



Viatri (VTRS)

Updated May 11th, 2022 by Derek English

Key Metrics

Current Price:	\$10.00	5 Year CAGR Estimate:	13.3%	Market Cap:	\$12.60 B
Fair Value Price:	\$16.00	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	05/21/22
% Fair Value:	65%	5 Year Valuation Multiple Estimate:	9.0%	Dividend Payment Date:	05/24/22
Dividend Yield:	4.6%	5 Year Price Target	\$17	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Viatri is a global healthcare company formed in November 2020 from a merger between Mylan and Pfizer's UpJohn Business unit. The company offers a wide range of treatments and operates within three business segments called Brands, Complex Gx & Biosimilars, and Generics. The brand segment is driven by well-known products such as Viagra and Dymista. In addition, Viatri make generic versions of branded drugs once patent and other exclusivities expire. These medications share the same formula but cost less than "brand" medicine. Finally, Viatri offers a portfolio of diverse global biosimilars franchises, with approximately 150 marketing authorizations in over 85 countries focused on oncology, immunology, endocrinology, ophthalmology, and dermatology.

The company released first-quarter 2022 results on May 9th, 2022. Viatri reported net sales of \$4.19 billion, which is down 1% compared to the last year due to a decline in sales in Greater China. Complex generics and biosimilars grew 21% compared to the first quarter of 2021 due to the Restasis launch in February. Adjusted EBITDA came in at \$1.59 billion, down 3% from last year. Free cash flow was \$1.07 billion, up 34%, driven by net cash provided by operating activities of \$1.4 billion. Viatri is performing better than expected with its brand segment with products such as Lipitor and Effexor driving sales. The company has decided to sell its biosimilars business to Biocon Biologics for \$3.3 billion, with \$2 billion paid in cash and \$1 billion in convertible preferred equity, giving the company a 12.9% stake in Biocon Biologics. The transaction is expected to close in the second half of 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	---	---	---	---	---	---	\$3.69	\$3.20	\$3.36
DPS	---	---	---	---	---	---	---	---	---	\$0.44	\$0.48	\$0.53
Shares¹	---	---	---	---	---	---	---	---	---	1208	1208	1200

As Mylan was the accounting acquirer, the historical financial statements of Mylan before the merger are considered to be the historical financial statements of Viatri. Therefore, without a fundamental baseline of results from both Mylan and Upjohn, we look to forward-looking forecasts to see if the company has growth potential. Revenue is expected to reach \$17.0 billion in 2022, which is less than 2021, due to the sale of its biosimilars business. Therefore, we took a conservative approach with a predicted 1% growth rate through 2027. In addition, Viatri increased its annualized dividend by 9% to \$0.48 per share and has indicated a dividend policy that accounts for no more than 25% of free cash flow. However, the company is a cash machine and generated \$2.5 billion in free cash flow in FY 2021. The company expects to use the bulk of its free cash flow to pay down debt, reducing its obligations by \$840 million this year.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	---	---	---	---	---	---	3.5	3.2	5.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	3.4%	4.6%	3.2%

¹ Shares in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours



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The current PE ratio of 3.2 is incredibly low, especially when compared to large-cap pharma companies. However, we feel that this new company will likely see low but stable growth in the future. Therefore, we believe a starting price-to-earnings ratio of 5 is appropriate for the time being. This valuation target might be too conservative in the long run, but we are not ready to make that prediction considering the sale of the biosimilar segment. Reaching the target multiple would add 13.3% to annual returns through 2027. The current yield of 4.6% looks attractive at current prices. However, with the company's policy of paying out only 25% of cash flow and the potential for share price appreciation, we expect this yield to drop over the coming years. As a result, we have estimated a 3.2% yield by 2027. Once the company has repaid a large chunk of its debt, we expect to see the dividend growth increase gradually over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

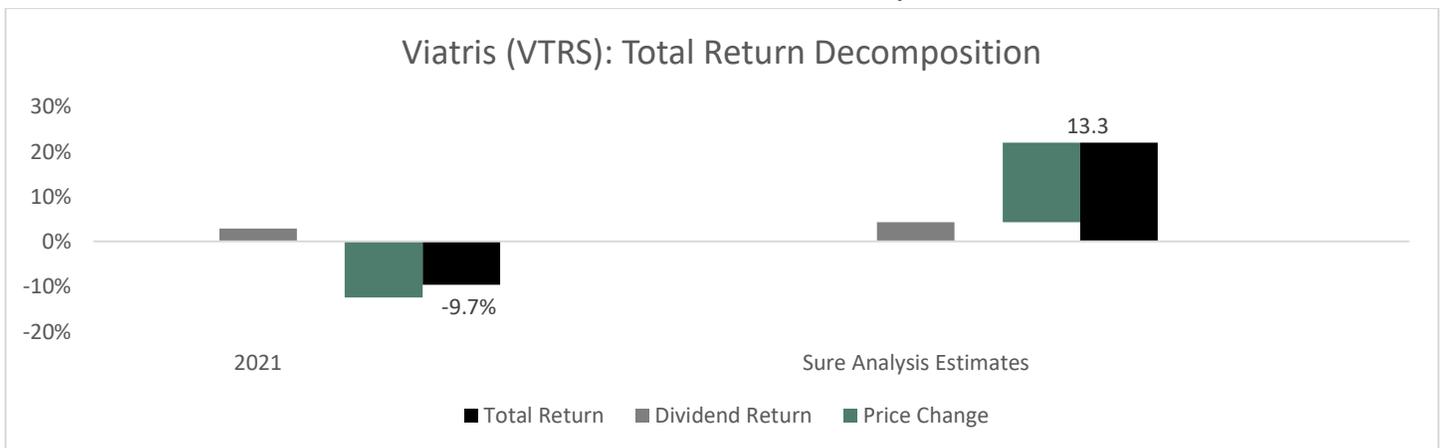
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Payout	---	---	---	---	---	---	---	---	---	12%	15%	16%

