Amgen Inc AMGN (NAS) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
137.88 USD	146.00 USD	102.20 USD	197.10 USD	Medium	Wide	Negative	Standard	A	Biotechnology

Amgen's progress in cancer and cardiology could stabilize its negative moat trend.

Updated Forecasts and Estimates from 04 Aug 2014

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The primary analyst covering this company does not own its stock.

Research as of 04 Aug 2014
Estimates as of 04 Aug 2014
Pricing data through 05 Sep 2014
Rating updated as of 05 Sep 2014

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 04 Aug 2014

Amgen has its roots in providing supportive-care products to kidney disease and cancer patients. A tribute to its wide moat, the firm typically sees 30% of sales filter down to free cash flow, and we think Amgen has emerged from regulatory and reimbursement pressure on its anemia drugs with its competitive advantages intact. But, despite Prolia/Xgeva's potential and an improving pipeline, we still think biosimilar and branded competition will erode the firm's wide moat, contributing to a negative moat trend.

Anemia drugs Epogen and Aranesp continue to see pressure from tougher labels and reimbursement, and U.S. sales of Aranesp have declined by double digits annually since safety concerns emerged in 2007. Amgen's products are also vulnerable to biosimilars because of their age and ease of manufacturing. Neutropenia blockbusters Neupogen and Neulasta have direct biosimilar competition in Europe. In the U.S., Teva has launched Granix, its branded version of Neupogen, and Hospira (with biosimilar Epogen) and Sandoz (with biosimilar Neupogen, Neulasta, and Epogen) could compete by 2015. Finally, although Enbrel's patents are strong and the drug is still a market-leading treatment for arthritis and psoriasis, branded competitors will continue to erode share.

The blockbuster potential of Amgen's newest drugs and its pipeline will be key to countering these challenges. Amgen received U.S. Food and Drug Administration approval for denosumab (marketed as Prolia in osteoporosis and Xgeva to prevent fractures in cancer patients) in 2010, and given strong demand in both indications, we think denosumab is capable of peak sales of $4 billion. Kyprolis--acquired with Onyx in 2013--is poised to become a $2 billion product in multiple myeloma. In the pipeline, we're bullish on brodalumab's potential to follow in Enbrel's footsteps and evolocumab's promise in the multibillion-dollar cholesterol market. However, we're waiting for regulatory approvals before assuming Amgen can stabilize its moat trend.

Vital Statistics

Market Cap (USD Mil)	104,735
52-Week High (USD)	139.93
52-Week Low (USD)	105.76
52-Week Total Return %	24.1
YTD Total Return %	22.5
Last Fiscal Year End	31 Dec 2013
5-Yr Forward Revenue CAGR %	5.3
5-Yr Forward EPS CAGR %	8.1
Price/Fair Value	0.94

Valuation Summary and Forecasts

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Price/Earnings	13.3	14.5	*16.4*	*16.4*
EV/EBITDA	10.2	13.5	*13.7*	*13.6*
EV/EBIT	12.1	16.3	*17.8*	*17.7*
Free Cash Flow Yield %	8.0	6.5	*5.6*	*6.1*
Dividend Yield %	1.7	1.6	*1.8*	*2.2*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2012	2013	*2014(E)*	*2015(E)*
Revenue	17,265	18,864	*19,833*	*20,204*
Revenue YoY %	10.8	9.3	*5.1*	*1.9*
EBIT	5,577	6,055	*6,278*	*6,320*
EBIT YoY %	29.3	8.6	*3.7*	*0.7*
Net Income, Adjusted	5,119	6,002	*6,422*	*6,343*
Net Income YoY %	5.4	17.3	*7.0*	*-1.2*
Diluted EPS	6.50	7.85	*8.39*	*8.40*
Diluted EPS YoY %	22.1	20.6	*7.0*	*0.1*
Free Cash Flow	2,898	-4,059	*5,751*	*6,641*
Free Cash Flow YoY %	-29.9	-240.1	*-241.7*	*15.5*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Amgen is a leader in biotechnology-based human therapeutics, with historical expertise in renal disease and cancer supportive care products. Flagship drugs include red blood cell boosters Epogen and Aranesp, immune system boosters Neupogen and Neulasta, and Enbrel for inflammatory diseases. Amgen introduced its first cancer therapeutic, Vectibix, in 2006 and received approval for bone-strengthening drug Prolia/Xgeva in 2010. Amgen's acquisition of Onyx bolsters the firm's therapeutic oncology portfolio with Nexavar and Kyprolis.

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Morningstar Analysis

Valuation, Growth and Profitability 04 Aug 2014

We're raising our fair value estimate for Amgen to $146 per share from $131, after raised our forecasts for Enbrel and Prolia sales, increasing our assumed probability of approval for evolocumab and brodalumab, and lowering our long-term capital expenditure assumptions in conjunction with the firm's restructuring plan. We now think the firm is capable of average annual 5% top-line growth and 8% bottom-line growth through 2018 in spite of the long list of challenges facing its established portfolio of drugs. We assume repurchases will only slightly contribute to bottom-line growth; Amgen's adjusted operating margin should benefit in 2014 and 2017 as the Pfizer collaboration on Enbrel winds down in steps, and we see margin improvement from 38% in 2013 to 43% in 2018.

We now think U.S. Enbrel sales will continue to grow until Humira biosimilars begin to erode sales in 2018, and we have raised our peak Enbrel sales estimate to $5.1 billion in 2017. We also expect Prolia/Xgeva sales to peak at $4 billion, as demand for Prolia continues to outpace our expectations. We still assign a 60% probability of approval to AMG 785 in osteoporosis ($1 billion peak sales), but we have raised our assumed probability of approval to 75% for cholesterol-lowering drug evolocumab ($5 billion peak sales), and psoriasis and psoriatic arthritis drug brodalumab ($2 billion peak sales). We think that sales from Amgen's remaining pipeline, including kidney disease drug velcalcetide, cancer drug blinatumomab, and migraine drug AMG 334, could total more than $5 billion by 2023. Following positive data from the ASPIRE study, we still think sales of Onyx's Kyprolis could reach more than $2 billion by 2023.

While declines moderated in 2013, we expect Amgen's global sales of anemia drugs Epogen and Aranesp to continue to fall, from $3.9 billion in 2013 to $2.6 billion in 2018. This is driven by continued reimbursement headwinds (Medicare's bundled dialysis drug payments), potential branded competition (Mircera as early as 2014), and biosimilar launches (including Hospira in 2016). For neutropenia drugs Neupogen and Neulasta, we see sales declining from $5.8 billion in 2013 to $4.3 billion in 2018, because of competition from biosimilars to both products in Europe as well as Teva's Granix (which competes with Neupogen) in the United States.

Scenario Analysis

Our evolocumab sales assumptions as well as future operating margins are key assumptions behind our $146 per share fair value estimate. In this base-case scenario, we include a 75% probability that evolocumab launches in 2015. We expect R&D as a percentage of sales to stabilize around 21%. We model an 600-basis-point improvement to SG&A as a percentage of sales over the next five years, as new payments to partners (including AstraZeneca for brodalumab, and a future partner for evolocumab) will only partly cancel out strong gains from the end of the Enbrel co-promotion agreement with Pfizer in 2013 as well as potential sales force synergies with Onyx's portfolio. Overall, this results in adjusted operating margins rising to the mid-40s by 2018.

