

Spin-Off Update

Alkermes (ALKS) Completes Spin-Off Of Mural Oncology (MURA) On November 15

Alkermes plc

Parent: Alkermes plc (NASDAQ: ALKS)

Sector: Consumer Discretionary

Target Price: \$32.00

Share Price: \$23.37*

Recommendation: Buy

Upside: 36.9%

Spin-Off: Mural Oncology Plc (NASDAQ: MURA)

Sector: Healthcare

Target Price: \$23.00 (Previously: \$30.00)

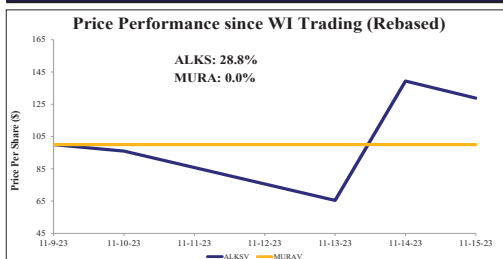
Share Price: \$3.80*

Recommendation: Long-Term Buy

Upside: 505.3%

*As of November 16, 2023

Price Performance



Source: Bloomberg

Spin-Off Details

Announced	April 18, 2023
Filing Date	October 10, 2023
Latest Form-10	October 26, 2023
Record Date	November 6, 2023
Distribution Date	November 15, 2023
WI Trading	November 9, 2023
RW Trading	November 16, 2023
Spin-Off Ratio	1:10
Tax Status	Tax-free
Index Impact	No Impact

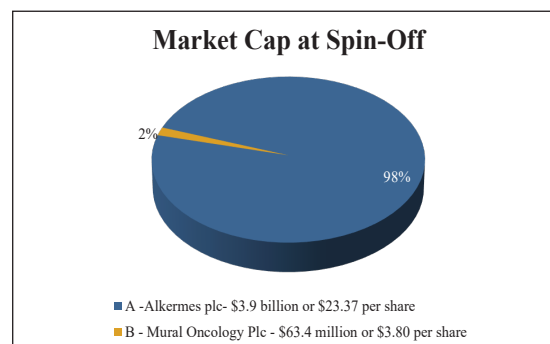
On April 18, 2023, Alkermes plc announced plans to spin-off Mural Oncology into a separate, publicly-traded company. **On November 15, 2023, Alkermes plc (NYSE: ALKS, \$23.37, Market Capitalization \$3.9 billion) completed the tax-free spin-off of Mural Oncology (NYSE: MURA, \$3.80, Market Capitalization \$63.4 million).** Post-separation, both companies began trading 'Regular-Way' on November 16, 2023. On the first day of 'regular way' trading, shares of ALKS opened at \$22.07 and closed at \$23.37 after trading between \$22.06 and \$23.55. Shares of MURA opened at \$16.69 and closed at \$3.80 after trading between \$3.40 and \$17.00.

Alkermes plc (ALKS) distributed 100% of the outstanding shares of common stock of its wholly-owned subsidiary, Mural Oncology (MURA), to ALKS stockholders on a pro-rata basis. ALKS shareholders received one share of MURA common stock for every ten shares of Alkermes plc common stock held at the close of business on the record date (November 6). Post-spin-off, Alkermes retains its focus on significant unmet needs within neuroscience and driving the growth of its proprietary commercial products, and Richard Pops will continue as Chief Executive Officer and Chairman of Alkermes. Mural Oncology (Spin-Off) will focus on the discovery and development of cancer therapies, including the continued development of Nemvaleukin Alfa and the Company's portfolio of novel, preclinical engineered cytokines, comprised of tumor-targeted split interleukin-12 (IL-12) and interleukin-18 (IL-18). Caroline J. Loew is the CEO of Mural Oncology plc.

Valuation and Recommendation

We value ALKS (stub) and Mural Oncology separately using DCF methodology. Our fair value estimate for ALKS (stub) stands at \$32.00 per share using a terminal growth rate of 0% and WACC of 9%. **We initiate coverage on Alkermes plc with a 'Buy' rating and an implied upside of 36.9% from the current market price of \$23.37 as of 11/16.**

Our fair value estimate for Mural Oncology is \$23.00 per share (Previously: \$30.00 per share), which is based on a terminal growth rate of 2% and WACC of 10.5%. The bulk of the value (\$17.00 per



