Business Summary: Amgen Inc. is the world’s largest independent biotechnology medicines company. It discovers, develops, manufactures, and markets medicines for grievous ailments. Amgen’s products sales, which were 97% of sales in 2013, inc.: Aranesp and EPGEN (treat anemia in patients with chronic renal failure, etc.); Neulasta and Neupogen (fight infections in chemotherapy patients, etc.), and Enbrel (treats autoimmune diseases). (Value Line)

Industry Trends: Companies in the Biotechnology Industry differ from their pharmaceutical counterparts. Most notably, biotechnology firms utilize the natural environment in the quest for cures. The discovery process is a long and arduous task with the pathway to commercial success highly uncertain. However, if market approval is attained, the rewards can be bountiful, indeed. Too, since the development process is so tedious and scientifically intense, generic duplication is near impossible. (Value Line)

Investment Thesis: Amgen is well positioned to continue growth trends for the next 5-10 years. Their current drug offerings and pipeline are strong. The company recently acquired Onyx Pharmaceuticals and will be restructuring for the next two years, reducing their operating expenses and allowing for increased contributions to R&D.

Pros:
- Strong sales and market share from currently available drugs.
- Robust pipeline with at least 5 additional drugs in late stages of approval.
- Industry leader in investments into biosimilar (generic) drug manufacturing and R&D processes.
- Restructuring following the acquisition of Onyx Pharmaceuticals will reduce expenses and operating costs in the next two years.

Risk Factors:
- As others enter the biosimilars market will be price pressure on mature drugs.
- Increased pressure from public to reduce the price of “specialty drugs.”
- High degree of regulation on entire industry.

Total Return Estimates
3 Yr FV Reversion: 9.76%
5 Yr FV Reversion: 8.45%

Key Valuation Assumptions
Est Revenue Growth: 7.00%
WACC: 7.92%
Expected Inflation: 1.7%
Terminal Growth Rate: 3.5%
10 Yr Risk Free Rate: 4.00%
Equity Risk Premium: 7.00%
Tax Rate: 15.00%

Key Financial Data
Est 2014 EPS: 8.40
Est 2015 EPS: 9.00
3-5 Yr Est EPS Growth: 4.56%
PEG (TTM): 2.187
Credit Quality: B+
ROA: 24.50%
ROE: 2.4.50%

Price/Cash Flow: 13.45
Debt/Equity: 136.69%
Current Ratio: 3.44
Quick Ratio: 3.06

CSR Characteristics
Human Rights: 0/0
Business Ethics Policy: 1/1
ESG Disclosure: 46.69/23.58
Equal Opportunity: 1/1
Emission Reduction: 1/0
Environment Disclosure Score: 48.96/35.94

Prepared by Doug Bova (October 5, 2014)