AmerisourceBergen (ABC)

Updated July 26th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$92	**5 Year CAGR Estimate:**	9.2%	**Volatility Percentile:**	76.2%
Fair Value Price:	$99	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	75.5%
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.5%	**Growth Percentile:**	53.2%
Dividend Yield:	1.7%	**5 Year Price Target**	$132	**Valuation Percentile:**	68.0%
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Total Return Percentile:**	52.9%

Overview & Current Events

AmerisourceBergen was formed in 2001 by the merger of AmeriSource and Bergen Brunswig. Today, the company 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. More than 90% of the company's revenue comes from its pharmaceutical segment. AmerisourceBergen has a market cap of $20 billion and generates annual revenue of north of $170 billion with a presence in more than 50 countries around the world.

On August 1st, 2019 AmerisourceBergen announced Q3 2019 results for the period ending June 30th, 2019. For the quarter revenue came in at $45.2 billion, representing a 4.9% increase compared to Q3 2018. This improvement was primarily driven by the Pharmaceutical Distribution Services segment, which saw a 4.7% improvement. Adjusted operating income equaled $506.7 million, a 6.8% increase from the year ago period, while adjusted earnings-per-share came in at $1.76 for the quarter, a 14.3% increase compared to the $1.54 posted in Q3 2017. This result was driven by higher operating income, a lower share count and lower interest expense.

AmerisourceBergen also updated its guidance for fiscal year 2019. The company now expects adjusted earnings-per-share to be in the $7.00 to $7.10 range, up from previous guidance of $6.70 to $6.90 and $6.65 to $6.85 in the two prior quarters. In addition, the company expects weighted average shares outstanding to be 212 million, down from 214 million previously.

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	$6.49	***$7.05***	***$9.43***
DPS	$0.24	$0.34	$0.46	$0.60	$0.83	$0.94	$1.16	$1.36	$1.46	$1.52	***$1.60***	***$2.36***
Shares	288	276	258	235	230	219	207	220	218	212	***212***	***200***

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 the last decade, AmerisourceBergen has grown earnings-per-share at a tremendous rate, north of 16% per annum. However, recently concerns have started to mount. Still, the company expects strong bottom line growth this year - impressive given the challenges in pharmaceutical distribution right now. Our forecast is for 6% annual growth over the intermediate-term, reflecting some confidence in the company's ability to take on the poor operating environment currently, but also reflecting the difficulty growing as the company gets larger.

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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	13.6	***13.0***	***14.0***
Avg. Yld.	1.3%	1.2%	1.2%	1.6%	1.7%	1.3%	1.1%	1.5%	1.7%	1.7%	***1.7%***	***1.8%***

Even though AmerisourceBergen continues to generate strong results and expects steady earnings growth, the security's valuation remains subdued. The stock currently trades for a price-to-earnings ratio of 13, compared with over 20 as recently as 2015. AmerisourceBergen's average price-to-earnings ratio over the past decade has been about 15 times earnings; however, taking out the 2013 through 2015 stretch reflects a multiple just under 14 times earnings – our estimate of fair value. This would imply a small tailwind if shares were to drift up to this sort of valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	14%	15%	18%	22%	26%	24%	23%	23%	25%	23%	***23%***	***25%***

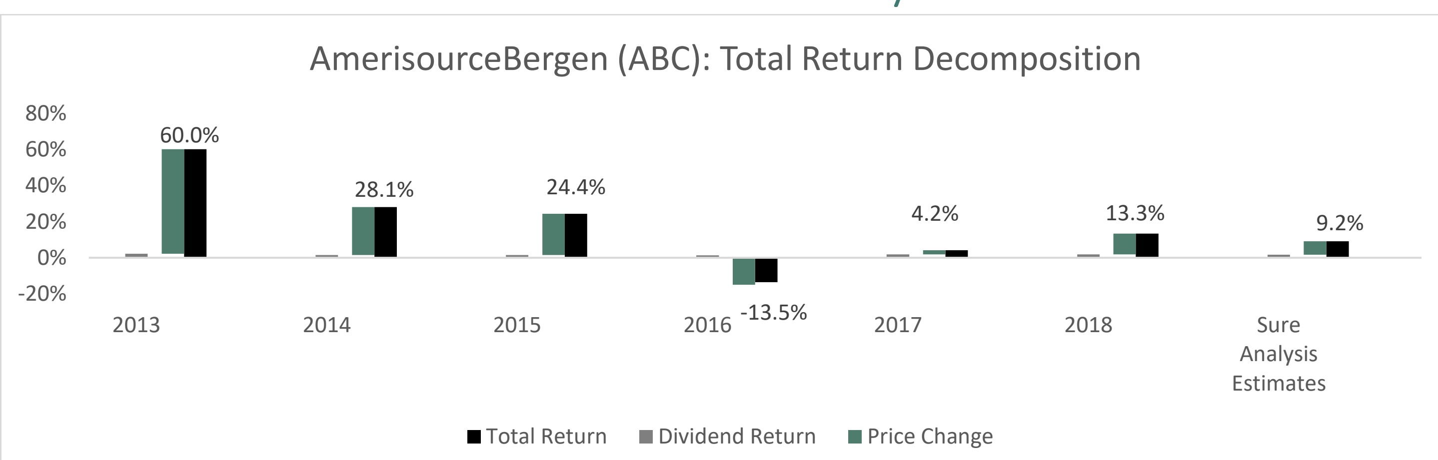
AmerisourceBergen's main competitive advantage is its industry position. As one of the 'Big 3', AmerisourceBergen has a sizable economic moat that protects its market share. It is very difficult for a new competitor to enter the market. AmerisourceBergen sources over 1.5 million products delivered from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

In terms of income safety, AmerisourceBergen continues to operate with a dividend payout ratio below 25%, allowing for ample dividend increases along the way. As of the most recent report the company held $3.0 billion in cash, $27.4 in current assets (44% of which were receivables and 41% inventory) and $38.5 billion in total assets against $28.8 billion in current liabilities and $35.4 billion in total liabilities. Long-term debt stood at $4.0 billion against underlying earnings power of approximately $1.5 billion annually.

Final Thoughts & Recommendation

Shares are up 18% since our last update, while earnings expectations have improved. AmerisourceBergen's stock valuation has declined in recent years, as the market has turned much more negative toward the major pharmaceutical distributors. However, the fundamentals are still strong. We forecast 9.2% potential total returns, comprising of a 6% growth rate, 1.7% starting yield and 1.5% annual valuation tailwind. Given the material run up in the share price as of late, we our reducing our rating from buy to hold.

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	146.9	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.