



Perrigo Co. plc (PRGO)

Updated November 12th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	15.6%	Market Cap:	\$3.6 B
Fair Value Price:	\$39	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/29/24
% Fair Value:	70%	5 Year Valuation Multiple Estimate:	7.5%	Dividend Payment Date:	12/17/24
Dividend Yield:	4.1%	5 Year Price Target	\$49	Years Of Dividend Growth:	22
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Perrigo's history goes all the way back to 1887 when Luther Perrigo, the proprietor of a general store and apple-drying business, had the idea to package and distribute patented medicines and household items for country stores. Today, Perrigo is headquartered in Ireland. It operates in the healthcare sector as a manufacturer of over-the-counter consumer products. Its Consumer Self-Care Americas segment is comprised of the U.S., Mexico and Canada consumer healthcare businesses. The Consumer Self-Care International segment includes branded consumer healthcare business primarily in Europe, but also Australia and Israel. The company generates ~\$4.7 billion in annual revenue.

On February 26th, 2024, Perrigo announced that it was raising its quarterly dividend 1.1% to \$0.276, extending the company's dividend growth streak to 22 consecutive years.

On November 6th, 2024, Perrigo reported third quarter earnings results for the period ending September 30th, 2024. For the quarter, revenue fell 3.2% to \$1.1 billion, which was \$30 million below estimates. Adjusted earnings-per-share of \$0.81 compared favorably to \$0.64 in the prior year and was in-line with expectations.

Organic revenue decreased 2.4% for the period, primarily due to a divested lower margin U.S. Store Brand. Consumer Self-Care Americas' organic sales were lower by 4.6%, mostly due to the divestiture of U.S. Store Brand. Infant formula returned to growth, with sales up 3% year-over-year and higher by 58% quarter-over-quarter. Consumer Self-Care International's organic growth improved 1.0% once again due to strength in cough and cold and Upper Respiratory. The company announced a cost savings program in Q4 2023 called "Project Energize" that is projected to create pre-tax savings of \$140 million to \$170 million by 2026. Year-to-date, the company has realized \$95 million of savings. Because of this, the adjusted gross margin expanded 340 basis points to 16.8% in Q3.

Perrigo updated its prior outlook for 2024 as well. The company now expects organic revenue to decline near the lower end of its prior guidance of -3% to -1%, compared to growth of 1% to 3% previously. Adjusted earnings-per-share is still projected to be in a range of \$2.50 to \$2.65 per share for the year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$6.39	\$7.24	\$5.07	\$4.93	\$4.55	\$4.03	\$4.02	\$2.06	\$2.07	\$2.58	\$2.58	\$3.29
DPS	\$0.39	\$0.46	\$0.58	\$0.64	\$0.76	\$0.84	\$0.90	\$0.96	\$1.04	\$1.09	\$1.10	\$1.40
Shares¹	134	146	143	141	138	137	136	134	135	136	138	135

Perrigo grew earnings at a rapid pace in the years after the Great Recession ended. However, earnings have declined precipitously since 2015. Perrigo's problems started in 2013, when the company acquired biotechnology company Elan for nearly \$7 billion. This huge acquisition saddled Perrigo with lots of debt, and greatly expanded the company's pharmaceutical business—at just the wrong time. Falling drug prices and the recent backlash against opioids in the U.S. has caused a significant deterioration in Perrigo's earnings growth. In response, the company has scaled back its pharmaceutical operations. Consumer health products now represent the vast majority of total revenue. And, the company divested its pharmaceutical segment to further focus on consumer products. Focusing on consumer products

¹ In millions of shares

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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will add stability to Perrigo, but these products typically grow at a lower rate than pharmaceuticals. Overall, we expect 5% annual earnings growth through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	22.2	22.6	20.7	15.8	16.5	12.3	12.9	18.9	16.5	12.5	10.5	15.0
Avg. Yld.	0.3%	0.3%	0.6%	0.8%	1.0%	1.7%	1.7%	2.5%	3.1%	3.4%	4.1%	2.8%

Shares are unchanged since our August 12th, 2024 report. Over the past 10 years, Perrigo stock traded for an average price-to-earnings ratio of 17.1. Investors should note that the 10-year average valuation includes several years of high earnings growth, which justified a valuation above 20. But the earnings decline in recent years and expectations for future growth do not justify a price-to-earnings ratio above 20 in our opinion. Based on earnings-per-share guidance for 2024, the stock has a P/E of 10.5. Our 2029 target price-to-earnings ratio remains 15. Reverting to our valuation target by then would result in a 7.5% tailwind to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