Source: Spin-Off Research

Key Data - ALKS

Ticker	ALKS
Primary Exchange	NASDAQ GS
Price (\$ as of Nov 16, 2023)	23.37
52 Week Range (\$)	22.46 - 31.34
Shares Outstanding (million)	166.9
Market Cap (\$ billion)	3.9
Net Debt (\$ billion)	-0.2
Enterprise Value (\$ billion)	3.7
Market Float	98.7%
FY23 Estimated P/E (x)	21.4
Dividend (\$) / Div. Yield (%)	0.0/0.0
Fiscal Year Ending	Dec 31
FY22 Revenue (\$ billion)	1.1
Index Member	NASDAQ Composite

Key Data - MURA

Ticker	MURA
Primary Exchange	NASDAQ
Price (\$ as of Nov 16, 2023)	3.80
52 Week Range (\$)	3.40 - 17.00
Shares Outstanding (million)	16.7
Market Cap (\$ million)	63.4
Net Cash (\$ million)	-275.0
Enterprise Value (\$ million)	-211.6
Market Float	100.0%
FY23 Estimated P/E (x)	NA
Dividend (\$) / Div. Yield (%)	0.0/0.0
Fiscal Year Ending	Dec 31
FY22 Revenue (\$ billion)	NA
Index Member	NASDAQ Composite

* P/E is calculated on the basis of Bloomberg Consensus estimates.

Source: Bloomberg, Company Reports and Spin-Off Research.

Top 5 Shareholders-ALKS
Holding%

The Vanguard Group	11.14
BlackRock	10.12
Sarissa Capital Management	4.99
Wellington Management	4.61
State Street Corp	3.53

share) is accounted for by the \$275 million cash the company will have post-separation. This cash and cash equivalents will be sufficient to fund its current operating plan into the fourth quarter of 2025. This indicates that the company trades significantly below its cash per share, which means the market assigns a negative value to its operating business. Mural's pipeline drug Nemvaleukin has generated compelling clinical data with durable responses 1 in monotherapy and PD 1 combination across various tumor types. It expects readouts for its ARTISTRY 6 and ARTISTRY 7 variants in 1Q25. Mural Oncology has spent ~\$413 million from FY21 to 1H23, which implies the company is heavily investing in its pipeline drug Nemvaleukin. This product pipeline makes Mural Oncology a strategic takeover candidate for larger pharma companies with an established market in immunoncology, such as Pfizer, AbbVie, AstraZeneca and Bristol-Myers Squibb.

While Mural Oncology stock is likely to face selling pressure from risk-averse investors in the short term, we believe the stock offers an attractive entry point for long-term investors at current valuations with an attractive risk-reward proposition. **We initiate coverage on Mural Oncology Plc plc with a 'Long-Term Buy' rating and an implied upside of 505.3% from the current market price of \$3.80 as of 11/16.**

Investment Thesis
Alkermes Reiterates Showing Early Signs Of Turnaround, Post Settlement With Sarissa Capital

Alkermes believes it has strong momentum and remains focused on the key strategic priorities that will drive significant shareholder value. The company expects solid revenue growth from its proprietary products with the successful launch of LYBALVI®, which is on track for 100% year-over-year growth in 2023. The company is also advancing its development pipeline, including generating proof-of-concept data for orexin two receptor agonist ALKS 2680 by year-end. Recently, at the World Sleep Conference, the company announced preliminary results, including initial proof-of-concept data, from a phase 1 study evaluating ALKS 2680, and analysts pointed out that ALKS 2680 could have a blockbuster potential, with similar drugs reporting ~\$2.4 billion in revenue for FY22. Post settlement with Janssen, Alkermes provided its FY23 outlook, which indicates the company will be profitable for the first time in years, as it expects GAAP net income of \$225 – \$265 million and expects FY25 non-GAAP net income margin of 30%, and EBITDA margin of 25%, of the company's total revenues (excluding royalty revenues from Janssen). Overall, the company has multiple tailwinds on the back of its proprietary products, especially LYBALVI, along with royalties and a promising product in the pipeline.

