# Amgn Inc (AMGN)

*Updated January 30th, 2019 by Nathan Parsh*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $185 | **5 Year CAGR Estimate:** | 11.2% | **Volatility Percentile:** | 43.8% |
| **Fair Value Price:** | $177 | **5 Year Growth Estimate:** | 9.0% | **Momentum Percentile:** | 58.4% |
| **% Fair Value:** | 105% | **5 Year Valuation Multiple Estimate:** | -0.9% | **Growth Percentile:** | 84.5% |
| **Dividend Yield:** | 3.1% | **5 Year Price Target** | 280 | **Valuation Percentile:** | 38.6% |
| **Dividend Risk Score:** | C | **Retirement Suitability Score:** | B | **Total Return Percentile:** | 59.4% |

## Overview & Current Events

Amgen is the largest independent biotech company in the world. Amgen discovers, develops, manufactures and sells medicines that treat serious illnesses. The company focuses on six therapeutic areas: cardiovascular disease, oncology, bone health, neuroscience, nephrology, and inflammation. Amgen had more than $22.8 billion in revenue in 2017 and trades with a market capitalization of more than $122 billion. Founded in 1980, the company began with just three employees. Today Amgen has more than 19,000 employees and operates in approximately 100 countries.

Amgen reported fourth quarter and full year 2019 results on January 29th. The company earned $3.42 per share, $0.15 above expectations and an 18% improvement year-over-year. Revenue grew 7.4% to $6.2 billion, topping estimates by $390 million. Adjusted earnings-per-share (EPS) for the year grew 14% to $14.40, above the company's guidance of $14.13 per share. Revenue grew 4% to $23.7 billion. Cash flow improve $0.1 billion to $10.6 billion in 2018.

Sales for *Enbrel*, which treats rheumatoid arthritis, declined 8% in both the quarter and full year as the product continues to see lower unit demand and a decrease in net selling prices. Biosimilar competition continues to hamper *Enbrel's* sales. After showing declines for the past several quarters, *Neulasta* sales were higher by 5% on the quarter (down 1% on the year). This growth was due largely to an order placed by the U.S. government. *Prolia,* which treats osteoporosis, was higher by 14% for the quarter and 16% for 2018 as increased unit demand continues. Revenues for *Repatha*, which helps control cholesterol, were up 62% in the fourth quarter and 72% for the year. Amgen cut the price of *Repatha* by 60% earlier in the year in order to help drive unit demand. *Kyprolis*, treatment for patients with relapsed multiple myeloma, grew 11% for the quarter and 16% for the year. A lower net selling price for *Kyprolis* helped demand. Sales for *Xgeva,* which treats bone cancer, improved 17% for the quarter and 13% for 2018 on higher demand. Amgen repurchased nearly $18 billion in stock last year while paying out $3.5 billion in dividends.

Amgen expects adjusted EPS in the range of $13.10-$14.30 and revenue between $21.8-$22.9 billion for 2019. Revenue and EPS totals are below 2018's result in large part to a nonrecurring $1.1 billion milestone payment received last year.

## Growth on a Per-Share Basis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $4.83 | $5.12 | $5.25 | $6.46 | $7.60 | $8.70 | $10.38 | $11.65 | $12.58 | $14.40 | ***$13.70*** | ***$21.08*** |
| **DPS** | --- | --- | $0.56 | $1.44 | $1.88 | $2.44 | $3.16 | $4.00 | $4.60 | $5.28 | ***$5.80*** | ***$8.12*** |
| **Shares** | 995 | 932 | 795.6 | 756.3 | 754.6 | 760.4 | 754 | 738.2 | 720 | 640 | ***630*** | ***600*** |

Amgen's earnings not only held up during the last recession, but grew. Over the last ten years, the company has grown earnings at a rate of 12% per year. Amgen has been aggressively repurchasing its own shares. The company retired 31% of outstanding shares between 2008 and 2017

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Now | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 11.4 | 10.9 | 10.7 | 11.8 | 13.7 | 15.1 | 15.2 | 13.4 | 13.6 | *13.4* | ***13.5*** | ***12.9*** |
| **Avg. Yld.** | --- | --- | 1.0% | 1.9% | 1.8% | 1.9% | 2.0% | 2.6% | 2.7% | *2.8%* | ***3.1%*** | ***3.0%*** |

