

## Viatris Inc.

# 4Q wrap: '24 EBITDA guidance below prior soft guide, though more buybacks expected

Reiterate Rating: UNDERPERFORM | PO: 12.00 USD | Price: 12.29 USD

## '24 EBITDA below prior soft guide

Viatris' 4Q update offered nothing to get too excited about with pro forma '24 EBITDA (ex-divestitures) below management's prior soft guide (\$4.6bn vs. \$4.8bn mid-pt) & the announced Idorsia asset deal has show-me elements with no actionable catalysts until late '25-2026. Specifically, the Idorsia deal brings two Ph3 pipeline assets that have limited supportive clinical data and carry commercial risk (more below). Viatris is in the early stages of a specialty brand buildout though the initial foray (acquisition of Oyster/Famycare) has yet to de-risk any assets with meaningful peak sales potential. Further, on a combined company basis, EBITDA mid-point is expected to decline low-SD Y/Y reflecting some negative operating leverage dynamics. While we upwardly adjusted our PO from \$10 to \$12/sh (6x EV/EBITDA; was 5.5x) reflecting peer-multiple re-rating, we have yet to see signs of the company reversing in multi-year EBITDA decline trend.

## Idorsia deal: show-me story, key proof points start late '25

Today's Idorsia deal includes exclusive license of two Ph3 assets, selatogrel for emergency heart attack prevention and cenerimod for lupus. Deal terms include \$350m upfront plus future milestones and tiered royalties (max mid-teens). At first blush, the challenges with selatogrel (Ph3 data 2H25) are around trial execution (window to treat), supportive data are limited (Ph2 PD data) and commercial risk (acute 1x treatment). On cenerimod (S1P modulator) despite some intriguing Ph2 data, lupus has been a challenging indication for Ph3 development. Viatris plans to host an R&D Day (March 27). Stepping back, Viatris' BD strategy appears focused on deals with smaller upfront payments that require more back-end clinical and commercial de-risking such as the Oyster/Famycare which has yet to deliver a drug with meaningful peak sales potential.

## Share buybacks: \$250m YTD leaves ~\$300m capacity

Roughly >\$1.15bn FCF should be available for dividends (~\$600m) and repurchases (\$250m YTD; \$300m remaining capacity). VTRS plans \$3.5bn debt paydown in 2024.

## Model changes: OpEx increases to support base biz growth

We raise our OpEx forecast as expect to support R&D for expanded pipeline and commercial support for new product launches, included branded products.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.35	2.93	2.84	2.82	2.76
GAAP EPS	1.71	0.05	1.04	1.02	0.96
EPS Change (YoY)	-9.5%	-12.5%	-3.1%	-0.7%	-2.1%
Consensus EPS (Bloomberg)			2.65	2.61	2.88
DPS	0.48	0.48	0.50	0.53	0.56
Valuation (Dec)					
P/E	3.7x	4.2x	4.3x	4.4x	4.5x
GAAP P/E	7.2x	245.8x	11.8x	12.0x	12.8x
Dividend Yield	3.9%	3.9%	4.1%	4.3%	4.5%
EV / EBITDA*	6.8x	7.6x	8.0x	8.3x	8.4x
Free Cash Flow Yield*	17.2%	4.5%	16.2%	15.9%	15.2%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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Timestamp: 28 February 2024 04:14PM EST

28 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	10.00	12.00
2024E Rev (m)	15,421.7	15,446.7
2025E Rev (m)	15,349.6	15,457.3
2026E Rev (m)	15,305.8	15,431.5
2024E EPS	2.74	2.84
2025E EPS	2.75	2.82
2026E EPS	2.79	2.76
2024E EBITDA (m)	5,055.0	4,870.9
2025E EBITDA (m)	4,961.5	4,744.0
2026E EBITDA (m)	5,013.7	4,673.6

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### Stock Data

Price	12.29 USD
Price Objective	12.00 USD
Date Established	28-Feb-2024
Investment Opinion	B-3-7
52-Week Range	8.74 USD - 13.62 USD
Mkt Val (mn) / Shares Out (mn)	14,856 USD / 1,208.8
Free Float	99.6%
Average Daily Value (mn)	113.48 USD
BofA Ticker / Exchange	VTRS / NAS
Bloomberg / Reuters	VTRS US / VTRS.OQ
ROE (2024E)	14.5%
Net Dbt to Eqty (Dec-2023A)	78.4%
ESGMeter <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price

# iQprofile<sup>SM</sup> Viatris Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.0%	8.9%	8.9%	9.2%	9.3%
Return on Equity	19.6%	16.5%	14.5%	13.5%	12.8%
Operating Margin	34.1%	31.3%	29.8%	28.7%	28.2%
Free Cash Flow	2,560	670	2,402	2,360	2,253