In June 2023, Sarissa Capital, an activist investor, wrote an open letter to ALKM shareholders pointing out the company's operational inefficiencies and problems with corporate governance. Sarissa highlighted that the company was reporting operating loss while the company was generating over \$1 billion in revenue for five years, which indicated a fundamental problem with the business model. The company's revenue potential of the commercial products was restrained by subscale and expensive efforts. Sarissa also noted that Alkermes' manufacturing business is undersized and may be unprofitable in addition to the mishaps and delays over the years. Sarissa believed that the company's value

destruction happened under the leadership of Richard Pops, who has been the CEO of Alkermes for over 30 years. The activist investor had suggested its nominees on the Board of the company that had better experience and skills that the current board lacked. However, in July 2023, Alkermes announced that it had reached an agreement with Sarissa Capital, which led to Sarissa reducing its stake in Alkermes to 5% from 8.45% while remaining a top shareholder.

Mural Oncology To Focus On \$88 Billion Market Opportunity

Sarissa highlighted one of the main reasons for the separation of Mural Oncology: the research and development are inefficient and expensive, with the extended efforts in cancer not building on the company's expertise in psychiatry. In short, oncology contradicted the company's primary neurology expertise, and separating the oncology business into Mura Oncology would drive a sharp strategic focus for each business. Mural Oncology is in the developmental stage, with one product in the pipeline called Nemvaleukin. Nemvaleukin has generated compelling clinical data, with durable responses in monotherapy and PD-1 combination across various tumor types. Exploring alternative dosing regimens. ARTISTRY-6 and ARTISTRY-7 readouts both are expected in 1Q25. During the investor presentation, it was pointed out that the immune-oncology field is expected to have ~88 billion in revenues by 2027. Currently, Mural faces a pipeline risk, as there's uncertainty related to the success of the Nemvaleukin trials. The company is likely to be an acquisition target by the larger and established players in the market, such as Pfizer Inc., AbbVie Inc., Bristol-Myers Squibb Co, AstraZeneca PLC, and Moderna. However, even with a minuscule market penetration, the company can expect initial revenues of ~\$100 million. Post-spin-off, Mural has an initial cash balance of \$275 million, which will be used to fund further developments of its product.

Valuation

A] Alkermes plc (Stub):

Our revenue model for Alkermes plc (stub) is mainly driven by our revenue forecasts for Alkermes' proprietary commercial products: LYBALVI, ARISTADA/ARISTADA INITIO, and VIVITROL. We expect ALKS' revenue to grow at a CAGR of ~7% over 2023-2030, with an aggressive revenue growth from 2030-2036 (driven by growth in LYBALVI). Also, ALKS has multiple tailwinds on the back of royalties and extended royalty terms. Alkermes recently received the final award from Janssen Arbitration Proceedings, where the panel agreed with ALKS' position that the royalty term for INVEGA TRINZA and INVEGA HAFYERA extends beyond 2024, all the way through Q2 of 2030. This represents an additional six years of royalty revenues for these two labels. Moreover, the award stipulates that royalties for CABENUVA in the U.S. are owed through the end of 2036. These extended royalty terms are expected to provide a long-term revenue stream for the company. Also, based on early efficacy data from TAK-994/TAK-925, OX2R agonists could be game-changers in treating narcolepsy, and the potential sales opportunity is substantial. In the US, the current branded products, oxybates (Xyrem/Xywav) + Wakix, are on track to report US sales of >\$2.4 billion. This indicates that the company's new drug, ALKS 2680, could have blockbuster potential and substantial sales opportunities.

Intrinsic Valuation - ALKS	
Cumulative PV of FCFF	2,940
Terminal Value (@0.0% terminal growth rate)	7,547
WACC	9.0%
PV of Terminal Value	2,427
Implied Enterprise Value	5,366
(-) Net Debt	50
(-) Pref Stock	-
(-) Non controlling interests	-
Implied Equity Value	5,317
# of Shares ('mn)	167
Intrinsic Value Per Share	\$32.00

Source: Spin-Off Research

DCF Valuation - We value Alkermes plc (Stub) using the DCF model to arrive at an intrinsic value of \$32.00 per share for the stub. Our DCF analysis reflects our explicit forecasts till 2036 and assumes a terminal growth rate of 0% and a weighted average cost of capital (WACC) of 9.0%. Our equity value for ALKS (Stub) stands at \$5.3 billion.

Risk To Target Price/Valuation - Besides systematic risk, the biopharma sector is subjected to various investment risks, including commercial, industrial, development, and financial risks. The major risk to ALKS's valuation is the dependency on commercial execution by Alkermes and product licensees, especially for key franchises such as Lybalvi, Vivitrol, and Aristada. Also, the Inflation Reduction Act and other potential developments can lead to structural changes in drug pricing in the US.