One of Viatrix competitive advantages is its vast branded and generic drugs portfolio. Mylan has a wide range of medicines, such as epilepsy and heart conditions, while also providing high-quality manufacturing and supply chain experience. The Upjohn business brings iconic brands such as Lipitor and Viagra as well as proven commercialization capabilities, including management positions in China and other emerging markets. Of course, the healthcare market remains competitive with complex regulations. Divesting the biosimilar business seems to have dampened growth prospects in the immediate future, and Viatrix will need to replenish its pipeline of medicines to continue evolving quickly. This will be challenging as the company looks to strengthen a fragile-looking balance sheet.

Final Thoughts & Recommendations

Viatrix remains an exciting proposition. On the one hand, you have a company with a wealth of management experience, a solid pipeline, and some important brands. The company also looks massively undervalued when compared to industry peers. On the other hand, it is highly leveraged and operates in highly competitive markets. In addition, the cost of the merger has left the company with substantial long-term debt. A company with a lot of debt is a huge concern for investors looking for a safe and stable dividend. Encouragingly, the company generates significant cash flow and has paid \$0.8 billion towards its long-term debt this year. Viatrix is projected to return 13.3% annually through 2027. Our projected return stems from an earnings growth rate of 1%, a 4.6% starting dividend yield, and a 9% contribution from multiple expansion. Given the company's valuation and ability to create sizeable free cash flow, we would rate Viatrix as a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	6,796	6,909	7,720	9,429	11,077	11,908	11,434	11,501	11,946	17,890
Gross Profit	2,908	3,040	3,528	4,216	4,697	4,783	4,002	3,898	3,797	5,576
Gross Margin	42.8%	44.0%	45.7%	44.7%	42.4%	40.2%	35.0%	33.9%	31.8%	31.2%
SG&A Exp.	1,392	1,409	1,626	2,181	2,499	2,576	2,441	2,564	3,345	4,529
D&A Exp.	547	516	567	1,032	1,523	1,806	2,110	2,019	2,216	4,506
Operating Profit	1,106	1,121	1,321	1,364	1,372	1,424	856	694	(103)	295
Operating Margin	16.3%	16.2%	17.1%	14.5%	12.4%	12.0%	7.5%	6.0%	-0.9%	1.6%
Net Profit	641	624	929	848	480	696	353	17	(670)	(1,269)
Net Margin	9.4%	9.0%	12.0%	9.0%	4.3%	5.8%	3.1%	0.1%	-5.6%	-7.1%
Free Cash Flow	563	711	269	1,139	1,297	1,169	1,146	1,398	551	2,508
Income Tax	161	121	41	68	(358)	207	(54)	138	(51)	605

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	11,932	15,295	15,821	22,268	34,726	35,806	32,735	31,256	61,553	54,840
Cash & Equivalents	350	291	226	1,236	999	292	388	476	844	701
Accounts Receivable	1,554	1,820	2,269	2,434	3,015	3,173	2,417	2,640	3,891	3,774
Inventories	1,525	1,657	1,651	1,951	2,456	2,543	2,580	2,671	5,472	3,978
Goodwill & Int. Ass.	5,740	6,858	6,396	12,602	23,680	25,452	23,412	21,241	42,030	38,250
Total Liabilities	8,576	12,335	12,545	12,502	23,609	22,499	20,568	19,372	38,599	34,350
Accounts Payable	778	1,073	906	718	940	976	1,123	1,062	1,346	1,056
Long-Term Debt	5,734	8,030	8,504	7,296	15,473	14,661	13,818	12,672	25,786	23,070
Shareholder's Equity	3,341	2,942	3,256	9,764	11,116	13,308	12,167	11,884	22,954	20,490
LTD/E Ratio	1.72	2.73	2.61	0.75	1.39	1.10	1.14	1.07	1.12	1.13

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.4%	4.6%	6.0%	4.5%	1.7%	2.0%	1.0%	0.1%	-1.4%	-2.2%
Return on Equity	18.8%	19.9%	30.0%	13.0%	4.6%	5.7%	2.8%	0.1%	-3.8%	-5.8%
ROIC	7.2%	6.2%	8.2%	5.9%	2.2%	2.6%	1.3%	0.1%	-1.8%	-2.8%
Shares Out.	---	---	---	---	---	---	---	---	---	1,209
Revenue/Share	16.17	17.51	19.40	18.96	21.28	22.19	22.14	22.27	19.87	14.80
FCF/Share	1.34	1.80	0.68	2.29	2.49	2.18	2.22	2.71	0.92	2.07

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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