Regeneron (REGN)

Sector: Biotechnology

Price: 460.58$

Market Cap: 47.96B$

P/E ratio: 13.7

Dividend: 0.00$ yearly – 0.00%

KEY INFORMATIONS

Founded in 1988, they are kinda new but also one of the most innovative companies, with a great potential growth.

They don’t have treatment approval problems right now, all of the have been approved recently and they have 8 products approved and available, plus the COVID-19 antibody cocktail, which is approved for emergency use.

9123 employees, not a huge company but they have great numbers and this will help them grow and gain both expertise in new diseases and raising their market share. They don’t have labor units or employees problem since they work with highly skilled workers.

Being a biotech company, they face competition on all their drugs from other companies, and yet they succeed and in some diseases like squamous-cell skin cancer they have market share of over 50% in US.

As a company that needs constant research and development, being able to control costs and have stable margins is very important, and Regeneron is doing a good job in that, pushing the margins higher and higher in last 7 years. This is also thanks to US government which is funding their research and development costs in exchange of influence in treatment price and supply. For COVID-19 antibody treatment, US government funded 80% of Regeneron's research and development costs.

I usually don't like companies that don't distribute dividend and don't buy back the shares, but this company is not that old and I can justify this lack with the potential they have, plus they started buying back shares from Sanofi, they are creating a good net income and will start soon to reward the investors with dividends and buyback programs.

Their contracts with US obligates the government to buy all doses of antibody cocktail until June, 1.25 million doses for a payment of 2.625B$. In Europe they have an agreement with Roche.

STRENGHT

One of the most interesting points in this company in my opinion is that the founder is also the CEO of the company and he owns a good share of it. Leonard Schleifer and George Yancopoulos, the founders of the company both still guide it, and statistically the companies which have the founders leading it perform better than the ones having an external CEO. This is not a guarantee, but it's an interesting point we shouldn't miss, plus they have a big amount of shares so it's their own interest to have a successful company.

The balance sheet is very good looking, the growth is kinda big and having a company that in last 5 years is growing at over 20% a year is something extraordinary and it can't be a coincidence. The growth table speaks itself, anyone can see the company is growing beautifully. The 10 year data is NM because 10 years ago the company was unprofitable.

Compound Annual Growth Rates (TTM)

Name	YoY	3Y	5Y	10Y
Revenue	26.73%	12.27%	15.16%	33.59%
EBITDA	43.80%	16.64%	21.62%	NM
Operation Income (EBIT)	46.77%	16.58%	21.35%	NM
Net Income	66.05%	43.12%	40.75%	NM
Normalized Net Income	40.82%	16.70%	21.57%	NM
Earnings from cont. Ops	66.05%	43.12%	40.75%	NM
EPS (Diluted)	30.52%	43.45%	40.78%	NM
Tangible Book Value	-0.58%	21.52%	24.71%	35.52%
Total Assets	-0.58%	21.52%	24.71%	35.52%
Levered Free Cash Flow	-34.41%	1.62%	60.92%	NM

The balance sheet is great, they have a very low long term debt, 2B$. Cash on hand is 2.2B$ so they could repay the debt entirely with the cash, and they also have 11B$ of retained earnings and 6.6B$ invested in treasury stock. All the cash position is free, so we have a 33.43$ of cash per share we can use to lower our risk. While all the balance sheet is great and the company is very very strong financially, I would prefer them to leverage the debt more to pump their growth. The management is more conservative, and yet they have amazing growth. A huge thumbs up for them.

They have agreements with other healthcare companies, especially Sanofi, Bayer, Roche and Teva Pharmaceuticals. These agreements gives their partners right to commercialise their products in certain areas, but also gives the partners most of the research and development costs, lowering the risk for Regeneron and helping them to keep a more stable cost. They don't have any approval problems right now, all their recent treatments were approved and I don't see any problems in the business right now. All these agreements are very well made, sharing the risks with other companies but retaining a good portion of the income for themselves.