It should be noted that Sarissa Capital, an activist investor in the shares since 2021, recently lowered its stake in ALKS shares to 5% from 8.5%. However, it remains a majority shareholder. Sarissa pointed out that despite annual revenues exceeding \$1 billion in the last five years, Alkermes has consistently operated at a net loss, and Alkermes' stock price has declined nearly 40%. The fund manager believes the company's current CEO is a major impediment to unlocking shareholder value. In May, Sarissa put forth three nominees for new board seats, which Alkermes' management declined to endorse. However, Sarissa lost its battle in late June to get its nominees on the board at Alkermes. This has resulted in a further decline in the stock. However, in the recent 3Q23 results, Alkermes has shown signs of turnaround as it reported profits for the first time in years and a robust FY23 outlook, with non-GAAP net income projected at \$250 million.

B| Mural Oncology (Spin-Off)

Our revenue model for Mural is driven by its first wholly owned drug, Nemvaleukin, which is currently in potential registration, enabling studies in two difficult-to-treat tumor types: platinum-resistant ovarian cancer and mucosal melanoma. By selectively targeting the IL-2 pathway, nemvaleukin has broad potential clinical utility in various tumor types and offers the potential for significant value creation as the development program advances. The company has two key data readouts anticipated within 18 months. Nemvaleukin has generated compelling clinical data, with durable responses in monotherapy and PD-1 combination across various tumor types. The company is now exploring alternative dosing regimens, and ARTISTRY-6 and ARTISTRY-7 readouts are expected in 1Q25. The immuno-oncology industry is expected to have revenues of ~\$88 billion by 2027. We estimate Nemvaleukin to achieve ~\$100 million in net revenue by 2030 with ~0.2% penetration after its anticipated launch.

DCF Valuation - Using a discounted cash flow methodology, our fair value estimate for Mural Oncology stands at \$23.00 (Previously: \$30.00) per share. Our DCF thesis assumes a terminal growth rate of 2%, WACC of 10.5%, and post-spin-off share count of 16.69 million. Our implied equity value for Mural Oncology stands at \$376 million.

Risk to Target Price/Valuation - For Mural Oncology, clinical outcomes from clinical trials, especially for products such as nemvaleukin, could impact how investors view its outlook as the current core products continue to mature.

Intrinsic Valuation - Mural Oncology

Cumulative PV of FCFF	32
Terminal Value (@2.0% terminal growth rate)	257
PV of Terminal Value	69
Implied Enterprise Value	101
(+) Cash and Short term Investments	275
(-) Pref Stock	-
(-) Non controlling interests	-
Implied Equity Value	376
# of Shares ('mn)	17
Intrinsic Value Per Share	\$23.00

Source: Spin-Off Research

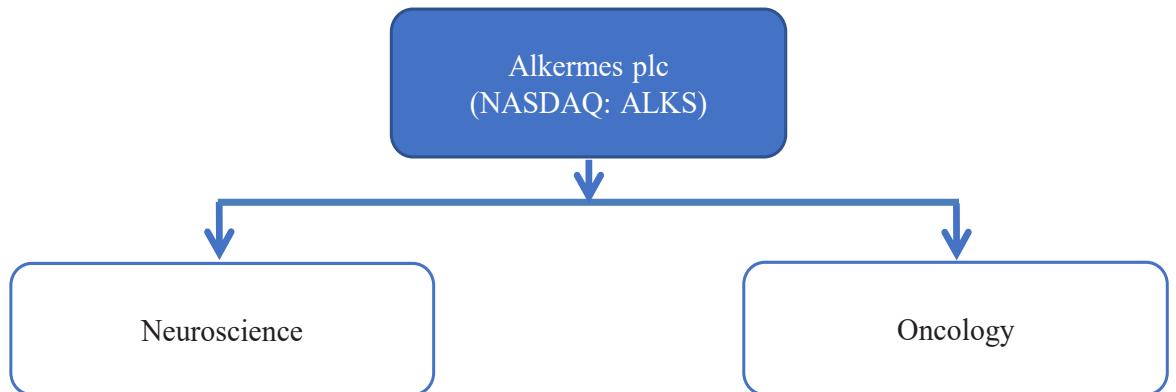
Sensitivity Analysis

		WACC					
		23.0	8.5%	9.5%	10.5%	11.5%	12.5%
Terminal Growth Rate	0%		24.0	23.0	23.0	21.0	20.0
	1%		25.0	23.0	23.0	21.0	20.0
	2%		25.0	23.0	23.0	21.0	20.0
	3%		27.0	25.0	25.0	22.0	21.0
	4%		29.0	26.0	26.0	22.0	21.0
	5%		32.0	28.0	28.0	23.0	22.0

