# Viatris (VTRS)

*Updated August 11th, 2022 by Derek English*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $10.96 | **5 Year CAGR Estimate:** | 12.1% | **Market Cap:** | $13.30 B |
| **Fair Value Price:** | $16.00 | **5 Year Growth Estimate:** | 1.0% | **Ex-Dividend Date:** | 08/23/22 |
| **% Fair Value:** | 69% | **5 Year Valuation Multiple Estimate:** | 7.9% | **Dividend Payment Date:** | 09/16/22 |
| **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

Viatris is a global healthcare company formed in November 2020 from a merger between Mylan and Pfizers' UpJohn Business unit. The company offers a wide range of treatments and operates within three business segments: Brands, Complex Gx & Biosilimiars, and Generics. The brand segment is driven by well-known products such as Viagra and Dymista. In addition, Viatris 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, Viatris 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 second-quarter 2022 results on August 8th, 2022. Viatris reported net sales of $4.1 billion, which is down 10% compared to the last year due to a decline in sales in developed and emerging markets. Complex generics and biosimilars grew 11% compared to the second quarter of 2021 due to the Semglee launch in U.S. Adjusted EBITDA came in at $1.48 billion, down 12% from last year, while Free cash flow was $802 million, up 43%. Viatris is performing better than expected with its brand segment, with products such as Lipitor and Effexor driving sales. The company paid down $627 million in debt in the second quarter (~$1.5 billion for the first half of the year) and continues to target $2 billion in debt repayment this year. In addition, 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*** |
| **Shares[1]** | --- | --- | --- | --- | --- | --- | --- | --- | --- | 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 Viatris. Therefore, without a fundamental baseline of Mylan and Upjohn results, we look forward-looking forecasts to see if the company has growth potential. Revenue is expected to reach $17.0 billion in 2022, 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, Viatris 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 $1.5 billion in free cash flow in H1 2022. The company expects to use the bulk of its free cash flow to pay down debt, reducing its obligations by $2 billion this year.

[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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## Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | --- | --- | --- | --- | --- | --- | --- | --- | --- | 3.5 | ***3.4*** | ***5.0*** |
| **Avg. Yld.** | --- | --- | --- | --- | --- | --- | --- | --- | --- | 3.4% | ***4.4%*** | ***3.2%*** |

The current PE ratio of 3.4 is incredibly low, especially 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 12.1% to annual returns through 2027. The current yield of 4.4% 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

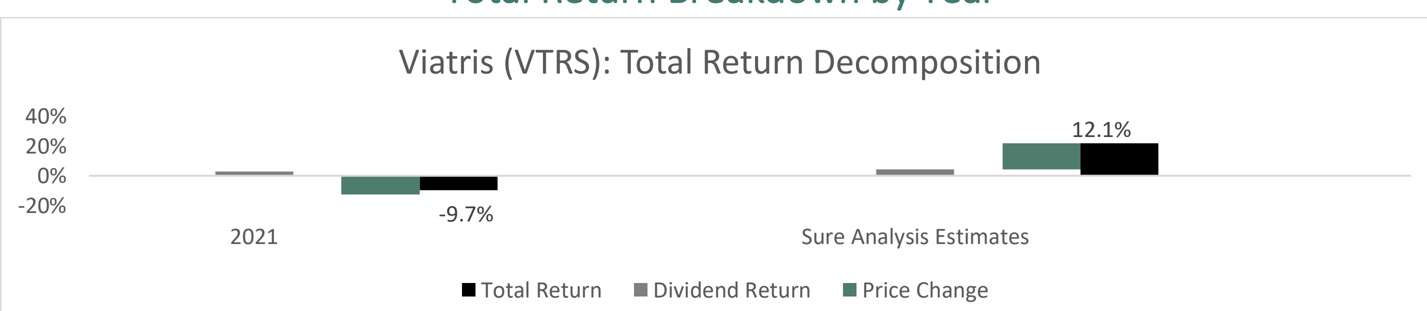
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | --- | --- | --- | --- | --- | --- | --- | --- | --- | 12% | ***15%*** | ***16%*** |

One of Viatris competitive advantages is its vast branded and generic drugs portfolio. Mylan has a wide range of medicines, such as epilepsy and heart conditions, while 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 Viatris 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

Viatris 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 is actively reducing its long-term debt this year. Viatris is projected to return 12.1% annually through 2027. Our projected return stems from an earnings growth rate of 1%, a 4.4% starting dividend yield, and a 7.9% contribution from multiple expansion. Given the company's valuation and ability to create sizeable free cash flow, we would rate Viatris 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.*