Amgen Inc (AMGN)

Updated November 7th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$273	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$146 B
Fair Value Price:	$235	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	11/16/22
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	12/08/22
Dividend Yield:	2.8%	**5 Year Price Target**	$362	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 November 3rd, 2022, Amgen reported third quarter results for the period ending September 30th, 2022. Revenue fell 0.9% to $6.65 billion, but was $90 million higher than expected. Adjusted earnings-per-share of $4.70 compared to $4.08 in the prior year and was $0.25 above estimates.

Product revenue decreased 1% while volumes improved 8%. Sales for Enbrel, which treats rheumatoid arthritis and remains Amgen's top grossing product, declined 14%, extending the year-over-year declines to ten consecutive quarters. The company expects net selling price to continue to decline as the product faces competition. Neulasta dropped 40% 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 could become the top grossing product within the next year or so, grew 7% due to an 8% improvement in volume growth. Repatha, which is used to control cholesterol, grew 14% once again. Amgen reduced prices for Repatha in 2018 and this has allowed the product to capture market share. Volumes were higher by 52% during the quarter, helping to offset lower selling prices. More than 1.2 million patients have received a prescription for Repatha. Otezla, which is used to treat inflammatory diseases, was up 3% due to a 9% gain in volume. Otezla was acquired from Celgene as part of that company's merger with Bristol-Myers Squibb (BMY). The company ended the quarter with $11.5 billion of cash and cash equivalents.

Amgen provided update guidance for 2022 as well. The company now expects adjusted earnings-per-share in a range of $17.25 to $17.85 for the year, compared to prior guidance of $17.00 to $18.00.

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	***$17.55***	***$27.00***
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***
Shares[1]	756	755	760	754	738	720	640	598	585	565	***538***	***525***

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. We see this pace continuing for the foreseeable future.

[1] Share count in millions

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

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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	***15.6***	***13.4***
Avg. Yld.	1.9%	1.8%	1.9%	2.0%	2.6%	2.7%	2.8%	3.0%	2.8%	3.1%	***2.8%***	***3.3%***

Shares of Amgen have increased $23, or 9.2%, since our August 15th, 2022 update. Based off of estimates for 2022, Amgen trades with a multiple of 15.6 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 2.9% headwind 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%***

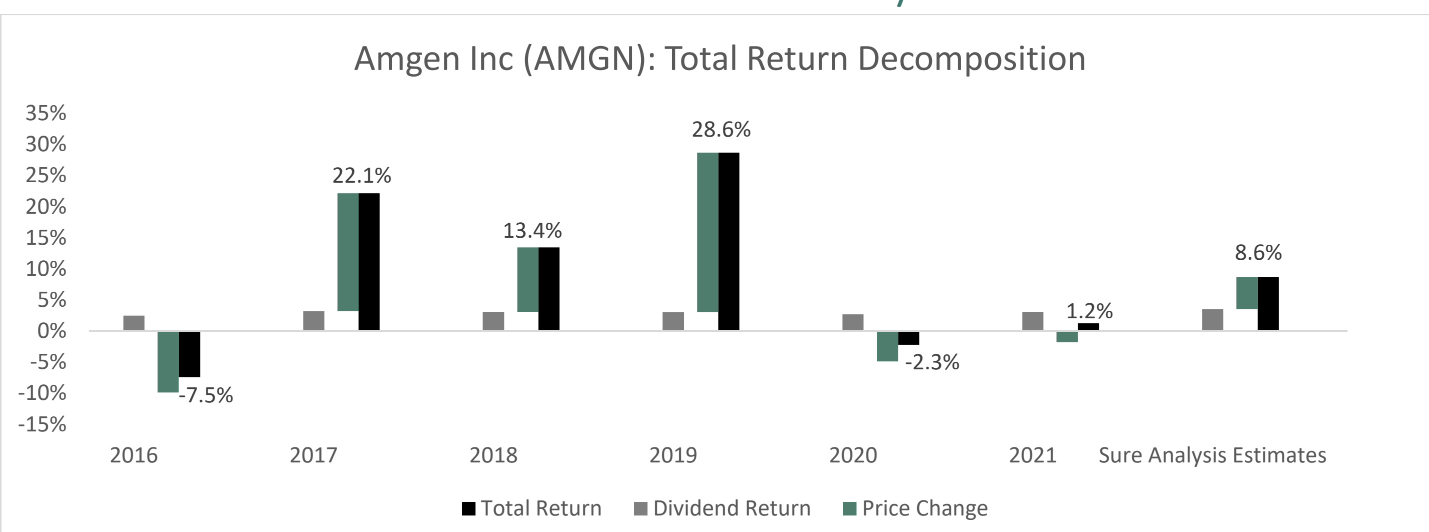
Amgen's profitability held up very well during the last recession. Companies in the health care sector are often recession resistant as people will seek treatment for their health issues regardless of economic conditions. The company also has a very low payout ratio that will allow it to continue to 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 third quarter earnings results, Amgen is now projected to offer a total annual return of 8.6% through 2027, down from our previous estimate of 10.5%. Our estimated return stems from a 9% earnings growth rate and a 2.8% starting dividend yield, offset by a headwind from multiple contraction. 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. We now rate shares of Amgen as a hold 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.