Shares of Amgen have decreased $4, or 2.1%, since our October 31st update. Based off of guidance for 2019, Amgen trades with a multiple of 13.4, down from 14.4 earlier. The ten-year average P/E multiple is 12.9. Shareholders could see the multiple contract 0.9% per year if the stock reverts to its average P/E by 2024. Even with double digit earnings growth, Amgen has never seen its price to earnings multiple expand to nose bleed levels. The market seems to understand that some of the company's bestselling drugs have declining revenues and isn't bidding up shares.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | --- | --- | 10.7% | 22.3% | 24.7% | 28% | 30.4% | 34.3% | 36.6% | 36.7% | ***42.3%*** | ***37.4%*** |

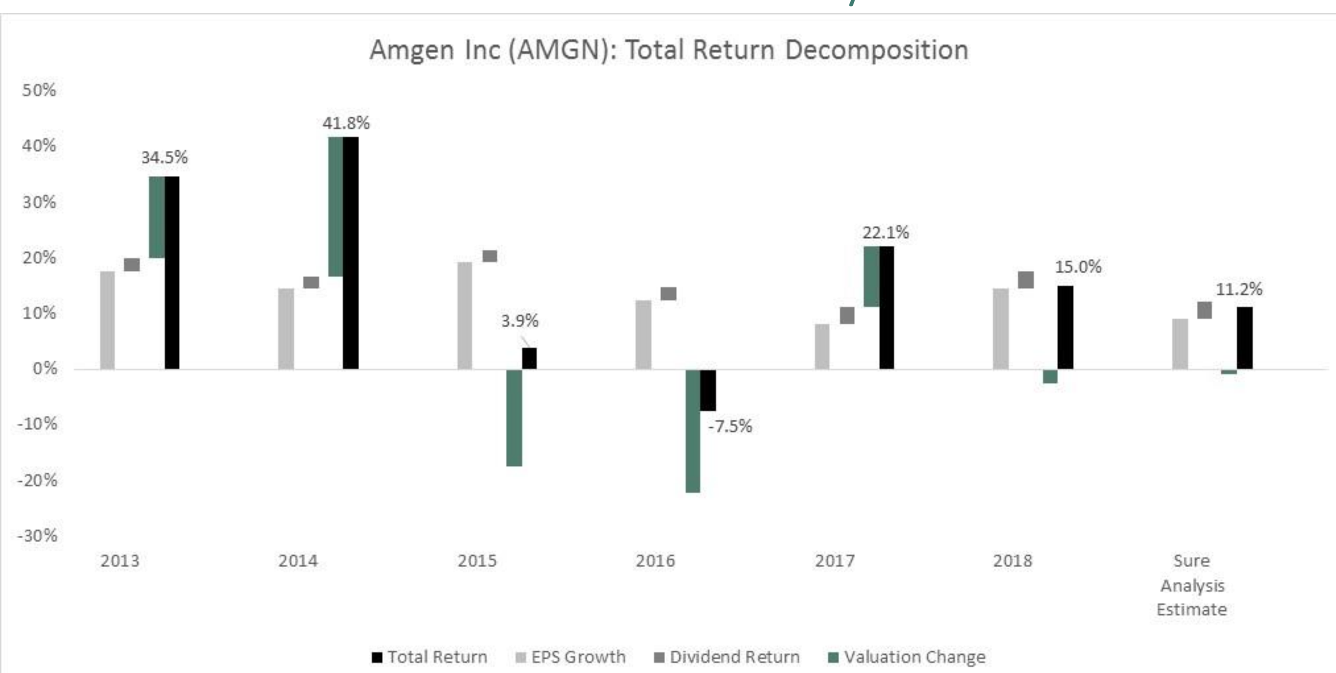
Amgen's profitability held up very well during the last recession. Companies in the health care sector are often recession resistant as people will seek treatment for their health issues regardless of economic conditions. The company also has a very low payout ratio that will allow it to continue to raise its dividend going forward even if a prolonged recession were to take place.

Amgen is the largest biotech company in the world, giving it size and scale over its peers. This allows the company to reduce net selling price on products, such as *Repatha* and *Kyprolis,* to take market share. Another key competitive advantage Amgen has over its peers is the company's ability to bring new products to market. The company launched nine new products in 2018. The company also reduced its development cycle timeline by 36 months.

## Final Thoughts & Recommendation

We forecast that Amgen can offer a total return of 11.2% per year through 2024. The market responded negatively to the company's forward guidance (with shares down nearly 4% after the announcement), but investors need to remember that Amgen received a $1.1 billion milestone payment last year that it will not receive in 2019. Amgen's top two selling products, *Enbrel* and *Neulasta* had declining sales last year, but the company's other drugs have shown impressive growth rates that should continue in the coming years. We have lowered our 2024 price target $8 to $272, but maintain our buy rating on Amgen.

