



Royalty Pharma (RPRX)

Updated November 19th, 2022, by Thomas Richmond

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	17.5%	Market Cap:	\$18.9 B
Fair Value Price:	\$68	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	02/17/23
% Fair Value:	63%	5 Year Valuation Multiple Estimate:	9.7%	Dividend Payment Date:	03/15/23
Dividend Yield:	1.8%	5 Year Price Target	\$91	Years Of Dividend Growth:	2
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Royalty Pharma (RPRX) is a company that buys biopharmaceutical royalties and funds innovations in the biopharmaceutical industry. Royalty Pharma was founded in 1996, and the company had its initial public offering in June of 2020. Royalty Pharma's portfolio consists of royalties on approximately 35 marketed therapies and 10 development-stage product candidates that address various therapeutic areas, such as rare diseases, cancer, neurology, infectious disease, hematology, and diabetes. The company has a total of 14 billion-dollar therapies in its portfolio, and across the portfolio, the average royalty duration is 13 years. While some investors might be concerned that almost 30% of the company's royalty revenue comes from its Vertex CF franchisee, Vertex is the strongest competitor in its market, far ahead of its closest competitor. This concentration in Vertex CF appears to be a good way for the company to capitalize on strong assets.

On November 8th, 2022, Royalty Pharma reported Q3 2022 results for the period ending September 30th, 2022. The company saw adjusted earnings-per-share of \$0.73, which beat analysts' estimates by 2 cents and ended up being the same earnings-per-share as last year. Revenue fell 2.2% year-over-year to \$573 million and missed analysts' estimates by \$37 million. Management raised guidance for adjusted cash receipts from \$2.275-\$2.35 billion to \$2.75-\$3 billion for the fiscal year 2022, which includes \$458 million from the acceleration of payments related to Pfizer's acquisition of Biohaven, which used to be a Royalty Pharma division.

This quarter, management announced they would be selling Trellegy Ellipta royalty interests for approximately \$1.1 billion in upfront cash. Royalty Pharma paid off all its debt, ending the quarter with a \$487 million cash balance, and the company initiated a \$250 million capital return program.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	---	---	---	---	---	\$1.32	\$1.49	\$3.40	\$4.55
DPS	---	---	---	---	---	---	---	---	\$0.30	\$0.68	\$0.76	\$1.17
Shares	---	---	---	---	---	---	---	---	375	415	415	500

Since Royalty Pharma went public in June of 2020, the stock has only traded for 2 years, so results are only available for 2020 and 2021. In 2022, we expect Royalty Pharma to deliver about \$3.40 in earnings-per-share based on analysts' estimates. We forecast that earnings-per-share will grow at a rate of about 6% annually over the next 5 years, guiding our 2027 earnings-per-share estimate of around \$4.55.

From 2020 to 2021, the dividend payment grew 126.7%, which is obviously unsustainable. Going forward, we forecast a more normalized dividend growth rate, with dividends growing at 9% annually over the next 5 years. We expect 9% dividend growth, because this will be slightly above the company's forecasted earnings-per-share growth rate, and we think the company will grow the dividend more aggressively.

¹ Estimated Date.

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	---	---	---	---	---	---	---	---	37.3	30.2	12.6	20.0
Avg. Yld.	---	---	---	---	---	---	---	---	0.6%	1.5%	1.8%	1.3%

With limited trading history, it's difficult to use historic P/E multiples or dividend yields to estimate the stock's appropriate valuation multiples. However, we estimate that a 20x P/E ratio is fair for the business based on its strong earnings-per-share growth potential and dividend growth potential. Today, the stock offers a 1.8% dividend yield, which is low for investors who prioritize dividend income, but investors might consider the stock if they like the business model of buying biopharmaceutical royalties.

