AmerisourceBergen Corp. (ABC)

Updated August 8th, 2021, by Eli Inkrot

Key Metrics

Current Price:	$121	**5 Year CAGR Estimate:**	6.3%	**Market Cap:**	$25 B
Fair Value Price:	$120	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	08/13/21
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Dividend Payment Date:**	09/07/21
Dividend Yield:	1.5%	**5 Year Price Target**	$153	**Years Of Dividend Growth:**	17
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	4.8%

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 $25 billion and generated nearly $190 billion in revenue last year.

On August 4th, 2021, AmerisourceBergen announced Q3 2021 results for the period ending June 30th, 2021. (AmerisourceBergen's fiscal year ends September 30th.) For the quarter revenue came in at $53.4 billion, a 17.7% increase compared to Q3 2020. Reported net income equaled $292 million or $1.40 per share compared to $289 million or $1.41 per share in the year ago period. On an adjusted basis, earnings-per-share equaled $2.16 versus $1.85 prior.

AmerisourceBergen also updated its fiscal 2021 outlook. The company is now anticipating $9.15 to $9.30 in adjusted earnings-per-share, up from $8.45 to $8.60 last quarter. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.52	$2.72	$3.14	$3.97	$4.96	$5.62	$5.88	$6.49	$7.09	$7.90	***$9.22***	***$11.77***
DPS	$0.46	$0.60	$0.83	$0.94	$1.16	$1.36	$1.46	$1.52	$1.60	$1.66	***$1.76***	***$2.50***
Shares[1]	258	235	230	219	207	220	218	213	207	204	***209***	***200***

The pharmaceutical distribution industry has been pressured, with increasing demand for generics fueling drug price deflation in the U.S., along with 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 2010 through 2020 stretch, AmerisourceBergen grew its earnings-per-share by 13.5% per annum. However, this was coming off the last recession and does not capture the more difficult environment distributors are dealing with. Still, the company expects solid bottom line growth this year – between 15.8% and 17.7%. We are forecasting 5% annual growth off a much higher base 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, 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.7	14.0	16.0	17.6	20.4	15.7	14.4	13.6	11.7	11.6	***13.1***	***13.0***
Avg. Yld.	1.2%	1.6%	1.7%	1.3%	1.1%	1.5%	1.7%	1.7%	1.9%	1.8%	***1.5%***	***1.6%***

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. We are using 13 times earnings as a starting fair value baseline to account for some of the growing uncertainty in the industry. With shares trading near 13 times expected earnings, this implies little impact from the valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	18%	22%	26%	24%	23%	23%	25%	23%	23%	21%	***19%***	***21%***

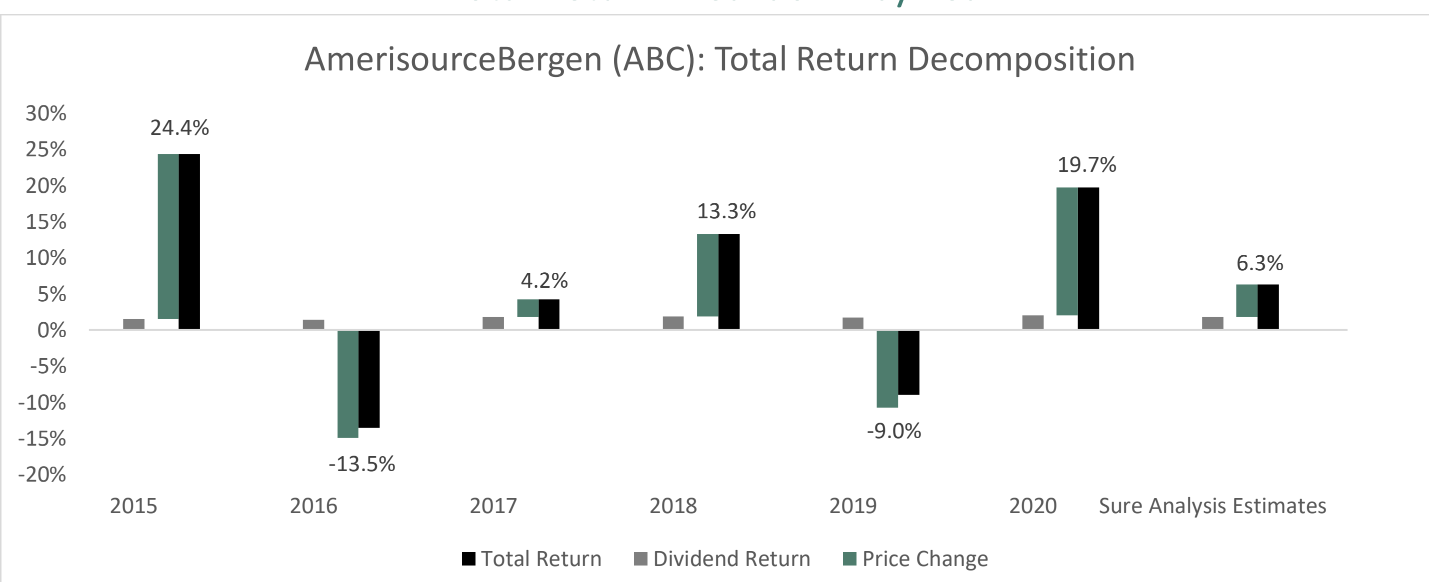
AmerisourceBergen's main competitive advantage is its industry position. As one of the 'Big 3,' AmerisourceBergen has a sizable economic moat that protects its market share. It is very difficult for a new competitor to enter the market. AmerisourceBergen sources over 1.5 million products delivered from 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 $2.5 billion in cash, $37.3 billion in current assets and $55.9 billion in total assets against $39.6 billion in current liabilities and $55.5 billion in total liabilities. Long-term debt stood at $6.6 billion.

