



# Abbott Laboratories (ABT)

Updated January 25<sup>th</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$71	<b>5 Year CAGR Estimate:</b>	5.2%	<b>Volatility Percentile:</b>	31.2%
<b>Fair Value Price:</b>	\$61	<b>5 Year Growth Estimate:</b>	6.5%	<b>Momentum Percentile:</b>	91.3%
<b>% Fair Value:</b>	117%	<b>5 Year Valuation Multiple Estimate:</b>	-3.1%	<b>Growth Percentile:</b>	60.5%
<b>Dividend Yield:</b>	1.8%	<b>5 Year Price Target</b>	\$83	<b>Valuation Percentile:</b>	22.3%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	19.1%

## 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 \$124 billion.

Abbott Laboratories reported its fourth quarter and full year 2018 earnings results on January 24. The company reported company-wide revenues of \$7.77 billion, which represents a growth rate of 2.4% compared to the prior year's quarter. Some of the companies' segments performed better than others: While Nutrition and Established Pharmaceuticals sales were down by single digits year over year, sales of Diagnostics and Medical Devices rose by 2.9% and 6.7%, respectively. Abbott Laboratories' underlying revenue growth rate was better than one would assume at first sight, though, as organic sales rose by 7.3% year over year. The lower reported revenue growth rate was negatively impacted by divestments (Abbott Medical Optics and St. Jude Medical vascular closure business) as well as by adverse currency rate movements. It is likely that the revenue growth rate will be closer to the organic revenue growth rate during future quarters. Abbott Laboratories earned \$0.81 on a per-share basis during the fourth quarter, which represents an earnings-per-share growth rate of 9.5% compared to the prior year's fourth quarter.

Abbott Laboratories' guidance for fiscal 2019 sees organic sales growth in a range of 6.5% to 7.5%, the company also expects earnings-per-share to fall into a range of \$3.15 to \$3.25. This represents an earnings-per-share growth rate of 11.1% compared to the \$2.88 per share that Abbott Laboratories earned during fiscal 2018. Abbott Laboratories guides for earnings-per-share of \$0.60 to \$0.62 during Q1 of 2019. Q1 usually is the weakest quarter for Abbott Laboratories.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$3.72	\$4.17	\$4.66	\$4.99	\$2.01	\$2.28	\$2.15	\$2.20	\$2.50	\$2.88	<b>\$3.20</b>	<b>\$4.38</b>
<b>DPS</b>	\$1.60	\$1.76	\$1.88	\$2.01	\$0.56	\$0.88	\$0.96	\$1.04	\$1.06	\$1.12	<b>\$1.28</b>	<b>\$1.70</b>
<b>Shares</b>	1.55	1.55	1.57	1.58	1.55	1.51	1.47	1.47	1.74	1.77	<b>1.76</b>	<b>1.72</b>

In the above table we see a significant gap in the 2012-2013 numbers, both for earnings-per-share as well as for dividends per share. Before and after that jump, both earnings-per-share and dividends have been growing relatively consistently. This gap can be explained by the fact that Abbott Laboratories spun off its biotech business (which is now publicly-traded as AbbVie with the ticker ABBV – notice the similarity in names) 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' earnings-per-share growth rate has slowed down somewhat, to 7.2% on average. During 2017 and 2018 earnings-per-share growth was in the double digit area again, and according to management Abbott Laboratories will be able to grow its earnings-per-share by more than 10% during 2019 as well.

The integration of St. Jude Medical and cost synergies related to the acquisition will be a major earnings driver in 2019 as well as in the following years. With its strong position in growth markets such as diagnostics -- Abbott Laboratories 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-per-share and dividends.