## Total Return Breakdown by Year

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*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*

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## Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 14642 | 15053 | 15582 | 17265 | 18676 | 20063 | 21662 | 22991 | 22849 | 23747 |
| Gross Profit | 12551 | 12833 | 12874 | 14066 | 15330 | 15641 | 17435 | 18829 | 18780 | 19646 |
| Gross Margin | 85.7% | 85.3% | 82.6% | 81.5% | 82.1% | 78.0% | 80.5% | 81.9% | 82.2% | 82.7% |
| SG&A Exp. | 3820 | 3983 | 4499 | 4814 | 5184 | 4699 | 4846 | 5062 | 4870 | 5332 |
| D&A Exp. | 1049 | 1017 | 1060 | 1088 | 1286 | 2092 | 2108 | 2105 | 1955 | N/A |
| Operating Profit | 5506 | 5545 | 4312 | 5577 | 5867 | 6191 | 8470 | 9794 | 9973 | 10263 |
| Op. Margin | 37.6% | 36.8% | 27.7% | 32.3% | 31.4% | 30.9% | 39.1% | 42.6% | 43.6% | 43.2% |
| Net Profit | 4605 | 4627 | 3683 | 4345 | 5081 | 5158 | 6939 | 7722 | 1979 | 8394 |
| Net Margin | 31.5% | 30.7% | 23.6% | 25.2% | 27.2% | 25.7% | 32.0% | 33.6% | 8.7% | 35.3% |
| Free Cash Flow | 5806 | 5207 | 4552 | 5168 | 5598 | 7949 | 9137 | 9616 | 10513 | 11296 |
| Income Tax | 599 | 690 | 467 | 664 | 184 | 427 | 1039 | 1441 | 7618 | 1151 |

## Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 39629 | 43486 | 48871 | 54298 | 66125 | 69009 | 71449 | 77626 | 79954 | 66416 |
| Cash & Equivalents | 2884 | 3287 | 6946 | 3257 | 3805 | 3731 | 4144 | 3241 | 3800 | N/A |
| Acc. Receivable | 2109 | 2335 | 2896 | 2518 | 2697 | 2546 | 2995 | 3165 | 3237 | 3580 |
| Inventories | 2220 | 2022 | 2484 | 2744 | 3019 | 2647 | 2435 | 2745 | 2834 | 2940 |
| Goodwill & Int. | 19203 | 13564 | 14334 | 16630 | 28230 | 27481 | 26428 | 25030 | 23370 | 22142 |
| Total Liabilities | 16962 | 19542 | 29842 | 35238 | 44029 | 43231 | 43366 | 47751 | 54713 | 53916 |
| Accounts Payable | 574 | 716 | 642 | 905 | 787 | 995 | 965 | 917 | 1352 | N/A |
| Long-Term Debt | 10601 | 13362 | 21428 | 26529 | 32128 | 30715 | 31429 | 34596 | 35342 | 33929 |
| Total Equity | 22667 | 23944 | 19029 | 19060 | 22096 | 25778 | 28083 | 29875 | 25241 | 12500 |
| D/E Ratio | 0.47 | 0.56 | 1.13 | 1.39 | 1.45 | 1.19 | 1.12 | 1.16 | 1.40 | 2.71 |

## Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 12.1% | 11.1% | 8.0% | 8.4% | 8.4% | 7.6% | 9.9% | 10.4% | 2.5% | 11.5% |
| Return on Equity | 21.4% | 19.9% | 17.1% | 22.8% | 24.7% | 21.5% | 25.8% | 26.6% | 7.2% | 44.5% |
| ROIC | 14.4% | 13.1% | 9.5% | 10.1% | 10.2% | 9.3% | 12.0% | 12.5% | 3.2% | 15.7% |
| Shares Out. | 995 | 932 | 795.6 | 756.3 | 754.6 | 760.4 | 754 | 738.2 | 720 | 640 |
| Revenue/Share | 14.34 | 15.60 | 17.09 | 21.94 | 24.41 | 26.06 | 28.28 | 30.49 | 31.09 | 35.71 |
| FCF/Share | 5.69 | 5.40 | 4.99 | 6.57 | 7.32 | 10.32 | 11.93 | 12.75 | 14.30 | 16.99 |

*Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.*