



Viatri's (VTRS)

Updated November 8th, 2023 by Derek English

Key Metrics

Current Price:	\$9.00	5-Year CAGR Estimate:	3.2%	Market Cap:	\$10.95 B
Fair Value Price:	\$7.00	5-Year Growth Estimate:	4.0%	Ex-Dividend Date:	11/24/23
% Fair Value:	139%	5-Year Valuation Multiple Estimate:	-6.3%	Dividend Payment Date:	12/15/23
Dividend Yield:	5.3%	5-Year Price Target	\$8	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

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

The company released Q3 2023 results on November 7th, 2023 and reported total net sales of \$3.93 billion, showing a 1% increase on an operational basis compared to the same period in 2022 after adjusting for divestitures. Key brands like Yupelri and Dymista performed above expectations to keep revenue flat. Complex generics decreased by 46% due to the timing of new product launches, while generics, including various product forms, outperformed expectations, driven by solid performance in both Developed and Emerging Markets. The company generated around \$135 million in new product revenues in the third quarter and aims to reach over \$450 million in new product revenues for 2023. Cash flow remains strong while the company focuses on reducing debt to maintain its investment-grade credit rating.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	---	---	---	---	---	(\$1.05)	\$1.71	\$0.95	\$1.16
DPS	---	---	---	---	---	---	---	---	\$0.44	\$0.48	\$0.48	\$0.58
Shares¹	---	---	---	---	---	---	---	---	1208	1217	1208	1200

As Mylan was the accounting acquirer, Mylan's historical financial statements before the merger are considered to be the historical financial statements of Viatri's. Therefore, without a fundamental baseline of Mylan and Upjohn's results, we look forward-looking forecasts to see if the company has growth potential. Revenue is expected to reach ~\$15.4 billion in 2023, which is less than in 2022 due to the sale of its biosimilars business. Therefore, we took a conservative approach with a predicted 4% growth rate through 2028. We have also decreased our estimated EPS to \$0.95 from \$1.50 due to their performance over the last nine months, where they have earned only \$0.68 per share.

However, the company has reported that it intends to create an ophthalmology franchise by acquiring Oyster Point Pharma and Famy Life Sciences. The company has estimated that these acquisitions have the potential to add ~\$1 billion in sales by 2028. Viatri's increased its annual dividend by 9% to \$0.48 per share in 2022 and has indicated a dividend policy that accounts for no more than 25% of free cash flow. The company has guided a slight drop in free cash for 2023, with estimates between \$2.3 and \$2.7 billion. As a result, the company will keep the dividend flat in 2023. For the moment, we estimate 4% dividend growth through to 2028; however, we will be keeping an eye on the company's cash flow growth as the company expects to use the bulk of this to strengthen the balance sheet and pay down debt while remaining on track with its \$1 billion stock repurchase program.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	---	---	---	---	-12.4	6.5	9.7	7.0
Avg. Yld.	---	---	---	---	---	---	---	---	3.4%	4.3%	5.3%	7.2%

The current PE ratio stands at a low 9.7, particularly when compared to larger pharmaceutical firms. Nonetheless, given our expectations for modest yet steady future growth for this new company, we find a target price-to-earnings ratio of 7.0 appropriate at this stage. This valuation target, while possibly conservative in the long term, remains uncertain due to the sale of the biosimilar segment and the large debt on the balance sheet. The current yield of 5.3% appears attractive at present price levels. However, the company's policy of distributing only 25% of cash flow suggests limited dividend growth. We anticipate that as the company reduces a significant portion of its debt, dividend growth will gradually improve over time. The company trades at 139% of our fair value of \$7, while our five-year price target is \$8.

