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Viatris Share Price Plunges Amid Weak 2021 Financial Guidance

Adjusted EBITDA Expectations Approximately $1bn Lower Than Expected

by Dean Rudge

Viatris' share price closed the day nearly 15% down after announcing weaker than anticipated revenue, adjusted EBITDA and cash flow guidance for 2021. The market reacted strongly to the company's expectations and ambitions, with management continuing to stress the strength of the combined Mylan and Upjohn businesses.

Viatris' share price opened nearly 10% lower as the recently-formed generics and biosimilars giant announced weaker than anticipated financial guidance for 2021, with one analyst declaring that the figures "highlight the rapid and difficult underlying deterioration" in both Mylan and the Upjohn mature brands and off-patent business.

Financial guidance for this year includes estimated revenues of $17.2bn-$17.8bn and a net loss of $100m-$300m on a GAAP basis; and adjusted earnings before interest, tax, depreciation and amortization of $6.0bn-$6.4bn and free cash flow of $2.0bn-$2.30bn on a non-GAAP basis. However, the free cash flow guidance includes a $1.5bn cash cost to achieve synergies, as well as other one-time cash costs.

"As we look forward in 2021, we are forecasting an approximate 4% overall decline in our year-over-year revenue from our 2020 combined preliminary estimate," Viatris president Rajiv Malik noted, speaking a little over three months after the merger closed.

Negative factors in 2021 include the loss of exclusivity for Lyrica (pregabalin) in Japan and Perforomist (formoterol fumarate) in the US; a one-time rebate accrual adjustment also in the US; and remdesivir in emerging markets, following the World Health Organization withdrawing its recommendation for the product as a treatment option for COVID-19.

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When the merger was first announced in July 2019, Mylan and Upjohn had pointed to estimated 2020 pro-forma revenues of $19bn-$20bn and adjusted EBITDA of $7.5bn-$8.0bn, considering the then recent loss of exclusivity for Lyrica in the US. (Also see "*Pfizer Deal Will Dramatically Reshape Mylan's Model*" - Generics Bulletin, 31 Jul, 2019.)

However, Viatris has revealed that the COVID-19 pandemic last year wiped around $800m from the firm's top-line and reduced the firm's EBITDA by approximately $510m. Meanwhile, the material delay in closing the transaction reduced the firm's initial cash position by around $1bn. (Also see "*Coronavirus Puts The Brakes On Mylan-Upjohn Merger*" - Generics Bulletin, 26 Mar, 2020.)

Viatris And Biocon's US Bevacizumab Hit By Indefinite Delay

By David Wallace

26 Dec 2020
Viatris and partner Biocon have seen FDA action on their application for a bevacizumab biosimilar rival to Avastin delayed by the need for a facility inspection, the timing of which is uncertain due to coronavirus-related restrictions.

Read the full article here

As well as the guidance, Viatris reaffirmed its commitment to a number of key financial goals: rapid deleveraging; enhancing and growing free cash flows, "particularly following the phasing out of one-time and other stand up costs"; initiating a dividend; and delivering 'total shareholder return.'

CEO Michael Goettler told investors during an accompanying call, "We are confident that 2021 will be our trough year because we have a number of one-time costs related to the restructuring program that we expect to phase out in future years."

Four weeks after beginning life, Viatris delivered on a promised multi-year restructuring plan, announcing that up to 20% of the company's workforce, or up to 9,000 jobs, would be impacted by the closure, divestiture or downsizing of 15 of Viatris' manufacturing plants around the globe. (Also see "*Up To 9,000 Jobs At Risk As Viatris Kicks Off $1bn Restructuring Scheme*" - Generics Bulletin, 14 Dec, 2020.)

In addition to the five sites announced at the time, Malik revealed that Viatris had now identified and finalized plans to close down or divest an additional eight manufacturing facilities across various technology verticals and geographies.

"We expect that our rapid deleveraging in 2021 will significantly reduce our interest expenses in 2022 and beyond," Goettler continued. "We expect script volumes to normalize as COVID recovery begins in [the second half of] 2021 and extends into 2022. And," he noted, "we expect

our synergies of $1bn to be achieved over the next three years, instead of four."

Viatris is also pushing for greater transparency, announcing plans to provide financial results in four new reporting segments: Developed Markets; Emerging Markets; Japan, Australia and New Zealand, or the JANZ region; and Greater China.

