



Abbott Laboratories (ABT)

Updated October 17th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$70	5 Year CAGR Estimate:	3.3%	Volatility Percentile:	45.4%
Fair Value Price:	\$55	5 Year Growth Estimate:	6.5%	Momentum Percentile:	86.9%
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-4.8%	Growth Percentile:	58.7%
Dividend Yield:	1.6%	5 Year Price Target	\$75	Valuation Percentile:	17.9%
Dividend Risk Score:	X	Retirement Suitability Score:	X	Total Return Percentile:	14.8%

Overview & Current Events

Abbott Laboratories is one of the largest medical appliances & equipment manufacturers in the world. Only Medtronic and Johnson & Johnson (which also has other businesses such as pharmaceuticals) have higher market capitalizations. Abbott Laboratories was founded in 1888 and has grown into a company valued at \$125 billion.

Abbott Laboratories has reported its third quarter results on October 17. The company produced revenues of \$7.7 billion during the third quarter, an increase of 12.1% year over year. Abbott Laboratories' revenue growth was driven by higher diagnostic sales primarily. Revenues in this segment were up 43% compared to the prior year's quarter. Organic sales (adjusted for acquisitions) was not as high as the reported revenue growth rate, but still very solid at 7.8%. Abbott Laboratories grew its sales in the US as well as internationally, although the organic revenue growth rate was higher in international markets.

On the bottom line, Abbott Laboratories grew net profits by 16% year over year. Earnings per share were up 14% year over year, hitting \$0.75. Abbott Laboratories has narrowed its earnings per share guidance to \$2.87 - \$2.89. The midpoint of the profit guidance remains unchanged. We therefore did not change our estimate for this year's profits.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$3.03	\$3.72	\$4.17	\$4.66	\$4.99	\$2.01	\$2.28	\$2.15	\$2.20	\$2.50	\$2.88	\$3.95
DPS	\$1.44	\$1.60	\$1.76	\$1.88	\$2.01	\$0.56	\$0.88	\$0.96	\$1.04	\$1.06	\$1.12	\$1.48
Shares	1.52	1.55	1.55	1.57	1.58	1.55	1.51	1.47	1.47	1.74	1.75	1.65

In the above table we see a significant gap in the 2012-2013 numbers, both for EPS as well as for dividends per share. Before and after that jump, both EPS and dividends have been growing relatively consistently. This gap can be explained by the fact that Abbott Laboratories had spun off its biotech business (which is now publicly-traded as AbbVie) in 2013. AbbVie has been a very successful standalone company. When it was still owned by Abbott Laboratories it was a major growth driver. Since the spin-off Abbott Laboratories' EPS growth rate has slowed down somewhat (to 7.2% on average), but during 2017 EPS growth was in the double digit area again, and it will remain there during 2018.

The integration of St. Jude Medical and cost synergies related to the acquisition will be a major earnings driver in the coming years. With its strong position in growth markets such as diagnostics (Abbott is the market leader in point-of-care diagnostics) and cardiovascular medical devices, Abbott Laboratories should be able to generate attractive long term growth rates for both earnings and dividends.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	18.3	13.0	12.2	11.0	12.6	17.8	18.0	21.5	18.4	19.4	24.3	19.0
Avg. Yld.	2.6%	3.3%	3.5%	3.7%	3.2%	1.6%	2.1%	2.1%	2.1%	2.2%	1.6%	2.1%

In the above table we also see the impact of the spin-off of AbbVie. Biotech companies are riskier than diversified health care corporations. After the spin-off of AbbVie, the valuations for both companies changed rapidly.

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AbbVie is now trading at a lower valuation than Abbott, which, in turn, has seen its valuation rise. The higher valuation for Abbott Laboratories is justified, as it does not have to deal with the negative impact of losses of exclusivity. The valuation for the company's shares is still too high right now. This is likely to pressure total returns in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

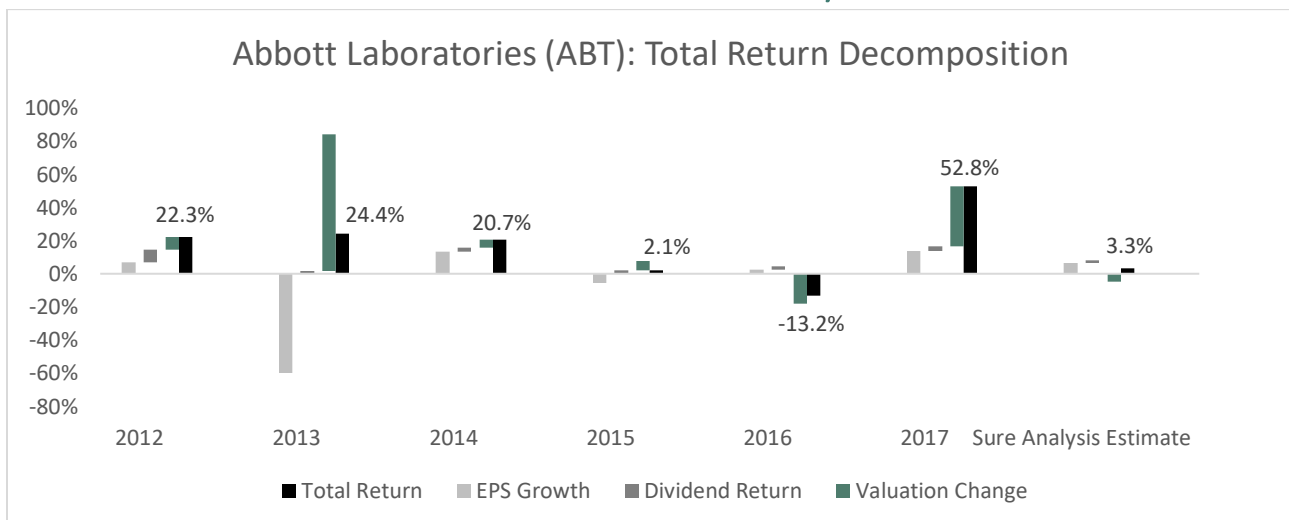
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	39.9%	33.6%	33.8%	18.9%	15.2%	24.4%	26.7%	28.3%	22.4%	19.8%	21.0%	23.0%
Debt/A	58.7%	56.5%	62.5%	59.4%	60.3%	41.4%	47.8%	48.5%	60.9%	59.5%	60.0%	60.0%
Int. Cov.	19.5	20.2	14.0	5.4	0.4	28.0	36.5	57.7	5.6	4.0	6.7	7.0
Payout	47.5%	43.0%	42.2%	40.3%	40.2%	27.9%	38.6%	44.7%	47.3%	42.4%	38.9%	37.5%
Std. Dev.	30.3%	26.0%	14.7%	18.1%	14.3%	19.4%	15.5%	22.1%	23.8%	13.9%	17.0%	18.0%