In our bull-case scenario, we assume improving gross margins during the next 10 years. We assume that commercialization and marketing of Prolia/Xgeva and pipeline products like evolocumab are slightly less expensive, and that operating margins could reach the mid-40s in 2014 with the end of the Pfizer Enbrel collaboration and grow to reach 48% by 2018. Including a 100% probability of approval for evolocumab, this results in a fair value estimate of $179 per share.

In our bear-case scenario, we include slightly more conservative margin assumptions than in our base case, resulting in operating margins that remain flat (in the high 30s) over the next five years despite the end of the Pfizer profit share on Enbrel. Including the failure of evolocumab, this results in a fair value estimate of $110 per share.

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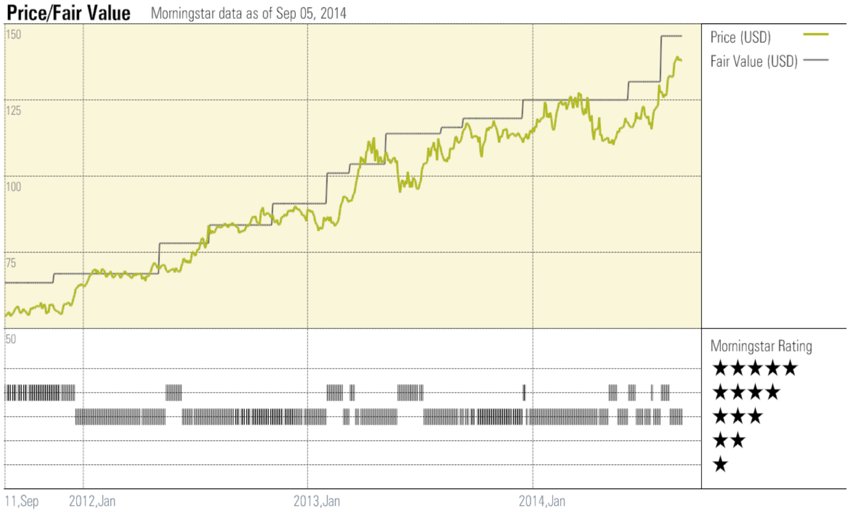
Price/Fair Value Morningstar data as of Sep 05, 2014



Economic Moat

Amgen markets several blockbuster biologic therapies in the oncology and immunology markets, giving it the intangible assets that form the foundation of its wide moat. One of the original biotechs, Amgen launched innovative recombinant proteins for anemia and neutropenia, beginning with Epogen in 1989 and Neupogen in 1991. Longer-acting products Aranesp and Neulasta were launched in 2001-02, just as the firm decided to acquire Immunex and bring Enbrel into its portfolio. These highly profitable biologics continue to drive very strong free cash flows for the firm, generally north of 30% of sales. We expect Amgen to continue to see free cash flow margins at this level, and ROICs to remain above its cost of capital for the foreseeable future.

The firm has managed to continue to grow despite steady regulatory and competitive headwinds, including safety issues weighing on Epogen and Aranesp since 2007, as well as established biosimilar competition for anemia and neutropenia drugs in Europe. This is due to the firm's diversification and high barriers to entry in the biosimilars marketplace. Strong growth from Enbrel and neutropenia drugs countered Epogen and Aranesp headwinds over the past few years, and Prolia/Xgeva (approved in osteoporosis and cancer indications in 2010) as well as renal disease drug Sensipar have now reached blockbuster status. In addition, generic pressure has not been as severe for biologics as for traditional pharmaceuticals, largely because manufacturing difficulties and the costs of clinical trials and product marketing have limited the number of entrants.

Moat Trend

Amgen's moat trend remains negative, as the firm faces challenges that could erode its competitive advantages if pipeline programs see a high failure rate. We would consider upgrading Amgen's moat trend rating to stable when we become confident that the firm's late-stage pipeline will be able to sustain Amgen's ROICs.

Reimbursement and new competition (both branded and biosimilar) are the biggest factors that are eroding Amgen's moat. Generic biologic competitors for Neupogen and Neulasta have launched outside of the United States, and biosimilar Neupogen has made substantial inroads against Neupogen in Europe. Amgen's products are among the oldest--and most profitable--marketed biologics, and they are likely to be among the first to see generic competition in the U.S. (all key patents on Epogen, Neulasta, and Neupogen expire between 2013 and 2015). Teva's branded neutropenia product Granix now competes with Neupogen in the United States, and Sandoz has filed for U.S. approval of a biosimilar version of Neupogen. Hospira is also preparing to bring a biosimilar Epogen to the U.S. market.

Reimbursement for dialysis drug Epogen is now bundled with other dialysis products, and although recent contracts with dialysis operators somewhat insulate sales from competition, prices and margins are likely to suffer. Sensipar's 2018 patent expiration also puts pressure on Amgen's pipeline candidate velcalcetide to allow the firm

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to retain share as a treatment for SHPT in dialysis patients. Arthritis and psoriasis drug Enbrel is seeing a high level of new competition, and its dominant market share could begin to shrink even more rapidly when Humira biosimilars launch in 2017. Finally, despite Prolia/Xgeva's novelty and strong record in the clinic, competitors (including several generic osteoporosis drugs, generic Zometa, and a branded osteoporosis drug from Merck) could weigh on its potential.

However, Amgen's R&D strategy, in an effort to build a new portfolio of innovative biologic therapies, appears to be improving. The most advanced and most promising drug candidate in Amgen's pipeline, evolocumab, has generated strong Phase III data, and is on track to reach the market in 2015. We expect PCSK9 antibodies as a class could generate more than $12 billion in peak sales. In addition, brodalumab is in Phase III trials for psoriasis and psoriatic arthritis, and the first late-stage trial indicates that the drug could be on par with or slightly more effective that current standards of care such as Enbrel and Stelara. Osteoporosis drug candidate AMG 785 is poised to generate Phase III data in 2015, and the drug's bone-forming mechanism of action could complement Amgen's Prolia. Key to the Onyx acquisition, multiple myeloma drug Kyprolis is generating strong data that could expand U.S. sales and allow a European launch, and we think the drug could become the leading proteasome inhibitor in this $6 billion (and rapidly growing) market. Amgen's midstage pipeline is also looking more promising, and migraine, Crohn's disease, and asthma programs look intriguing.

We also believe that manufacturing improvements could boost Amgen's biosimilar and emerging market opportunities by creating a low-cost production advantage. However, we expect it will take several years for this strategy to play out, as Amgen aims for its first biosimilar launch and the opening of its newest manufacturing facility in 2017.

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Bulls Say/Bears Say

Bulls Say

- Amgen has several drugs with annual sales surpassing $1 billion, and newer drugs like Sensipar and Prolia/Xgeva are adding to this list thanks to strong growth.
- Amgen's pipeline has appeared weak since the launch of Prolia/Xgeva, but recent data for late-stage drug candidates in psoriasis and cholesterol-lowering indications have revived our enthusiasm for the firm's research engine.
- Amgen's acquisition of Decode gives the firm the ability to identify potential new drug targets, validated by human genetics.

