AmerisourceBergen Corp. (ABC)

Updated February 3rd, 2022, by Eli Inkrot

Key Metrics

Current Price:	$138	**5 Year CAGR Estimate:**	5.6%	**Market Cap:**	$29 B
Fair Value Price:	$140	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	02/11/22
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date:**	02/28/22
Dividend Yield:	1.3%	**5 Year Price Target**	$170	**Years Of Dividend Growth:**	18
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	4.5%

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 $29 billion and generated $214 billion in revenue last year.

On November 4th, 2021, AmerisourceBergen increased its quarterly dividend 4.5% to $0.46.

On February 2nd, 2022, AmerisourceBergen announced Q1 fiscal year 2022 results for the period ending December 31st, 2021. (AmerisourceBergen's fiscal year ends September 30th.) For the quarter revenue came in at $59.6 billion, a 13.5% increase compared to Q1 2021. Adjusted net income equaled $545 million or $2.58 per share compared to $451 million or $2.18 per share in Q1 2021.

AmerisourceBergen also updated its 2022 guidance. The company now anticipates adjusted earnings-per-share of $10.60 to $10.90, up from $10.75 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.72	$3.14	$3.97	$4.96	$5.62	$5.88	$6.49	$7.09	$7.90	$9.26	***$10.75***	***$13.08***
DPS	$0.60	$0.83	$0.94	$1.16	$1.36	$1.46	$1.52	$1.60	$1.66	$1.76	***$1.84***	***$2.58***
Shares[1]	235	230	219	207	220	218	213	207	204	209	***211***	***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 2011 through 2021 stretch, AmerisourceBergen grew its earnings-per-share by 13.8% 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 14.5% and 17.7%. We are forecasting 4% 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 a share repurchase program. This is balanced against the idea that it becomes more and more difficult to grow as the company gets larger and 2022 could prove to be a high starting base.

[1] In millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.0	16.0	17.6	20.4	15.7	14.4	13.6	11.7	11.6	11.6	***12.9***	***13.0***
Avg. Yld.	1.6%	1.7%	1.3%	1.1%	1.5%	1.7%	1.7%	1.9%	1.8%	1.8%	***1.3%***	***1.5%***

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 change from the valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	22%	26%	24%	23%	23%	25%	23%	23%	21%	19%	***17%***	***20%***

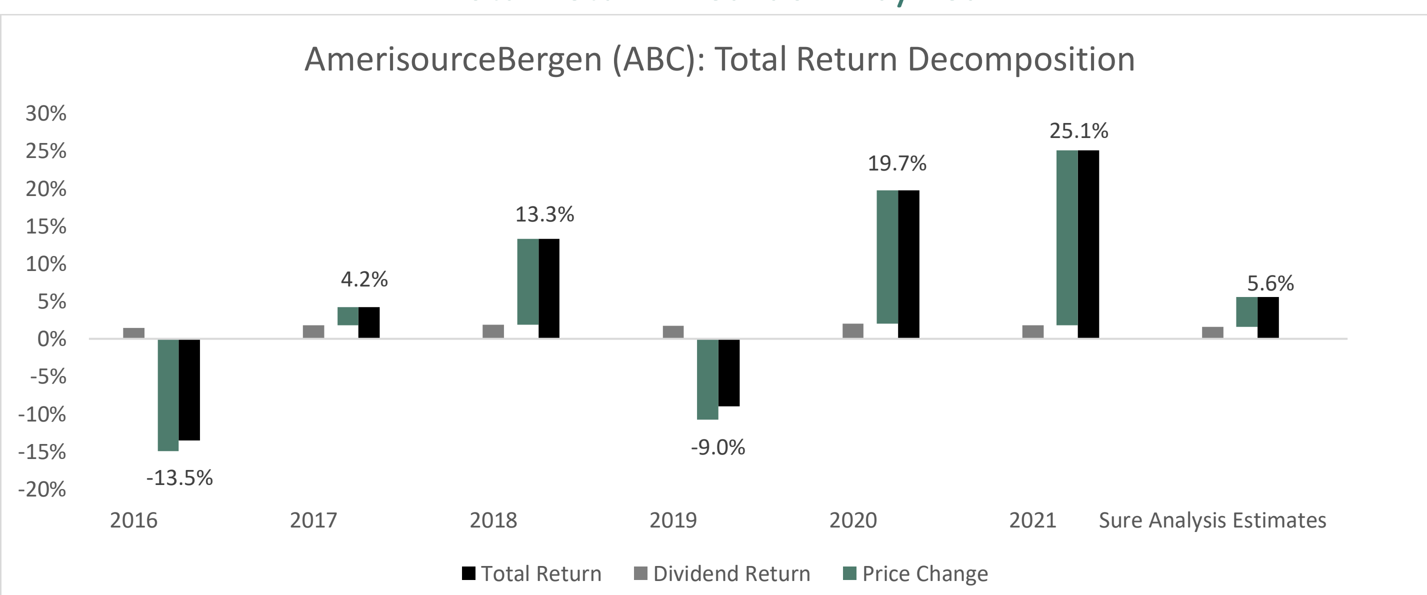
AmerisourceBergen's main competitive advantage is its industry position. As one of the 'Big 3,' AmerisourceBergen has a sizable economic moat that protects its market share. It is very difficult for a new competitor to enter the market. AmerisourceBergen sources over 1.5 million products delivered from 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 $3.2 billion in cash, $39.4 billion in current assets and $57.6 billion in total assets against $41.6 billion in current liabilities and $57.0 billion in total liabilities. Long-term debt stood at $6.4 billion.

