



Amgen Inc (AMGN)

Updated May 2nd, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$231	5 Year CAGR Estimate:	8.3%	Market Cap:	\$135.8 billion
Fair Value Price:	\$196	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	5/15/2020
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.2%	Dividend Payment Date:	6/8/2020
Dividend Yield:	2.8%	5 Year Price Target	\$302	Years Of Dividend Growth:	10
Dividend Risk Score:	B	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 released first quarter earnings results on 4/30/2020. The company's adjusted earnings-per-share increased 17.1% to \$4.17 for the quarter, which was \$0.42 ahead of estimates. Revenue increased 10.8% to \$6.2 billion, which was \$150 million above estimates.

Volumes were higher by 15% for the quarter. Sales for *Enbrel*, which treats rheumatoid arthritis and remains Amgen's top grossing product, grew 0.2% as favorable changes to estimated sales deductions and inventory were partially offset by lower prices and demand. *Enbrel* has now posted five consecutive quarters of growth after struggling to overcome biosimilar competition in 2018. *Neulasta*, which is Amgen's second-best selling product, declined 40.4% as biosimilar competition continues to pose 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 10.5% for the quarter as the product continues to see increased demand. *Repatha*, which helps control cholesterol, had sales growth of 62.4%. Amgen reduced prices for *Repatha* in 2018 in order to drive demand growth. This appears to have been a sound decision as volume growth of *Repatha* was 98% for the quarter. *Otezla*, which is used to treat inflammatory diseases, produced \$479 million of sales in the quarter. *Otezla* was acquired from Celgene as part of that company's merger with Bristol-Myers Squibb (BMY).

Amgen repurchased 4.3 million shares at an average price of \$217 in the first quarter. The company has \$5.5 billion remaining under its stock repurchase authorization. Amgen generated \$2 billion of free cash flow in the first quarter, up from \$1.7 billion in the previous year. The company reaffirmed its guidance for 2020. Amgen continues to expect revenue in a range of \$25 billion to \$25.6 billion for 2020, which would represent 8.1% growth at the midpoint. The company expects adjusted earnings-per-share of \$14.85 to \$15.60. Reaching the midpoint of this guidance would result in a 2.8% improvement from 2019.

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
Shares¹	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

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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	15.2	12.9
Avg. Yld.	---	1.0%	1.9%	1.8%	1.9%	2.0%	2.6%	2.7%	2.8%	2.4%	2.8%	3.3%

Shares of Amgen have increased \$15, or 6.9%, since our 2/2/2020 update. Based off of guidance for 2020, Amgen trades with a multiple of 15.2. 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 3.2% 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%

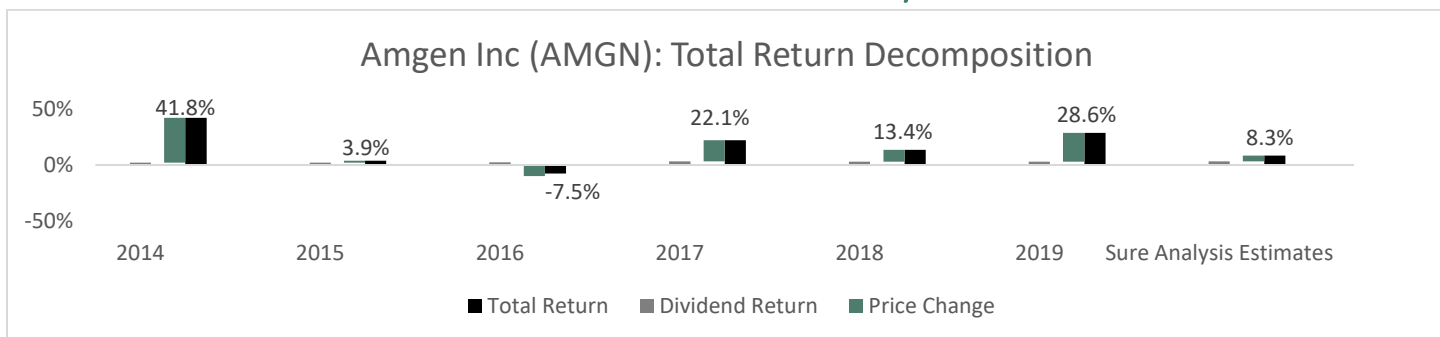
Amgen's profitability held up very well during the last recession. Companies in the health care sector are often recession resistant as people will seek treatment for their health issues regardless of economic conditions. The company also has a very low payout ratio that will allow it to continue to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

After first quarter earnings results, Amgen is now projected to offer a total annual return of 8.3% through 2025, down from our previous estimate of 9.8%. The company had double-digit growth on both the top and bottom-lines. While it's top two selling products, *Enbrel* and *Neulasta*, had flat or declining growth, Amgen's other products continue to demonstrate very high rates of revenue increases. The company also returns a significant amount of capital to shareholders in the form of dividends and buybacks. We maintain our 2025 price target of \$302, but rate shares as a hold down from a buy at the time of our previous report due to projected returns. We would likely be buyers again of Amgen on a slight pull back.

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.

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