Safety, Quality, Competitive Advantage, & Recession Resiliency

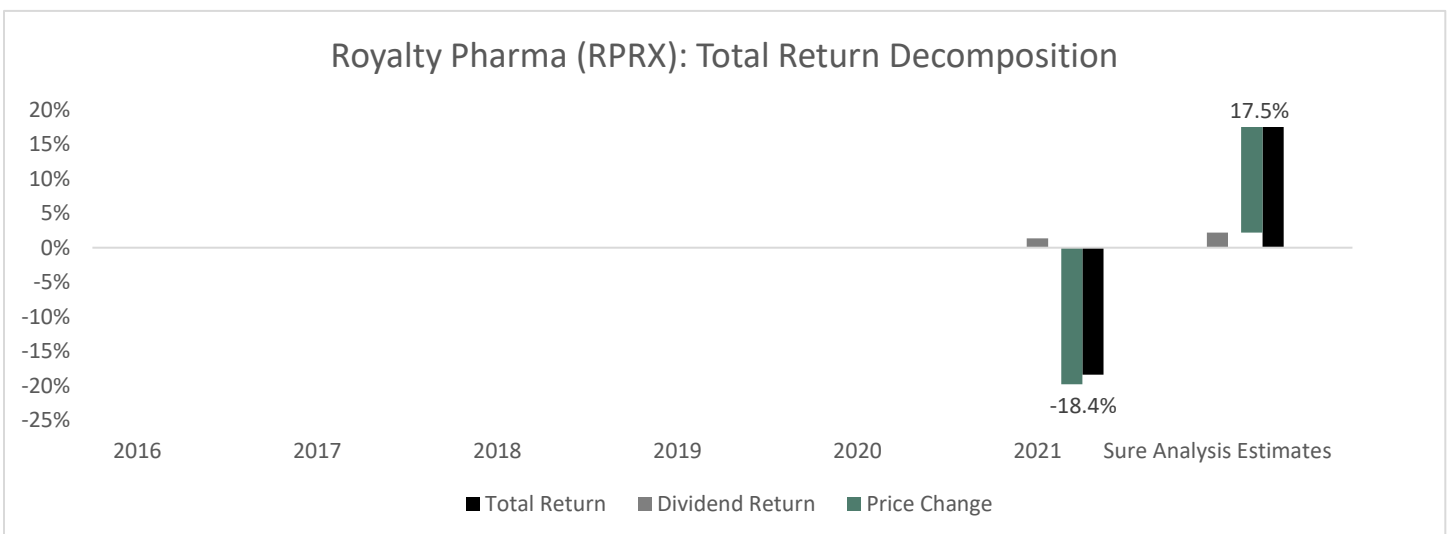
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	---	---	23%	46%	22%	26%

Going forward, we expect Royalty Pharma to have about a 26% payout ratio. We project that the dividend will be safe since the low payout ratio signifies that the dividend is adequately backed by strong earnings-per-share. Royalty Pharma has a strong balance sheet; we see no liquidity or solvency risks with this company. We think the business has some recession resiliency because they earn revenue from royalties on drug sales. In a simplistic way, we think that people will always need drugs. Additionally, we think the company has a competitive advantage as a leading biopharmaceutical royalty holder.

Final Thoughts & Recommendation

Royalty Pharma is a business that buys and holds biopharmaceutical royalties. By investing in strong royalties, Royalty Pharma has the chance to position itself as a leader in niche markets. At today's price, we rate the stock as a Buy because total return prospects come in at 17.5% annually over the next five years, driven by a 1.8% dividend yield, an estimated 6% annual growth in earnings-per-share, and an estimated 9.7% annual return from the stock's valuation multiple rerating higher. While this stock might not be attractive for income investors due to the low dividend, growth investors might be interested in this stock for its strong growth prospects and attractive royalty portfolio.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue						1,598	1,795	1,814	2,122	2,289
SG&A Exp.						106	62	103	182	183
D&A Exp.						33	33	24	23	23
Operating Profit						940	1,364	2,623	1,595	1,431
Op. Margin						58.8%	76.0%	144.6%	75.2%	62.5%
Net Profit						1,210	1,378	2,349	975	620
Net Margin						75.7%	76.8%	129%	45.9%	27.1%
Free Cash Flow						1,418	1,618	1,667	2,035	2,018
Income Tax						-	-	-	-	-

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets							11,370	12,450	16,020	17,516
Cash & Equivalents							1,924	246	1,009	1,541
Goodwill & Int.							76	52	29	6
Total Liabilities							6,818	6,308	6,124	7,267
Accounts Payable							4	11	11	6
Long-Term Debt							6,519	6,238	5,817	7,096
Total Equity							4,488	6,106	4,819	5,777
LTD/E Ratio							1.45	1.02	1.21	1.23

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets								19.7%	6.8%	3.7%
Return on Equity								44.3%	17.9%	11.7%
ROIC								20.0%	6.9%	3.7%
Shares Out.									375	415
Revenue/Share						4.51	5.07	5.12	5.65	5.52
FCF/Share						4.00	4.57	4.71	5.42	4.86

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

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