



Amgen Inc (AMGN)

Updated February 6th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$245	5 Year CAGR Estimate:	10.1%	Market Cap:	\$131 B
Fair Value Price:	\$243	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	02/14/23
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.2%	Dividend Payment Date:	03/08/23
Dividend Yield:	3.5%	5 Year Price Target	\$341	Years Of Dividend Growth:	12
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 12th, 2022, Amgen announced a 9.8% quarterly dividend increase to \$2.13.

On January 31st, 2023, Amgen announced fourth quarter and full year results for the period ending December 31st, 2023. Revenue declined 0.6% to \$6.8 billion, though this was \$30 million above estimates. Adjusted earnings-per-share of \$4.09 compared unfavorably to \$4.40 in the prior year, but was in-line with estimates. For the year, revenue grew 1% to \$26.3 billion while adjusted earnings-per-share of \$17.69 was up significantly from \$13.92 in 2021.

Product revenue increased 4% while volumes were higher by 10%. Currency exchange reduced results. Sales for Enbrel, which treats rheumatoid arthritis and remains Amgen's top grossing product, declined 1% during the quarter, extending the year-over-year declines to eleven consecutive quarters. This was down from a 14% decline in the preceding quarter. The company expects net selling price to continue to decline as the product faces competition. Neulasta dropped 37% 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 14%, driven by an 11% increase in volume. Repatha, which is used to control cholesterol, increased 22%. Amgen reduced prices for Repatha in 2018 and this has allowed the product to capture market share. Volumes were higher by 31% during the quarter, helping to offset lower selling prices. More than 1.5 million patients have received a prescription for Repatha. Otezla, which is used to treat inflammatory diseases, was down 2% as lower net selling prices and unfavorable changes to estimated sales deductions more than offset 7% volume growth. Otezla was acquired from Celgene as part of that company's merger with Bristol-Myers Squibb (BMY). The company ended the quarter with \$9.3 billion of cash and cash equivalents.

Amgen provided guidance for 2023 as well. The company expects adjusted earnings-per-share in a range of \$17.40 to \$18.60. At the midpoint, this would be a 1.8% improvement from the prior year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$7.60	\$8.70	\$10.38	\$11.65	\$12.58	\$14.40	\$14.82	\$16.60	\$17.10	\$17.69	\$18.00	\$25.25
DPS	\$1.88	\$2.44	\$3.16	\$4.00	\$4.60	\$5.28	\$5.80	\$6.40	\$7.04	\$7.76	\$8.52	\$13.11
Shares¹	755	760	754	738	720	640	598	585	565	539	539	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 9.8% per year, though that growth has slowed to 4.6% over the last five years. We expect earnings-per-share to grow at a rate of 7% annually, down from 9%, due to strength in new products and share repurchases. Amgen has been aggressively repurchasing its own shares, retiring 3.7% of outstanding shares annually from 2013 and 2022.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.7	15.1	15.2	13.4	13.6	13.1	13.3	13.9	13.1	14.8	13.6	13.5
Avg. Yld.	1.8%	1.9%	2.0%	2.6%	2.7%	2.8%	3.0%	2.8%	3.1%	3.0%	3.5%	3.8%

Shares of Amgen have decreased \$28, or 10.3%, since our November 7th, 2022 update. Based off of estimates for 2023, Amgen trades with a multiple of 13.6 times earnings. We view 13.5 as fair value for the stock, which is near the medium- and long-term average price-to-earnings multiples. If shares were to revert to our target multiple by 2028, then valuation would be a 0.2% tailwind to annual returns over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	25%	28%	30%	34%	37%	37%	39%	39%	41%	44%	47%	52%

