Amgen Inc (AMGN)

Updated July 28th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$255	**5 Year CAGR Estimate:**	6.4%	**Market Cap:**	$150 billion
Fair Value Price:	$199	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	8/14/2020
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.8%	**Dividend Payment Date:**	9/8/2020
Dividend Yield:	2.5%	**5 Year Price Target**	$306	**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 reported earnings results for the second quarter on 7/28/2020. Revenue improved 5.8% to $6.2 billion, $20 million higher than expected. Adjusted earnings-per-share increased $0.28 to $4.25, $0.48 above estimates.

Volumes improved 13% for the second quarter. *Enbrel*, which treats rheumatoid arthritis and remains Amgen's top grossing product, fell 8% due to lower unit demand. A portion of this decline was due to the impact from COVID-19, but *Enbrel*, along with other agents within the class, was prescribed to fewer new patients as well. *Enbrel* had five consecutive quarters of growth prior to Q2 results. *Neulasta*, which is now Amgen's third top grossing product, continued its run of lower sales with a 28% decrease. As with prior quarter, biosimilar competition continues to erode this product's sales. *Prolia,* which treats osteoporosis and is now the company's second best-selling product, had a 6% decrease in sales as fewer office visits by osteoporosis patients led to lower demand. Amgen sought alternative sites for *Prolia* administration in an effort to reconnect with patients. Revenue has increased since April. Sales for *Repatha*, which is used to control cholesterol, increased 32% while volumes were higher by 68%. Amgen reduced prices for *Repatha* in 2018 and this has allowed the product to capture market share. *Repatha* was prescribed to 80% of new patients in Q2. *Otezla*, which is used to treat inflammatory diseases, generated $561 million of sales, which was a 14% improvement from the previous year. *Otezla* was acquired from Celgene as part of that company's merger with Bristol-Myers Squibb (BMY).

Amgen bought back 2.6 million shares during the quarter at an average price of $227. The company has $4.9 billion remaining under its share repurchase authorization. Amgen ended the quarter with $11.4 billion in cash and equivalents and issued $4 billion of long-term debt in May. The company now has $34.2 billion of debt outstanding, but a weighted-average interest rate of just 3.5% and an average maturity of 14 years. Amgen reaffirmed its revenue guidance for the year of $25 billion to $25.6 billion. Adjusted earnings-per-share guidance was raised to a range of $15.10 to $15.75 from $14.85 to $15.60 previously.

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	***$15.43***	***$23.74***
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	***592***	***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.

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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	***16.5***	***12.9***
Avg. Yld.	---	1.0%	1.9%	1.8%	1.9%	2.0%	2.6%	2.7%	2.8%	2.4%	***2.5%***	***3.2%***

Shares of Amgen have increased $24, or 10.4%, since our 5/2/2020 update. Based off of revised guidance for 2020, Amgen trades with a multiple of 16.5 times earnings. 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 4.8% 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%	***41%***	***41%***

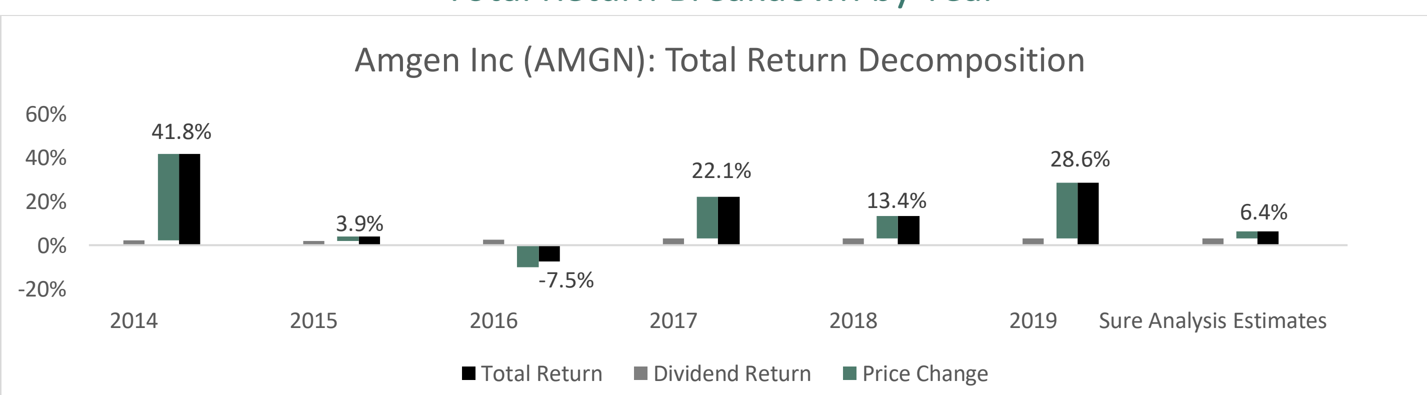
Amgen's profitability held up very well during the last recession. Companies in the health care sector are often recession resistant as people will seek treatment for their health issues regardless of economic conditions. The company also has a very low payout ratio that will allow it to continue to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

Final Thoughts & Recommendation

Following second quarter earnings results, Amgen is now projected to offer a total annual return of 6.4% through 2025, down from our previous estimate of 8.3%. Amgen continues to see solid revenue and earnings growth even as key products declined. Part of this is due to share buybacks (adjusted net income improved just 4% in Q2). Shares of the company have increased nearly 46% over the last year. While we have raised our 2025 price target $4 to $306, we maintain our hold rating on Amgen 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.