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Abbott Laboratories

(NASDAQ: ABT)

Introduction

Abbott Laboratories discovers, develops, manufactures, and sells a diverse portfolio of health care products. They were founded in 1888 in Chicago, Illinois and today operate in five segments: Diagnostics, Nutrition, Pharmaceuticals, Cardiovascular & Neuromodulation, Diabetes & Other. Cardiovascular & Neuromodulation is the biggest segment which accounts for 30% of total revenue. Closely followed by Nutrition and Diagnostics which tie for 25% of total revenue. Abbott offers products in 160 different countries and places an emphasis in increasing their market presence in emerging markets. Their product strategy is geared towards meeting the current demand in the health care market and are continuously updating their product lines. In 2018, over 50% of their sales were produced from products released in the market with the past six years. In addition, they rigorously invest in research & development as well as acquisitions.

Management

Miles D. White: Chairman & Chief Executive Officer

Compensation: \$24,254,238

In 1984 Miles D. White started his career with Abbott serving as Senior Vice President of Diagnostic Operations and Executive Vice President. In 1998 started serving on the board of directors and assumed the role of Chief Executive Officer. That following year he became chairman of the board. Throughout his time serving with Abbott he has created Abbott's shareholder value of around \$200 billion. Miles took Abbott in the direction of international expansion and strived to stay competitive by the innovation of revolutionary healthcare products.

Robert B. Ford: President & Chief Operating Officer

Compensation: \$8,127,252

Robert B. Ford has been with Abbott Laboratories since 1996 holding various roles since. He started as Executive Vice President of the Medical Devices division and currently holds the position of Chief Operating Officer. He will be replacing Miles D. White as the Chief Executive Officer on March 31st of 2020. He will then proceed to serve on the Board of Directors as well.

Brian Bernard Yoor: Chief Financial Officer & Executive Vice President of Finance

Compensation: \$7,612,836

Brian Yoor started his career at Abbott Laboratories in August of 1997 where he assumed his present position of Chief Financial Officer & Executive and Executive Vice President of Finance. He has been an active member of Abbott's Board of Directors since 2015. In January of 2017 Brian became Co-Managing Director of Abbott's Medical GmbH and currently holds this position.

Key Statistics

Current Price	\$85.48	Revenue (in millions)	31,355
Price Target range	\$90.91-\$93.63	Operating Margin	11.94
52 Week High/Low	\$65.44-\$88.76	EBITDA Margin	21.5%
Market Cap	150.7	EPS	1.84
Average Daily Volume	4,586,024.0	Gross Margin	58.45
Dividend Yield	1.50	Cash Flow/ Share	3.56
Enterprise Value	167.8	Price/Earnings	54.41
Beta	1.06	Net Margin	7.0%
WACC	7.4%	ROA	3.2%
Long-Term Growth Rate	11.0%	ROIC	5.07%
Net Debt/ Total Equity	50.71	ROE	6.7%

Recommendation

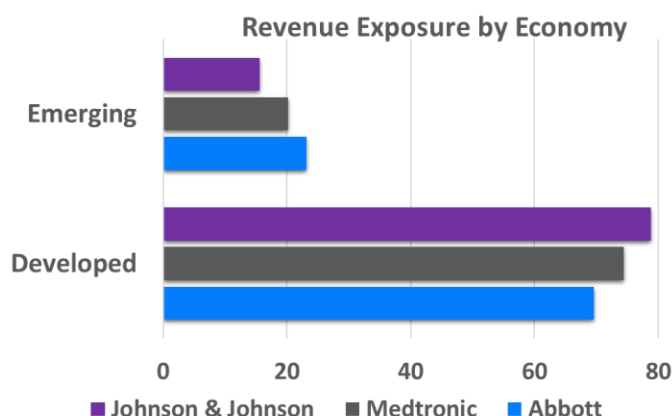
I recommend a BUY of Abbott Laboratories (NASDAQ: ABT) at a target price range of \$90.91-\$93.63 per share. Abbott Laboratories is a global leader in the health care industry. Their continued growth is being driven by a few key factors. Their FreeStyle Libre sensor- based glucose monitoring system transformed the industry with the technology that eliminates the need for needle pricking to monitor glucose levels. As of 2019, Abbott announced their partnership with Tandem and Sanofi to engineer the next generation of FreeStyle system. Their partnership would add the ability to track and monitor insulin dosages to automatically administer the correct dosage. 1.5 million people world-wide use the first generation of their monitors and with the collaboration of other diabetes experts the industry will see the second wave of innovative diabetes care. Q3 of this year brought promising approvals from the FDA for the next generation of MitraClip, a minimally invasive clip to help treat heart value regurgitation, and trials for the TriClip. TriClip is essentially the same as MitraClip but for the tricuspid value, while the MitraClip is for the Mitral value of the heart. Historically, MitraClip has been a large revenue driver for the Cardiovascular segment of their product line. Another key dimension to the continued growth is the public reimbursement of FreeStyle Libre in Ontario and Quebec, adding two provinces to their revenue stream moving forward in 2020. Abbott Laboratory's innovation and global expansion will be driving revenue growth and changing the health care industry for the foreseeable future and this is why it's a buy.

