AmerisourceBergen Corp. (ABC)

Updated February 1st, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$164	**5 Year CAGR Estimate:**	3.7%	**Market Cap:**	$34 B
Fair Value Price:	$151	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	02/09/23
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.6%	**Dividend Payment Date:**	02/27/23
Dividend Yield:	1.2%	**5 Year Price Target**	$184	**Years Of Dividend Growth:**	19
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 $34 billion and generated $239 billion in revenue last year.

On November 4th, 2022, AmerisourceBergen increased its quarterly dividend 5.4% to $0.485, marking its 19th consecutive annual dividend increase.

On January 24th, 2023, the company announced it will be changing its name to Cencora in the second half of 2023.

On February 1st, 2023, AmerisourceBergen announced Q1 FY 2023 results. (AmerisourceBergen's fiscal year ends September 30th.) For the quarter, revenue came in at $62.8 billion, a 5.4% increase compared to Q1 2022. Adjusted diluted earnings per share equaled $2.71 per share compared to $2.58 per share in Q1 2022, a 5.0% year-over-year increase.

AmerisourceBergen raised FY 2023 guidance. The company now expects adjusted earnings-per-share of $11.50 to $11.75 (up from $11.30 to $11.60 previously), which represents growth of 4% to 7% over FY 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.14	$3.97	$4.96	$5.62	$5.88	$6.49	$7.09	$7.90	$9.26	$11.03	***$11.63***	***$14.15***
DPS	$0.83	$0.94	$1.16	$1.36	$1.46	$1.52	$1.60	$1.66	$1.76	$1.84	***$1.94***	***$2.72***
Shares[1]	230	219	207	220	218	213	207	204	209	211	***205.0***	***195.0***

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 2013 through 2022 stretch, AmerisourceBergen grew its earnings-per-share by 15.0% per annum. Growth really picked up following the COVID-19 pandemic, however, the distributor is still dealing with a more difficult environment than in years prior. The company is expecting bottom line growth in the mid-single digits for 2023 following exemplary growth in the prior year. We are forecasting 4% annual growth off this 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 2023 could prove to be a high starting base.

[1] In millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16	17.6	20.4	15.7	14.4	13.6	11.7	11.6	11.6	11.6	***14.1***	***13.0***
Avg. Yld.	1.70%	1.30%	1.10%	1.50%	1.70%	1.70%	1.90%	1.80%	1.80%	1.20%	***1.2%***	***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 13.0 times earnings as a starting fair value baseline to account for some of the growing uncertainty in the industry. With shares trading at 14.1 times expected earnings, this implies a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2022	2023	2028
Payout	26%	24%	23%	24%	25%	23%	23%	21%	19%	17%	***17%***	***19%***

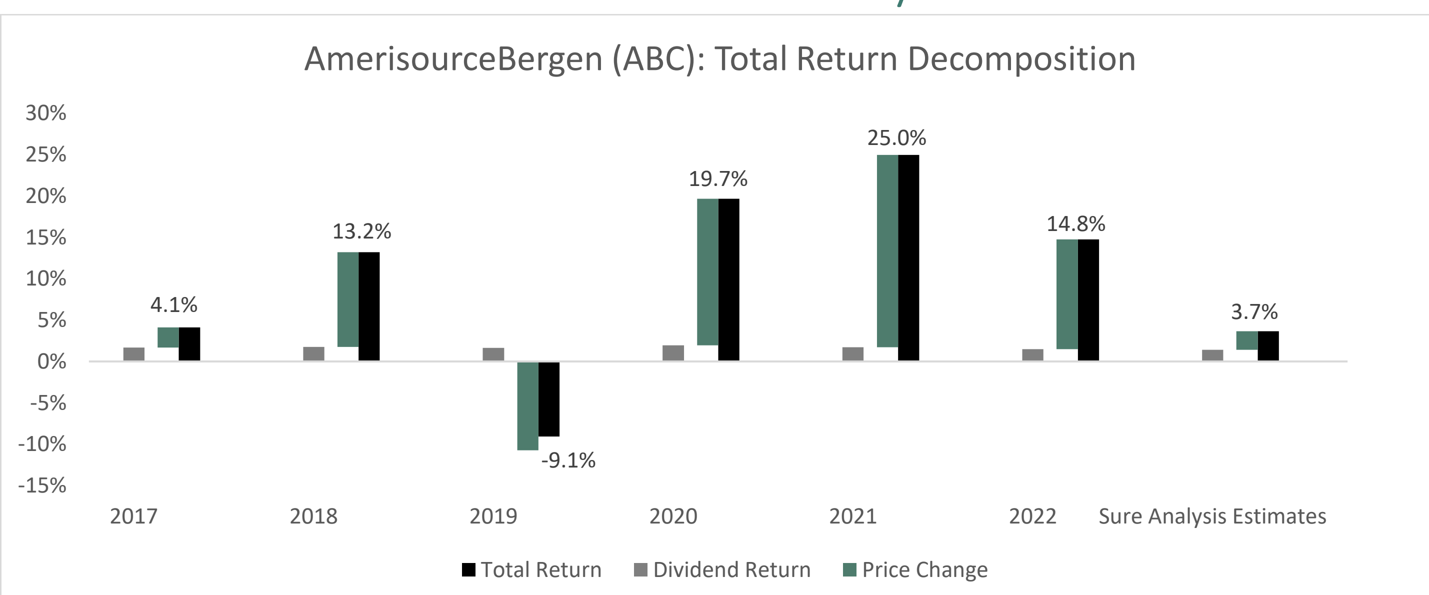
AmerisourceBergen's main competitive advantage is its industry position. As one of the 'Big 3,' AmerisourceBergen has a sizable economic moat that protects its market share. It is very difficult for a new competitor to enter the market. AmerisourceBergen sources over 1.5 million products delivered from 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 $1.7 billion in cash, $40.7 billion in current assets and $57.9 billion in total assets against $44.8 billion in current liabilities and $57.8 billion in total liabilities. Long-term debt stood at $4.7 billion.

