



# Roche Holding AG (RHHBY)

Updated October 22<sup>th</sup>, 2023 by Derek English

## Key Metrics

<b>Current Price:</b>	\$33	<b>5 Year CAGR Estimate:</b>	13.8%	<b>Market Cap:</b>	\$215 B
<b>Fair Value Price:</b>	\$49	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	03/15/24 <sup>1</sup>
<b>% Fair Value:</b>	67%	<b>5 Year Valuation Multiple Estimate:</b>	7.9%	<b>Dividend Payment Date:</b>	03/20/24
<b>Dividend Yield:</b>	3.9%	<b>5 Year Price Target</b>	\$57	<b>Years Of Dividend Growth:</b>	36
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## Overview & Current Events

Roche Holding AG (RHHBY) is a research-based healthcare company headquartered in Switzerland. Founded in 1896, Roche has grown from producing vitamin preparations to a multinational company with ~ 97,000 employees. Roche's operating businesses are organized under two divisions. The Pharmaceutical division includes Genentech and Chugai. Genentech is an American biotechnology company, and Chugai is a Japanese biotechnology company. The Diagnostics division has four segments: Centralized and Point Care Solutions, Molecular Diagnostics, Tissue Diagnostics, and Diabetes Care.

On October 19<sup>th</sup>, 2023, the company released its 9-month sales update. The company reported a 1% increase in group sales; however, due to the strength of the Swiss Franc, there was a 6% decrease when expressed in local currency. This decline was primarily attributed to reduced sales of COVID-19 products and biosimilar erosion, accounting for 9% of total sales. The Pharmaceuticals Division experienced a 9% increase in sales, driven by high demand for medicines to treat severe diseases, including Vabysmo, Ocrevus, Hemlibra, Polivy, and Evrysti. These same products were the key drivers behind an 8% sales growth in the United States. In the International region, sales increased by 12%, with Brazil and Canada leading the way. China also recorded a 6% increase, primarily fueled by Tamiflu, Xeloda, Polivy, and Perjeta, effectively offsetting the impact of biosimilars. The Diagnostics Division demonstrated a solid 7% growth across all major markets, particularly in immunodiagnosics, cardiac tests, and clinical chemistry diagnostic solutions. Nevertheless, overall divisional sales declined by 18%, largely due to reduced demand for COVID-19 tests.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$0.87	\$1.48	\$1.34	\$1.41	\$1.28	\$1.56	\$1.97	\$2.20	\$2.68	\$2.79	<b>\$2.87</b>	<b>\$3.33</b>
<b>DPS</b>	\$0.97	\$1.11	\$1.00	\$1.02	\$1.03	\$1.08	\$1.07	\$1.14	\$1.16	\$1.24	<b>\$1.28</b>	<b>\$1.47</b>
<b>Shares</b>	6906	6906	6897	6880	6880	6880	6912	6840	6840	6840	<b>6880</b>	<b>6800</b>

Roche is well known to be heavily reliant on cancer drugs Herceptin, Rituxan, and Avastin, which have helped the company's 13.0% earnings CAGR in USD over the past five years. Biosimilars have heavily impacted all three drugs, with sales down 19% for Herceptin and 28% for Avastin. The company expects this downtrend to continue and has estimated sales to erode by ~1.6 billion between all three drugs. However, the company's reliance on cancer drugs is slowing down as new product sales accounted for over 50% of all Pharmaceutical sales last year, with Vabysmo, Hemlibra, and Ocrevus being the stand-out performers. New medicines continued this strong growth in all regions, offsetting the impact of biosimilars. Earnings growth has exceeded dividend growth over the last ten years, and the payout ratio has been below 60% since 2018. The company expects a challenging year ahead, coming off a High base in 2021 and 2022 due to covid sales with an expected \$1.6 reduction in sales. They have estimated that EPS to decline with sales. However, Roche kept its impressive dividend streak and has again committed to increasing the dividend in Swiss francs for the 36<sup>th</sup> straight year.

<sup>1</sup> Estimated

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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	35.4	24.7	25.2	22.2	24.5	19.1	17.5	19.2	16.5	14.1	<b>11.6</b>	<b>17.0</b>
Avg. Yld.	3.2%	3.0%	2.9%	3.3%	3.3%	3.6%	3.1%	2.7%	2.6%	3.3%	<b>3.9%</b>	<b>2.6%</b>

At 3.9%, Roche Holdings' dividend yield is above its five-year average of 3.1%. However, it still compares favorably to the average dividend yield of 1.63%<sup>2</sup> for the S&P 500 Index. The company has increased its dividend on average by 4.1% over the last five years. However, the dividend grew by a meager 2.1% for 2022 in CHF, which was paid on March 20<sup>th</sup>, 2023. We expect this low growth rate to continue until 2028, resulting in a 2028 target yield of 2.6%. The P/E ratio of 11.6 is below the average P/E ratio of 17.3 over the last five years. This year, sales growth has been steady as the company recovers from the pandemic. However, we agree with management on low single-digit growth of around 3% annually over the next five years as earnings usually track sales. That said, 3% is a conservative figure that reflects the biosimilars impact; however, we may raise our expectations if new medicines continue to grow quickly. As a result, we expect the P/E ratio to remain at around 17 by 2028.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

