



# AbbVie (ABBV)

Updated April 30<sup>th</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$80	<b>5 Year CAGR Estimate:</b>	22.3%	<b>Volatility Percentile:</b>	73.5%
<b>Fair Value Price:</b>	\$114	<b>5 Year Growth Estimate:</b>	9.5%	<b>Momentum Percentile:</b>	15.9%
<b>% Fair Value:</b>	70%	<b>5 Year Valuation Multiple Estimate:</b>	7.4%	<b>Growth Percentile:</b>	90.8%
<b>Dividend Yield:</b>	5.4%	<b>5 Year Price Target</b>	\$180	<b>Valuation Percentile:</b>	96.6%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	99.2%

## Overview & Current Events

AbbVie is a biotechnology company focused on developing and commercializing drugs for immunology, oncology and virology. AbbVie was spun off by Abbott Laboratories in 2013. The company has a rather short stand-alone history. Nevertheless, AbbVie has become one of the largest players in the biotechnology industry, with sales of \$30 billion annually and with a market capitalization of \$118 billion.

AbbVie reported its first quarter earnings results on April 25. The company was able to generate revenues of \$7.8 billion during the first quarter, which was 1.3% less than AbbVie's revenues during the first quarter of fiscal 2018. This was the first revenue decline on a year-over-year in a long period of time, yet AbbVie still generated higher revenues than the analyst community forecasted, as AbbVie beat the top line consensus by \$20 million. AbbVie's revenues were positively impacted by strong growth from Imbruvica, which grossed sales of \$1.02 billion, which was 34% more than the drug's sales during the previous year's quarter. Humira's revenues declined by 5.6% year over year, though, to \$4.5 billion, which was enough to lead to a small top line decline for AbbVie. Humira remains the world's biggest drug, though, and Humira will remain AbbVie's most important cash cow over the coming years.

AbbVie earned \$2.14 per share during the first quarter, which was 14% more than the company's earnings-per-share during the first quarter of the previous year. AbbVie's earnings-per-share also beat the consensus analyst estimate, which is why AbbVie's share price reacted positively to the earnings announcement. AbbVie guides for adjusted earnings-per-share of \$8.73 to \$8.83 during the current fiscal year, which represents a small increase in the company's guidance. We have adjusted our estimates accordingly. If AbbVie hits the midpoint of this guidance range, the company would grow its earnings-per-share by 11% during the current year.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	---	---	---	---	\$3.14	\$3.32	\$4.29	\$4.82	\$5.60	\$7.91	<b>\$8.78</b>	<b>\$13.82</b>
<b>DPS</b>	---	---	---	---	\$0.80	\$1.66	\$2.02	\$2.28	\$2.56	\$3.59	<b>\$4.28</b>	<b>\$7.10</b>
<b>Shares</b>	---	---	---	---	1590	1590	1610	1590	1590	1550	<b>1480</b>	<b>1350</b>

AbbVie's explosive earnings-per-share growth started shortly after the company was spun off from Abbott Laboratories in 2013. Since then earnings-per-share have grown by 16% annually. 2018 saw strong earnings-per-share growth as well, partially driven by a lower tax rate, but also by ongoing growth from some of the company's largest drugs.

Due to low variable costs in the drug industry, revenue growth from existing and new drugs leads to considerable operating margin increases, all else equal. This allows AbbVie to record high earnings growth rates as long as its sales keep increasing. AbbVie's efforts in shielding Humira from competition through 2023, and its substantial R&D investments for next-generation drugs will, in all likelihood, allow the company to keep revenues growing through the 2020s. Patent expiry of its top drug Humira is still a couple of years away, which gives AbbVie enough time to bring new drugs to the market. AbbVie is working on new, improved drugs that target the same indications as Humira. Two of these drugs, called *upa* and *risa*, will likely come to the market in 2019 for their first indications. AbbVie's management believes that revenues in 2025 will be higher than they were in 2018, despite the fact that Humira's revenues will be close to zero in the mid-2020s. AbbVie started to repurchase shares a couple of years ago, and thanks to the company's

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strong cash generation, AbbVie will likely continue to shrink the share count over the coming years, which will be positive for the company's earnings-per-share growth rate going forward.

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	-	-	-	-	13.9	16.7	14.4	12.6	13.4	11.6	9.1	13.0
Avg. Yld.	-	-	-	-	3.7%	3.0%	3.3%	3.8%	3.4%	4.8%	5.4%	4.0%

AbbVie's valuation contracted throughout the last couple of quarters. The drop in AbbVie's share price during the last couple of months, coupled with management's forecast for earnings-per-share growth of ~11% during 2019, has made AbbVie's valuation fall to a very low level. We believe that shares are substantially undervalued at the current level.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	-	-	-	-	25.5%	50.0%	47.1%	47.3%	45.7%	45.4%	48.7%	51.4%