Their patents have a good life left, almost all have at least 6/7 years minimum left so I don't expect a sales reduction in the short/ medium term. Pricing of the treatments are very high, some of them cost hundreds of thousands dollars, so most of customers use insurances. If someone doesn't have an insurance and needs these treatments, it's kinda unlikely they can pay for them.

They are active also in Covid-19 treatments, president Donal Trump has been treated with their antibody cocktail and they already have sales for the incoming months. The difference between a vaccine and an antibody treatment is that the vaccine infects a healthy patient with a weakened virus and it lets the body create antibodies and fight the disease. Antibody treatment inoculates a ready-made antibody in a sick patient and it immediately starts fighting the disease. The vaccine offers protection for a longer period of time while the antibody cures it but doesn’t offer a long term protection. A dose of Regeneron antibody cocktail costs around 2400$.

One of their most recent treatments, Dupixent is having a big success and they are requesting approval to use it on more diseases, and the sales already doubled in a year. This happens on most of their drugs, they can be used for more than one disease so they only need to test it and ask for approval, avoiding the expensive research and development.

FINANCIALS

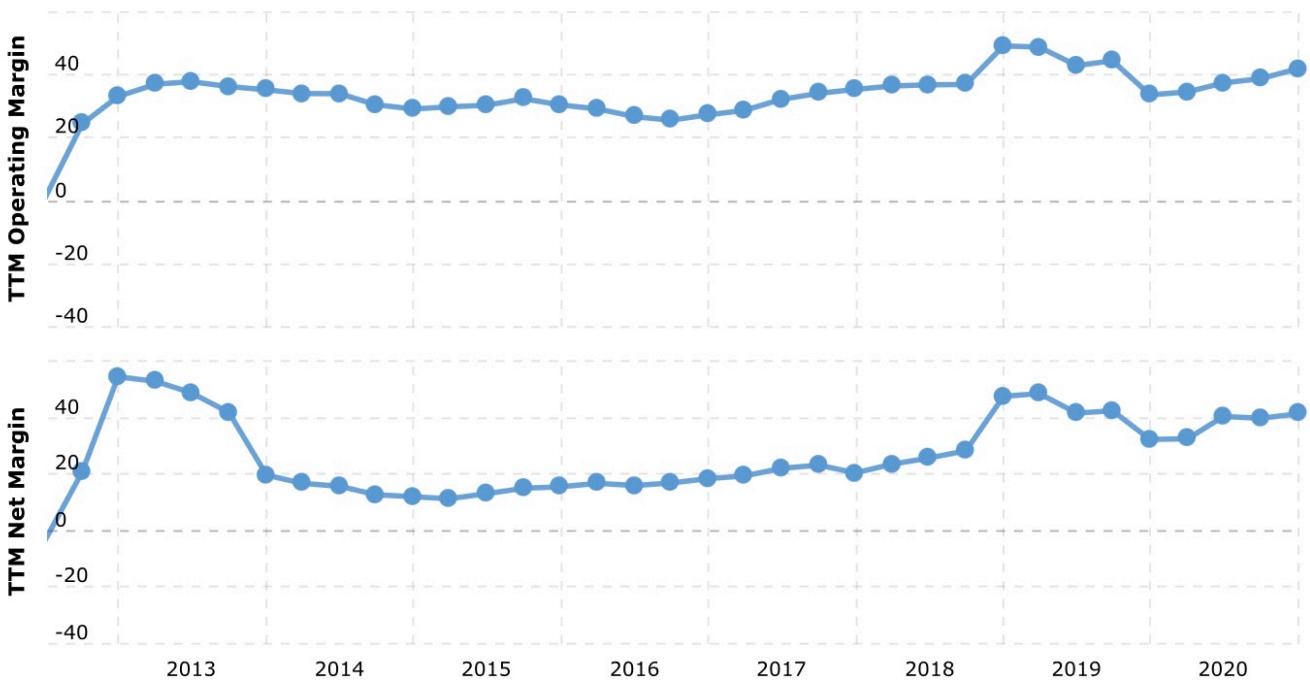
2.2B$ cash - 34.43$ per share, totally free, which is not bad, 7.5% of the price so we can have a decent risk mitigation.

