



CAIRN  
INVESTMENT  
GROUP

## COMPANY SPOTLIGHT:

# AmerisourceBergen Corp.

## COMPANY DESCRIPTION

Headquartered in Chesterbrook, PA, AmerisourceBergen is a pharmaceutical distribution and services company. The company provides its services to healthcare providers, pharmacies, and pharmaceutical manufactures.

Steve Collins is the company's CEO and has been with the company over 20 years.

## COMPANY HIGHLIGHTS AND FINANCIALS

### KEY POINTS

- :: A leader in pharmaceutical distribution services.
- :: High barriers to entry allow for consistent cash flow generation and high operational efficiency.
- :: Good financial health with over \$2 billion in cash and Net Debt to Capital of 29%.
- :: Compelling upside as valuations and growth remain attractive due to partnership with Walgreens and recent acquisitions.
- :: Strong competitive advantage and supply chain management allows for consistent growth.

AmerisourceBergen is one of three major pharmaceutical distributors in the U.S (McKesson, Cardinal Health). The high barriers to entry in this space allow AmerisourceBergen to produce consistent and stable operating results. In recent years the company has acquired specialty companies to further margin expansion and growth (MWI Veterinary). The company's strong supply chain management allows them to generate significant cash flows even in a low margin business. They have historically used their cash efficiently to strategically buy back shares and increase their dividend. Revenue and profits should remain relatively stable over time as the company has recently extended their exclusive relationship with Walgreens (WBA) until 2026 (WBA owns 25% of AmerisourceBergen).

The firm has been aggressive in expanding its presence in generic drug distribution and specialty drugs (Oncology). Both of these areas offer higher margins than branded and non-specialty drugs. Also, the recent acquisition of MWI Veterinary was built around the growing pet health and industrial animal health care market as they distribute more than 50,000 products across the U.S. The company has a history of consistent operating performance, high returns on capital (15%) and strong cash flow generation. This has allowed the company flexibility as they are able to fund growth initiatives without over relying on debt.

## VALUATION AND RISKS

AmerisourceBergen is trading at a discount compared to its historical valuations and below fair value based on scenario analysis of free cash flow growth. AmerisourceBergen has a dividend yield of 1.60% and generates over \$2 billion in free cash flow to give them the flexibility to continue to

raise their dividend over time. On a free cash flow basis, we expect the company to grow cash flow at 2% annually over the next decade, below its current growth rate of 18% over the previous 10 years, due to higher pricing pressure on pharmaceuticals and high revenue concentration. Modeling our conservative assumption places a price of \$108 on shares which is almost a 27% premium based on the price as of the date of this report. If our conservative assumptions turn out to still be overly optimistic, we still feel there is a margin of safety built into the current price based on the company's high returns on capital and strong cash flow generation.

Though there are only two main competitors in the pharmaceutical distribution business, AmerisourceBergen operates in a highly competitive environment. We would like to see continued discipline in regards to capital spending and renewed contracts with Express Scripps. Continued focus on the company's revenue breakdown, along with integration among its recent acquisitions will be areas to monitor closely.

Based on weighing the potential rewards and risks we are optimistic that AmerisourceBergen will be a good long-term investment.

—Patrick Mason, Investment Analyst, Cairn Investment Group



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