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 6.3% total return potential, comprising of a 5% growth rate and a 1.5% starting yield. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue ($B)	79	78	88	120	136	147	153	168	180	190
Gross Profit	2,459	2,635	2,508	2,982	3,529	4,273	4,546	4,612	5,138	5,192
Gross Margin	3.1%	3.4%	2.9%	2.5%	2.6%	2.9%	3.0%	2.7%	2.9%	2.7%
SG&A Exp.	1,138	1,153	1,334	1,581	1,908	2,091	2,129	2,460	2,664	2,767
D&A Exp.	107	141	171	197	256	392	432	510	498	408
Operating Profit	1220	1348	1012	1213	1373	1817	2020	1687	2012	2034
Op. Margin	1.5%	1.7%	1.2%	1.0%	1.0%	1.2%	1.3%	1.0%	1.1%	1.1%
Net Profit	707	719	434	274	(138)	1,428	364	1,658	855	(3,409)
Net Margin	0.9%	0.9%	0.5%	0.2%	-0.1%	1.0%	0.2%	1.0%	0.5%	-1.8%
Free Cash Flow	1012	1172	586	1200	3691	2714	1038	1075	2034	1837
Income Tax	420	456	331	388	407	(37)	553	(438)	113	(1894)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	14983	15442	18919	21532	27963	33638	35316	37670	39172	44270
Cash & Equivalents	1,826	1,067	1,231	1,809	2,167	2,742	2,435	2,493	3,374	4,598
Acc. Receivable	3794	3785	6052	6313	8223	9176	10303	11314	12387	13850
Inventories	5443	5472	6981	8594	9755	10724	11461	11919	11060	12590
Goodwill & Int.	2,806	3,523	3,500	3,482	6,138	8,959	8,878	9,612	9,000	8,593
Total Liabilities	12116	12987	16599	19575	27347	31508	33252	34620	36179	45110
Accounts Payable	9191	9493	13336	15593	20886	23926	25404	26837	28385	31710
Long-Term Debt	1,365	1,396	1,397	1,996	3,493	4,187	3,442	4,310	4,173	4,120
Total Equity	2,867	2,455	2,320	1,957	616	2,129	2,064	2,933	2,879	(1,019)
D/E Ratio	0.48	0.57	0.60	1.02	5.67	1.97	1.67	1.47	1.45	(4.04)

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.8%	4.7%	2.5%	1.4%	-0.6%	4.6%	1.1%	4.5%	2.2%	(8.2%)
Return on Equity	24.3%	27.0%	18.2%	12.8%	-10.7%	104%	17.4%	66.4%	29.4%	(367%)
ROIC	16.6%	17.8%	11.5%	7.2%	-3.4%	27.4%	6.2%	25.8%	11.8%	(65.3%)
Shares Out.	258	235	230	219	207	220	218	213	207	204
Revenue/Share	283	304	374	508	624	650	691	762	848	927
FCF/Share	3.64	4.56	2.49	5.10	16.95	12.01	4.68	4.88	9.60	8.97