AmerisourceBergen (ABC)

Updated February 8th, 2019 by Bob Ciura

Key Metrics

Current Price:	$84	**5 Year CAGR Estimate:**	13.6%	**Volatility Percentile:**	75.7%
Fair Value Price:	$101	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	28.9%
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.7%	**Growth Percentile:**	74.5%
Dividend Yield:	1.9%	**5 Year Price Target**	$149	**Valuation Percentile:**	77.8%
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Total Return Percentile:**	77.4%

Overview & Current Events

AmerisourceBergen was formed in 2001 by the merger of AmeriSource and Bergen Brunswig. Today, AmerisourceBergen is one of the largest healthcare distributors in the U.S., along with Cardinal Health and McKesson. AmerisourceBergen provides pharmaceutical products and business solutions to a variety of customers, which include healthcare providers, veterinary practices, and livestock producers. AmerisourceBergen also services global manufacturers to improve supply chain efficiency. AmerisourceBergen generates annual revenue of $167 billion, with a presence in more than 50 countries around the world. More than 90% of the company's revenue comes from its pharmaceutical segment.

In late January (1/31/19) the company announced financial results for the first quarter of fiscal 2019. For the quarter, revenue of $45.4 billion increased 12% and beat analyst expectations. Pharmaceutical segment revenue led the way with 12% growth in the quarter. Adjusted earnings-per-share of $1.60 also beat estimates, and increased 3% from the same quarter a year ago. The company slightly reduced its full-year forecast by lowering the top end of EPS guidance. AmerisourceBergen now expects adjusted EPS in a range of $6.65 to $6.85, from $6.65 to $6.95 previously. AmerisourceBergen narrowed fiscal 2019 guidance to reflect the extended delay in the reopening of PharMEDium's Memphis facility. This is not expected to impact the company long-term. We've adjusted our 2019 forecast accordingly.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.72	$2.22	$2.52	$2.72	$3.14	$3.97	$4.96	$5.62	$5.88	$6.45	***$6.75***	***$9.92***
DPS	$0.24	$0.34	$0.46	$0.60	$0.83	$0.94	$1.16	$1.36	$1.46	$1.52	***$1.60***	***$2.35***
Shares	288.1	276.4	258.3	235.5	230.0	218.7	206.9	220.1	218.0	217.0	***216.0***	***210.0***

The pharmaceutical distribution industry is pressured today, with increasing demand for generics fueling drug price deflation in the U.S. In addition, there are fears of heightened competition from e-commerce giant Amazon, which is rumored to be considering entering the healthcare industry. Despite these headwinds, AmerisourceBergen continues to grow, partially thanks to the company's $815 million acquisition of H. D. Smith, the largest independent pharmaceutical wholesaler in the U.S. The acquisition is a positive growth catalyst for AmerisourceBergen, as it will strengthen the company's position in U.S. pharmaceutical distribution. In fiscal 2019, AmerisourceBergen expects to grow earnings-per-share by 5% at the midpoint of guidance. This is a modest growth rate, but still impressive given the challenges in pharmaceutical distribution right now. AmerisourceBergen is expected to grow earnings-per-share and dividends by 8% per year from fiscal 2019-2024.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.4	10.7	14.7	14.0	16.0	17.6	20.4	15.7	14.4	11.5	***12.5***	***15.0***
Avg. Yld.	1.3%	1.2%	1.2%	1.6%	1.7%	1.3%	1.1%	1.5%	1.7%	2.0%	***1.9%***	***1.6%***

Even though AmerisourceBergen continues to generate strong results and expects steady earnings growth, the stock valuation continues to decline. The stock currently trades for a price-to-earnings ratio of 12.5, compared with over 20 as recently as 2015. As a result, the stock now trades well 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. If the stock valuation returns to our estimate of fair value over the next five years, it would provide a 3.7% boost to annual shareholder returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