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	0.3x	0.8x	0.8x	0.8x
Asset Replacement Ratio	0.1x	0.1x	0.2x	0.2x	0.2x
Tax Rate	16.0%	16.0%	16.0%	16.0%	16.0%
Net Debt-to-Equity Ratio	85.5%	78.4%	45.3%	38.5%	22.4%
Interest Cover	8.6x	7.7x	7.6x	9.2x	9.1x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	16,271	15,427	15,447	15,457	15,432
% Change	-9.0%	-5.2%	0.1%	0.1%	-0.2%
Gross Profit	9,582	9,125	8,953	8,922	8,907
% Change	-8.7%	-4.8%	-1.9%	-0.3%	-0.2%
EBITDA	5,777	5,124	4,871	4,744	4,674
% Change	-7.1%	-11.3%	-4.9%	-2.6%	-1.5%
Net Interest & Other Income	(660)	(513)	(502)	(377)	(376)
<b>Net Income (Adjusted)</b>	<b>4,075</b>	<b>3,538</b>	<b>3,439</b>	<b>3,412</b>	<b>3,342</b>
<b>% Change</b>	<b>-8.8%</b>	<b>-13.2%</b>	<b>-2.8%</b>	<b>-0.8%</b>	<b>-2.1%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	4,075	3,538	3,439	3,412	3,342
Depreciation & Amortization	3,028	2,829	2,573	2,499	2,444
Change in Working Capital	(923)	(900)	(105)	(39)	(12)
Deferred Taxation Charge	(26)	(30)	(30)	(30)	(30)
Other Adjustments, Net	(3,202)	(4,367)	(3,067)	(3,067)	(3,067)
Capital Expenditure	(392)	(400)	(408)	(416)	(425)
<b>Free Cash Flow</b>	<b>2,560</b>	<b>670</b>	<b>2,402</b>	<b>2,360</b>	<b>2,253</b>
<b>% Change</b>	<b>-0.7%</b>	<b>-73.8%</b>	<b>258.4%</b>	<b>-1.8%</b>	<b>-4.5%</b>
Share / Issue Repurchase	3	(247)	3	3	3
Cost of Dividends Paid	(582)	(579)	(609)	(640)	(672)
Change in Debt	(3,280)	(3,353)	(2,705)	(2,103)	163

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,260	1,190	716	437	2,284
Trade Receivables	3,815	4,020	4,051	4,081	4,101
Other Current Assets	5,561	6,572	6,732	6,819	6,844
Property, Plant & Equipment	3,025	2,725	2,783	2,849	2,923
Other Non-Current Assets	36,362	34,233	32,010	29,861	27,767
<b>Total Assets</b>	<b>50,022</b>	<b>48,740</b>	<b>46,293</b>	<b>44,047</b>	<b>43,920</b>
Short-Term Debt	1,259	2,705	2,103	1,837	1,601
Other Current Liabilities	5,487	4,324	4,410	4,488	4,522
Long-Term Debt	18,015	15,637	10,141	8,304	6,703
Other Non-Current Liabilities	4,189	4,189	4,189	4,189	4,189
<b>Total Liabilities</b>	<b>28,950</b>	<b>26,855</b>	<b>20,842</b>	<b>18,817</b>	<b>17,014</b>
<b>Total Equity</b>	<b>21,072</b>	<b>21,885</b>	<b>25,451</b>	<b>25,230</b>	<b>26,907</b>
<b>Total Equity &amp; Liabilities</b>	<b>50,022</b>	<b>48,740</b>	<b>46,293</b>	<b>44,047</b>	<b>43,920</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Pharmaceuticals

## Company Description

Viatis was formed as a combination of Mylan and Upjohn. Viatis comprises three businesses: 1) legacy Mylan ex-US pharma revenue makes up c40% of NewCo sales, 2) legacy Mylan's NA pharma, c20% of NewCo sales, and 3) Upjohn, c40% of NewCo sales. The merger of two legacy generic businesses creates a strong generic competitor with global reach.

## Investment Rationale

We rate VTRS Underperform as VTRS embarks on a slow, multi-year transition phase pivoting to a specialty brand business. While VTRS will have >\$2.5bn in divestiture proceeds, VTRS is committed to returning 50% of FCF to shareholders via dividends/buybacks, the size of M&A capacity may be constrained for some time. Some of our concerns near-term are around lack of visibility on pro forma (RemainCo) earnings power (EBITDA), VTRS' ability to make value accretive M&A decisions (limited track record)

## Stock Data

Average Daily Volume 9,233,360

## Quarterly Earnings Estimates

	2023	2024
Q1	0.77A	0.72E
Q2	0.75A	0.72E
Q3	0.79A	0.74E
Q4	0.62A	0.66E

## Acronyms:

Ph3: Phase 3

SD: single-digit

PD: pharmacodynamic

S1P: Sphingosine 1-phosphate



## Price objective basis & risk

### Viatis Inc. (VTRS)

Our \$12 price objective (PO) is based on 6x 2024E EV/EBITDA on our pro forma 2024 EBITDA estimate (\$4.63bn), which is slightly below peer group average of 7x as we have yet to see signs of the company reversing in multi-year decline trend

Upside risks to our PO: Pipeline opportunities adding sales/EBITDA above estimates, improvement in investor sentiment as new management executes on strategic priorities, higher synergy realization vs anticipated, dividend growth.

