Amgen Inc (AMGN)

Updated November 3rd, 2021 by Nathan Parsh

Key Metrics

Current Price:	$217	**5 Year CAGR Estimate:**	12.6%	**Market Cap:**	$120 billion
Fair Value Price:	$225	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	11/16/2021
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.7%	**Dividend Payment Date:**	12/8/2021
Dividend Yield:	3.2%	**5 Year Price Target**	$346	**Years Of Dividend Growth:**	10
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**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 about $26 billion in annual revenues. Founded in 1980, the company began with just three employees. Today Amgen has more than 24,000 employees and operates in approximately 100 countries.

Amgen reported third quarter earnings results on 11/2/2021. Revenue grew 4.5% to $6.7 billion, topping estimates by $20 million. Adjusted net income of $2,664M, or $4.67 per share, compared favorably to adjusted net income of $2,467M, or $4.19 per share, in the previous year. Adjusted earnings-per-share was a $0.45 beat of expectations.

Product revenue increased 4%. Sales for *Enbrel*, which treats rheumatoid arthritis and remains Amgen's top grossing product, fell 3%, extending the year-over-year declines to six consecutive quarters. Volumes were lower by 2% with lower prices acting as an 1% headwind. *Neulasta*, which is now Amgen's fifth top grossing product, fell 25% due to weakness in both pricing and volumes. Amgen expects this pressure to remain in the coming quarters due to biosimilar competition. *Prolia,* which treats osteoporosis and is now the company's second best-selling product, grew 15%. Osteoporosis diagnoses in the U.S. are now at 90% of pre-COVID-19 levels, a slight sequential improvement. Sales for *Repatha*, which is used to control cholesterol, improved 33%. Amgen reduced prices for *Repatha* in 2018 and this has allowed the product to capture market share. Volumes were higher by 64%, helping to offset lower selling prices. More than one million patients have received a prescription for *Repatha*. *Otezla*, which is used to treat inflammatory diseases, grew 13%. Volumes were up 7%. *Otezla* is the third bestselling product in the company's portfolio. Amgen expects to see the product approved to treat mild-to-moderate psoriasis in the U.S. and other geographies. *Otezla* was acquired from Celgene as part of that company's merger with Bristol-Myers Squibb (BMY). Amgen repurchased 4.6 million shares at an average price of $239 during the quarter. Amgen has $2.9 billion, or 2.4% of its market capitalization, remaining under its existing share repurchase authorization. The company ended the quarter with $12.9 billion of cash and cash equivalents.

Amgen provided revised guidance for the year. The company expects revenue of $25.8 billion to $26.2 billion compared to $25.8 billion to $26.6 billion previously. Adjusted earnings-per-share is projected to be $16.50 to $17.10, compared to $16.00 to $17.00 previously.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$5.25	$6.46	$7.60	$8.70	$10.38	$11.65	$12.58	$14.40	$14.82	$16.60	***$16.80***	***$25.85***
DPS	$0.56	$1.44	$1.88	$2.44	$3.16	$4.00	$4.60	$5.28	$5.80	$6.40	***$7.04***	***$10.83***
Shares[1]	796	756	755	760	754	738	720	640	598	585	***570***	***550***

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 13.6% 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, retiring 3% of outstanding shares annually from 2011 and 2020.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.7	11.8	13.7	15.1	15.2	13.4	13.6	13.1	13.3	13.9	***12.9***	***13.4***
Avg. Yld.	1.0%	1.9%	1.8%	1.9%	2.0%	2.6%	2.7%	2.8%	3.0%	2.8%	***3.2%***	***3.1%***

Shares of Amgen have decreased $13, or 5.7%, since our 8/7/2021 update. Based off of guidance for 2021, Amgen trades with a multiple of 12.9 times earnings. The five- and ten-year average price-to-earnings multiple are 13.5 and 13.4, respectively, showing that the stock has a remarkably consistent valuation over the long-term. We view 13.4 as fair value for the stock. If shares were to revert to our target multiple by 2026, then valuation would be a 0.7% tailwind 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	11%	22%	25%	28%	30%	34%	37%	37%	39%	39%	***42%***	***42%***