Bears Say

- Biosimilars have been on the market in Europe since 2007, and Teva's Granix now competes with Neupogen in the U.S. market. Biosimilars could have a larger impact as more patents expire and as a U.S. biosimilars pathway is finalized.
- The payoff from Amgen's $10 billion acquisition of Onyx is highly dependent on the success of Kyprolis in first-line multiple myeloma, and data won't be available until 2016.
- Amgen lacks the focus of some of its biotech peers, with drugs targeting large markets like osteoporosis and cardiology and specialty markets like immunology and oncology.

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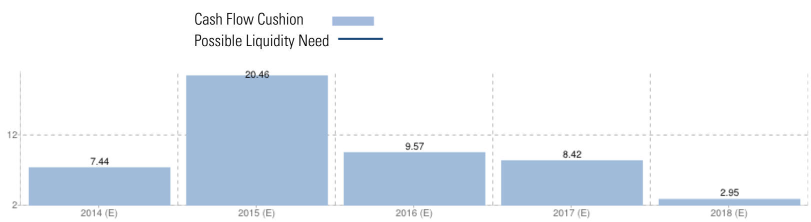
Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Cash and Equivalents (beginning of period)	19,401	20,893	24,690	25,622	26,176
Adjusted Available Cash Flow	4,833	5,289	4,167	4,309	4,287
Total Cash Available before Debt Service	24,234	26,182	28,857	29,931	30,463
Principal Payments	-2,000	—	-1,750	-2,349	-9,349
Interest Payments	-1,126	-1,146	-1,124	-1,053	-808
Other Cash Obligations and Commitments	-131	-134	-141	-152	-162
Total Cash Obligations and Commitments	-3,257	-1,280	-3,015	-3,555	-10,319

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	19,401	90.6
Sum of 5-Year Adjusted Free Cash Flow	22,885	106.8
Sum of Cash and 5-Year Cash Generation	42,286	197.4
Revolver Availability	2,500	11.7
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	44,786	209.0
Sum of 5-Year Cash Commitments	-21,425	—

Credit Rating Pillars–Peer Group Comparison

	AMGN	Sector	Universe
Business Risk	4	4.8	5.1
Cash Flow Cushion	5	5.2	6.0
Solvency Score	4	4.3	4.8
Distance to Default	3	3.7	3.9
Credit Rating	A	A-	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health & Capital Structure

Despite issuing a goal of reaching a net cash position by the end of 2013, Amgen's plan to acquire Onyx with debt financing shows that it remains more focused on increasing growth and shareholder returns than shoring up its balance sheet. Instead of reaching a net cash position by the end of last year, the firm's debt leverage increased by about a turn to 4.5 times on a gross debt/EBITDA basis and 1.3 times on a net debt/EBITDA basis. At the end of 2013, the firm held $23 billion in cash (only about $2 billion in the U.S.) compared with $32 billion in debt. With most of its cash overseas, Amgen had to use external financing to make the Onyx acquisition. Beyond the new term loan in its capital structure, the firm's debt consists of a variety of U.S. dollar-, euro-, and pound-sterling-denominated senior unsecured notes. Cumulatively, during the next five years, Amgen owes about $15 billion in debt principal, including $2.5 billion due in 2014, $500 million due in 2015, $2.3 billion due in 2016, $2.9 billion due in 2017, and $7.2 billion due in 2018. With the ability to generate about $7 billion annually in free cash flow, the firm should be able to manage those obligations internally.

However, Amgen focuses heavily on returning cash to shareholders through share repurchases and dividends, which may drain U.S. funds going forward. For example, from 2011 to 2015, Amgen's goal was to return over 60% of net income to shareholders, and the firm estimates it will exceed that goal, returning at least 75% of the net income it generated during that period to shareholders. Amgen appears committed to increasing its dividend, which it initiated in 2011, significantly. In 2013, Amgen spent $1.4 billion on its dividend, up 27% from dividends paid in 2012. In 2014, the board has already authorized a 30% increase in Amgen's dividend per share.

In addition, once the firm digests Onyx, we would expect Amgen to make more acquisitions and share repurchases

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Credit Analysis

to increase earnings per share growth. Before the Onyx acquisition, Amgen focused primarily on share repurchases for returns to shareholders. For example, in 2011 and 2012, the firm repurchased $8.3 billion and $4.6 billion in shares, respectively, despite only generating $4.6 and $5.2 billion of free cash flow in those years, respectively. In what now appears to be anticipation of the Onyx acquisition, Amgen put the brakes on its share repurchase program and only repurchased $832 million in shares in 2013, despite generating $5.6 billion in free cash flow. Because of the Onyx acquisition, management has stated that investors should not expect any significant share repurchases through 2015, as it digests that deal. However, we would expect Amgen to return to acquisitions and share repurchases to boost earnings per share growth in 2016 and beyond.

Enterprise Risk

Amgen relies on a handful of products to carry its growth. Additional regulatory and reimbursement changes could continue to plague Aranesp and Epogen, including Medicare dialysis reimbursement cuts. Biosimilar competition with two of Amgen's key franchises already exists in Europe, and the FDA is close to finalizing guidelines for biosimilar drug approvals in the United States. In the meantime, Teva is launching branded product Granix in the U.S., which will compete with Amgen's neutropenia drug Neupogen, and Sandoz has filed for FDA approval of a Neupogen biosimilar. Enbrel is a key growth driver for Amgen, and growing competition in both rheumatoid arthritis and psoriasis could further weigh on the firm's market share, making it even more reliant on the continuation of U.S. pricing power for growth. Amgen's overall pricing power could wane if proposed reductions in Medicare Part B reimbursement are implemented, given the firm's reliance on the Medicare for a high proportion of sales. In addition, several of Amgen's newer products have entered highly competitive markets. Prolia competes with established drugs such as Novartis' Reclast and cheaper generic bisphosphonates; Vectibix competes with Roche's Avastin and Eli Lilly and Bristol-Myers Squibb's Erbitux. If Kyprolis fails in head-to-head studies against leading proteasome inhibitor Velcade, Amgen's $10 billion acquisition of Onyx will prove expensive.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. ROBERT A. BRADWAY	CEO/Chairman of the Board/ Director/President,Director	185,013	12 May 2014	—
ANTHONY C. HOOPER	Executive VP, Divisional	114,664	27 Apr 2014	—
DAVID J. SCOTT	Senior VP/Secretary/General Counsel	88,600	25 Apr 2014	—
BRIAN MCNAMEE	Executive VP, Divisional	77,091	25 Apr 2014	—
DR. SEAN HARPER	Executive VP, Divisional	59,503	05 Aug 2014	14,000
DAVID W. MELINE	Executive VP/CFO	54,161	01 Aug 2014	—
MADHU BALACHANDRAN	Executive VP, Divisional	34,244	31 Jul 2014	—
MR. FRANK J. BIONDI, JR	Director	31,814	25 Apr 2014	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica Invmt Co of America	2.97	3.97	2,810	30 Jun 2014
VA CollegeAmerica Cap World Gr and Inc	2.66	2.85	604	30 Jun 2014
Vanguard PrimeCap Fund	2.10	4.33	-30	30 Jun 2014
VA CollegeAmerica Growth Fund of America	1.83	1.21	2,650	30 Jun 2014
Vanguard Total Stock Mkt Idx	1.60	0.45	94	31 Jul 2014
Concentrated Holders				
ProFunds VP Biotechnology	0.01	16.09	3	31 Mar 2014
Market Vectors® Biotech ETF	0.06	11.89	—	04 Sep 2014
ProFunds Biotechnology UltraSector Fund	0.05	10.86	-77	30 Apr 2014
Selectra J. Lamarck Biotech	0.01	9.67	—	31 Aug 2014
JNL/Mellon Cptl NASDAQ 25 Fund	0.07	9.26	-7	30 Jun 2014

