



# Roche Holding AG (RHHBY)

Updated February 2<sup>nd</sup>, 2024 by Derek English

## Key Metrics

<b>Current Price:</b>	\$34	<b>5 Year CAGR Estimate:</b>	11.9%	<b>Market Cap:</b>	\$219 B
<b>Fair Value Price:</b>	\$45	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	03/15/24 <sup>1</sup>
<b>% Fair Value:</b>	76%	<b>5 Year Valuation Multiple Estimate:</b>	6.0%	<b>Dividend Payment Date:</b>	03/20/24
<b>Dividend Yield:</b>	3.8%	<b>5 Year Price Target</b>	\$52	<b>Years Of Dividend Growth:</b>	37
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## Overview & Current Events

Roche Holding AG 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 & Point Care Solutions, Molecular Diagnostics, Tissue Diagnostics, and Diabetes Care.

On February 1<sup>st</sup>, 2024, the company released its 2023 results. It reported a 1% increase in group sales; however, due to the strength of the Swiss Franc, this was a 7% decrease when expressed in local currency. This decline was primarily attributed to reduced sales of COVID-19 products and biosimilar erosion. Although Ronapreve sales dropped 65%, management predicts that Q1 2024 is the final quarter that will be materially impacted by COVID-19 sales. The Pharmaceuticals Division experienced a 7% increase in sales, driven by high demand for medicines to treat severe diseases, including Vabysmo, Phesgo, Hemlibra, Polivy, and Evrysdi. These same products were the key drivers behind an 8% sales growth in the United States. In the International region, sales increased by 13%, with Brazil and Canada leading the way. Japan was the only region not to show any growth, experiencing sales declines in both local and constant currency. The Diagnostics Division demonstrated an overall sales decline of 13%, largely due to reduced demand for COVID-19 tests. However, sales have been increasing every quarter from -28% in Q1 to 4% in Q4 for the core lab department. Management is confident that the diagnostics division is poised for significant growth with some new launches coming this year.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$1.48	\$1.34	\$1.41	\$1.28	\$1.56	\$1.97	\$2.20	\$2.68	\$2.79	\$2.58	<b>\$2.66</b>	<b>\$3.08</b>
<b>DPS</b>	\$1.11	\$1.00	\$1.02	\$1.03	\$1.08	\$1.07	\$1.14	\$1.16	\$1.24	\$1.28	<b>\$1.28</b>	<b>\$1.47</b>
<b>Shares</b>	6.90	6.98	6.88	6.88	6.88	6.91	6.84	6.84	6.88	6.88	<b>6.88</b>	<b>6.80</b>

Over the last five years, Roche's earnings have grown at a CAGR of 6.2%. Roche is well-known for its heavy reliance on cancer drugs such as Herceptin, Rituxan, and Avastin, which have contributed to the company's 13.0% earnings compound annual growth rate (CAGR) in USD over the past five years. Biosimilars have significantly impacted all three drugs, with sales down 16% for Herceptin and 19% for Avastin. The company expects this downtrend to persist, estimating sales erosion of approximately \$1.6 billion across all three drugs. However, the company's dependence 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 emerging as stand-out performers. Sales of new medicines continued their robust growth in all regions, offsetting the impact of biosimilars such as Pesgo.

Earnings growth has outpaced dividend growth over the past decade, and the payout ratio has remained below 60% since 2018. The company anticipates a slightly improved performance in 2024, projecting sales to grow in the mid-single digits and EPS to increase in line with sales. However, Roche maintains its impressive dividend streak and has once again committed to increasing the dividend in Swiss francs for the 37<sup>th</sup> consecutive year.

<sup>1</sup> Estimated

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.



# Roche Holding AG (RHHBY)

Updated February 2<sup>nd</sup>, 2024 by Derek English

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2028
Avg. P/E	24.7	25.2	22.2	24.5	19.1	17.5	19.2	16.5	14.1	14.0	<b>12.7</b>	<b>17.0</b>
Avg. Yld.	3.0%	2.9%	3.3%	3.3%	3.6%	3.1%	2.7%	2.6%	3.3%	3.5%	<b>3.8%</b>	<b>2.8%</b>

At 3.8%, Roche Holdings' dividend yield exceeds its five-year average of 3.1%. This yield compares favorably to the S&P 500 Index's average dividend yield of 1.43%. Over the last five years, the company has consistently increased its dividend by an average of 4.1%. However, the dividend saw a modest growth of 3.1% for 2023 in USD, distributed on March 20<sup>th</sup>, 2023. We anticipate this modest growth trend to persist until 2029, resulting in a target yield of 2.8% for that year. The current P/E ratio of 12.7 is below the five-year average P/E ratio of 16.3. Sales growth has remained steady as the company recovers from the pandemic. However, we concur with management's expectation of low single-digit growth, around 3% annually over the next five years, as earnings typically mirror sales performance. This projection considers the impact of biosimilars. Nonetheless, if new medicines continue to demonstrate rapid growth, we may revise our expectations upward. Consequently, we anticipate the P/E ratio to hover around 17x by 2029, reflecting a balance of growth potential and market valuation.

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

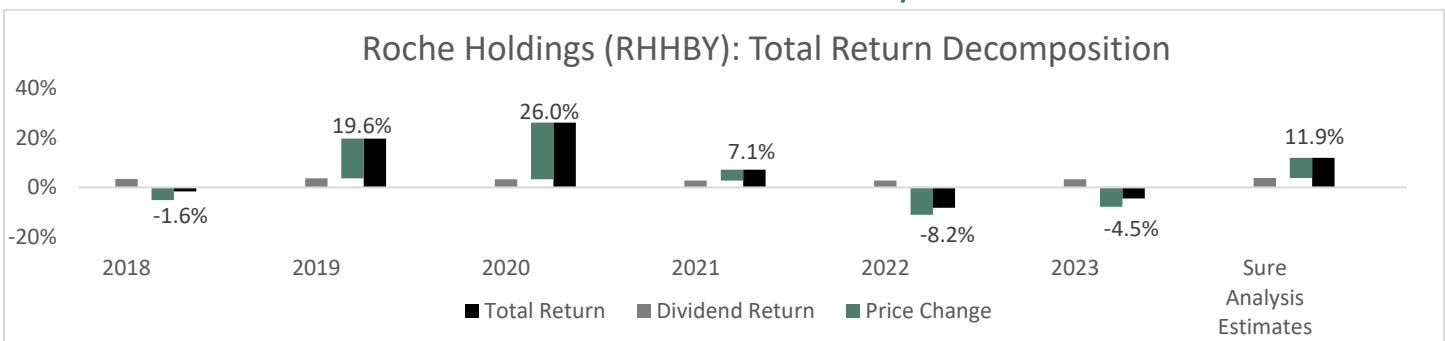
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	75%	75%	72%	80%	69%	55%	52%	43%	47%	49%	<b>49%</b>	<b>48%</b>

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 more Phase III trials planned for 2024. 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 37 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 11.9%. 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



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# Roche Holding AG (RHHBY)

Updated February 2<sup>nd</sup>, 2024 by Derek English

## 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.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.