



Amgen Inc (AMGN)

Updated April 30th, 2022 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|----------|
| Current Price: | \$233 | 5 Year CAGR Estimate: | 12.0% | Market Cap: | \$127 B |
| Fair Value Price: | \$235 | 5 Year Growth Estimate: | 9.0% | Ex-Dividend Date: | 05/16/22 |
| % Fair Value: | 99% | 5 Year Valuation Multiple Estimate: | 0.1% | Dividend Payment Date: | 03/08/22 |
| Dividend Yield: | 3.3% | 5 Year Price Target | \$361 | Years Of Dividend Growth: | 11 |
| Dividend Risk Score: | B | Retirement Suitability Score: | B | Rating: | Buy |

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.

On December 3rd, 2022, Amgen announced a 10.2% quarterly dividend increase to \$1.94.

On April 27th, 2022, Amgen announced first quarter results for the period ending March 31st, 2022. Revenue increased 5.1% to \$6.2 billion, beating estimates by \$90 million. Adjusted net income of \$2.3 billion, or \$4.25 per share, compared favorably to adjusted net income of \$2.15 billion, or \$3.70 per share, in the previous year. Adjusted earnings-per-share was \$0.12 higher than expected.

Product revenue increased 2% on higher volume for key products. Sales for Enbrel, which treats rheumatoid arthritis and remains Amgen's top grossing product, decreased 7%, extending the year-over-year declines to eight consecutive quarters. The company expects net selling price to continue to decline as the product faces competition. Neulasta dropped 28% 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 should become the top grossing product sometime this year, grew 12% due to 10% volume growth and higher average prices. Osteoporosis diagnoses in the U.S. are now nearly back to pre-COVID-19 levels, a slight sequential improvement. Repatha, which is used to control cholesterol, grew 15% year-over-year. Amgen reduced prices for Repatha in 2018 and this has allowed the product to capture market share. Volumes were higher by 49% during the year, 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, fell 5% as a 7% improvement in volume only partially offset lower net selling price and inventory levels. Otezla was acquired from Celgene as part of that company's merger with Bristol-Myers Squibb (BMY). Amgen repurchased 24.6 million shares at an average price of \$256 during the quarter. The company ended the quarter with \$6.5 billion of cash and cash equivalents. Finally, Amgen revealed that it owes more than \$7 billion in back taxes, interest, and penalties to the Internal Revenue Service.

Amgen provided guidance for 2022 as well. The company expects \$17.00 to \$18.00 per share in 2022.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|----------------|----------------|
| EPS | \$6.46 | \$7.60 | \$8.70 | \$10.38 | \$11.65 | \$12.58 | \$14.40 | \$14.82 | \$16.60 | \$17.10 | \$17.50 | \$26.93 |
| DPS | \$1.44 | \$1.88 | \$2.44 | \$3.16 | \$4.00 | \$4.60 | \$5.28 | \$5.80 | \$6.40 | \$7.04 | \$7.76 | \$11.94 |
| Shares¹ | 756 | 755 | 760 | 754 | 738 | 720 | 640 | 598 | 585 | 565 | 551 | 525 |

¹ Share count in millions

Disclosure: This analyst has a long position in the security discussed in this research report.



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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 11.4% per year, though that growth has slowed to 6.8% over the last five years. We expect earnings-per-share to grow at a rate of 9% annually due to strength in new products and share repurchases. Amgen has been aggressively repurchasing its own shares, retiring 3.2% of outstanding shares annually from 2012 and 2021.

Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 11.8 | 13.7 | 15.1 | 15.2 | 13.4 | 13.6 | 13.1 | 13.3 | 13.9 | 13.1 | 13.3 | 13.4 |
| Avg. Yld. | 1.9% | 1.8% | 1.9% | 2.0% | 2.6% | 2.7% | 2.8% | 3.0% | 2.8% | 3.1% | 3.3% | 3.3% |

Shares of Amgen have decreased \$3, or 1.3%, since our February 8th, 2022 update. Based off of estimates for 2022, Amgen trades with a multiple of 13.3 times earnings. The five- and ten-year average price-to-earnings multiple are 13.6 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 2027, then valuation would be a 0.1% tailwind to annual returns over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 22% | 25% | 28% | 30% | 34% | 37% | 37% | 39% | 39% | 41% | 44% | 44% |

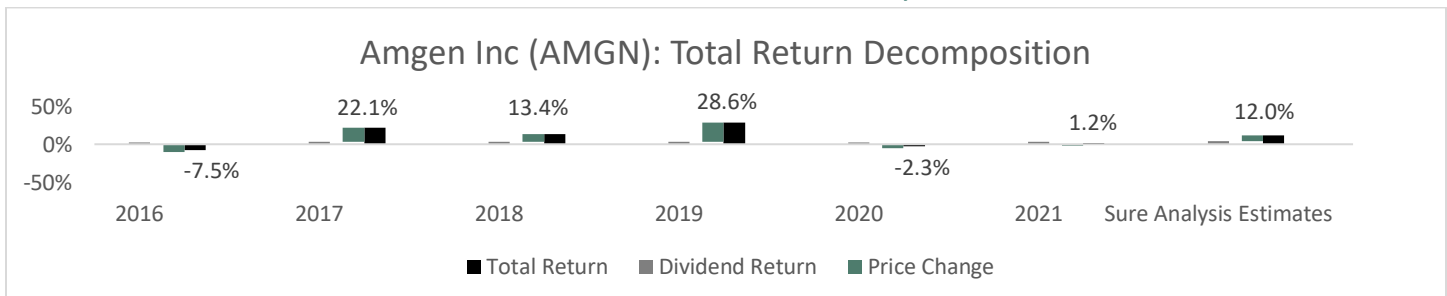
Amgen's profitability held up very well during the last recession. Companies in the health care sector are often recession resistant as people will seek treatment for their health issues regardless of economic conditions. The company also has a very low payout ratio that will allow it to continue to 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 18.5% of 2021 sales on R&D.