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Capital Research Global Investors	12.21	3.84	10,213	30 Jun 2014
M&G INVESTMENT MANAGEMENT LTD	0.50	3.00	3,014	30 Jun 2014
Amgen Retirement and Savings Plan	0.27	6.53	2,907	31 Dec 2007
ClearBridge Advisors, LLC	1.46	1.48	1,963	30 Jun 2014
Nordea Investment Mgmt Bank Demark A/s	0.29	1.08	1,348	30 Jun 2014
Top 5 Sellers				
Fidelity Management and Research Company	4.90	0.62	-12,717	30 Jun 2014
Government Pension Fund of Norway - Global	0.23	0.02	-5,432	31 Dec 2011
Robeco Investment Management, Inc.	0.40	0.61	-1,904	30 Jun 2014
ARONSON+JOHNSON+ORTIZ	0.01	0.03	-1,836	30 Jun 2014
Invesco Advisers, Inc	0.39	0.23	-1,701	30 Jun 2014

Management 06 Jun 2014

We assign Amgen Standard marks for stewardship, as it recently underwent a change of guard. The firm's R&D engine had been struggling to churn out promising drug candidates since the launch of Prolia/Xgeva, and we believe the new blood might be beneficial to the firm's productivity and future share performance. Amgen's sales and profitability skyrocketed under the 12-year reign of CEO and chairman Kevin Sharer, but significant multiple compression led to flat performance of the firm's shares over his tenure. Amgen's former president and COO, Bob Bradway, replaced Sharer as CEO in May 2012 and as board chairman at the start of 2013. While Bradway has been advancing at Amgen since his arrival as vice president of operations in 2006, we wish the firm had selected someone with a longer track record in the pharmaceutical industry (prior to Amgen, Bradway was at Morgan Stanley for 19 years). We think this experience would be particularly useful for Amgen, as the firm will face steep biosimilar competition in the coming years and will need a cohesive strategy if it hopes to keep top-line growth in positive territory. The company's head of research and development, Roger Perlmutter, retired in February 2012, replaced by Sean Harper. Harper has been at Amgen for 10 years, and we think his medical background and experience as senior vice president of global development will serve him well.

Amgen has been making several shareholder-friendly moves in recent history. Share repurchases and a tender offer at levels below our fair value estimate appear to be a good use of cash--and Amgen's quarterly dividends grew roughly 30% in both 2012 and 2013. However, we remain wary of the firm's compensation policies (rewarding executives for easily manipulated earnings per share growth instead of returns on invested capital) and board structure (not enough health-care-related experience, such as new board member and former Mattel CEO Robert A. Eckert).

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Analyst Notes

Amgen Restructures Ahead of Several Drug Launches in 2015; Slightly Raising Our FVE 30 Jul 2014

Amgen reported strong second-quarter results, and management raised top- and bottom-line guidance for the full year, to $19.5 billion-$19.7 billion in revenue and adjusted EPS of $8.20-$8.40. Amgen also announced a restructuring plan that will slim down the firm's legacy business over the next year and a half. While Amgen plans to invest most of the savings into the launches of new cardiovascular drugs beginning in 2015, we expect to slightly raise our fair value estimate, as we're revising our long-term Prolia projections on strong market share gains and flattening our capital expenditure assumptions as part of the restructuring. We continue to think that Amgen's portfolio of biologics supports a wide moat, and that headwinds from legacy drugs create a negative moat trend. However, as Amgen's late-stage pipeline nears the market and important clinical data will be released in coming months, we're optimistic that the company has the ability to stabilize its moat trend.

Amgen's revenue grew 11% to $5.18 billion in the second quarter, partly boosted by the Onyx acquisition (which closed at the start of the fourth quarter last year), but also driven by strong organic growth. Adjusted EPS grew 25% to $2.37, benefiting from strong top-line performance and the end of the Pfizer profit share on Enbrel.

2014 is shaping up to be a busy year for clinical data and regulatory filings for Amgen. The firm submitted melanoma drug t-vec and heart failure drug ivabradine to the FDA in the second quarter, and we view both as $500 million opportunities. The filing for Amgen's most important pipeline product, cholesterol drug evolocumab, is expected in the third quarter, and we think ivabradine's launch could help Amgen begin to establish a cardiovascular presence prior to the launch of evolocumab. We're largely bullish on upcoming late-stage data from Kyprolis, brodalumab, and velcalcetide.

More specifically, Kyprolis data in the third quarter will shed light on the value of adding the multiple myeloma drug to standard-of-care Revlimid. However, the most important Kyprolis data that could expand use into first-line multiple myeloma won't likely arrive until 2016. Recent data for psoriasis drug brodalumab looks strong, and data comparing the drug to Stelara, one of the most effective treatments on the market, will arrive in the fourth quarter. Recent velcalcetide data was also positive, but data comparing the drug to Amgen's established SHPT drug Sensipar (to be available in the first half of 2015) will show whether there is enough of an improvement in tolerability and adherence to extend this franchise beyond Sensipar's patent expiration (2018 in the U.S. and 2015 in Europe). Amgen's novel migraine drug AMG 334 will also have initial data later this year for episodic migraine, and we think this is one of the most intriguing mid-stage programs at the firm.

Diving further into sales, new blockbusters Prolia and Xgeva saw combined sales grow 29% in the second quarter, driven almost exclusively by demand. Enbrel sales grew 7%, slightly higher than our forecast even after accounting for $60 million from inventory build. However, combined sales of Amgen's neutropenia and anemia drugs were flat; a Medicaid rebate adjustment in 2013 made for a tough comparable, but Amgen benefited from the recent acquisition of Roche's international neutropenia business. Overall, we think neutropenia sales will continue to decline as U.S. competition from Teva's Granix will more than counter Amgen's price increases on Neulasta. In Amgen's anemia business, Roche has the right to enter this year with its long-acting drug Mircera, and Epogen patents expire in 2015. While Amgen does have an exclusive contract for a third of the market with DaVita through 2018, we anticipate relatively flat sales in 2014 and declines due to competition in 2015.