I recommend a partial sell of 20 shares of Medtronic (MDT). Currently, Medtronic is 2.95% of the 13.28% weight in Health Care within our portfolio. The main force behind this recommendation is the need for a company that has a well-diversified product pipeline, unwavering foothold in the market, and shows promising growth to help mitigate our portfolio risk. Due to the slower business segment growth rate of Medtronic compared to Abbott Laboratories, replacing part of our holding in Medtronic with a higher growth company gives us more exposure to potential return. When comparing Market Capitalization, Medtronic and Abbott are almost identical with Market Caps of 149 billion and 148.2 Billion respectively. However, the table below outlines the significance of Abbott's growth compared to Medtronic. In comparison, Abbott currently is demonstrating superior growth.

Annual			
Growth %	Revenue	Dividend Per Share	Operating Income
Fiscal Year End 2018			
Abbott Laboratories	11.64	7.91	111.47
Medtronic	0.82	6.98	23.35

Investment Thesis

- **Emerging Market Exposure:** Expanding into emerging markets has been an important factor in the growth of Abbott. The development of an economy provides higher incomes and increased demand for products and services. Being the first and only product within a new market provides revenue generating incentives. 23.2% of Abbott's revenue comes from emerging markets. When comparing to Abbott's emerging market exposure to Medtronic and Johnson & Johnson's, Abbott is the leader in expansion. The graph below outlines the 2018 revenue stream comparison.



- **Public Reimbursement Coverage:** In September of 2019 Abbott obtained approval of Quebec and Ontario's public reimbursement of their Freestyle Libre glucose monitoring system. This is a huge opportunity for revenue growth since the Canadian market is one of the top five largest glucose monitoring markets in the world. FreeStyle Libre has been the only sensor-based monitoring system that has received reimbursement in Canada which gives Abbott sole access to over 3 million Canadians living with Diabetes.

- **Strategic Partnerships:** FreeStyle Libre was first available in the market in 2017. The product itself only had the capability to monitor the blood sugar levels of the user. There was still a need to administer insulin, if needed, separately and by the discretion of the user. Abbott wanted to revolutionize and simplify the entire process as well as create behavioral changes to promote the health and well-being of the individual. In order to do this Abbott has formed three important partnerships with other players in the industry. First, Omada Health partnered with the FreeStyle system to integrate their digital care program. This adds personalized coaching, create supporting group chats, and promote behavioral changes to decrease the severity in patients. Living a healthy life with managing diabetes means daily control of food intake and close monitoring of glucose levels. This new addition aims at helping promote this critical aspect. Tandem and Abbott announced in October of 2019 their intentions to develop and commercialize Tandem's insulin delivery system to Abbott's Freestyle Libre system to create one integrated hassle reducing system. Similarly, in September of 2019 Sanofi announced their partnership with Abbott to integrate their CGM insulin dosing technology for the next generation of the FreeStyle Libre. Moving forward, this multidimensional product will completely transform the industry for the bettering of those living with diabetes.

- **TriClip and MitraClip G4:** Abbott Laboratories created MitraClip to treat advanced heart failure patients with secondary mitral regurgitation. Since its availability in 2008, almost 100,000 people have been treated globally using Abbott's MitraClip. Due to its success the FDA has approved using MitraClip for secondary MR indication which increases the opportunity MitraClip has to save lives. In July of 2019 Abbott received approval from the United States for their next generation of MitraClip, MitraClip G4. This new generation expands the available sizes options and has additional advanced designs and data capacity to increase the options for doctors. During Q3 of 2019 Abbott initiated the first pivotal trial for their new product, TriClip in the United States. TriClip was invented to treat tricuspid regurgitation. If the evaluation of the safety and effectiveness of TriClip follows in the path of MitraClip, Abbott is positioned to generate a healthy stream of revenue. In the recent quarter MitraClip led the 16% sales growth of their Structural Heart segment. Alone, MitraClip generated 50% growth in the United States and 30% sales growth overall. The current success of the MitraClip and the future success of MitraClip G4 and TriClip are important revenue drivers for Abbott Laboratories.

