AmerisourceBergen Corp. (ABC)

Updated May 10th, 2020 by Eli Inkrot

Key Metrics

Current Price:	$88	**5 Year CAGR Estimate:**	7.3%	**Market Cap:**	$18.2 B
Fair Value Price:	$90	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	05/15/20
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Dividend Payment Date:**	06/01/20
Dividend Yield:	1.9%	**5 Year Price Target**	$115	**Years Of Dividend Growth:**	16
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	5.0%

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 $18 billion and generated nearly $180 billion in revenue last year.

On May 7th, 2020 AmerisourceBergen announced Q2 fiscal year 2020 results for the period ending March 31st, 2020. (AmerisourceBergen's fiscal year ends September 30th.) For the quarter revenue came in at $47.4 billion, representing a 9.5% increase compared to Q2 2019, driven by a 9.3% increase in the Pharmaceutical Distribution Services segment and a 12.7% increase in revenue within the Other segment. Adjusted net income equaled $497 million or $2.40 per share compared to $2.11 in the prior year's quarter.

AmerisourceBergen also updated its guidance for fiscal year 2020. The company now expects low-to-mid single-digit revenue growth (down from mid-to-high single-digit growth) and adjusted earnings-per-share of $7.35 to $7.65 (down from $7.55 to $7.80). We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.22	$2.52	$2.72	$3.14	$3.97	$4.96	$5.62	$5.88	$6.49	$7.09	***$7.50***	***$9.57***
DPS	$0.34	$0.46	$0.60	$0.83	$0.94	$1.16	$1.36	$1.46	$1.52	$1.60	***$1.68***	***$2.36***
Shares[1]	276	258	235	230	219	207	220	218	212	212	***207***	***195***

The pharmaceutical distribution industry is pressured today, with increasing demand for generics fueling drug price deflation in the U.S., along with ongoing opioid litigation. In addition, there are fears of heightened competition from e-commerce giant Amazon, along with mounting political pressure on the industry. Despite these headwinds, AmerisourceBergen continues to grow, partially thanks to the company's recent acquisitions, which continues to strengthen the company's position in the U.S. pharmaceutical distribution market.

In the last decade, AmerisourceBergen has grown earnings-per-share at a tremendous rate, north of 15% per annum. However, this was coming off a recession low and does not include the more difficult environment distributors are dealing with today. Still, the company expects strong bottom line growth this year – between +3.7% and +7.9%. We are forecasting 5% annual growth over the intermediate term, reflecting some confidence in the company's ability to take on the poor operating environment, management's guidance and an ongoing share repurchase program. This is balanced against the idea that it becomes more and more difficult to grow as the company gets larger. In addition, heightened uncertainty related to the COVID-19 pandemic creates a wider range of potential scenarios.

[1] In millions.

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.7	14.7	14.0	16.0	17.6	20.4	15.7	14.4	13.6	11.7	***11.7***	***12.0***
Avg. Yld.	1.2%	1.2%	1.6%	1.7%	1.3%	1.1%	1.5%	1.7%	1.7%	1.9%	***1.9%***	***2.1%***

Over the past decade shares of AmerisourceBergen have traded hands with an average P/E ratio of about 15 times earnings. However, this was during a time when growth was much more robust. Presently we are using 12 times earnings as a starting fair value baseline to account for some of the growing uncertainty in the industry. With shares trading just below 12 times earnings, this implies a very small valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	15%	18%	22%	26%	24%	23%	23%	25%	23%	23%	***22%***	***25%***

