful hemeonc opportunity. Hedge Fund ownership rose 12.3% in Q4 filings, Healthcor with a new buy.

Hawk Vision:



Hawk’s Perspective: AGIO is one of the more attractive opportunities in Biotech from a reward/risk perspective, and positioning via selling May \$40 puts to buy August upside call spreads would be a nice structure.

Confidence Ranking: \$\$