Risks

- **Medical Devices Tax:** The Affordable Care Act ushered in a Medical Devices tax on the healthcare industry that has been currently delayed until December of 2019. If not repealed or further delayed, it would cause a decrease of revenue in Abbott's Medical Devices business segment. There has been bipartisan legislation introduced recently and there is strong support from the democrats on this issue. Bloomberg Analysts see the chances of another multiyear delay to be the likely outcome. Abbott's Medical Devices segment accounts for 37% of its total revenue.
- **Currency Exchange Rates:** One downfall of conducting business internationally is the exposure to currency rates. In Q3 a stronger US dollar caused an unfavorable decrease on sales of 1.9%. If the US dollar continues to strengthen it cause similar decreases in sales as seen in the Q3 earnings. Forecasts predict a decrease in the negative sales impact in Q4 with only a 1.5% loss in sales. 64.6% of revenue comes from business conducted outside of the United States, making this a prominent and ultimately unavoidable issue. However, as mentioned in the drivers, expanding into international (especially emerging) markets drive revenue growth. This largely offsets the fluctuating currency risk.
- **Low Birthing Rates:** Within the Nutrition segment, 7.4% of total revenue comes from international pediatric product sales. From 2017 to 2018 China's birthing rate decreased by 2.15%. This has caused a decrease in volume demanded for Pediatric products in China. If the birthing rate continues to decrease in China or in other regions where Abbott has revenue exposure there could be loss in sales volume and subsequent revenue streams.

Peer Analysis

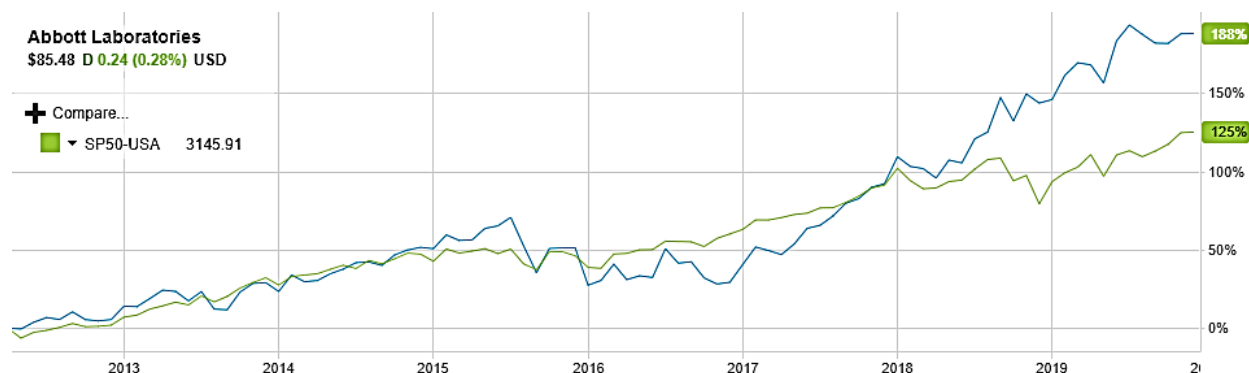
Column1	Ticker Symbol	Market Cap (B)	Sales (M)	EBITDA (M)	Dividend Yield (%)	EV/Sales
Abbott Laboratories	ABT	148.2	30,578	7,122	1.5	0.8
Medtronic	MDT	149	30,358	9,758	1.62	1.11
Johnson & Johnson	JNJ	369.8	81,534	28,182	2.7	0.98
Peer Average	N/A	222.33	47,490	15,020.67	1.94	0.96

Valuation

Target Range \$90.91-\$93.63

The target price range was found using a combination of valuation methods. The first method was the Price to Earnings multiple which provided a target price of \$84.24. Enterprise Value to EBITDA multiple gave a target price of \$86.70. Historical sales growth data from similar product releases provided insight into a conservative estimate of future sales growth which provided a price target of \$96.34 using the ISS EVA model. A price of \$85.47 was found using equal weights of the two multiples. The conservative end of the price range \$90.91 is found using equal weights of the multiple average and sales estimate price. The progressive end of the price range sales price estimate valuation at a weight of 75% and 25% for the multiples. The emphasis of weightings on the sales price estimates is due to the high growth of Abbott laboratories. Since we are seeing high revenue growth, the price should reflect the importance of sales estimates. Given the current market price of \$84.56 (market close 12/10/19) Abbott Laboratories is selling at a discount in the range of a 7.5%-10.7% upside.

Price Comparison against the S&P 500



Ownership

Shareholder	% Ownership	Market Valuation (In millions)	Report Date
The Vanguard Group, Inc	8.35	12,576	9/30/19
Capital Research & Management Co.	6.40	9,638	9/30/19
BlackRock Fund Advisors	4.87	7,344	9/30/19
SSgA Funds Management, Inc	4.11	6,186	9/30/19
Capital Research & Management Co. International Investors	2.60	3,921	9/30/19

Ownership Statistics