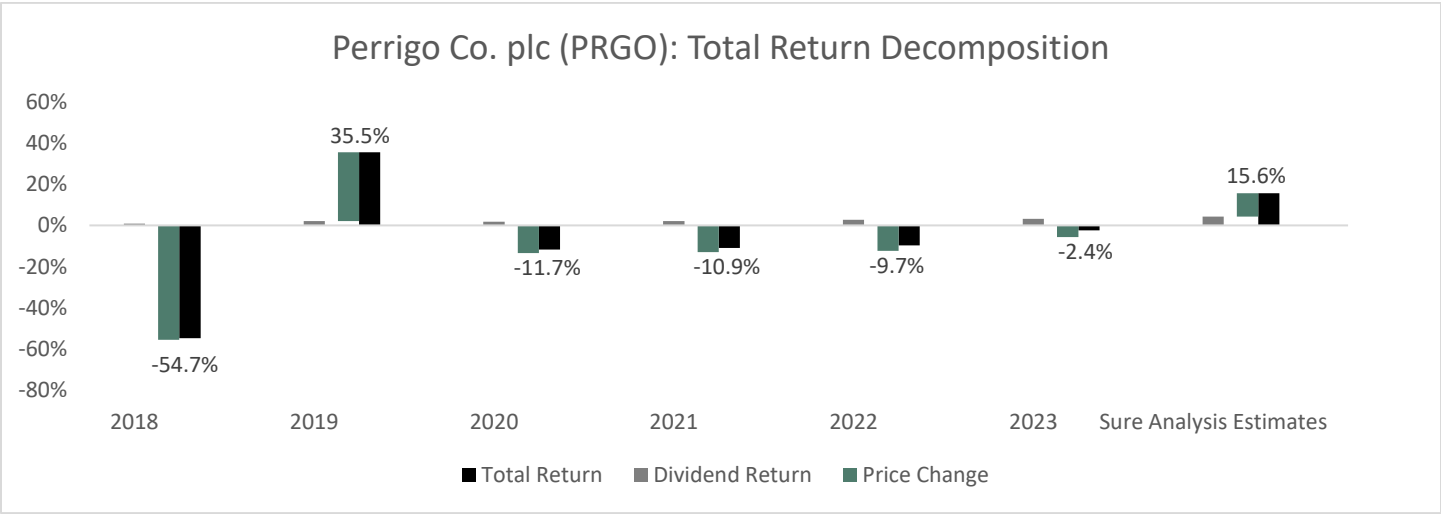
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	6%	6%	11%	13%	17%	21%	22%	47%	50%	42%	43%	43%

Perrigo does not rank highly in terms of safety. The debt incurred from the Elan acquisition caused its interest coverage ratio to erode significantly in recent years. That said, the company does have a significant competitive advantage. Perrigo is one of the largest manufacturers of OTC products, which gives it a leading position in its key markets. It also should perform well in a recession as these product categories tend to hold up, even if the economy enters a downturn. Perrigo’s dividend also appears to be safe. The payout ratio is below 50%, which indicates a sustainable dividend payout, with room for future increases as the company is highly profitable.

Final Thoughts & Recommendation

Perrigo is projected to return 15.6% annually over the next five years, which matches our previous estimate. This projected return stems from a 5% earnings growth rate, a starting dividend yield 4.1%, and a high single-digit contribution from multiple expansion. Perrigo’s segment results remain mixed, with the international business continuing to outperform the Americas. We reaffirm our five-year price target of \$49 due to guidance for the year and we continue to rate shares of Perrigo as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,914	2,632	5,281	4,946	4,732	3,870	4,088	4,139	4,452	4,656
Gross Profit	1,452	1,079	2,052	1,980	1,832	1,434	1,495	1,416	1,455	1,680
Gross Margin	37.1%	41.0%	38.9%	40.0%	38.7%	37.0%	36.6%	34.2%	32.7%	36.1%
SG&A Exp.	675	681	1,206	1,147	1,126	1,097	1,109	1,111	1,210	1,275
D&A Exp.	206	182	457	445	424	397	385	312	339	360
Operating Profit	624	310	662	707	482	214	268	600	121	284
Operating Margin	16.0%	11.8%	12.5%	14.3%	10.2%	5.5%	6.6%	14.5%	2.7%	6.1%
Net Profit	233	43	(4,013)	120	131	146	(163)	(69)	(141)	(13)
Net Margin	5.9%	1.6%	-76.0%	2.4%	2.8%	3.8%	-4.0%	-1.7%	-3.2%	-0.3%
Free Cash Flow	461	123	549	610	490	250	466	4	211	304
Income Tax	71	(34)	(836)	161	160	(11)	(38)	390	(8)	(4)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	13,853	19,350	13,870	11,629	10,983	11,301	11,488	10,426	11,017	10,809
Cash & Equivalents	800	418	622	679	551	354	632	1,865	601	751
Accounts Receivable	935	1,189	1,176	1,131	1,073	1,243	594	653	697	740
Inventories	632	899	795	807	878	967	1,059	1,020	1,150	1,141
Goodwill & Int. Ass.	10,331	10,042	7,561	7,556	6,888	7,107	5,584	5,151	6,779	6,515
Total Liabilities	5,159	9,243	7,913	5,458	5,315	5,497	5,833	5,274	6,175	6,041
Accounts Payable	364	556	472	450	475	520	452	411	537	478
Long-Term Debt	3,207	6,032	5,797	3,341	3,242	3,369	3,565	3,521	4,107	4,073
Shareholder's Equity	8,693	10,107	5,958	6,171	5,668	5,804	5,655	5,152	4,842	4,768
LTD/E Ratio	0.37	0.60	0.97	0.54	0.57	0.58	0.63	0.68	0.85	0.85

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.4%	0.2%	-24.2%	0.9%	1.2%	1.3%	-1.4%	-0.6%	-1.3%	-0.1%
Return on Equity	4.2%	0.4%	-50.0%	2.0%	2.2%	2.5%	-2.8%	-1.3%	-2.8%	-0.3%
ROIC	2.9%	0.3%	-28.8%	1.1%	1.4%	1.6%	-1.8%	-0.8%	-1.6%	-0.1%
Shares Out.	134	146	143	141	138	137	136	134	135	136
Revenue/Share	33.86	18.02	36.85	34.69	34.21	28.35	29.80	30.98	33.10	34.41
FCF/Share	3.99	0.84	3.83	4.28	3.55	1.83	3.40	0.03	1.57	2.25

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

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