Abbott's debt-to-assets ratio, declined significantly during 2013 as a significant amount of debt was shed with the AbbVie spin-off. Debt levels have risen again as new debt was issued to finance the acquisition of St. Jude Medical. Interest coverage varies wildly as Abbott is consistently issuing and paying down debt to finance acquisitions. On a forward basis interest coverage looks sufficient, though. Abbott's \$800 million of annual interest expenses is easily covered by the roughly \$5.2 billion the company should earn this year. The dividend payout ratio around 40% means that the dividend payments are quite safe, especially since Abbott is a very stable business. Even during the last financial crisis the company has been able to increase its profits at an attractive pace. As a major healthcare company with a market-leading position in important areas Abbott Laboratories appears to be a low-risk investment today.

Final Thoughts & Recommendation

Abbott Laboratories operates in a non-volatile industry, the company has been able to grow its profits relatively consistently over the last decade (adjusted for the AbbVie spin-off). During the last financial crisis Abbott Laboratories continued to grow, which is why the company looks like a low-risk investment. Abbott Laboratories should be able to grow its earnings at a solid pace going forward. With that said, its total returns will not be overly high, though. Due to a high valuation and low expected returns, Abbot Laboratories continues to earn a sell recommendation. The company's long dividend history and conservative payout ratio earn it a B rating for Dividend Safety, although its low yield earns it an F rating for Retirement Suitability.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	29528	30765	35167	21407	19050	19657	20247	20405	20853	27390
Gross Profit	16916	17555	20502	11390	10151	10464	11029	11658	11829	15053
Gross Margin	57.3%	57.1%	58.3%	53.2%	53.3%	53.2%	54.5%	57.1%	56.7%	55.0%
SG&A Exp.	8436	8406	10376	7365	6735	6372	6530	6785	6672	9117
D&A Exp.	1839	2090	2624	3044	2782	1719	1548	1472	1353	3021
Operating Profit	5791	6236	6088	1629	1360	2133	2599	2867	3185	1726
Op. Margin	19.6%	20.3%	17.3%	7.6%	7.1%	10.9%	12.8%	14.1%	15.3%	6.3%
Net Profit	4881	5746	4626	4728	5963	2576	2284	4423	1400	477
Net Margin	16.5%	18.7%	13.2%	22.1%	31.3%	13.1%	11.3%	21.7%	6.7%	1.7%
Free Cash Flow	5707	6186	7721	7479	7519	2179	2598	1856	2082	4435
Income Tax	1122	1448	1087	110	-457	53	797	577	350	1878

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	42419	52417	60574	60277	67235	42953	41207	41247	52666	76250
Cash & Equivalents	4112	8809	3648	6813	10802	3475	4063	5001	18620	9407
Acc. Receivable	N/A	6542	7184	7684	7613	3986	3586	3418	3248	5249
Inventories	2776	3265	3189	3284	3793	2693	2643	2599	2434	3601
Goodwill & Int.	15138	19492	28082	25695	24362	15507	16265	15200	12222	45493
Total Liabilities	24901	29518	37809	35751	40422	17686	19568	19921	31949	45152
Accounts Payable	1351	1281	3298	3800	3896	1382	1391	1522	1584	3024
Long-Term Debt	11445	16456	18918	15415	20476	6561	7830	9001	22006	27924
Total Equity	17480	22856	22677	24440	26721	25171	21526	21211	20538	30897
D/E Ratio	0.65	0.72	0.83	0.63	0.77	0.26	0.36	0.42	1.07	0.90

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	11.9%	12.1%	8.2%	7.8%	9.4%	4.7%	5.4%	10.7%	3.0%	0.7%
Return on Equity	27.7%	28.5%	20.3%	20.1%	23.3%	9.9%	9.8%	20.7%	6.7%	1.9%
ROIC	16.6%	16.8%	11.4%	11.6%	13.7%	6.5%	7.5%	14.8%	3.8%	0.9%
Shares Out.	1.52	1.55	1.55	1.57	1.58	1.55	1.51	1.47	1.47	1.74
Revenue/Share	18.88	19.78	22.60	13.66	11.97	12.49	13.26	13.55	14.06	15.66
FCF/Share	3.65	3.98	4.96	4.77	4.72	1.38	1.70	1.23	1.40	2.54

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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