Downside risks to our PO: Failure to execute by new management, further decline in Upjohn China business, potential downside to cash flow generation, lackluster execution on business development plans (following the company's recently announced divestitures).

## Analyst Certification

I, Jason M. Gerberry, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Specialty Pharma & Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Arcellx, Inc.	ACLX	ACLX US	Jason M. Gerberry
	Arrowhead Pharmaceuticals	ARWR	ARWR US	Jason M. Gerberry
	bluebird bio	BLUE	BLUE US	Jason M. Gerberry
	Exelixis	EXEL	EXEL US	Jason M. Gerberry
	Fractyl Health	GUTS	GUTS US	Jason M. Gerberry
	Immunovant, Inc.	IMVT	IMVT US	Jason M. Gerberry
	Intra-Cellular Therapies	ITCI	ITCI US	Jason M. Gerberry
	Ionis	IONS	IONS US	Jason M. Gerberry
	Jazz Pharmaceuticals	JAZZ	JAZZ US	Jason M. Gerberry
	Lyra Therapeutics	LYRA	LYRA US	Jason M. Gerberry
	Oculus Holding AG	OCS	OCS US	Jason M. Gerberry
	Relay Therapeutics	RLAY	RLAY US	Jason M. Gerberry
	Tarsus Pharmaceuticals	TARS	TARS US	Jason M. Gerberry
	Teva Pharmaceuticals	TEVA	TEVA US	Jason M. Gerberry
	Vaxcyte Inc	PCVX	PCVX US	Jason M. Gerberry
	Xenon Pharmaceuticals	XENE	XENE US	Jason M. Gerberry
<b>NEUTRAL</b>				
	Alkermes	ALKS	ALKS US	Jason M. Gerberry
	Amphastar Pharmaceuticals	AMPH	AMPH US	Jason M. Gerberry
	Axsome Therapeutics	AXSM	AXSM US	Jason M. Gerberry
	Galapagos	GLPG	GLPG US	Jason M. Gerberry
	ProKidney Corp	PROK	PROK US	Jason M. Gerberry
	Roivant	ROIV	ROIV US	Chi M. Fong
<b>UNDERPERFORM</b>				
	Bausch Health Cos Inc	BHC	BHC US	Jason M. Gerberry
	FibroGen Inc.	FGEN	FGEN US	Jason M. Gerberry
	Harmony Biosciences	HRMY	HRMY US	Jason M. Gerberry
	Organon	OGN	OGN US	Jason M. Gerberry
	Viatis Inc.	VTRS	VTRS US	Jason M. Gerberry

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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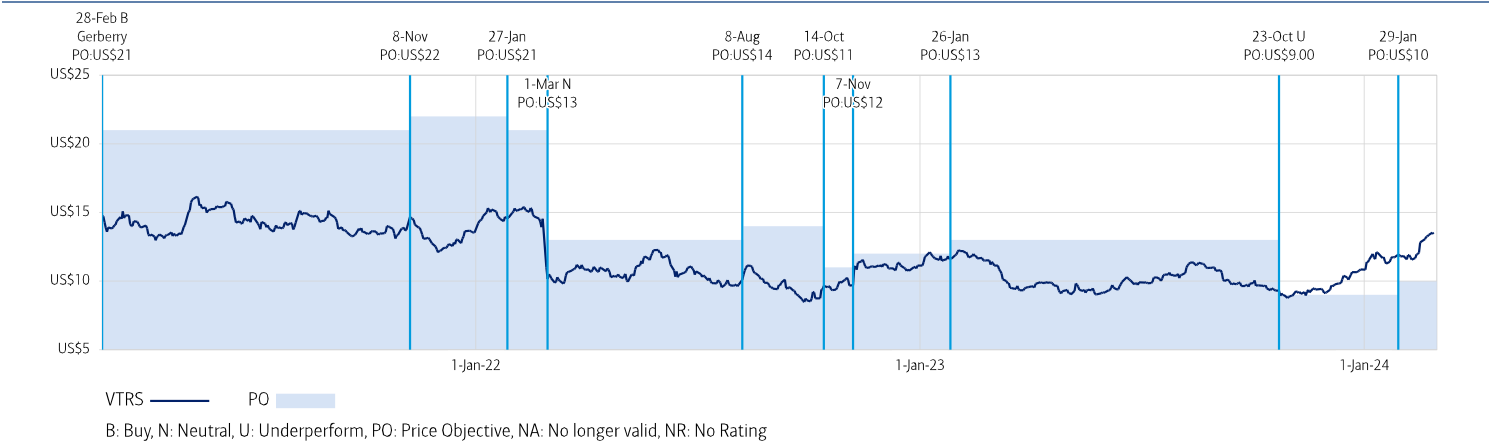
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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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