"It appears that Mylan standalone hasn't grown revenues in five-plus years despite significant acquisitions." - Cowen's Ken Cacciatore

Overall, Viatris was "highly confident that our guidance accurately reflects the change in the operating environment and is the right starting point," Goettler said. "With our diverse portfolio and pipeline, our global network and significant scientific, manufacturing, commercial capabilities, we're highly confident in our ability to capture the opportunity ahead through the global healthcare gateway to drive significant long-term shareholder value."

Nevertheless, the market reacted poorly to the company's early forecast, sending Viatris' opening share price on 22 February down by 9.9% to $16.55. It closed at $15.50, representing a one-day drop of nearly 15%, considering prior adjusted EBITDA expectations of around $7.2bn.

In a stinging same-day note entitled "What A Mess – Thesis Confirmed – This Business Model Appears Broken," Cowen's Ken Cacciatore wrote that the guidance "underscores that undifferentiated acquisitions simply can't stop the bleeding. The addition of Upjohn is simply more of the same, just larger."

"It appears that Mylan standalone hasn't grown revenues in five-plus years despite significant acquisitions," Cacciatore observed, adding that the Upjohn business was "deteriorating even faster than our worst-case scenario."

"As we attempt to analyze the business looking forward," Cacciatore wrote, "we continue to believe it is imperative to first look at the recent five-year standalone history for both Mylan and Upjohn. And that history…should be cause for major concern going forward."

In particular, Cacciatore highlighted, Mylan's estimated 2020 revenues were below 2017 levels, while the firm's 2020 adjusted free cash flow "appears essentially at the same levels as five years ago [in 2015]."

Moreover, Mylan's buy-to-grow strategy had faltered, he said, pointing to $15bn+ spent on acquisitions since 2015 which had not delivered the expected cash flows, including the $750m agreement for Aspen's European Thrombosis business "which brings $275m in declining revenues." (Also see "*Mylan Strikes €642m Deal For Aspen's Thrombosis Business In Europe*" - Generics Bulletin, 8 Sep, 2020.)

New US launches from 2018 to 2020, including generic versions of Copaxone (glatiramer acetate), Advair (fluticasone/salmeterol), and Tecfidera (dimethyl fumarate), as well as a biosimilar to Neulasta (pegfilgrastim), in tandem with those acquisitions "have still not been able to grow the business, and in fact have just barely allowed it to maintain the current annual cash generation levels over the five-year window."

FTC Narrowly Approves Mylan-Upjohn Merger As Dissenters Call For Change

By Dean Rudge

30 Oct 2020

Mylan's proposed $12bn combination with Pfizer's Upjohn unit is expected to close next month following a settlement agreement with the FTC, with a requirement to address competition concerns in ten markets. The FTC was however strongly divided on the deal, with dissenters labelling the directives of the Commission as "deeply flawed, favoring routine over rigor."

Read the full article here

Viatris CFO Sanjeev Narula explained that as well as severance and site-related costs, the company was having to allocate a significant portion of cash flow in 2021 to various legal issues and settlements, as well as integration-related costs stemming from the Pfizer deal.

"This $1.5bn [cash cost] will rapidly reduce over the next two years and will significantly improve our free cash flow," he commented. "As that cost declines over the next three years and as we improve the EBITDA because of synergies and as we look at pay down debt and reduce interest costs, we believe our cash conversion will go up. We're not providing the guidance at this time for next couple of years, but we should expect rapid improvement in free cash flow."

Committing to paying down debt and maintaining its investment grade credit rating, Viatris said it now expected to repay approximately $6.5bn in debt by the end of 2023; and was targeting a long-term leverage ratio of 2.5x, with a range of 2.2x to 2.8x.

"While the 2021 outlook is lower than expected, we like that the guide is out of the way, and we expect the company to get into a routine of meeting/beating estimates, which could drive multiple expansion over time," Truist Securities' Gregg Gilbert wrote in a same-day note. "We continue to see the potential for significant upside for the stock if the company executes and are sticking with our Buy rating."

SVB Leerink's Ami Fadia agreed, writing, "We believe EBITDA and free cash flow growth off of this new base is very achievable as some of the restructuring related costs come down along with greater synergy realization and lower interest costs with debt paydown." Nevertheless, Fadia queried "how the topline can grow meaningfully in the near term."

Viatris will hold a company investor day on 1 March, at which the firm's broader corporate roadmap to maximize shareholder and patient value will be reviewed.