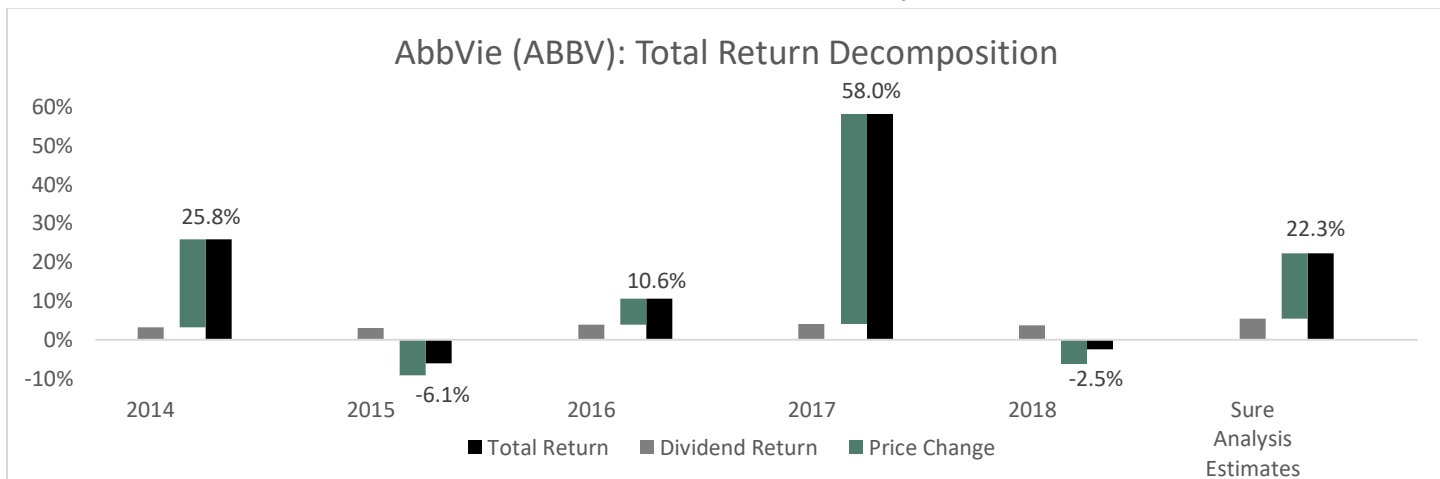
AbbVie started to pay dividends in 2013, and since then, the payout has risen quickly. This was possible due to a combination of strong earnings-per-share growth and an increase in AbbVie's dividend payout ratio. AbbVie does not have a very long dividend growth track record, but we believe that AbbVie's dividend looks quite safe.

The healthcare industry, and especially the drug industry, is not cyclical. AbbVie was not a standalone company during the last financial crisis, so there is no recession track record, but since sick people require treatment whether the economy is strong or not, it is highly likely that AbbVie would perform well during a recession. AbbVie's Humira patent protection will expire in a couple of years, but Humira will remain a major cash cow for now. AbbVie is working on next-generation drugs targeted at the same indications Humira is treating, thus there is a good chance that the patent expiration will not be a major headwind. The Humira story provides some uncertainties nevertheless.

## Final Thoughts & Recommendation

In the years following its spin-off from Abbott Laboratories, AbbVie has turned into one of the world's largest biotech companies. The Humira situation will pressure revenue growth over the coming years, but thanks to a deep pipeline management forecasts ongoing growth nevertheless. Shares look undervalued and offer a high dividend yield, and due to very attractive forecasted total returns, we rate AbbVie a strong buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	N/A	18380	18790	19960	22859	25638	28216	32753
Gross Profit	N/A	N/A	N/A	13872	14209	15534	18359	19806	21174	25035
Gross Margin	N/A	N/A	N/A	75.5%	75.6%	77.8%	80.3%	77.3%	75.0%	76.4%
SG&A Exp.	N/A	N/A	N/A	4989	5352	7724	6387	5881	6295	7399
D&A Exp.	N/A	N/A	N/A	1150	897	786	836	1189	1501	1765
Operating Profit	N/A	N/A	N/A	5817	5664	3411	7537	9340	9545	6383
Op. Margin	N/A	N/A	N/A	31.6%	30.1%	17.1%	33.0%	36.4%	33.8%	19.5%
Net Profit	N/A	N/A	N/A	5275	4128	1774	5144	5953	5309	5687
Net Margin	N/A	N/A	N/A	28.7%	22.0%	8.9%	22.5%	23.2%	18.8%	17.4%
Free Cash Flow	N/A	N/A	N/A	6012	5776	2937	7003	6562	9431	12789
Income Tax	N/A	N/A	N/A	450	1204	595	1501	1931	2418	-490

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	N/A	27008	29198	27513	53050	66099	70786	59352
Cash & Equivalents	N/A	N/A	N/A	5901	9595	8348	8399	5100	9303	7289
Acc. Receivable	N/A	N/A	N/A	4298	3854	3735	4730	4758	5088	5384
Inventories	N/A	N/A	N/A	1091	1150	1124	1719	1444	1605	1605
Goodwill & Int.	N/A	N/A	N/A	8453	8167	7375	32877	44313	43344	36896
Total Liabilities	N/A	N/A	N/A	23645	24706	25771	49105	61463	65689	67798
Accounts Payable	N/A	N/A	N/A	556	933	1401	1597	1407	1474	1546
Long-Term Debt	N/A	N/A	N/A	15672	14723	14977	31671	36842	37368	40310
Total Equity	N/A	N/A	N/A	3363	4492	1742	3945	4636	5097	-8446
D/E Ratio	N/A	N/A	N/A	4.66	3.28	8.60	8.03	7.95	7.33	-4.77

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	N/A	22.7%	14.7%	6.3%	12.8%	10.0%	7.8%	8.7%
Return on Equity	N/A	N/A	N/A	69.0%	105%	56.9%	181%	139%	109%	-340%
ROIC	N/A	N/A	N/A	34.0%	21.6%	9.9%	19.7%	15.4%	12.6%	15.3%
Shares Out.	N/A	N/A	N/A	N/A	1590	1590	1610	1590	1590	1550
Revenue/Share	N/A	N/A	N/A	11.66	11.71	12.40	13.96	15.72	17.60	21.19
FCF/Share	N/A	N/A	N/A	3.81	3.60	1.82	4.28	4.02	5.88	8.27

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

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