AmerisourceBergen Corporation (ABC)

Updated June 15th, 2018 by Bob Ciura

Key Metrics

Current Price:	$94	**5 Year CAGR Estimate:**	12.1%	**Quality Percentile:**	N/A
Fair Value Price:	$97	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	N/A
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.5%	**Total Return Percentile:**	N/A
Dividend Yield:	1.6%	**5 Year Price Target**	$156	**Valuation Percentile:**	N/A

Overview & Current Events

AmerisourceBergen was formed in 2001, by the merger of AmeriSource and Bergen Brunswig. Today, AmerisourceBergen is one of the "Big 3" drug distributors in the U.S., along with Cardinal Health and McKesson. ABC provides pharmaceutical products and business solutions to a variety of customers, which include healthcare providers, veterinary practices, and livestock producers. ABC also services global manufacturers to improve supply chain efficiency. ABC generates annual revenue of $150 billion, with a presence in more than 50 countries around the world. The company sources 1.5 million products delivered from over 30 distribution centers. More than 90% of ABC's revenue comes from its pharmaceutical segment.

On 5/2/18, the company reported strong second-fiscal quarter financial results. Revenue of $41.0 billion increased 10.5% year-over-year. Adjusted earnings-per-share increased 9.6% for the quarter. Both figures beat analyst expectations. Revenue and earnings-per-share beat analyst forecasts by $480 million and $0.12 per share, respectively, which meant the results were well above expectations. Revenue growth was due to a 10.4% increase in the core Pharmaceutical Distribution Services segment.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.44	$1.72	$2.22	$2.52	$2.72	$3.14	$3.97	$4.96	$5.62	$5.88	***$6.45***	***$10.39***
DPS	$0.15	$0.24	$0.34	$0.46	$0.60	$0.83	$0.94	$1.16	$1.36	$1.46	***$1.52***	***$2.45***

ABC's growth is being threatened right now by falling drug prices. Increasing demand for generics has fueled drug price deflation in the U.S., which is eroding their margins. Despite this headwind, ABC continues to grow revenue and earnings each year, which can be attributed to the company's competitive advantages. Going forward, ABC's growth will be fueled organically, thanks to demographic shifts and the aging U.S. population, as well as by acquisitions. Last year, ABC acquired H. D. Smith, the largest independent pharmaceutical wholesaler in the U.S., for $815 million in cash. The acquisition is expected to be slightly beneficial to adjusted earnings-per-share in 2018, and to boost earnings-per-share by $0.15 in fiscal 2020. This is a positive long-term deal for ABC shareholders, as it will strengthen the company's position in its key market, and enhances its scale in U.S. pharmaceutical distribution.

In 2018, ABC expects to generate earnings-per-share in a range of $6.45 to $6.65. The company has guided investors to expect earnings toward the bottom of the range. Still, this would represent a satisfactory growth rate of nearly 10%, which is a strong result given the challenges in pharmaceutical distribution right now. ABC is expected to grow earnings-per-share and dividends by 10% per year over the next five years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.7	12.4	10.7	14.7	14.0	16.0	17.6	20.4	15.7	14.4	***14.6***	***15.0***
Avg. Yld.	0.7%	1.3%	1.2%	1.2%	1.6%	1.7%	1.3%	1.1%	1.5%	1.7%	***1.6%***	***1.6%***

ABC stock has seen its valuation multiple come down since 2015, due to the challenging conditions facing pharmaceutical distribution. Based on 2018 earnings-per-share estimates of $6.45, the stock currently trades for a price-to-earnings ratio of 14.6, compared with over 20 as recently as 2015. As a result, the stock now trades slightly below our fair value estimate, which is a price-to-earnings ratio of 15. This is the average valuation multiple over the past 10 years, and seems easily achievable, given our outlook for 10% annual earnings growth over the next five years. If the stock valuation returns to our estimate of fair value, it would be a slight boost to total shareholder returns, as is the 1.6% current dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	16.8%	15.5%	16.1%	16.4%	17.1%	13.3%	13.9%	12.6%	12.7%	12.9%	***13.0%***	***13.0%***
Debt/A	77.8%	80.0%	79.5%	80.9%	84.1%	87.7%	90.9%	97.8%	93.7%	94.2%	***94.0%***	***94.0%***
Int. Cov.	12.8	15.2	15.1	15.7	14.2	12.2	9.0	12.2	11.0	7.3	***7.5***	***7.5***
Payout	10.4%	14.0%	15.3%	18.3%	22.1%	26.4%	23.7%	23.4%	23.4%	24.8%	***23.6%***	***23.6%***
Std. Dev.	29.4%	25.0%	18.6%	20.6%	14.3%	13.3%	20.4%	19.3%	27.3%	28.8%	***30.0%***	***30.0%***

In terms of safety, ABC scores very well. The company's level of debt has increased, in relation to assets, and its interest coverage ratio has fallen in the past 10 years. However, its debt coverage is still more than sufficient, with plenty of financial flexibility to invest in growth, and reward shareholders with dividends. With a dividend payout ratio below 25%, the company should have little trouble continuing to increase the dividend each year.

ABC's main competitive advantage is its industry position. As one of the 'Big 3', ABC has a sizable economic moat that protects its market share. It is very difficult for a new competitor to enter the market. ABC sources over 1.5 million products, delivered from over 30 distribution centers, which is a major competitive advantage over smaller companies.

Final Thoughts & Recommendation

ABC is a highly-profitable company, with a positive growth outlook over the long-term. We expect 10% annual earnings growth for the company, which will lead to strong shareholder returns moving forward. The current dividend yield of 1.6% is slightly below the average dividend yield in the S&P 500 Index, but ABC has plenty of room for annual dividend increases. Along with modest expansion of the price-to-earnings ratio over the next five years, we expect ABC stock to generate annual returns of 12.1%. This makes the stock an attractive holding for dividend growth investors.

Total Return Breakdown by Year