A great 11B$ retained earnings covers 5 times the long term debt which is around 2B$, without even considering the cash on hand. There is no buyback program on the open market, but in the last 8 years the shares number was constant. They started buying back the shares recently, and already spent 6.6B$ on them, but they started buying from their partners not on the open market. I consider this a company which is both value and growth so I don’t see this as a problem, once they finish buying back shares from the partners they will start focusing on investors and start distributing dividends and buying back shares. This kind of companies is very rare and can give great returns.

Price/earnings ratio has never been so low in last 9 years, we can buy a mature company for a very interesting price compared to their numbers and their potential. Right now the P/E is 14.4, with a 10 years average of 22.8 and a 5 years average of 32.4, a bargain considering the strength of the .

As you already saw, the management is kinda conservative and don't use much debt. It's a very good thing, even if I usually like a slightly higher financial leverage, but they can do whatever they want and ask for more if needed without anyone asking them anything. Financially the company is not only very safe, but we must also consider that almost all debt must be repaid in more than 5 years, giving them plenty of time and not having them any problems in paying it back in the next future. Managers are great, and the founders still work in the company, giving them a great expertise in their business and in running the company. After 30 years of management, and after creating a 50B$ company from scratch, probably you can't find a better manager.

They worked very well in last 9 years, reaching a good profitability and slowly working to raise margins, and we can see a slow but steady upside trend in operating and net margins.



POTENTIAL THREATS

They don't distribute dividend and don't buyback shares, so in fact the investor has no return. This is usually a risk for a value investor, in my opinion this is not the case as the company is not that old and just started making good amounts of money and they also started looking at this aspect of the business.

A potential problem related to their business is the cost of their treatments, some of them can reach 100,000$ a year, so most of people can't afford them. The only way for them to pay for the treatment is using an insurance, an uninsured person won't be able to pay for the cures. This reduces the pool of potential customers, but there's nothing they can really do about it since the research and development and the manufacturing costs are very high for biotechnology companies.

The high price can scare some investors, seeing a share price over 400$ could reduce the investors, but they shouldn't have any problems, a decent investor understands that the price is not related to the value and that a cheap company sometimes is just cheap and not a bargain.

FINAL THOUGHTS

The company is amazing, numbers look great and the price is a real bargain. We're talking about a price of 485$ when the 200 days moving average is 565$ that's almost 20% lower than the 200 days moving average which is extraordinary for a company that has no problems and is in great shape. Honestly I struggle to find problems or threats for Regeneron Pharmaceuticals.

The potential is huge if they start distributing dividends and buying back shares, this strategy attracts a lot of investors especially in US, so they could have a boom in shares demand and drive the prices up. And if they don't, they will use the money to grow the business which is still fine since it brought good returns to the company.

The price is so low I wouldn't pass on it, I don't think it will go lower and even if it goes the company is so good that we should invest and just leave it grow and make us money. I don't think the risk is more than 10% but let's take a safety margin and say 15% so the price should stay above 410$, I don't see any reasons for the price to go down. And even if it goes down, just let it go back to the value and you won't have any problems. I expect a profit of 35/40% in a year so a target price around above 650$, the absurdly low price itself pumps our potential gain. I could invest in this company for 10 or 15 years without any problems and expecting a return over 25% a year maybe even more.

Timeline goes from medium to long/very long term, since we're buying it so low we can be happy with a good medium term gain, or we can wait and let it grow and see if they start focusing on the investors. It's not a company that should worry us in the long term, we just have to keep an eye on the management and the numbers to be 100% sure our money is still safe. I don't see any short or medium term problems that could affect a lot the company.

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