# Amgen Inc (AMGN)

*Updated February 2nd, 2020 by Nathan Parsh*

## Key Metrics

| | | | | |
|---|---|---|---|---|
| **Current Price:** | $216 | **5 Year CAGR Estimate:** | 9.9% | **Market Cap:** $128 billion |
| **Fair Value Price:** | $196 | **5 Year Growth Estimate:** | 9.0% | **Ex-Dividend Date:** 2/13/2020 |
| **% Fair Value:** | 110% | **5 Year Valuation Multiple Estimate:** | -1.9% | **Dividend Payment Date:** 3/6/2020 |
| **Dividend Yield:** | 3.0% | **5 Year Price Target** | $302 | **Years Of Dividend Growth:** 10 |
| **Dividend Risk Score:** | C | **Retirement Suitability Score:** | C | **Last Dividend Increase:** 10.3% |

## 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 more than $25 billion in annual revenues. 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 earnings results on 1/30/2020. The company's adjusted earnings-per share was $3.64 for the quarter, which was $0.22 higher than expected by analysts and a 6.4% improvement from the previous year. Revenue declined 0.5% to $6.2 billion, though this was $150 million above estimates. Adjusted earnings-per-share for the year increased 2.9% to $14.82. On the other hand, revenue was down 2% to $23.4billion in 2019.

*Enbrel*, which treats rheumatoid arthritis and remains Amgen's top grossing product, improved 2% in the fourth quarter and 4% for the year as higher net selling prices once again offset lower unit demand. *Enbrel* has now posted four consecutive quarters of growth after struggling to overcome biosimilar competition last year. Revenues for *Neulasta*, which is Amgen's second-best selling product, were down 43% in the quarter and 28% for 2019 as biosimilar competition remains a significant challenge to both demand and pricing. *Prolia,* which treats osteoporosis and is the company's third best-selling product, had sales growth of 15% for the quarter and 17% for the year on increased demand. Sales for *Repatha*, which helps control cholesterol, increased 26% and 20% respectively for the quarter and full year. Amgen reduced prices for *Repatha* in 2018, but this was offset by improvements in unit demand. Amgen bought back $7.6 billion worth of stock in 2019 and had $6.5 billion remaining under its stock repurchase authorization at the close of last year. The company ended the year with $8.9 billion in cash and equivalents against $29.9 billion of debt outstanding. Amgen's debt position was reduced by $4 billion in 2019. Lastly, Amgen's experimental cancer drug AMG510 has shown activity in patients with colorectal and appendiceal cancer. Data suggest that it may be effective against lung cancer as well. The company is in the process of enrolling patients for testing.

Amgen expects revenue in a range of $25 billion to $25.6 billion for 2020, which would represent 8.1% growth at the midpoint. The company guides towards adjusted earnings-per-share of $14.85 to $15.60. This was below analysts' estimates of $16.14. Reaching the midpoint of this guidance would result in a 2.8% improvement from last year.

## Growth on a Per-Share Basis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $5.12 | $5.25 | $6.46 | $7.60 | $8.70 | $10.38 | $11.65 | $12.58 | $14.40 | $14.82 | ***$15.23*** | ***$23.43*** |
| **DPS** | --- | $0.56 | $1.44 | $1.88 | $2.44 | $3.16 | $4.00 | $4.60 | $5.28 | $5.80 | ***$6.40*** | ***$9.85*** |
| **Shares[1]** | 932 | 796 | 756 | 755 | 760 | 754 | 738 | 720 | 640 | 598 | ***595*** | ***580*** |

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

[1] Share count in millions

*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 4.3% of outstanding shares annually from 2010 and 2019.

