

Amgen (NASDAQ: AMGN)

Sector: Biotech



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$232.09	\$191.99	\$196.60	\$150.03	14.84	\$139.37B	2.8%	1.1

Business Description

Amgen is committed to unlocking the potential of biology for patients suffering from serious illnesses by discovering, developing, manufacturing and delivering innovative human therapeutics. Their medicines usually address diseases for which there are limited treatment options. Amgen's "biology first" approach explores complex molecular pathways of disease before determining what type of medicine is most likely to deliver optimal effectiveness and safety. For Amgen, quality control and a reliable supply of medicines is just as important as research and development. Amgen operates within one business segment: human therapeutics. Within that, they focus on six areas: oncology/hematology, cardiovascular disease, inflammation, bone health, nephrology, and neuroscience.

Industry Trends

2017 saw a significant increase in NME (new molecular entities) and BLA (Biologic License Applications) drug approvals from the previous year. With more drugs entering the market, an increase in sales are expected to take place. Significant growth within biosimilars will occur both domestically and abroad. The United States tax overhaul has the potential to repatriate over \$150 billion in the biotech industry, and analysts predict this will lead to stock buybacks and continued growth through M&A, which will drive growth and earnings. Stable, healthy growth from recent drugs will continue for the next few years. Orphan drugs, drugs for diseases in which less than 200,000 Americans are affected, are forecasted to grow at 11.1% for the next five years.

Investment Thesis

We believe Amgen is an attractive buy for our portfolio because it is the world's largest independent biotech firm and is positioned well against entrants. Long-term patents for drugs protect against competition, and Amgen's ability to develop innovative products should substantially grow revenues. Amgen has solid operating margins and cash flows, due in part because of their increasing presence in tapping emerging markets with aging populations. Lastly, Amgen is an industry leader in next-generation biomanufacturing.

Valuation Assumptions

WACC: 7.7%
Terminal Growth Rate: 2%
Ave. 10 year Rev Growth Rate: 5.5%

Key Financials

ROA: 7.92%
ROE: 29.4%
ROIC: 15.7%
Net Income: \$7,722 M

Corporate Social Responsibility

In 2016, Amgen staff contributed more than 26,000 volunteer hours. \$19 million was invested worldwide to advance science education and support communities. Amgen reduced 104,200 metric tons of carbon emissions since 2007, and the Amgen Foundation matched \$3 million in matching gift programs.
<http://www.amgen.com/responsibility/>

5-Year Stock Performance



Competitive Analysis

Amgen operates in the biotech industry, which is intensely competitive driven by R&D innovation. Amgen has the second best EBITDA margins in the industry at 52%. Furthermore, the company has long lasting patents in place that will protect against competition. Amgen is developing effective biosimilars that will help take market share from competitors, including a biosimilar of Abbvie's Humira that is expected to add \$3 billion in revenue.

Competitive Advantages

Amgen's major competitive advantages are its strength of its existing products and developing products lines, its global expanding presence, its long-lasting patents, and its dominant market positioning. Amgen is an industry leader in next-generation biomanufacturing, which will result in more capital being allocated to drug development. Lastly, Amgen has several recently FDA approved drugs that are expected to have double-digit growth this year that will bolster the company's already strong cash flows.

Risks

Amgen faces numerous risks. The most substantial risk is potential changes in government regulation. The biotech industry is highly regulated, which can result in certain products not making it to commercialization because of insufficient data form trials. Additionally, any potential changes in healthcare or tax law can greatly impact the business. Amgen also relies on third parties for materials, reimbursements, and drug companion products, which could affect the business if dramatically altered. Lastly, Amgen is very dependent on its ability to develop new innovative products; if it is unable to do so then Amgen could incur large expenses.

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Sources: Bloomberg & Value Line