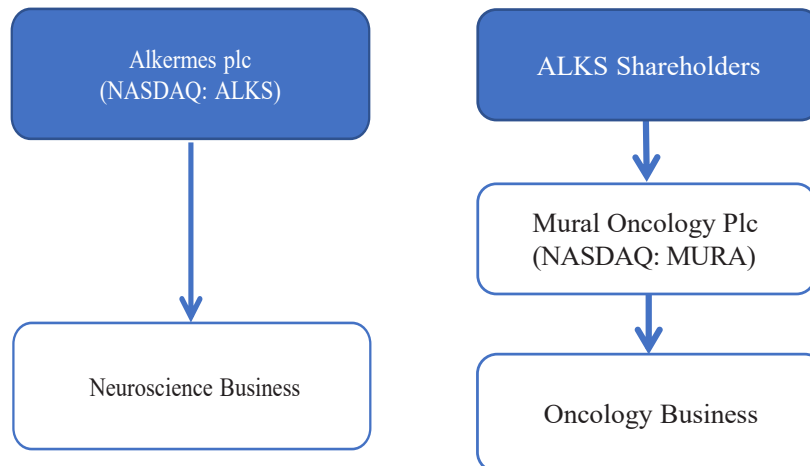
Source: Spin-Off Research

The above table shows that the intrinsic value is higher when the weighted average cost of capital (WACC) is lower and terminal growth rate is higher.

Organization Structure Pre Spin-Off



Post Spin-Off



Source: Spin-Off Research

Company Description

Alkermes plc (Parent)

Alkermes plc (NASDAQ: ALKS) is a fully-integrated, global biopharmaceutical company developing innovative medicines in the fields of neuroscience and oncology. The Company has a portfolio of proprietary commercial products focused on alcohol dependence, opioid dependence, schizophrenia, and bipolar I disorder and a pipeline of product candidates in development for neurological disorders and cancer. Headquartered in Dublin, Ireland, Alkermes has a research and development center in Waltham, Massachusetts; a research and manufacturing facility in Athlone, Ireland; and a manufacturing facility in Wilmington, Ohio. In FY22, the Company reported total revenue of \$1.1 billion.

After separation, Alkermes focuses on significant unmet needs within neuroscience and on driving the growth of its proprietary commercial products: LYBALVI, ARISTADA/ARISTADA INITIO, and VIVITROL. The Company also focuses on advancing the development of pipeline programs focused on neurological disorders, including ALKS 2680, an orexin 2 receptor agonist for the treatment of narcolepsy. Alkermes retains manufacturing and royalty revenues related to its licensed products and third-party products using the Company's proprietary technologies under license. Alkermes will continue to benefit from enhanced profitability and continued balance sheet strength following a separation of the oncology business. Richard Pops continues as Chief Executive Officer and Chairman of Alkermes.

Mural Oncology Plc (Spin-Off)

Mural Oncology Plc (NASDAQ: MURA) includes the Company's oncology business. Mural Oncology focuses on discovering and developing cancer therapies, including the continued development of nemvaleurin alfa (nemvaleurin), a novel, investigational, engineered interleukin-2 (IL-2) variant immunotherapy. Nemvaleurin is currently in potential registration, enabling studies in two difficult-to-treat tumor types: platinum-resistant ovarian cancer and mucosal melanoma. By selectively targeting the IL-2 pathway, nemvaleurin has broad potential clinical utility in various tumor types and offers the potential for significant value creation as the development program advances. The assets subject to separation are also expected to include a portfolio of novel, preclinical, engineered cytokines, including tumor-targeted split interleukin-12 (IL-12) and interleukin-18 (IL-18).

Any recommendation contained in this report may not be suitable for all investors. Moreover, although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness cannot be guaranteed. In addition, Spin-Off Advisors, L. L. C. and employees of Spin-Off Advisors, L. L. C. may hold positions or effect transactions contrary to recommendations mentioned herein. This report may not be reproduced, copied, duplicated or electronically forwarded without the expressed written permission of Spin-Off Advisors, L. L. C. © 2014 Spin-Off Advisors, L. L. C. All Rights Reserved.