## Valuation Analysis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Now | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 10.9 | 10.7 | 11.8 | 13.7 | 15.1 | 15.2 | 13.4 | 13.6 | 13.4 | 16.3 | ***14.2*** | ***12.9*** |
| **Avg. Yld.** | --- | 1.0% | 1.9% | 1.8% | 1.9% | 2.0% | 2.6% | 2.7% | 2.8% | 2.4% | ***3.0%*** | ***3.3%*** |

Shares of Amgen have increased $5, or 24%, since our 10/30/2019 update. Based off of updated guidance for 2020, Amgen trades with a multiple of 14.2. The ten-year average price-to-earnings multiple is 12.9, which we see as fair value. If shares were to revert to our target multiple by 2025, then valuation would be a 1.9% headwind to annual returns over this period of time. 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 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | --- | 11% | 22% | 25% | 28% | 30% | 34% | 37% | 37% | 39% | ***42%*** | ***42%*** |

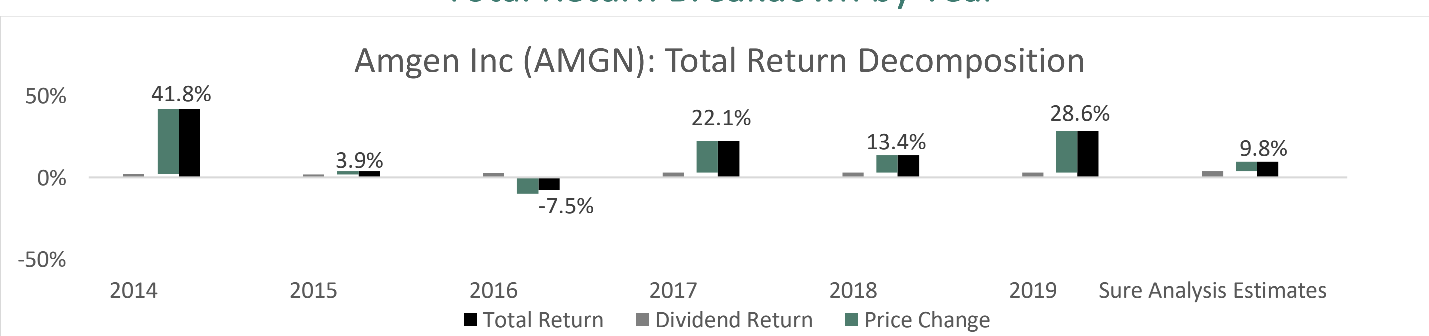
Amgen's profitability held up very well during the last recession. Companies in the health care sector are often recession resistant as people will seek treatment for their health issues regardless of economic conditions. The company also has a very low payout ratio that will allow it to continue to 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 and reduced its development cycle timeline by 36 months. Amgen spent 18.1% of 2019 sales on R&D.

## Final Thoughts & Recommendation

Following fourth quarter and full-year results, Amgen is now expected to offer a total annual return of 9.8% through 2025, up from our previous estimate of 8.8%. The company's revenue for the year was down slightly compared to the previous year, primarily due to a $1.1 billion milestone payment received in 2018. Results for Amgen's top two grossing products was mixed. *Enbrel* returned to growth in 2019, but sales for *Neulasta* continue to suffer steep rates of decline. The company's other products, *Prolia* in particular, continue to grow at a high rate. Amgen is also a very shareholder-friendly company, growing dividends and repurchasing shares at a high rate. We have increased our 2025 price target $18 to $302 and rate shares as a buy due to projected returns.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 15,053 | 15,582 | 17,265 | 18,676 | 20,063 | 21,662 | 22,991 | 22,849 | 23,747 | 23,362 |
| **Gross Profit** | 12,833 | 12,874 | 14,066 | 15,330 | 15,641 | 17,435 | 18,829 | 18,780 | 19,646 | 19,006 |
| **Gross Margin** | 85.3% | 82.6% | 81.5% | 82.1% | 78.0% | 80.5% | 81.9% | 82.2% | 82.7% | 81.4% |
| **SG&A Exp.** | 3,983 | 4,499 | 4,814 | 5,184 | 4,699 | 4,846 | 5,062 | 4,870 | 5,332 | 5,150 |
| **D&A Exp.** | 1,017 | 1,060 | 1,088 | 1,286 | 2,092 | 2,108 | 2,105 | 1,955 | 1,946 | |
| **Operating Profit** | 5,545 | 4,312 | 5,577 | 5,867 | 6,191 | 8,470 | 9,794 | 9,973 | 10,263 | 9,674 |
| **Op. Margin** | 36.8% | 27.7% | 32.3% | 31.4% | 30.9% | 39.1% | 42.6% | 43.6% | 43.2% | 41.4% |
| **Net Profit** | 4,627 | 3,683 | 4,345 | 5,081 | 5,158 | 6,939 | 7,722 | 1,979 | 8,394 | 7,842 |
| **Net Margin** | 30.7% | 23.6% | 25.2% | 27.2% | 25.7% | 32.0% | 33.6% | 8.7% | 35.3% | 33.6% |
| **Free Cash Flow** | 5,207 | 4,552 | 5,168 | 5,598 | 7,949 | 9,137 | 9,616 | 10,513 | 10,558 | 9,150 |
| **Income Tax** | 690 | 467 | 664 | 184 | 427 | 1,039 | 1,441 | 7,618 | 1,151 | 1,296 |