Amgen Inc AMGN (NAS) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
137.88 USD	146.00 USD	102.20 USD	197.10 USD	Medium	Wide	Negative	Standard	A	Biotechnology

Analyst Notes

Amgen's 1Q Slightly Disappointing, but We Maintain Our Fair Value Estimate on Strong Pipeline 23 Apr 2014

Amgen reported first-quarter results that put the firm on track to meet our sales expectations for the full year, as we think sales weakness in the first quarter was largely due to a timing issue related to inventory stocking late in 2013. We're maintaining our fair value estimate at $125 per share, and we think the firm has several products in its late-stage pipeline--led by cholesterol-lowering drug evolocumab--that could serve to stabilize its negative moat trend.

Amgen's top line grew 7% to more than $4.5 billion, which includes a boost from acquired Onyx products Nexavar and Kyprolis as well as additional international neutropenia sales (which were acquired from Roche at the start of the year). Wholesaler and customer stocking at the end of 2013 was a $120 million drag on top-line performance in the first quarter, with a particularly large impact on Enbrel (sales declined 5% to just under $1 billion). That said, adjusted operating income was up 18%, as Amgen's profit sharing with Pfizer on Enbrel has ended, reducing selling, general, and administrative costs.

Despite weak growth in Amgen's key franchises--and new competition for its neutropenia franchise--we think underlying demand for Amgen's products remains solid. Amgen's newest drugs (Kyprolis, Prolia, and Xgeva) as well as late-stage pipeline products should allow the firm to achieve 3% top-line growth and 7% bottom-line growth over the next five years. Several new launches are possible over the next few years, led by cholesterol drug evolocumab; Amgen expects to file for approval at a global level in 2014, and we think the drug has potential peak sales of $5 billion. Data from three Phase III trials of psoriasis drug brodalumab should be released in 2014, and we assume $2 billion in peak sales for this program. Finally, data from two Phase III trials of multiple myeloma drug Kyprolis should be available in mid-2014, potentially extending the drug's reach to earlier lines of therapy.

Amgen Inc AMGN (NAS) | ★★★

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137.88 USD	146.00 USD	102.20 USD	197.10 USD	Medium	Wide	Negative	Standard	A	Biotechnology

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2011	2012	2013	Forecast 2014	Forecast 2015	5-Year Proj. CAGR
Revenue	7.8	3.5	10.8	9.3	5.1	1.9	5.3
EBIT	3.0	-22.2	29.3	8.6	3.7	0.7	9.2
EBITDA	3.8	-18.1	24.1	10.1	11.3	0.5	8.4
Net Income	6.1	-3.4	5.4	17.3	7.0	-1.2	7.3
Diluted EPS	14.6	2.2	22.1	20.6	7.0	0.1	8.1
Earnings Before Interest, after Tax	6.9	-27.3	41.6	18.5	8.7	-1.3	7.2
Free Cash Flow	-240.0	179.4	-29.9	-240.1	-241.7	15.5	—

Profitability	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Operating Margin %	30.7	27.7	32.3	32.1	31.7	31.3	34.9
EBITDA Margin %	37.3	34.5	38.6	38.9	41.2	40.6	43.4
Net Margin %	30.9	31.2	29.7	31.8	32.4	31.4	33.2
Free Cash Flow Margin %	7.3	26.5	16.8	-21.5	29.0	32.9	33.4
ROIC %	11.2	9.4	11.8	12.5	13.2	12.4	14.8
Adjusted ROIC %	14.3	12.4	15.5	15.0	15.9	15.2	17.0
Return on Assets %	8.4	8.0	8.4	8.8	7.7	7.3	9.0
Return on Equity %	21.9	17.2	22.9	25.6	21.7	18.9	21.5

Leverage	3-Year Hist. Avg	2011	2012	2013	2014	2015	5-Year Proj. Avg
Debt/Capital	0.57	0.53	0.58	0.59	0.54	0.52	0.46
Total Debt/EBITDA	4.12	3.99	3.98	4.38	3.71	3.69	2.89
EBITDA/Interest Expense	7.44	8.81	6.33	7.18	7.26	7.16	9.27

Valuation Summary and Forecasts

	2012	2013	2014(E)	2015(E)
Price/Fair Value	0.95	0.91	—	—
Price/Earnings	13.3	14.5	16.4	16.4
EV/EBITDA	10.2	13.5	13.7	13.6
EV/EBIT	12.1	16.3	17.8	17.7
Free Cash Flow Yield %	8.0	6.5	5.6	6.1
Dividend Yield %	1.7	1.6	1.8	2.2

Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	3.8
Weighted Average Cost of Capital %	7.8
Long-Run Tax Rate %	20.0
Stage II EBI Growth Rate %	2.0
Stage II Investment Rate %	20.0
Perpetuity Year	20

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	54,239	45.4	71.84
Present Value Stage II	28,718	24.1	38.04
Present Value Stage III	36,456	30.5	48.29
Total Firm Value	**119,413**	**100.0**	**158.16**
Cash and Equivalents	19,401	—	25.70
Debt	-32,128	—	-42.55
Preferred Stock	—	—	—
Other Adjustments	-238	—	-0.31
Equity Value	**106,449**	**—**	**140.99**
Projected Diluted Shares	755		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Amgen Inc AMGN (NAS) | ★★★

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Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

				Forecast	
	2011	2012	2013	*2014*	*2015*
Revenue	**15,582**	**17,265**	**18,864**	***19,833***	***20,204***
Cost of Goods Sold	2,427	2,918	3,346	*4,264*	*4,293*
Gross Profit	**13,155**	**14,347**	**15,518**	***15,569***	***15,910***
Selling, General & Administrative Expenses	4,486	4,801	5,184	*4,462*	*4,546*
Research & Development	3,167	3,380	4,083	*4,462*	*4,445*
Other Operating Expense (Income)	896	295	196	*366*	*600*
Depreciation & Amortization (if reported separately)	294	294	—	—	—
Operating Income (ex charges)	**4,312**	**5,577**	**6,055**	***6,278***	***6,320***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**4,312**	**5,577**	**6,055**	***6,278***	***6,320***
Interest Expense	610	1,053	1,022	*1,126*	*1,146*
Interest Income	448	485	420	*500*	*500*
Pre-Tax Income	**4,150**	**5,009**	**5,453**	***5,652***	***5,674***
Income Tax Expense	467	664	184	*509*	*624*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**3,683**	**4,345**	**5,269**	***5,144***	***5,050***
Weighted Average Diluted Shares Outstanding	912	787	765	*765*	*755*
Diluted Earnings Per Share	**4.04**	**5.52**	**6.89**	***6.72***	***6.69***
Adjusted Net Income	4,857	5,119	6,002	*6,422*	*6,343*
Diluted Earnings Per Share (Adjusted)	**5.33**	**6.50**	**7.85**	***8.39***	***8.40***
Dividends Per Common Share	0.55	1.42	1.85	*2.40*	*3.01*
EBITDA	**5,372**	**6,665**	**7,341**	***8,167***	***8,209***
Adjusted EBITDA	**5,372**	**6,665**	**7,341**	***8,167***	***8,209***

Amgen Inc AMGN (NAS) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
137.88 USD	146.00 USD	102.20 USD	197.10 USD	Medium	Wide	Negative	Standard	A	Biotechnology