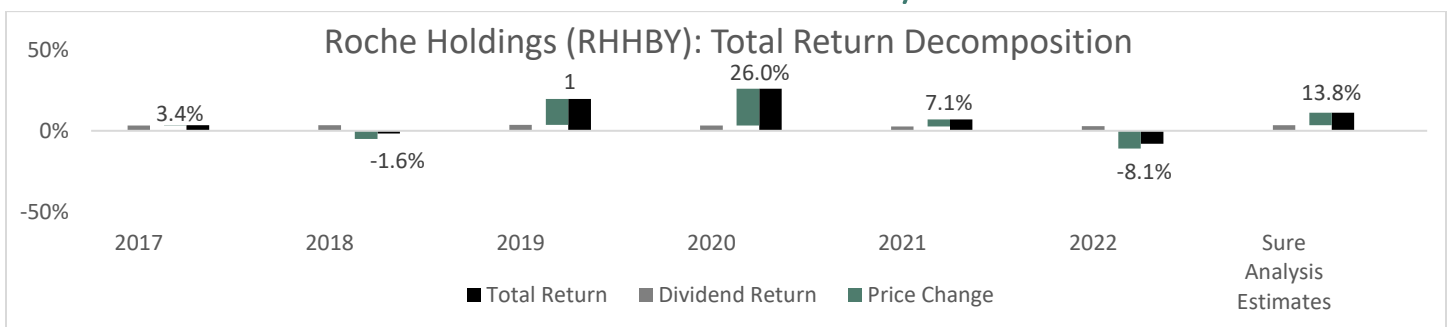
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	111%	75%	75%	72%	80%	69%	55%	52%	43%	47%	<b>45%</b>	<b>44%</b>

Over the last five years, Roche's earnings have grown at a CAGR of 13.0%. Healthcare remains a competitive sector, but the main advantage for Roche is its R&D department. The company initiated four new Phase III trials last quarter, had two approvals, and has ~30 Phase III trials planned for 2023. The company has also been researching novel techniques to cure diseases such as Alzheimer's using quantum computing. In addition, Roche can accelerate future growth through acquisitions; for example, in 2019, they made a significant acquisition of Spark Therapeutics, and in 2020 they also acquired companies such as Stratos Genomics. Finally, as a European dividend aristocrat, Roche has shown resilience to withstand recessions and increase dividends. With a 36-year streak, the company continues to reward shareholders.

## Final Thoughts & Recommendations

As a company, Roche holds traits that can be encouraging to investors. Earnings and sales have risen over the last ten years, and the company has an impressive dividend history spanning more than three decades. However, Roche does carry some risks. The healthcare sector is inherently competitive, and biosimilars and capital investment continue to impact the company's top line. Over the next five years, we expect a total annual return of 13.8%. Therefore, we would rate RHHBY as a buy due to projected returns and the company's fantastic streak of increasing its dividend.

## Total Return Breakdown by Year



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<sup>2</sup> <https://www.multpl.com/s-p-500-dividend-yield>

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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	51933	50031	51341	54108	58111	61869	62209	68710
<b>Gross Profit</b>	37292	33966	34916	35653	40458	43398	44954	47220
<b>Gross Margin</b>	71.8%	67.9%	68.0%	65.9%	69.6%	70.1%	72.3%	68.7%
<b>SG&amp;A Exp.</b>	13678	11993	11019	13473	15709	15177	13454	14500
<b>D&amp;A Exp.</b>	2870	3783	4001	3946	3666	4320	4862	4861
<b>Operating Profit</b>	15417	14363	14282	13200	15098	17663	19779	19860
<b>Operating Margin</b>	29.7%	28.7%	27.8%	24.4%	26.0%	28.5%	31.8%	28.9%
<b>Net Profit</b>	10211	9210	9721	8764	10734	13585	15247	15240
<b>Net Margin</b>	19.7%	18.4%	18.9%	16.2%	18.5%	22.0%	24.5%	22.2%
<b>Free Cash Flow</b>	13783	11578	10005	14021	15392	17604	12667	17970
<b>Income Tax</b>	3261	3046	3324	3475	3356	2522	3090	2695

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	76394	76649	75493	78716	79750	85756	98593	100990
<b>Cash &amp; Equivalents</b>	3784	3775	4091	4845	6786	6270	6555	7494
<b>Accounts Receivable</b>	9207	8543	8725	10116	10282	11164	12027	12500
<b>Inventories</b>	7830	7737	7791	7604	6725	6249	8234	8440
<b>Goodwill &amp; Int. Ass.</b>	22986	25235	22925	18936	18581	21721	24341	25080
<b>Total Liabilities</b>	54592	53077	49547	48937	48907	48739	53069	69980
<b>Accounts Payable</b>	2171	2478	2643	2860	2892	3278	3797	4205
<b>Long-Term Debt</b>	26005	23523	21969	19464	19065	14824	16271	34130
<b>Shareholder's Equity</b>	19807	21224	23498	27144	28056	33797	41596	26790
<b>D/E Ratio</b>	1.31	1.11	0.93	0.72	0.68	0.44	0.39	1.27

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	13.9%	12.0%	12.8%	11.4%	13.5%	16.4%	16.5%	15.3%
<b>Return on Equity</b>	49.2%	44.9%	43.5%	34.6%	38.9%	43.9%	40.4%	44.6%
<b>ROIC</b>	22.0%	19.4%	20.5%	18.0%	21.7%	26.7%	26.8%	24.0%
<b>Shares Out.</b>	6904	6896	6880	6880	6880	6912	6920	6880
<b>Revenue/Share</b>	7.52	7.26	7.46	7.86	8.45	8.95	8.99	9.99
<b>FCF/Share</b>	2.00	1.68	1.45	2.04	2.24	2.55	1.83	2.61

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

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