



# Royalty Pharma (RPRX)

Updated March 21<sup>st</sup>, 2024, by Yiannis Zourmpanos

## Key Metrics

<b>Current Price:</b>	\$30.00	<b>5 Year CAGR Estimate:</b>	7.9%	<b>Market Cap:</b>	\$13.9 B
<b>Fair Value Price:</b>	\$27.80	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	05/17/2024 <sup>1</sup>
<b>% Fair Value:</b>	108%	<b>5 Year Valuation Multiple Estimate:</b>	-1.5%	<b>Dividend Payment Date:</b>	06/14/2024 <sup>2</sup>
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$39	<b>Years Of Dividend Growth:</b>	4
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## 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 name 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 February 15<sup>th</sup>, 2024, Royalty Pharma reported Q4 2023 results, reporting non-GAAP EPS of \$1.52, beating analysts' estimates by \$0.52, and revenue of \$596.1 million, which represented a decline of 5.3% year-over-year. Management raised the guidance for adjusted cash receipts from \$2.90 billion to \$2.975 billion to \$2.90 billion to \$3.00 billion for the fiscal year 2023. In 2023, Royalty Pharma witnessed a 9% year-over-year increase in Portfolio Receipts, totaling \$3.049 billion, attributed to robust portfolio performance and strategic royalty acquisitions. Despite a 31% decline in Q4 due to prior accelerated payments, annual royalty receipts grew by 8%. The company's transaction activity flourished, with new transactions valued at \$4 billion and are expected to augment Portfolio Receipts by about \$1.2 billion by 2025.

Additional highlights included successful Phase 3 outcomes for Cytokinetics' aficamten and MorphoSys' pelabresib, along with strategic acquisitions involving Bristol Myers Squibb and Novartis, enhancing the development-stage royalty portfolio.

Looking ahead, Royalty Pharma projects 2024 Portfolio Receipts to be in the range of \$2.600 billion to \$2.700 billion, forecasting a 5% to 9% growth in royalty receipts. This projection excludes potential future transactions, emphasizing the company's confidence in its robust financial foundation and its capacity to fuel life sciences innovation for sustained long-term growth. CEO Pablo Legorreta highlighted the strong fundamental tailwinds, strong balance sheet, and dynamic deal pipeline as key factors positioning Royalty Pharma for continued success, reinforcing its commitment to fostering life sciences innovation and delivering compelling growth prospects.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2020	2021	2022	2023	2024	2029
<b>EPS</b>	---	---	---	---	---	---	\$1.32	\$1.49	\$0.10	\$2.53	<b>\$3.97</b>	<b>\$5.57</b>
<b>DPS</b>	---	---	---	---	---	---	\$0.30	\$0.68	\$0.76	\$0.80	<b>\$0.84</b>	<b>\$1.07</b>
<b>Shares<sup>3</sup></b>	---	---	---	---	---	---	375.0	415.0	438.0	447.6	<b>464.9</b>	<b>562.0</b>

Since Royalty Pharma went public in June 2020, the stock has only traded for a few years, so results are only available for the 2020 to 2023 period. In 2024, we expect Royalty Pharma to deliver about \$3.97 in earnings-per-share as this is the midpoint of analysts' estimates. We forecast that earnings-per-share will grow at a rate of about 7% annually over

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> In millions

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the next 5 years, guiding our 2029 earnings-per-share estimate of around \$5.57. From 2020 to 2021, the dividend payment grew by 126.7%, which is unsustainable, but in 2022 and 2023 grew by a more modest rate of 12% and 5%, respectively. Thus, we revised our forecast with a more normalized dividend growth rate, with dividends projected to grow by 5% annually over the next five years.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2020	2021	2022	2023	Now	2029
Avg. P/E	s	---	---	---	---	---	32.7	26.6	384.2	12.4	<b>7.6</b>	<b>7.0</b>
Avg. Yld.	---	---	---	---	---	---	0.8%	1.7%	2.0%	2.3%	<b>2.8%</b>	<b>2.8%</b>

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, and the reliance on FDA approvals, we estimate that a 7.0x P/E ratio is fair for the business, slightly below its current valuation. Today, the stock offers a 2.8% 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	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	---	---	23%	46%	760%	32%	<b>21%</b>	<b>19%</b>

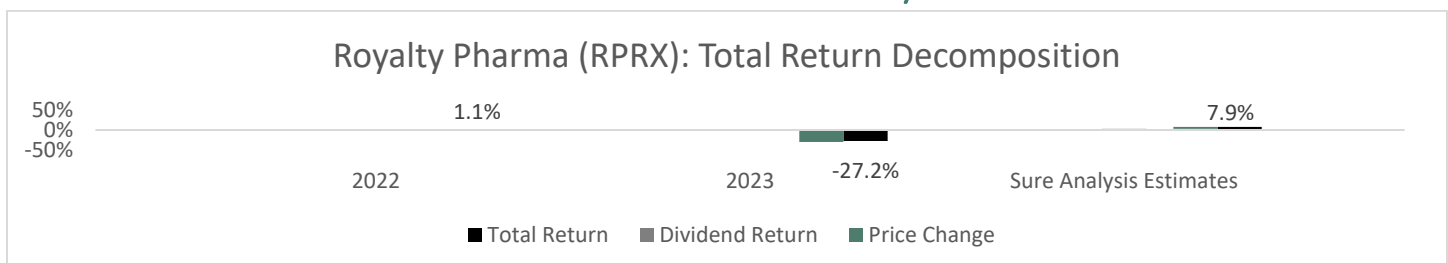
Royalty Pharma plc boasts a distinctive competitive advantage in the pharmaceutical industry as a leader in acquiring revenue-generating intellectual property related to drugs. This unique business model allows the company to generate consistent cash flows even during economic downturns, showcasing a 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. In 2023, Royalty Pharma repurchased approximately 10 million shares for \$305 million as part of a \$1.0 billion program initiated in April, including 957,000 shares for \$26 million in the fourth quarter, reducing fully diluted Class A shares outstanding from 607 million in Q4 2022 to 598 million in Q4 2023.

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, our hold rating is premised upon the 7.9% annualized total returns over the medium-term, with the forecasted earnings-per-share growth of 7.0%, the 2.8% dividend yield, and a small valuation headwind.

## 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.

### Disclaimer

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