



Royalty Pharma (RPRX)

Updated December 20th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$28	5 Year CAGR Estimate:	10.3%	Market Cap:	\$13.3 B
Fair Value Price:	\$29	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	02/15/2024
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	03/15/2024
Dividend Yield:	2.9%	5 Year Price Target	\$41	Years Of Dividend Growth:	3
Dividend Risk Score:	C	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 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 14 billion-dollar therapies in its portfolio, and the average royalty duration across the portfolio 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, 2023, Royalty Pharma reported Q3 2023 results for the period ending September 30th, 2023. The company reported Q3 non-GAAP EPS of -\$3.08, missing analysts' estimates by \$0.70, and revenue of \$536.3 million, a decline of 6.5% year-over-year. Management raised the guidance for adjusted cash receipts from \$2.90 to \$2.975 billion to \$2.90 to \$3.00 billion for the fiscal year 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	---	---	---	---	\$1.32	\$1.49	\$0.10	\$4.14	\$5.81
DPS	---	---	---	---	---	---	---	\$0.30	\$0.68	\$0.76	\$0.80	\$1.18
Shares¹	---	---	---	---	---	---	---	375	415	438	474	699

Since Royalty Pharma went public in June of 2020, the stock has only traded for 3 years, so results are only available for that period. In 2023, we expect Royalty Pharma to deliver about \$4.14 in earnings-per-share, matching the midpoint of analysts' estimates. We forecast that earnings-per-share will grow at a rate of about 7% annually over the next 5 years, guiding our 2028 earnings-per-share estimate of around \$5.81.

From 2020 to 2021, the dividend payment grew by 126.7%, which is unsustainable. In 2022, the dividend grew by only 12%. Thus, we maintain our forecast with a more normalized dividend growth rate moving forward. We expect 8% dividend growth, which will be slightly above the company's forecasted earnings-per-share growth rate, and we think the company will grow the dividend more aggressively.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	---	---	---	32.7	26.6	384.2	6.8	7.0
Avg. Yld.	---	---	---	---	---	---	---	0.8%	1.7%	2.0%	2.9%	2.9%

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, considering the regulatory hurdles, the unpredictable nature of the business,

¹ Shares in millions.

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and the reliance on FDA approvals, we estimate that a 7.0x P/E ratio is fair for the business, in line with its current valuation. Today, the stock offers a 2.9% dividend yield, which is moderate 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	---	23%	46%	760%	19%	20%