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2011	2012	2013	*Forecast* 2014	2015
Cash and Equivalents	20,641	24,061	19,401	*20,893*	*24,690*
Investments	—	—	—	—	—
Accounts Receivable	2,896	2,518	2,697	*2,836*	*2,889*
Inventory	2,484	2,744	3,019	*3,847*	*3,874*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	1,572	1,886	2,250	*2,250*	*2,250*
Current Assets	**27,593**	**31,209**	**27,367**	***29,826***	***33,702***
Net Property Plant, and Equipment	5,422	5,326	5,349	*5,460*	*5,571*
Goodwill	11,750	12,662	14,968	*15,268*	*15,268*
Other Intangibles	2,584	3,968	13,262	*12,062*	*10,862*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,524	1,133	1,766	*1,766*	*1,766*
Long-Term Non-Operating Assets	—	—	3,413	*3,413*	*3,413*
Total Assets	**48,873**	**54,298**	**66,125**	***67,795***	***70,582***
Accounts Payable	716	905	787	*1,003*	*1,010*
Short-Term Debt	84	2,495	2,505	—	*1,750*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	4,954	4,791	4,655	*4,655*	*4,655*
Current Liabilities	**5,754**	**8,191**	**7,947**	***5,658***	***7,415***
Long-Term Debt	21,344	24,034	29,623	*30,278*	*28,528*
Deferred Tax Liabilities (Long-Term)	—	—	—	—	—
Other Long-Term Operating Liabilities	2,744	3,013	6,459	*6,459*	*6,459*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**29,842**	**35,238**	**44,029**	***42,395***	***42,402***
Preferred Stock	—	—	—	—	—
Common Stock	—	—	—	—	—
Additional Paid-in Capital	27,299	29,337	29,891	*29,891*	*29,891*
Retained Earnings (Deficit)	-8,500	-10,423	-7,634	*-4,330*	*-1,550*
(Treasury Stock)	—	—	—	—	—
Other Equity	153	146	-161	*-161*	*-161*
Shareholder's Equity	**18,952**	**19,060**	**22,096**	***25,400***	***28,180***
Minority Interest	—	—	—	—	—
Total Equity	**18,952**	**19,060**	**22,096**	***25,400***	***28,180***

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Amgen Inc AMGN (NAS) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
137.88 USD	146.00 USD	102.20 USD	197.10 USD	Medium	Wide	Negative	Standard	A	Biotechnology

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2011	2012	2013	*Forecast 2014*	*Forecast 2015*
Net Income	3,683	4,345	5,081	*5,144*	*5,050*
Depreciation	766	689	689	*689*	*689*
Amortization	294	399	597	*1,200*	*1,200*
Stock-Based Compensation	341	362	403	*347*	*353*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	—	—	-189	—	—
Other Non-Cash Adjustments	-330	132	103	—	—
(Increase) Decrease in Accounts Receivable	-557	348	-38	*-139*	*-53*
(Increase) Decrease in Inventory	-383	-150	-7	*-828*	*-26*
Change in Other Short-Term Assets	-133	124	-59	—	—
Increase (Decrease) in Accounts Payable	-95	161	-184	*216*	*7*
Change in Other Short-Term Liabilities	1,533	-528	-105	—	—
Cash From Operations	**5,119**	**5,882**	**6,291**	***6,629***	***7,220***
(Capital Expenditures)	-567	-689	-693	*-800*	*-800*
Net (Acquisitions), Asset Sales, and Disposals	-701	-2,390	-9,434	*-300*	—
Net Sales (Purchases) of Investments	—	-6,875	2,248	—	—
Other Investing Cash Flows	482	-36	-590	—	—
Cash From Investing	**-786**	**-9,990**	**-8,469**	***-1,100***	***-800***
Common Stock Issuance (or Repurchase)	-8,315	-3,319	-536	—	—
Common Stock (Dividends)	-500	-1,118	-1,415	*-1,840*	*-2,269*
Short-Term Debt Issuance (or Retirement)	-2,500	—	—	*-2,505*	*1,750*
Long-Term Debt Issuance (or Retirement)	10,387	4,810	4,683	*655*	*-1,750*
Other Financing Cash Flows	254	46	-6	*-347*	*-353*
Cash From Financing	**-674**	**419**	**2,726**	***-4,037***	***-2,623***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	—	—
Net Change in Cash	**3,659**	**-3,689**	**548**	***1,492***	***3,797***

Amgen Inc AMGN (NAS) | ★★★

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Johnson & Johnson JNJ USA	1.05	16.6	17.5	16.1	12.0	10.7	10.2	18.7	20.4	17.3	3.5	3.7	3.6	3.6	3.9	3.8
Roche Holding AG ROG CHE	1.06	17.5	17.4	17.0	11.3	11.4	11.5	16.0	18.6	18.9	11.1	10.0	9.0	4.6	4.8	4.7
Merck & Co Inc MRK USA	0.97	14.3	17.6	17.7	10.2	11.0	11.8	14.5	8.8	17.4	2.9	3.1	3.2	3.3	4.1	4.3
Sanofi SNY USA	0.87	15.9	16.1	14.8	11.9	11.8	11.1	18.6	21.5	19.4	1.8	2.0	1.9	3.1	3.4	3.2
GlaxoSmithKline PLC GSK USA	0.94	14.1	15.4	15.7	12.4	10.3	9.8	13.0	15.8	14.5	11.2	11.0	26.6	3.0	3.0	3.0
Average		15.7	16.8	16.3	11.6	11.0	10.9	16.2	17.0	17.5	6.1	6.0	8.9	3.5	3.8	3.8
Amgen Inc AMGN US	**0.94**	**14.5**	**16.4**	**16.4**	**13.5**	**13.7**	**13.6**	**15.4**	**18.0**	**16.3**	**3.9**	**4.1**	**3.7**	**4.6**	**5.3**	**5.2**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Johnson & Johnson JNJ USA	132,683 USD	14.2	14.6	16.3	18.3	18.3	19.6	19.9	19.0	20.8	10.9	10.8	12.1	2.8	2.7	2.9
Roche Holding AG ROG CHE	62,167 CHF	36.6	33.5	33.1	40.6	21.9	20.5	72.9	62.8	55.4	19.4	21.2	21.2	2.9	2.9	3.0
Merck & Co Inc MRK USA	105,645 USD	16.1	28.3	15.4	22.6	35.5	18.1	8.6	26.7	10.7	4.2	13.3	5.7	3.5	2.9	2.9
Sanofi SNY USA	96,065 EUR	9.3	9.9	10.3	15.6	15.3	15.7	6.5	8.2	10.7	3.8	4.9	6.4	3.5	3.3	3.5
GlaxoSmithKline PLC GSK USA	42,086 GBP	26.7	19.4	22.5	16.0	13.4	12.8	84.9	52.4	77.5	13.0	8.5	9.1	4.7	5.2	5.0
Average		20.6	21.1	19.5	22.6	20.9	17.3	38.6	33.8	35.0	10.3	11.7	10.9	3.5	3.4	3.5
Amgen Inc AMGN US	**66,125** USD	**12.5**	**13.2**	**12.4**	**15.0**	**15.9**	**15.2**	**25.6**	**21.7**	**18.9**	**8.8**	**7.7**	**7.3**	**1.6**	**1.8**	**2.2**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)	2013	2014(E)	2015(E)
Johnson & Johnson JNJ USA	71,312 USD	6.1	6.3	1.7	11.5	37.1	5.5	3.1	7.9	8.7	33.8	30.1	-0.7	7.9	7.9	8.7
Roche Holding AG ROG CHE	46,780 CHF	2.8	1.0	2.6	4.3	6.6	-0.4	5.9	8.2	2.7	20.3	-19.8	-2.5	8.1	6.0	2.7
Merck & Co Inc MRK USA	44,033 USD	-6.8	-1.9	-4.2	-23.3	32.6	-7.2	322.2	-0.4	-0.4	-341.2	94.6	-67.4	3.5	—	—
Sanofi SNY USA	33,306 EUR	-7.4	1.0	4.4	-33.6	37.5	26.2	-18.6	2.7	8.6	-19.1	-2.9	9.5	4.5	1.1	8.6
GlaxoSmithKline PLC GSK USA	26,505 GBP	0.3	-11.9	1.2	-3.8	11.2	7.3	253.1	-18.4	-1.4	735.5	-20.2	37.1	-1.9	—	—
Average		-1.0	-1.1	1.1	-9.0	25.0	6.3	113.1	0.0	3.6	85.9	16.4	-4.8	4.4	5.0	6.7
Amgen Inc AMGN US	**18,864** USD	**9.3**	**5.1**	**1.9**	**8.6**	**3.7**	**0.7**	**20.6**	**7.0**	**0.1**	**-240.1**	**-241.7**	**15.5**	**30.2**	**30.0**	**25.0**