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



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## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.0	12.2	11.0	12.6	17.8	18.0	21.5	18.4	19.4	22.9	<b>22.2</b>	<b>19.0</b>
Avg. Yld.	3.3%	3.5%	3.7%	3.2%	1.6%	2.1%	2.1%	2.1%	2.2%	1.7%	<b>1.8%</b>	<b>2.4%</b>

Abbott Laboratories' price to earnings ratio expanded after the spin-off of AbbVie, which is not surprising, as AbbVie has been the somewhat riskier part of the business. Abbott Laboratories as a medtech pure play is a low-risk investment, but its current valuation seems high nevertheless. We believe that shares are trading above fair value right here.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	43.0%	42.2%	40.3%	40.2%	27.9%	38.6%	44.7%	47.3%	42.4%	38.9%	<b>40.0%</b>	<b>38.8%</b>

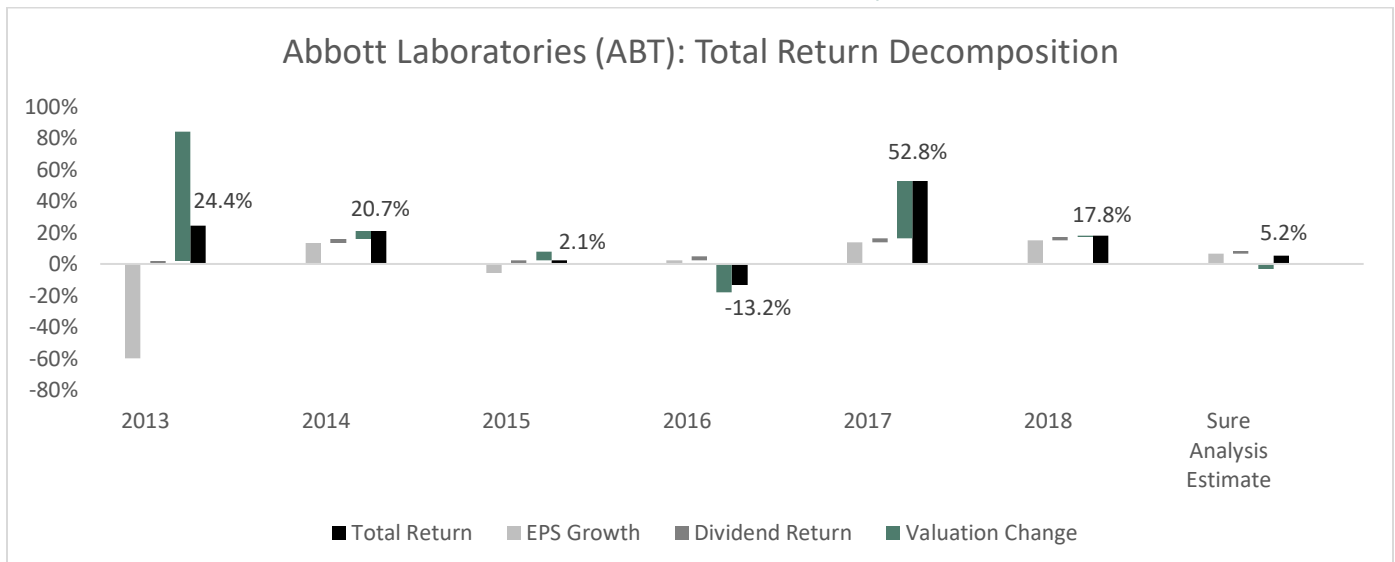
Abbott Laboratories' dividend payout ratio has never been above 50% throughout the last decade. Coupled with the fact that Abbott Laboratories' earnings-per-share have not declined during the last financial crisis – they actually continued to grow – this makes Abbott Laboratories' dividend look very safe.

After the spin-off of AbbVie Abbott Laboratories has not been a high-growth company, but the company is a very stable performer with a solid outlook. The markets that Abbott Laboratories addresses are not cyclical at all, as medical devices, diagnostic, etc. are needed whether the economy is doing well or not. This explains how Abbott Laboratories was so unaffected by the last financial crisis, and during future recessions Abbott Laboratories will most likely not be vulnerable, either. The company is a leader in the markets it addresses, such as in point-of-care diagnostics, which provides competitive advantages due to Abbott Laboratories' scale and global reach.

## Final Thoughts & Recommendation

Abbott Laboratories is a fundamentally strong medtech company that addresses attractive and growing markets. Abbott Laboratories' growth has slowed down after AbbVie was spun off, though, and we believe that earnings-per-share growth will be solid, but not overly high in the long run. Due to the fact that Abbott Laboratories is trading above our fair value estimate, which negatively impacts the company's total returns, we rate Abbott Laboratories a sell right here.

## 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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