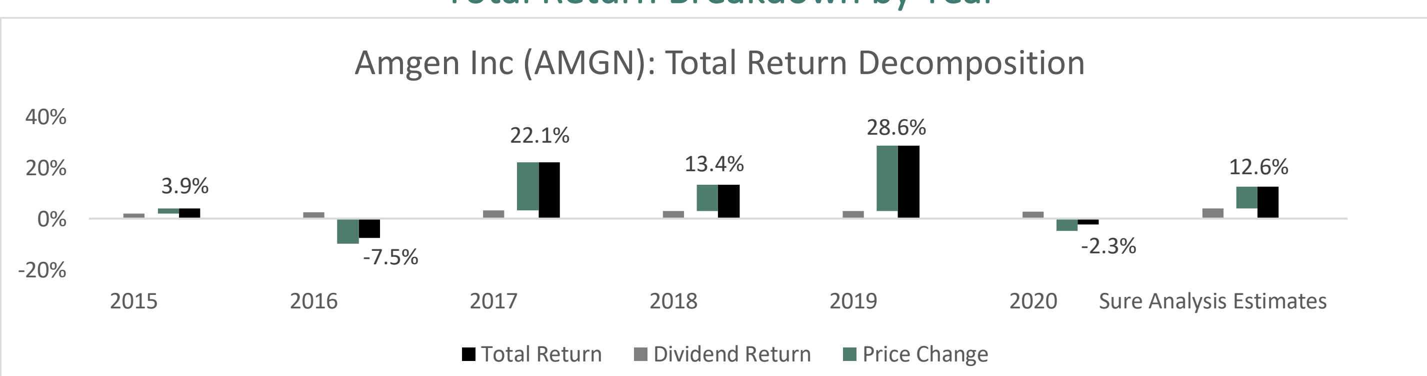
Amgen's profitability held up very well during the last recession. Companies in the health care sector are often recession resistant as people will seek treatment for their health issues regardless of economic conditions. The company also has a very low payout ratio that will allow it to continue to 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 17.4% of 2020 sales on R&D.

Final Thoughts & Recommendation

Following third quarter earnings results, Amgen is now projected to offer a total annual return of 12.6% through 2026, up from our previous estimate of 10.9%. Two of Amgen's more important products, *Enbrel* and *Neulasta,* continue to face pressure from biosimilar competition. On the other hand, the company's newer products continue to show excellent growth rates. Amgen is also a notorious repurchaser of its own stock which should aid EPS growth. We have raised our 2026 price target $6 to $346 and continue to view shares as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	15,582	17,265	18,676	20,063	21,662	22,991	22,849	23,747	23,362	25,424
Gross Profit	12,874	14,066	15,330	15,641	17,435	18,829	18,780	19,646	19,006	19,265
Gross Margin	82.6%	81.5%	82.1%	78.0%	80.5%	81.9%	82.2%	82.7%	81.4%	75.8%
SG&A Exp.	4,499	4,814	5,184	4,699	4,846	5,062	4,870	5,332	5,150	5,730
D&A Exp.	1,060	1,088	1,286	2,092	2,108	2,105	1,955	1,946	2,206	
Operating Profit	4,312	5,577	5,867	6,191	8,470	9,794	9,973	10,263	9,674	9,139
Op. Margin	27.7%	32.3%	31.4%	30.9%	39.1%	42.6%	43.6%	43.2%	41.4%	35.9%
Net Profit	3,683	4,345	5,081	5,158	6,939	7,722	1,979	8,394	7,842	7,264
Net Margin	23.6%	25.2%	27.2%	25.7%	32.0%	33.6%	8.7%	35.3%	33.6%	28.6%
Free Cash Flow	4,552	5,168	5,598	7,949	9,137	9,616	10,513	10,558	8,532	10,497
Income Tax	467	664	184	427	1,039	1,441	7,618	1,151	1,296	869

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	48,871	54,298	66,125	69,009	71,449	77,626	79,954	66,416	59,707	62,948
Cash & Equivalents	6,946	3,257	3,805	3,731	4,144	3,241	3,800	6,945	6,037	
Acc. Receivable	2,896	2,518	2,697	2,546	2,995	3,165	3,237	3,580	4,057	4,525
Inventories	2,484	2,744	3,019	2,647	2,435	2,745	2,834	2,940	3,584	3,893
Goodwill & Int.	14,334	16,630	28,230	27,481	26,428	25,030	23,370	22,142	34,116	31,276
Total Liabilities	29,842	35,238	44,029	43,231	43,366	47,751	54,713	53,916	50,034	53,539
Accounts Payable	642	905	787	995	965	917	1,352	1,207	1,371	
Long-Term Debt	21,428	26,529	32,128	30,715	31,429	34,596	35,342	33,929	29,903	32,986
Total Equity	19,029	19,060	22,096	25,778	28,083	29,875	25,241	12,500	9,673	9,409
D/E Ratio	1.13	1.39	1.45	1.19	1.12	1.16	1.40	2.71	3.09	3.51

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.0%	8.4%	8.4%	7.6%	9.9%	10.4%	2.5%	11.5%	12.4%	11.8%
Return on Equity	17.1%	22.8%	24.7%	21.5%	25.8%	26.6%	7.2%	44.5%	70.7%	76.1%
ROIC	9.5%	10.1%	10.2%	9.3%	12.0%	12.5%	3.2%	15.7%	18.2%	17.7%
Shares Out.	796	756	755	760	754	738	720	640	598	585
Revenue/Share	17.09	21.94	24.41	26.06	28.28	30.49	31.09	35.71	38.36	43.09
FCF/Share	4.99	6.57	7.32	10.32	11.93	12.75	14.30	15.88	14.01	17.79

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