## Balance Sheet Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | 43,486 | 48,871 | 54,298 | 66,125 | 69,009 | 71,449 | 77,626 | 79,954 | 66,416 | 59,707 |
| **Cash & Equivalents** | 3,287 | 6,946 | 3,257 | 3,805 | 3,731 | 4,144 | 3,241 | 3,800 | 6,945 | |
| **Acc. Receivable** | 2,335 | 2,896 | 2,518 | 2,697 | 2,546 | 2,995 | 3,165 | 3,237 | 3,580 | 4,057 |
| **Inventories** | 2,022 | 2,484 | 2,744 | 3,019 | 2,647 | 2,435 | 2,745 | 2,834 | 2,940 | 3,584 |
| **Goodwill & Int.** | 13,564 | 14,334 | 16,630 | 28,230 | 27,481 | 26,428 | 25,030 | 23,370 | 22,142 | 34,116 |
| **Total Liabilities** | 19,542 | 29,842 | 35,238 | 44,029 | 43,231 | 43,366 | 47,751 | 54,713 | 53,916 | 50,034 |
| **Accounts Payable** | 716 | 642 | 905 | 787 | 995 | 965 | 917 | 1,352 | 1,207 | |
| **Long-Term Debt** | 13,362 | 21,428 | 26,529 | 32,128 | 30,715 | 31,429 | 34,596 | 35,342 | 33,929 | 29,903 |
| **Total Equity** | 23,944 | 19,029 | 19,060 | 22,096 | 25,778 | 28,083 | 29,875 | 25,241 | 12,500 | 9,673 |
| **D/E Ratio** | 0.56 | 1.13 | 1.39 | 1.45 | 1.19 | 1.12 | 1.16 | 1.40 | 2.71 | 3.09 |

## Profitability & Per Share Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Return on Assets** | 11.1% | 8.0% | 8.4% | 8.4% | 7.6% | 9.9% | 10.4% | 2.5% | 11.5% | 12.4% |
| **Return on Equity** | 19.9% | 17.1% | 22.8% | 24.7% | 21.5% | 25.8% | 26.6% | 7.2% | 44.5% | 70.7% |
| **ROIC** | 13.1% | 9.5% | 10.1% | 10.2% | 9.3% | 12.0% | 12.5% | 3.2% | 15.7% | 18.2% |
| **Shares Out.** | 932 | 796 | 756 | 755 | 760 | 754 | 738 | 720 | 640 | 598 |
| **Revenue/Share** | 15.60 | 17.09 | 21.94 | 24.41 | 26.06 | 28.28 | 30.49 | 31.09 | 35.71 | 38.36 |
| **FCF/Share** | 5.40 | 4.99 | 6.57 | 7.32 | 10.32 | 11.93 | 12.75 | 14.30 | 15.88 | 15.02 |

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