Final Thoughts & Recommendation

Shares are flat year-to-date, which compares unfavorably to the overall broader market. 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 3.7% total return potential, comprising of a 4.0% growth rate and a 1.2% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue ($B)	88	120	136	147	153	168	180	190	214	239
Gross Profit	2,508	2,982	3,529	4,273	4,546	4,612	5,138	5,192	6,943	8296
Gross Margin	2.9%	2.5%	2.6%	2.9%	3.0%	2.7%	2.9%	2.7%	3.2%	3.5%
SG&A Exp.	1,334	1,581	1,908	2,091	2,129	2,460	2,664	2,767	3,549	4849
D&A Exp.	171	197	256	392	432	510	498	408	---	
Operating Profit	1012	1213	1373	1817	2020	1687	2012	2034	2844	2754
Op. Margin	1.2%	1.0%	1.0%	1.2%	1.3%	1.0%	1.1%	1.1%	1.3%	1.2%
Net Profit	434	274	-138	1,428	364	1,658	855	-3,409	1540	1699
Net Margin	0.5%	0.2%	-0.1%	1.0%	0.2%	1.0%	0.5%	-1.8%	0.7%	0.7%
Free Cash Flow	586	1200	3691	2714	1038	1075	2034	1837	2228	2207
Income Tax	331	388	407	(37)	553	(438)	113	(1894)	677	517

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	18919	21532	27963	33638	35316	37670	39172	44270	57,340	56561
Cash & Equivalents	1,231	1,809	2,167	2,742	2,435	2,493	3,374	4,598	2,547	3388
Acc. Receivable	6052	6313	8223	9176	10303	11314	12387	13850	18,170	18453
Inventories	6981	8594	9755	10724	11461	11919	11060	12590	15,370	15556
Goodwill & Int.	3,500	3,482	6,138	8,959	8,878	9,612	9,000	8,593	14,290	12837
Total Liabilities	16599	19575	27347	31508	33252	34620	36179	45110	56750	56489
Accounts Payable	13336	15593	20886	23926	25404	26837	28385	31710	38010	40193
Long-Term Debt	1,397	1,996	3,493	4,187	3,442	4,310	4,173	4,120	6,684	5703
Total Equity	2,320	1,957	616	2,129	2,064	2,933	2,879	-1,019	584	-290
D/E Ratio	0.60	1.02	5.67	1.97	1.67	1.47	1.45	(4.04)	11.44	-19.68

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.5%	1.4%	-0.6%	4.6%	1.1%	4.5%	2.2%	-8.2%	3.0%	3.0%
Return on Equity	18.2%	12.8%	-10.7%	104%	17.4%	66.4%	29.4%	-367%	---	---
ROIC	11.5%	7.2%	-3.4%	27.4%	6.2%	25.8%	11.8%	-65.3%	29.2%	26.8%
Shares Out.	230	219	207	220	218	213	207	204	208	211
Revenue/Share	374	508	624	650	691	762	848	927	1026.5	1129.6
FCF/Share	2.49	5.10	16.95	12.01	4.68	4.88	9.60	8.97	10.69	10.45