Amgen Inc (AMGN)

Updated August 2nd, 2019 by Nathan Parsh

Key Metrics

Current Price:	$186	**5 Year CAGR Estimate:**	11.5%	**Volatility Percentile:**	44.0%
Fair Value Price:	$181	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	41.0%
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.6%	**Growth Percentile:**	86.2%
Dividend Yield:	3.1%	**5 Year Price Target**	$278	**Valuation Percentile:**	48.9%
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Total Return Percentile:**	66.8%

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 generates nearly $23 billion in annual revenues and trades with a market capitalization of $112 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 released second quarter financial results on 7/30/2019. The company earned $3.97 per share, topping consensus estimates by $0.39 and increasing 3.7% year-over-year. Revenue declined 3.1% to $5.6 billion, though this was $194 million above estimates.

Sales for *Enbrel*, which treats rheumatoid arthritis and remains Amgen's top grossing product, improved 5% due to higher net selling prices and favorable changes in inventory levels. This was offset by lower unit demand. *Enbrel* has now posted two consecutive quarters of growth after several quarters of declines due to biosimilar competition. *Neulasta* revenues were down 25% due to lower net selling prices and increased biosimilar competition. *Neulasta* is Amgen's second best-selling product. Amgen's newer products continue to be a bright spot for the company. *Repatha*, which helps control cholesterol, grew revenues 3% to $152 million as higher demand was offset by net selling price. Revenues for *Repatha* were slightly below the market's expectations of $157 million. Amgen cut the price of *Repatha* by 60% last year in order to help drive unit demand. *Repatha* should perform better once the price cut is lapped. *Prolia,* which treats osteoporosis and is the company's third best-selling product, grew 14%. This product continues to see higher volume demands. Amgen repurchased 13.1 million shares at an average price of $176 during the quarter. The company has $4.7 billion, approximately 4.2% of its current market cap, remaining on its stock repurchase authorization. Lastly, Amgen also said that its experimental cancer drug AMG510 has shown activity in patients with colorectal and appendiceal cancer. The company's data suggest that it may be effective against lung cancer as well, and may begin a trial by the end of the year.

Amgen revised its guidance for 2019 for the second quarter in a row. The company now expects revenue in a range of $22.4 billion to $22.9 billion, up from $22 to $22.9 billion previously. Amgen now expects adjusted earnings-per-share of $13.75 to $14.30 for the year, up from previous guidance of $13.25 to $14.30. Achieving the midpoint for adjusted earnings would represent a 2.6% decrease from the prior year. Revenue and earnings are below 2018's results in large part to a one-time $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	***$14.03***	***$21.59***
DPS	---	---	$0.56	$1.44	$1.88	$2.44	$3.16	$4.00	$4.60	$5.28	***$5.80***	***$8.92***
Shares	995	932	796	756	755	760	754	738	720	640	***610***	***590***

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. We expect earnings-per-share to grow at a more modest rate of 9% annually due to

Disclosure: This analyst has a long position in the security discussed in this research report.

strength in new products and share repurchases. Amgen has been aggressively repurchasing its own shares. The company retired 36% of outstanding shares between 2009 and 2018.

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	***13.3***	***12.9***
Avg. Yld.	---	---	1.0%	1.9%	1.8%	1.9%	2.0%	2.6%	2.7%	2.8%	***3.1%***	***3.2%***

Shares of Amgen have increased $10, or 5.7%, since our 5/1/2019 update. Based off of updated guidance for 2019, Amgen trades with a multiple of 13.3. The ten-year average price-to-earnings multiple is 12.9, which we see as fair value. Shareholders could see a slight headwind to annual returns if the stock returns to our target valuation by 2024. Even with double digit earnings growth, Amgen has never seen its price to earnings multiple expand to very high levels. The market seems to understand that some of the company's bestselling drugs have declining revenues and valuations have remained subdued as a result.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	11%	22%	25%	28%	30%	34%	37%	37%	***41%***	***41%***

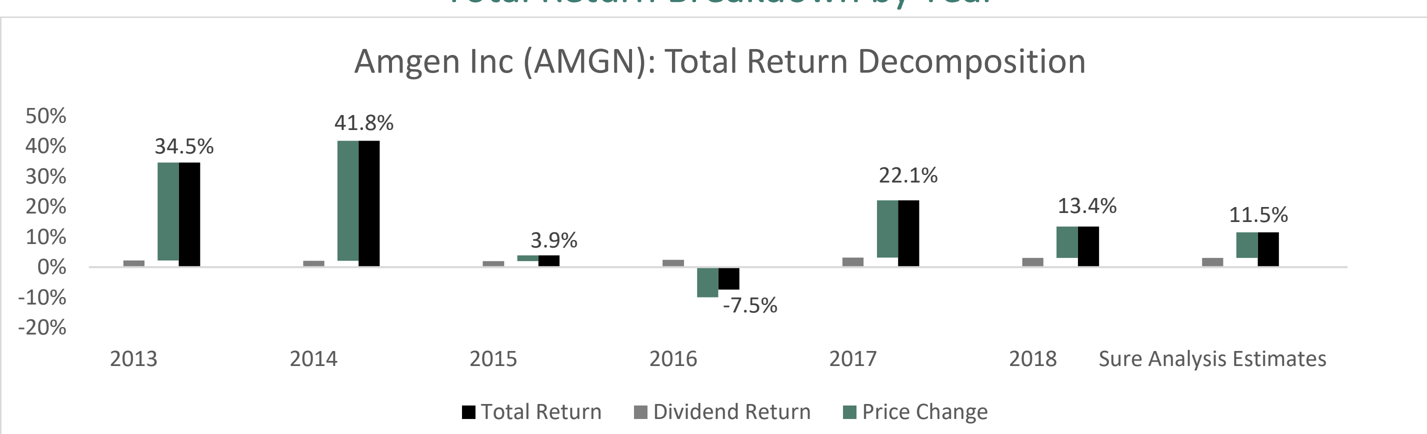
Amgen's profitability held up very well during the last recession. Companies in the health care sector are often recession resistant as people will seek treatment for their health issues regardless of economic conditions. The company also has a very low payout ratio that will allow it to continue to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

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 with *Repatha,* 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

Following second quarter results, we estimate that Amgen can offer a total annual return of 11.5% through 2024, down from 12.4% previously. Amgen is seeing continued strength in the company's new products, especially for *Prolia*. While *Enbrel* has produced two straight quarters of growth, we feel that biosimilar competition will eventually reduce sales for this product. Amgen is also a very shareholder friendly company offering a big buyback and aggressive dividend growth. Amgen continues to receive a buy recommendation from Sure Dividend due to the potential for double digit returns over the next five years. We have increased our 2024 price target $5 to $278 due to updated guidance for the year.

Total Return Breakdown by Year



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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.