Amgen Inc AMGN (NAS) | ★★★

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2013	2014(E)	2015(E)	EBITDA Margin % 2013	2014(E)	2015(E)	Operating Margin % 2013	2014(E)	2015(E)	Net Margin % 2013	2014(E)	2015(E)	Free Cash Flow Margin % 2013	2014(E)	2015(E)
Johnson & Johnson JNJ USA	15,875 USD	68.7	*69.2*	*70.3*	28.8	*34.5*	*35.5*	22.3	*28.7*	*29.8*	22.3	*22.5*	*23.6*	19.4	*19.0*	*22.1*
Roche Holding AG ROG CHE	12,316 CHF	74.6	*74.8*	*74.9*	43.4	*45.2*	*43.8*	38.3	*40.4*	*39.2*	26.3	*28.0*	*27.6*	28.5	*26.1*	*25.0*
Merck & Co Inc MRK USA	10,444 USD	61.5	*73.6*	*74.6*	34.2	*39.2*	*38.1*	18.3	*24.8*	*24.0*	23.7	*23.7*	*24.4*	23.0	*46.4*	*24.6*
Sanofi SNY USA	6,687 EUR	67.0	*67.6*	*67.7*	27.5	*31.3*	*31.9*	15.3	*20.8*	*25.2*	20.1	*20.1*	*20.9*	16.7	*15.7*	*16.7*
GlaxoSmithKline PLC GSK USA	5,421 GBP	67.6	*71.5*	*70.7*	27.6	*35.0*	*36.3*	22.3	*28.1*	*29.8*	20.5	*18.8*	*17.4*	22.8	*19.0*	*20.5*
Average		67.9	*71.3*	*71.6*	32.3	*37.0*	*37.1*	23.3	*28.6*	*29.6*	22.6	*22.6*	*22.8*	22.1	*25.2*	*21.8*
Amgen Inc AMGN US	**6,002** USD	**82.3**	***78.5***	***78.8***	**38.9**	***41.2***	***40.6***	**32.1**	***31.7***	***31.3***	**31.8**	***32.4***	***31.4***	**29.7**	***29.4***	***31.8***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2013	2014(E)	2015(E)	Debt/Total Cap % 2013	2014(E)	2015(E)	EBITDA/Interest Exp. 2013	2014(E)	2015(E)	Total Debt/EBITDA 2013	2014(E)	2015(E)	Assets/Equity 2013	2014(E)	2015(E)
Johnson & Johnson JNJ USA	18,180 USD	24.6	*22.5*	*21.9*	19.7	*18.4*	*18.0*	42.6	*46.7*	*41.2*	0.9	*0.7*	*0.7*	1.8	*1.7*	*1.7*
Roche Holding AG ROG CHE	18,643 CHF	96.6	*67.7*	*52.4*	49.1	*40.4*	*34.4*	12.8	*23.7*	*26.7*	0.9	*0.7*	*0.6*	3.2	*2.7*	*2.5*
Merck & Co Inc MRK USA	25,060 USD	50.4	*36.2*	*33.1*	33.5	*26.6*	*24.9*	18.8	*20.1*	*21.3*	1.7	*1.2*	*1.2*	2.1	*1.9*	*1.9*
Sanofi SNY USA	14,590 EUR	25.7	*27.4*	*25.2*	20.4	*21.5*	*20.1*	14.9	*19.3*	*25.2*	1.6	*1.5*	*1.3*	1.7	*1.7*	*1.6*
GlaxoSmithKline PLC GSK USA	18,245 GBP	260.8	*284.7*	*691.9*	72.3	*74.0*	*87.4*	9.5	*11.6*	*12.3*	2.5	*2.2*	*2.1*	6.0	*6.3*	*13.9*
Average		91.6	*87.7*	*164.9*	39.0	*36.2*	*37.0*	19.7	*24.3*	*25.3*	1.5	*1.3*	*1.2*	3.0	*2.9*	*4.3*
Amgen Inc AMGN US	**32,128** USD	**145.4**	***119.2***	***107.4***	**59.3**	***54.4***	***51.8***	**7.2**	***7.3***	***7.2***	**4.4**	***3.7***	***3.7***	**3.0**	***2.7***	***2.5***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2013	2014(E)	2015(E)	Current Ratio 2013	2014(E)	2015(E)	Quick Ratio 2013	2014(E)	2015(E)	Cash/Short-Term Debt 2013	2014(E)	2015(E)	Payout Ratio % 2013	2014(E)	2015(E)
Johnson & Johnson JNJ USA	294,494 USD	10.15	*12.56*	*13.39*	2.20	*2.52*	*2.59*	1.89	*2.20*	*2.28*	6.02	*7.99*	*8.35*	53.9	*55.0*	*51.2*
Roche Holding AG ROG CHE	228,742 CHF	13.84	*13.58*	*13.19*	1.85	*1.85*	*1.69*	1.48	*1.47*	*1.34*	5.38	*5.53*	*3.26*	51.5	*50.5*	*50.5*
Merck & Co Inc MRK USA	176,482 USD	5.84	*8.63*	*7.70*	2.00	*2.83*	*2.51*	1.65	*2.53*	*2.25*	3.87	*12.40*	*9.51*	117.1	*35.7*	*83.4*
Sanofi SNY USA	147,297 USD	6.30	*7.15*	*7.83*	1.71	*1.83*	*1.92*	1.26	*1.37*	*1.44*	2.02	*2.26*	*2.47*	99.8	*79.4*	*65.4*
GlaxoSmithKline PLC GSK USA	115,104 USD	1.16	*1.59*	*1.97*	1.11	*1.28*	*1.40*	0.83	*1.00*	*1.11*	2.01	*2.74*	*3.22*	67.7	*104.2*	*99.2*
Average		7.46	*8.70*	*8.82*	1.77	*2.06*	*2.02*	1.42	*1.71*	*1.68*	3.86	*6.18*	*5.36*	78.0	*65.0*	*69.9*
Amgen Inc AMGN US	**104,735** USD	**25.36**	***27.31***	***32.70***	**3.44**	***5.27***	***4.55***	**3.06**	***4.59***	***4.02***	**7.74**	—	***14.11***	**26.9**	***35.8***	***44.9***

