



Amgen Inc (AMGN)

Updated November 13th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$265	5 Year CAGR Estimate:	8.9%	Market Cap:	\$142 B
Fair Value Price:	\$250	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/16/23
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date:	12/08/23
Dividend Yield:	3.2%	5 Year Price Target	\$350	Years Of Dividend Growth:	12
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 \$28 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.

That same day, Amgen announced that it had agreed to acquire Horizon Therapeutics in cash for \$27.8 billion. The deal closed on October 6th, 2023.

On October 31st, 2023, Amgen reported third quarter results for the period ending September 30th, 2023. Revenue grew 3.8% to \$6.9 billion, but was \$45 million below estimates. Adjusted earnings-per-share of \$4.96 compared favorably to \$4.70 in the prior year and was \$0.28 above expectations.

Growth was driven by an 11% increase in volumes, offset by 3% lower net selling prices and a 3% headwind from unfavorable changes to estimated sales deductions. Sales for Enbrel, which treats rheumatoid arthritis, were lower by 6% to \$1.03 billion, mostly due to unfavorable changes to estimated sales deductions. Prolia, which treats osteoporosis, grew 14% to a \$986 million, driven by an 7% increase in volume. Repatha, which is used to control cholesterol, was higher by 31% to \$406. Amgen reduced prices for Repatha in 2018 and this has allowed the product to capture market share. Volumes were higher by 44% during the quarter, helping to offset lower selling prices. Neulasta fell 50% due to ongoing weakness in both pricing and volumes related to biosimilar competition. Otezla, which is used to treat inflammatory diseases, suffered a 10% decline in sales to \$567 million due to lower net selling prices. The company ended the quarter with \$34.7 billion of cash and cash equivalents against debt of \$60.5 billion.

Amgen provided updated guidance for 2023 as well. The company now expects adjusted earnings-per-share in a range of \$18.20 to \$18.80 for the year, up from \$17.80 to \$18.80, \$17.60 to \$18.70, and \$17.40 to \$18.60 previously. At the midpoint, this would be a 3.4% improvement from the prior year. We have updated 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	\$18.50	\$25.95
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	535	515

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 since 2013.

¹ Share count in millions

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



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On August 16th, 2022, the Inflation Reduction Act of 2022 was signed into law. The law will, in part, require the federal government to negotiate prices for drugs covered under Medicare starting in 2026. This could reduce the profits pharmaceutical companies could collect, but these costs could be shifted to employer sponsored plans, reducing the negative impact on businesses. As such, we maintain our expected growth rates, but will monitor the situation as we get closer to the implementation of the law.

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	14.3	13.5
Avg. Yld.	1.8%	1.9%	2.0%	2.6%	2.7%	2.8%	3.0%	2.8%	3.1%	3.0%	3.2%	3.7%

Shares of Amgen have increased \$12, or 4.7%, since our August 8th, 2023 update. Based off estimates for 2023, Amgen trades with a multiple of 14.3 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 reduce annual returns by 1.2% over this period.

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%	46%	51%

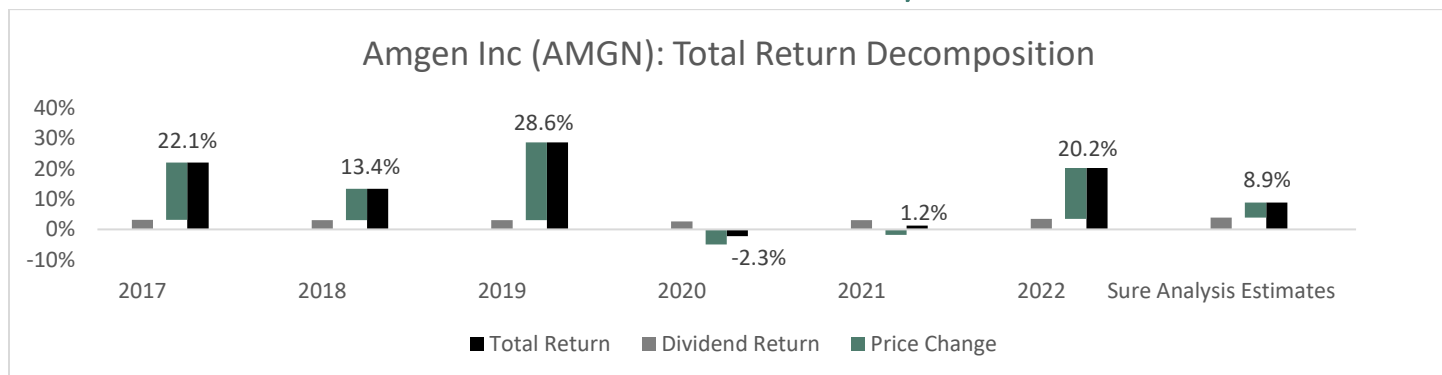
Amgen's profitability held up very well during the last recession. Companies in the health care sector are often recession resistant as people will seek treatment for their health issues regardless of economic conditions. The company also has a very low payout ratio that will allow it to continue to 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 third quarter earnings results, Amgen is now projected to offer a total annual return of 8.9% through 2028, down from our previous estimate of 9.7%. Our estimated return stems from a 7% earnings growth rate and a 3.2% starting dividend yield, partially offset by a small headwind from multiple contraction. Amgen's newer products continue to perform well, demonstrating strong demand in many areas. We have raised our 2028 price target \$3 to \$350 due to EPS estimates for the year, but continue to rate Amgen as a hold 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	3,417
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	7,629
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	1,572
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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