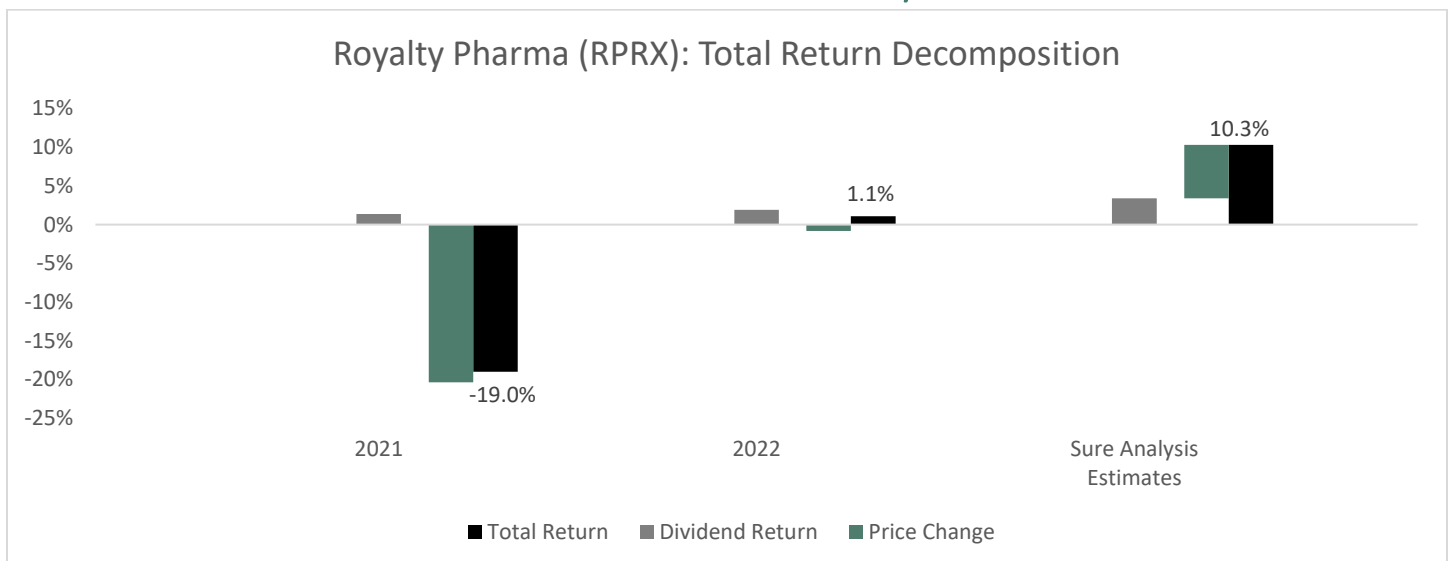
Royalty Pharma plc boasts a distinctive competitive advantage in the pharmaceutical industry as a leader in acquiring revenue-generating intellectual property related to drugs. This unique business model allows the company to generate consistent cash flows even during economic downturns, showcasing a resilient recession performance. Additionally, RPRX maintains a prudent approach to debt management, utilizing its robust cash flows to efficiently handle debt obligations and fund future acquisitions, contributing to its financial stability. Royalty Pharma's repurchase plan has seen significant progress since its initiation in April 2023. The company has repurchased approximately five million shares for \$144 million in the third quarter of 2023 alone, bringing the total to around ten million shares for \$305 million. This activity has reduced the weighted average diluted Class A ordinary shares outstanding from 607 million in the third quarter of 2022 to 601 million in the same period in 2023, reflecting the company's commitment to enhancing shareholder value and confidence in its stock.

We expect Royalty Pharma to have about a 20% 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; this company has no liquidity or solvency risks. The business has some recession resiliency because it earns revenue from royalties on drug sales. Finally, 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. Royalty Pharma can position itself as a leader in niche markets by investing in strong royalties. Thus, we upgrade the stock with a buy rating premised upon the 10.3% annualized total returns over the medium-term, with the forecasted earnings-per-share growth of 7.0%, the 2.9% dividend yield, and a small valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue					1,598	1,795	1,814	2,122	2,289	2,237
SG&A Exp.					106	62	103	182	183	227
D&A Exp.					33	33	24	23	23	6
Operating Profit					940	1,364	2,623	1,660	1,431	923
Op. Margin					58.8%	76.0%	145%	78.2%	62.5%	41.3%
Net Profit					1,210	1,378	2,349	975	620	43
Net Margin					75.7%	76.8%	129%	45.9%	27.1%	1.9%
Free Cash Flow					1,418	1,618	1,667	2,035	2,018	2,144
Income Tax					-	-	-	-	-	-

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets						11,370	12,450	16,020	17,516	16,813
Cash & Equivalents						1,924	246	1,009	1,541	1,711
Goodwill & Int.						76	52	29	6	-
Total Liabilities						6,818	6,308	6,124	7,267	7,288
Accounts Payable						4	11	11	6	8
Long-Term Debt						6,519	6,238	5,817	7,096	7,116
Total Equity						4,488	6,106	4,819	5,777	5,628
LTD/E Ratio						1.45	1.02	1.21	1.23	1.26

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets							19.7%	6.8%	3.7%	0.2%
Return on Equity							44.3%	17.9%	11.7%	0.8%
ROIC							20.0%	6.9%	3.7%	0.3%
Shares Out.								375	415	438
Revenue/Share					4.51	5.07	5.12	5.65	5.52	5.11
FCF/Share					4.00	4.57	4.71	5.42	4.86	4.90

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

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