Safety, Quality, Competitive Advantage, & Recession Resiliency

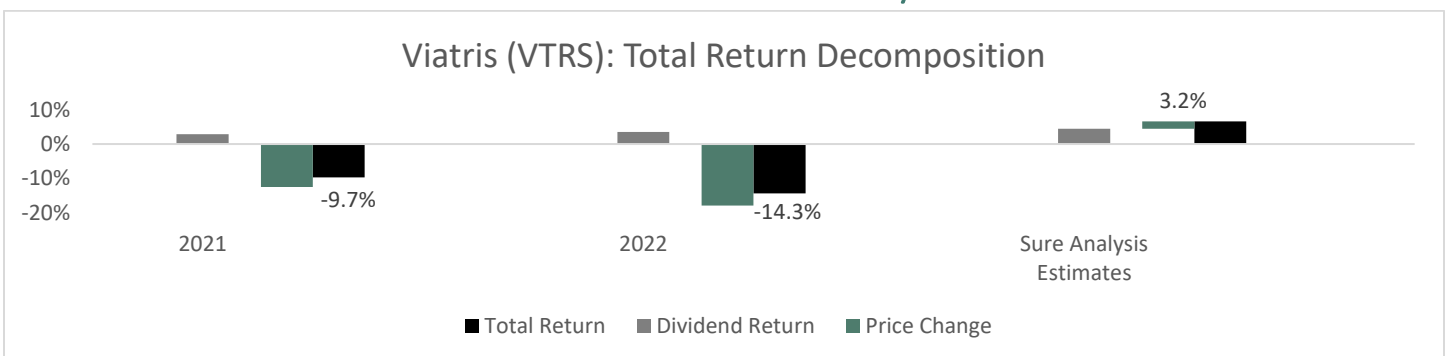
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Payout	---	---	---	---	---	---	---	---	-42%	28%	51%	51%

Viatris' vast branded and generic drugs portfolio is one of its competitive advantages. Mylan has many 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 growing dividend. Encouragingly, the company generates significant cash flow and actively reduces its long-term debt each year. Viatris is projected to return 3.2% annually through 2028. Our projected return stems from an earnings growth rate of 4%, a 5.3% starting dividend yield, and a -6.3% headwind from multiple contraction. Given the company's return potential, we rate Viatris as a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	6,909	7,720	9,429	11,077	11,908	11,434	11,501	11,946	17,890	16,260
Gross Profit	3,040	3,528	4,216	4,697	4,783	4,002	3,898	3,797	5,576	6,497
Gross Margin	44.0%	45.7%	44.7%	42.4%	40.2%	35.0%	33.9%	31.8%	31.2%	40.0%
SG&A Exp.	1,409	1,626	2,181	2,499	2,576	2,441	2,564	3,345	4,529	4,179
D&A Exp.	516	567	1,032	1,523	1,806	2,110	2,019	2,216	4,506	3,028
Operating Profit	1,121	1,321	1,364	1,372	1,424	856	694	(103)	295	1,656
Operating Margin	16.2%	17.1%	14.5%	12.4%	12.0%	7.5%	6.0%	-0.9%	1.6%	10.2%
Net Profit	624	929	848	480	696	353	17	(670)	(1,269)	2,079
Net Margin	9.0%	12.0%	9.0%	4.3%	5.8%	3.1%	0.1%	-5.6%	-7.1%	12.8%
Free Cash Flow	711	269	1,139	1,297	1,169	1,146	1,398	551	2,508	2,510
Income Tax	121	41	68	(358)	207	(54)	138	(51)	605	735

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	15,295	15,821	22,268	34,726	35,806	32,735	31,256	61,553	54,840	50,020
Cash & Equivalents	291	226	1,236	999	292	388	476	844	701	1,260
Accounts Receivable	1,820	2,269	2,434	3,015	3,173	2,417	2,640	3,891	3,774	3,244
Inventories	1,657	1,651	1,951	2,456	2,543	2,580	2,671	5,472	3,978	3,520
Goodwill & Int. Ass.	6,858	6,396	12,602	23,680	25,452	23,412	21,241	42,030	38,250	33,030
Total Liabilities	12,335	12,545	12,502	23,609	22,499	20,568	19,372	38,599	34,350	28,950
Accounts Payable	1,073	906	718	940	976	1,123	1,062	1,346	1,056	1,158
Long-Term Debt	8,030	8,504	7,296	15,473	14,661	13,818	12,672	25,786	23,070	19,270
Shareholder's Equity	2,942	3,256	9,764	11,116	13,308	12,167	11,884	22,954	20,490	21,070
LTD/E Ratio	2.73	2.61	0.75	1.39	1.10	1.14	1.07	1.12	1.13	0.91

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.6%	6.0%	4.5%	1.7%	2.0%	1.0%	0.1%	-1.4%	-2.2%	4.0%
Return on Equity	19.9%	30.0%	13.0%	4.6%	5.7%	2.8%	0.1%	-3.8%	-5.8%	10.0%
ROIC	6.2%	8.2%	5.9%	2.2%	2.6%	1.3%	0.1%	-1.8%	-2.8%	5.0%
Shares Out.	---	---	---	---	---	---	---	---	1,209	1,217
Revenue/Share	17.51	19.40	18.96	21.28	22.19	22.14	22.27	19.87	14.80	13.36
FCF/Share	1.80	0.68	2.29	2.49	2.18	2.22	2.71	0.92	2.07	2.06

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

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