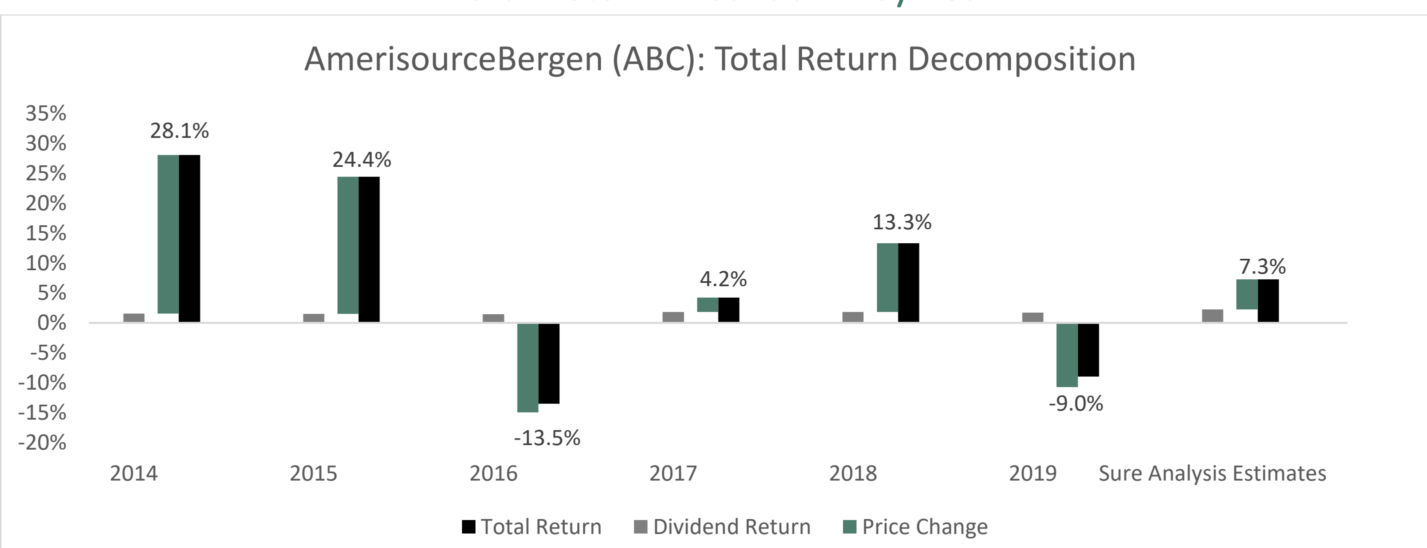
AmerisourceBergen's main competitive advantage is its industry position. As one of the 'Big 3', AmerisourceBergen has a sizable economic moat that protects its market share. It is very difficult for a new competitor to enter the market. AmerisourceBergen sources over 1.5 million products delivered from 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 $3.7 billion in cash, $31.2 billion in current assets (46% of which were receivables and 36% inventory) and $42.0 billion in total assets against $32.1 billion in current liabilities and $38.3 billion in total liabilities. Long-term debt stood at $3.6 billion against underlying earnings power of approximately ~$1.6 billion annually.

Final Thoughts & Recommendation

Shares are up marginally since our last report. AmerisourceBergen's stock valuation has declined in recent years, as the market has turned negative toward the major pharmaceutical distributors. Our view has become more cautious as well; however, the fundamentals remain strong. We forecast 7.3% potential total returns, comprising of a 5% growth rate, 1.9% starting yield and a small valuation tailwind. We are reiterating our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue ($B)	78	79	78	88	120	136	147	153	168	180
Gross Profit	2,325	2,459	2,635	2,508	2,982	3,529	4,273	4,546	4,612	5,138
Gross Margin	3.0%	3.1%	3.4%	2.9%	2.5%	2.6%	2.9%	3.0%	2.7%	2.9%
SG&A Exp.	1,151	1,138	1,153	1,334	1,581	1,908	2,091	2,129	2,460	2,664
D&A Exp.	90	107	141	171	197	256	392	432	510	498
Operating Profit	1091	1220	1348	1012	1213	1373	1817	2020	1687	2012
Op. Margin	1.4%	1.5%	1.7%	1.2%	1.0%	1.0%	1.2%	1.3%	1.0%	1.1%
Net Profit	637	707	719	434	274	(138)	1,428	364	1,658	855
Net Margin	0.8%	0.9%	0.9%	0.5%	0.2%	-0.1%	1.0%	0.2%	1.0%	0.5%
Free Cash Flow	932	1012	1172	586	1200	3691	2714	1038	1075	2034
Income Tax	386	420	456	331	388	407	(37)	553	(438)	113

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	14435	14983	15442	18919	21532	27963	33638	35316	37670	39172
Cash & Equivalents	1,658	1,826	1,067	1,231	1,809	2,167	2,742	2,435	2,493	3,374
Acc. Receivable	3827	3794	3785	6052	6313	8223	9176	10303	11314	12387
Inventories	5210	5443	5472	6981	8594	9755	10724	11461	11919	11060
Goodwill & Int.	2,845	2,806	3,523	3,500	3,482	6,138	8,959	8,878	9,612	9,000
Total Liabilities	11481	12116	12987	16599	19575	27347	31508	33252	34620	36179
Accounts Payable	8833	9191	9493	13336	15593	20886	23926	25404	26837	28385
Long-Term Debt	1,344	1,365	1,396	1,397	1,996	3,493	4,187	3,442	4,310	4,173
Total Equity	2,954	2,867	2,455	2,320	1,957	616	2,129	2,064	2,933	2,879
D/E Ratio	0.45	0.48	0.57	0.60	1.02	5.67	1.97	1.67	1.47	1.45

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.5%	4.8%	4.7%	2.5%	1.4%	-0.6%	4.6%	1.1%	4.5%	2.2%
Return on Equity	22.5%	24.3%	27.0%	18.2%	12.8%	-10.7%	104%	17.4%	66.4%	29.4%
ROIC	15.5%	16.6%	17.8%	11.5%	7.2%	-3.4%	27.4%	6.2%	25.8%	11.8%
Shares Out.	276	258	235	230	219	207	220	218	212	212
Revenue/Share	271	283	304	374	508	624	650	691	762	848
FCF/Share	3.25	3.64	4.56	2.49	5.10	16.95	12.01	4.68	4.88	9.60