

Roche Holdings AG (OTC: RHHBY) – closing share price on July 10, 2024: \$34.80; dividend yield: 3.9%

Roche is one of the world's largest healthcare companies, second only to Johnson & Johnson, with a rich 125-year history of supplying innovative healthcare solutions. Roche significantly expanded its product offerings in 2009 through the acquisition of biotechnology leader, Genentech, for \$47 billion.

Roche is a family-owned company, as the descendants of its founder, Fritz Hoffmann-La Roche, control the majority of company voting shares. As such, Roche has maintained their long-term investment approach, focused on sustainability as a core value while striving to maximize value for all stakeholders. Roche has increased its dividend for thirty-seven consecutive years, while maintaining its AA credit rating from S&P Global.

Roche's pharmaceutical division generates 75% of revenue, with innovative solutions around oncology, neurology, infectious diseases, and ophthalmology. Its diagnostic division generates the remaining 25% of revenue and is a market leader in in-vitro diagnostics, including cardiac, oncology, pathogens, and genomics testing.

During the pandemic, Roche recorded a significant jump in COVID related product sales which benefited Roche's operations at the time, but later proved to be a drag as COVID related product sales declined significantly over the past couple of years. Roche has overcome the sales declines with new products. In 2023, excluding COVID related products, Roche's revenue increased by 8% on a constant currency basis, far exceeding the flat reported revenue of all products combined.

The launch of successful new products originates from an extensive research and development (R&D) budget that only trailed Merck in 2023. Roche has launched twenty new medicines since the end of 2015 which now represent 55% of portfolio revenue. This young portfolio of products creates a long revenue runway before any loss of exclusivity. Further, Roche has twelve new drugs that are expecting Phase III clinical trial readouts in 2024 alone addressing large market opportunities including Alzheimer's and Parkinson's. As of May 2024, Roche had 218 drugs in their R&D pipeline, more than any other top pharmaceutical company worldwide.

Most notably, Vabysmo, a treatment for eye diseases that can lead to blindness, continues to achieve the highest growth of Roche's young portfolio, experiencing a 108% growth rate in the first quarter of 2024. This has been one of the most successful product launches in Roche's history according to Roche's 50-year-old CEO, Dr. Thomas Schinecker.

Even though Roche has had several major successes recently, it has also experienced setbacks. In addition to the COVID revenue declines, Roche felt the impact of biosimilar competition as its older products experience loss of exclusivity and two of Roche's hopeful Alzheimer's treatments failed Phase III clinical trials, significantly affecting Roche's sales outlook. As this news was disappointing, we believe investors' expectations became overly subdued as Roche continued to move ahead by entering new markets and forming innovative partnerships.

Roche entered the high growth obesity drug market through its acquisition of Carmot Therapeutics in December 2023. Recent results of Carmot's CT-388 drug compound are extremely encouraging with early trial participants losing an average of 19% of their body weight over six months. Additionally, Roche announced a collaboration with artificial intelligence (AI) chipmaker, Nvidia, to develop an AI platform to accelerate drug discovery.

Roche Holdings AG is a core holding for our Growth and Growth & Income investment strategies.

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