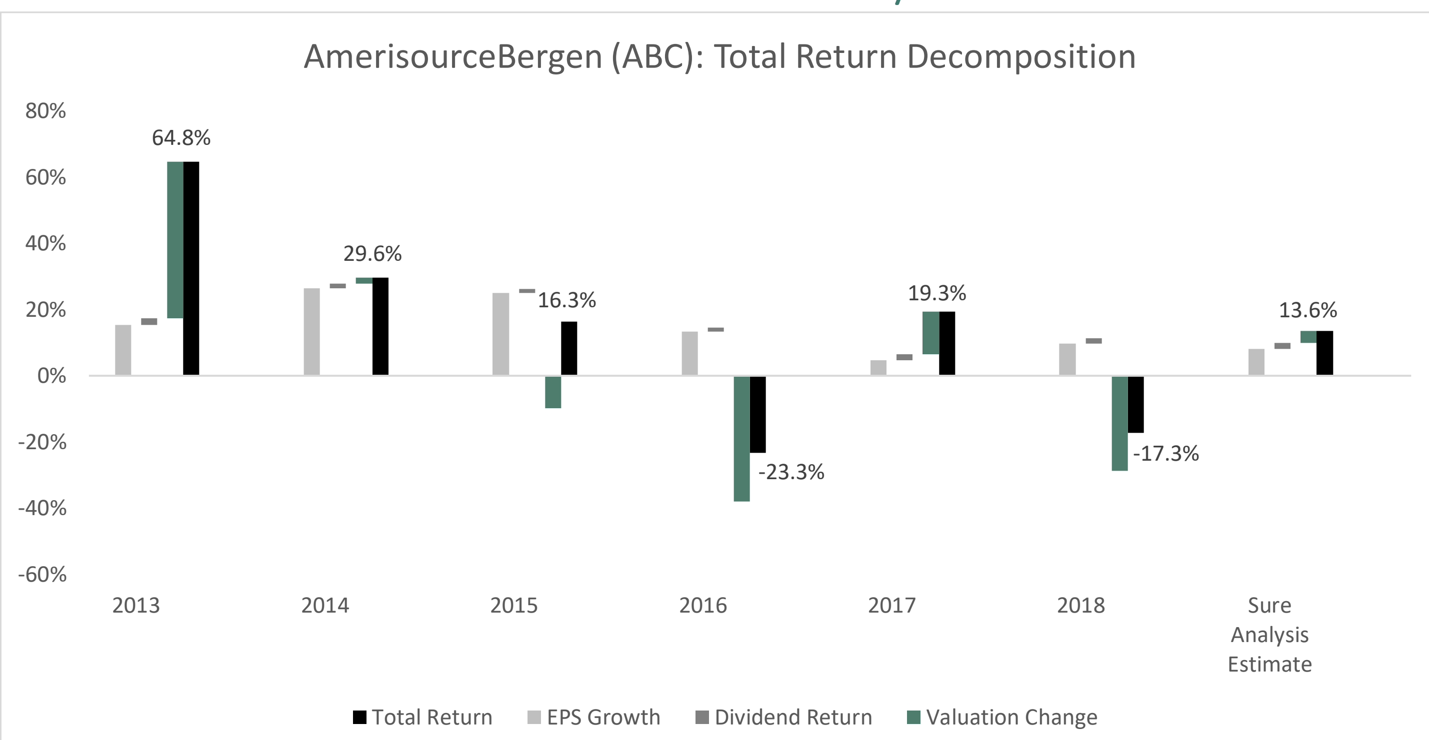
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	14.0%	15.3%	18.3%	22.1%	26.4%	23.7%	23.4%	23.4%	24.8%	23.6%	***23.7%***	***23.7%***

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

Final Thoughts & Recommendation

AmerisourceBergen's stock valuation has declined significantly in recent years, as the market has turned much more negative toward the major pharmaceutical distributors. However, we believe this is simply a matter of sentiment. The fundamentals are still strong. We expect 8% annual earnings growth for the company, as well as 3.7% annual returns from valuation changes. Adding the 1.9% dividend yield results in total expected returns of 13.6% per year over the next five years. This makes AmerisourceBergen a buy for both value investors and dividend growth investors.

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 ($B)	70.19	71.76	77.78	78.70	78.08	87.96	119.57	135.96	146.85	153.14
Gross Profit	2047	2100	2325	2459	2635	2508	2982	3529	4273	4546
Gross Margin	2.9%	2.9%	3.0%	3.1%	3.4%	2.9%	2.5%	2.6%	2.9%	3.0%
SG&A Exp.	1119	1120	1146	1142	1186	1334	1583	1913	2162	2167
D&A Exp.	96	94	90	107	141	171	197	256	392	432
Operating Profit	846	901	1095	1212	1304	988	1205	1335	1727	1975
Op. Margin	1.2%	1.3%	1.4%	1.5%	1.7%	1.1%	1.0%	1.0%	1.2%	1.3%
Net Profit	251	503	637	707	719	434	274	-138	1428	364
Net Margin	0.4%	0.7%	0.8%	0.9%	0.9%	0.5%	0.2%	-0.1%	1.0%	0.2%
Free Cash Flow	600	638	932	1012	1172	586	1200	3691	2714	1038
Income Tax	292	312	386	420	456	331	388	407	-37	553

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	12218	13573	14435	14983	15442	18919	21532	27963	33638	35316
Cash & Equivalents	878	1009	1658	1826	1067	1231	1809	2167	2742	2435
Acc. Receivable	3480	3917	3827	3794	3785	6052	6313	8223	9176	10303
Inventories	4212	4973	5210	5443	5472	6981	8594	9755	10724	11461
Goodwill & Int.	2875	2859	2845	2806	3523	3500	3482	6138	8959	8878
Total Liabilities	9508	10856	11481	12116	12987	16599	19575	27347	31508	33252
Accounts Payable	7327	8517	8833	9191	9493	13336	15593	20886	23926	25404
Long-Term Debt	1189	1178	1344	1365	1396	1397	1996	3493	4187	3442
Total Equity	2710	2716	2954	2867	2455	2320	1957	616	2129	2064
D/E Ratio	0.44	0.43	0.45	0.48	0.57	0.60	1.02	5.67	1.97	1.67

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.0%	3.9%	4.5%	4.8%	4.7%	2.5%	1.4%	-0.6%	4.6%	1.1%
Return on Equity	8.6%	18.6%	22.5%	24.3%	27.0%	18.2%	12.8%	-10.7%	104%	17.4%
ROIC	6.1%	12.9%	15.5%	16.6%	17.8%	11.5%	7.2%	-3.4%	27.4%	6.2%
Shares Out.	288.1	276.4	258.3	235.5	230.0	218.7	206.9	220.1	218.0	217.0
Revenue/Share	216.0	237.02	270.77	283.37	303.93	373.75	507.93	624.29	649.90	691.08
FCF/Share	1.85	2.11	3.25	3.64	4.56	2.49	5.10	16.95	12.01	4.68

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