Final Thoughts & Recommendation

Shares are up 26% in the last year. AmerisourceBergen's 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 5.6% total return potential, comprising of a 4% growth rate and a 1.3% starting yield. Shares earn a hold rating.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue ($B)	78	88	120	136	147	153	168	180	190	214
Gross Profit	2,635	2,508	2,982	3,529	4,273	4,546	4,612	5,138	5,192	6,943
Gross Margin	3.4%	2.9%	2.5%	2.6%	2.9%	3.0%	2.7%	2.9%	2.7%	3.2%
SG&A Exp.	1,153	1,334	1,581	1,908	2,091	2,129	2,460	2,664	2,767	3,549
D&A Exp.	141	171	197	256	392	432	510	498	408	---
Operating Profit	1348	1012	1213	1373	1817	2020	1687	2012	2034	2844
Op. Margin	1.7%	1.2%	1.0%	1.0%	1.2%	1.3%	1.0%	1.1%	1.1%	1.3%
Net Profit	719	434	274	-138	1,428	364	1,658	855	-3,409	1540
Net Margin	0.9%	0.5%	0.2%	-0.1%	1.0%	0.2%	1.0%	0.5%	-1.8%	0.7%
Free Cash Flow	1172	586	1200	3691	2714	1038	1075	2034	1837	2228
Income Tax	456	331	388	407	(37)	553	(438)	113	(1894)	677

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	15442	18919	21532	27963	33638	35316	37670	39172	44270	57,340
Cash & Equivalents	1,067	1,231	1,809	2,167	2,742	2,435	2,493	3,374	4,598	2,547
Acc. Receivable	3785	6052	6313	8223	9176	10303	11314	12387	13850	18,170
Inventories	5472	6981	8594	9755	10724	11461	11919	11060	12590	15,370
Goodwill & Int.	3,523	3,500	3,482	6,138	8,959	8,878	9,612	9,000	8,593	14,290
Total Liabilities	12987	16599	19575	27347	31508	33252	34620	36179	45110	56750
Accounts Payable	9493	13336	15593	20886	23926	25404	26837	28385	31710	38010
Long-Term Debt	1,396	1,397	1,996	3,493	4,187	3,442	4,310	4,173	4,120	6,684
Total Equity	2,455	2,320	1,957	616	2,129	2,064	2,933	2,879	-1,019	584
D/E Ratio	0.57	0.60	1.02	5.67	1.97	1.67	1.47	1.45	(4.04)	11.44

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.7%	2.5%	1.4%	-0.6%	4.6%	1.1%	4.5%	2.2%	-8.2%	3.0%
Return on Equity	27.0%	18.2%	12.8%	-10.7%	104%	17.4%	66.4%	29.4%	-367%	---
ROIC	17.8%	11.5%	7.2%	-3.4%	27.4%	6.2%	25.8%	11.8%	-65.3%	29.2%
Shares Out.	235	230	219	207	220	218	213	207	204	208
Revenue/Share	304	374	508	624	650	691	762	848	927	1026.5
FCF/Share	4.56	2.49	5.10	16.95	12.01	4.68	4.88	9.60	8.97	10.69