Research Methodology for Valuing Companies

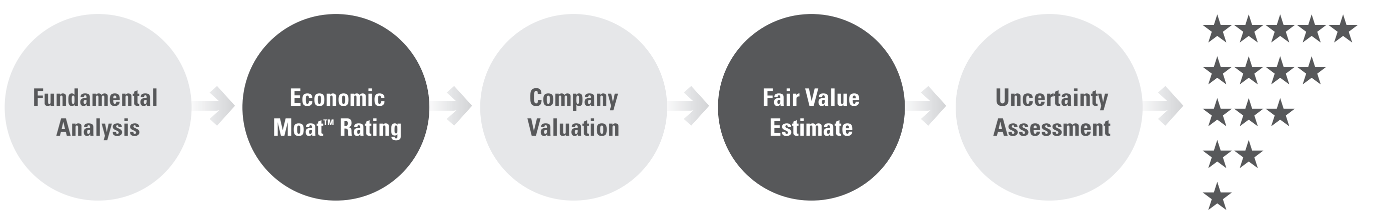
Components of Our Methodology
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Analyst conducts company and industry research: ► Financial statement analysis ► Channel checks ► Trade-show visits ► Industry and company reports and journals ► Conference calls ► Management and site visits	Strength of competitive advantage is rated: None, Narrow, or Wide Advantages that confer an economic moat: **High Switching Costs** (Microsoft) **Cost advantage** (Wal-Mart) **Intangible assets** (Johnson & Johnson) **Network Effect** (Mastercard) **Efficient Scale** (Lockheed Martin)	Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows. Assumptions are entered into Morningstar's proprietary discounted cash-flow model.	Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.	The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme. The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.	The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks. The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

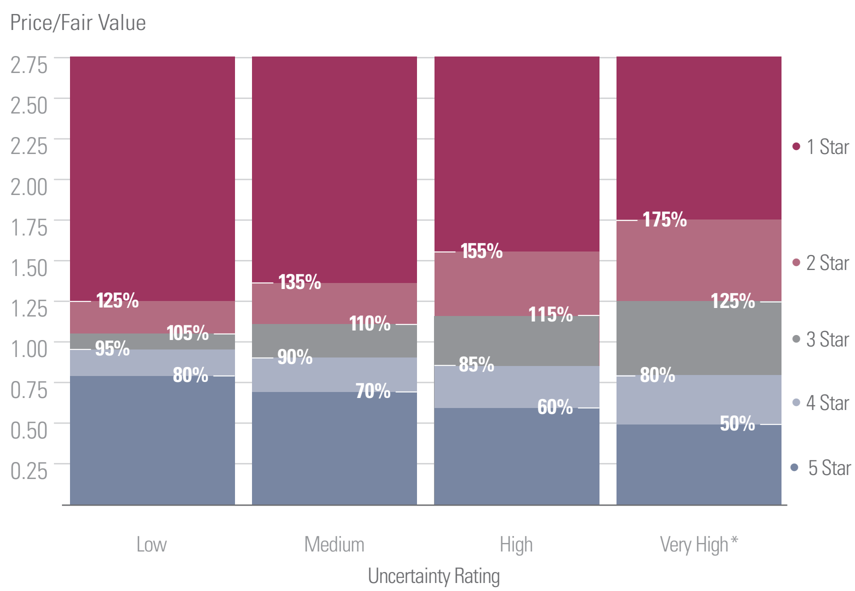
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

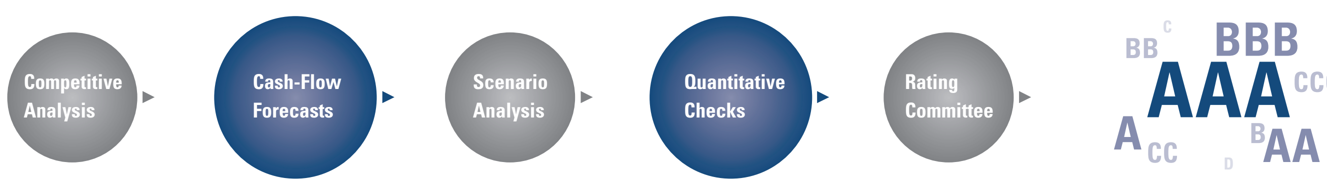
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

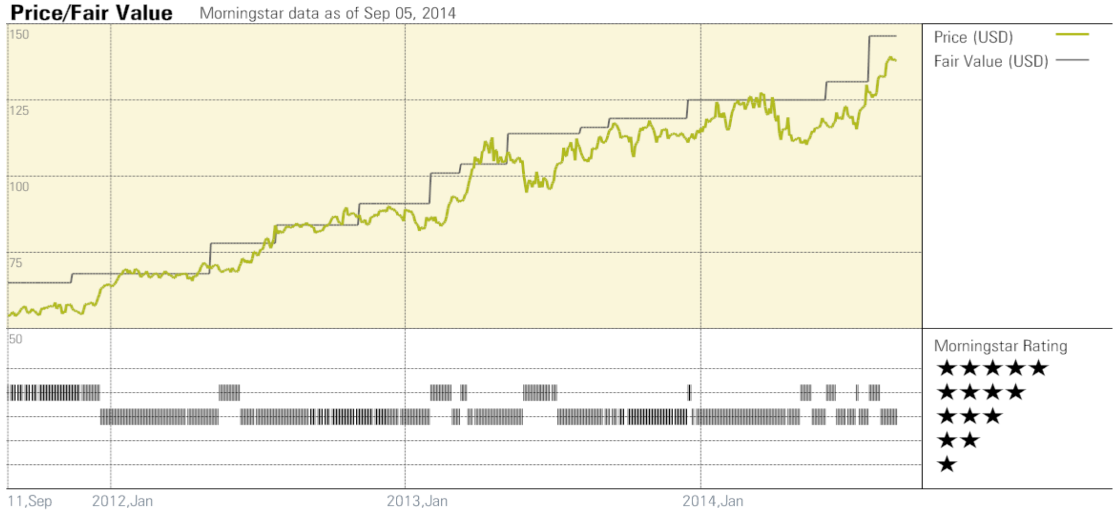
Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Amgen Inc AMGN (NAS) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
137.88 USD	146.00 USD	102.20 USD	197.10 USD	Medium	Wide	Negative	Standard	A	Biotechnology

Price/Fair Value Morningstar data as of Sep 05, 2014



The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from http://global.morningstar.com/equitydisclosures.

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