Final Thoughts & Recommendation

Following first quarter earnings results, Amgen is now projected to offer a total annual return of 12.0% through 2027, down slightly from our previous estimate of 12.1%. Our estimated return stems from a 9% earnings growth rate, a 3.3% starting dividend yield, and a small contribution from multiple expansion. Certain products, such as Enbrel and Neulasta, continue to see declines in sales as both volume and net selling prices diminish. That said, Amgen has multiple newer products experiencing excellent growth rates. Investors should take note of the notice of back taxes that Amgen received from the IRS, though the company does plan to appeal the bill. Nevertheless, we reiterate our buy rating on shares of Amgen due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 17,265 | 18,676 | 20,063 | 21,662 | 22,991 | 22,849 | 23,747 | 23,362 | 25,424 | 25,979 |
| Gross Profit | 14,066 | 15,330 | 15,641 | 17,435 | 18,829 | 18,780 | 19,646 | 19,006 | 19,265 | 19,525 |
| Gross Margin | 81.5% | 82.1% | 78.0% | 80.5% | 81.9% | 82.2% | 82.7% | 81.4% | 75.8% | 75.2% |
| SG&A Exp. | 4,814 | 5,184 | 4,699 | 4,846 | 5,062 | 4,870 | 5,332 | 5,150 | 5,730 | 5,368 |
| D&A Exp. | 1,088 | 1,286 | 2,092 | 2,108 | 2,105 | 1,955 | 1,946 | 2,206 | 3,601 | |
| Operating Profit | 5,577 | 5,867 | 6,191 | 8,470 | 9,794 | 9,973 | 10,263 | 9,674 | 9,139 | 9,144 |
| Op. Margin | 32.3% | 31.4% | 30.9% | 39.1% | 42.6% | 43.6% | 43.2% | 41.4% | 35.9% | 35.2% |
| Net Profit | 4,345 | 5,081 | 5,158 | 6,939 | 7,722 | 1,979 | 8,394 | 7,842 | 7,264 | 5,893 |
| Net Margin | 25.2% | 27.2% | 25.7% | 32.0% | 33.6% | 8.7% | 35.3% | 33.6% | 28.6% | 22.7% |
| Free Cash Flow | 5,168 | 5,598 | 7,949 | 9,137 | 9,616 | 10,513 | 10,558 | 8,532 | 9,889 | 9,261 |
| Income Tax | 664 | 184 | 427 | 1,039 | 1,441 | 7,618 | 1,151 | 1,296 | 869 | 808 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 54,298 | 66,125 | 69,009 | 71,449 | 77,626 | 79,954 | 66,416 | 59,707 | 62,948 | 61,165 |
| Cash & Equivalents | 3,257 | 3,805 | 3,731 | 4,144 | 3,241 | 3,800 | 6,945 | 6,037 | 6,266 | |
| Acc. Receivable | 2,518 | 2,697 | 2,546 | 2,995 | 3,165 | 3,237 | 3,580 | 4,057 | 4,525 | 4,895 |
| Inventories | 2,744 | 3,019 | 2,647 | 2,435 | 2,745 | 2,834 | 2,940 | 3,584 | 3,893 | 4,086 |
| Goodwill & Int. | 16,630 | 28,230 | 27,481 | 26,428 | 25,030 | 23,370 | 22,142 | 34,116 | 31,276 | 30,072 |
| Total Liabilities | 35,238 | 44,029 | 43,231 | 43,366 | 47,751 | 54,713 | 53,916 | 50,034 | 53,539 | 54,465 |
| Accounts Payable | 905 | 787 | 995 | 965 | 917 | 1,352 | 1,207 | 1,371 | 1,421 | |
| Long-Term Debt | 26,529 | 32,128 | 30,715 | 31,429 | 34,596 | 35,342 | 33,929 | 29,903 | 32,986 | 33,309 |
| Total Equity | 19,060 | 22,096 | 25,778 | 28,083 | 29,875 | 25,241 | 12,500 | 9,673 | 9,409 | 6,700 |
| LTD/E Ratio | 1.39 | 1.45 | 1.19 | 1.12 | 1.16 | 1.40 | 2.71 | 3.09 | 3.51 | 4.97 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 8.4% | 8.4% | 7.6% | 9.9% | 10.4% | 2.5% | 11.5% | 12.4% | 11.8% | 9.5% |
| Return on Equity | 22.8% | 24.7% | 21.5% | 25.8% | 26.6% | 7.2% | 44.5% | 70.7% | 76.1% | 73.2% |
| ROIC | 10.1% | 10.2% | 9.3% | 12.0% | 12.5% | 3.2% | 15.7% | 18.2% | 17.7% | 14.3% |
| Shares Out. | 756 | 755 | 760 | 754 | 738 | 720 | 640 | 598 | 585 | 565 |
| Revenue/Share | 21.94 | 24.41 | 26.06 | 28.28 | 30.49 | 31.09 | 35.71 | 38.36 | 43.09 | 45.34 |
| FCF/Share | 6.57 | 7.32 | 10.32 | 11.93 | 12.75 | 14.30 | 15.88 | 14.01 | 16.76 | 16.16 |

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

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