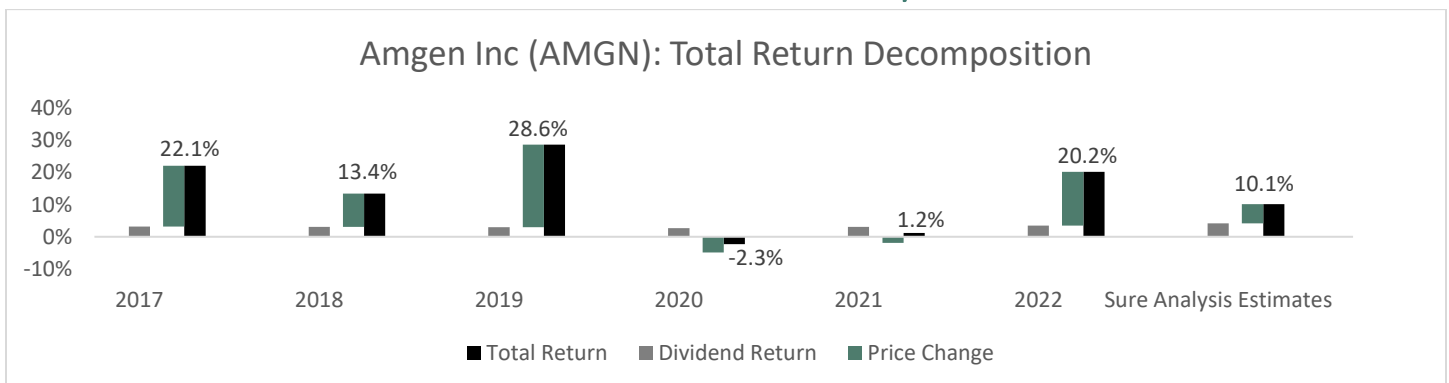
Amgen's profitability held up very well during the last recession. Companies in the health care sector are often recession resistant as people will seek treatment for their health issues regardless of economic conditions. The company also has a very low payout ratio that will allow it to continue to 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 17.5% of 2022 sales on R&D.

Final Thoughts & Recommendation

Following fourth quarter earnings results, Amgen is now projected to offer a total annual return of 10.1% through 2028, up from our previous estimate of 8.6%. Our estimated return stems from a 7% earnings growth rate and a 3.5% 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's newer products continue to perform well. Amgen earns a buy recommendation due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	18,676	20,063	21,662	22,991	22,849	23,747	23,362	25,424	25,979	26,323
Gross Profit	15,330	15,641	17,435	18,829	18,780	19,646	19,006	19,265	19,525	19,917
Gross Margin	82.1%	78.0%	80.5%	81.9%	82.2%	82.7%	81.4%	75.8%	75.2%	75.7%
SG&A Exp.	5,184	4,699	4,846	5,062	4,870	5,332	5,150	5,730	5,368	5,414
D&A Exp.	1,286	2,092	2,108	2,105	1,955	1,946	2,206	3,601	3,398	
Operating Profit	5,867	6,191	8,470	9,794	9,973	10,263	9,674	9,139	9,144	9,566
Op. Margin	31.4%	30.9%	39.1%	42.6%	43.6%	43.2%	41.4%	35.9%	35.2%	36.3%
Net Profit	5,081	5,158	6,939	7,722	1,979	8,394	7,842	7,264	5,893	6,552
Net Margin	27.2%	25.7%	32.0%	33.6%	8.7%	35.3%	33.6%	28.6%	22.7%	24.9%
Free Cash Flow	5,598	7,949	9,137	9,616	10,513	10,558	8,532	9,889	9,261	8,785
Income Tax	184	427	1,039	1,441	7,618	1,151	1,296	869	808	794

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	66,125	69,009	71,449	77,626	79,954	66,416	59,707	62,948	61,165	65,121
Cash & Equivalents	3,805	3,731	4,144	3,241	3,800	6,945	6,037	6,266	7,989	
Acc. Receivable	2,697	2,546	2,995	3,165	3,237	3,580	4,057	4,525	4,895	5,563
Inventories	3,019	2,647	2,435	2,745	2,834	2,940	3,584	3,893	4,086	4,930
Goodwill & Int.	28,230	27,481	26,428	25,030	23,370	22,142	34,116	31,276	30,072	31,609
Total Liabilities	44,029	43,231	43,366	47,751	54,713	53,916	50,034	53,539	54,465	61,460
Accounts Payable	787	995	965	917	1,352	1,207	1,371	1,421	1,366	
Long-Term Debt	32,128	30,715	31,429	34,596	35,342	33,929	29,903	32,986	33,309	38,945
Total Equity	22,096	25,778	28,083	29,875	25,241	12,500	9,673	9,409	6,700	3,661
LTD/E Ratio	1.45	1.19	1.12	1.16	1.40	2.71	3.09	3.51	4.97	10.64

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.4%	7.6%	9.9%	10.4%	2.5%	11.5%	12.4%	11.8%	9.5%	10.4%
Return on Equity	24.7%	21.5%	25.8%	26.6%	7.2%	44.5%	70.7%	76.1%	73.2%	126.5%
ROIC	10.2%	9.3%	12.0%	12.5%	3.2%	15.7%	18.2%	17.7%	14.3%	15.9%
Shares Out.	755	760	754	738	720	640	598	585	565	539
Revenue/Share	24.41	26.06	28.28	30.49	31.09	35.71	38.36	43.09	45.34	48.66
FCF/Share	7.32	10.32	11.93	12.75	14.30	15.88	14.01	16.76	16.16	16.24

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

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