



Abbott Laboratories (ABT)

Updated July 17th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$87	5 Year CAGR Estimate:	0.7%	Volatility Percentile:	17.9%
Fair Value Price:	\$65	5 Year Growth Estimate:	6.0%	Momentum Percentile:	92.1%
% Fair Value:	135%	5 Year Valuation Multiple Estimate:	-5.8%	Growth Percentile:	52.7%
Dividend Yield:	1.5%	5 Year Price Target	\$87	Valuation Percentile:	15.2%
Dividend Risk Score:	B	Retirement Suitability Score:	D	Total Return Percentile:	10.7%

Overview & Current Events

Abbott Laboratories, founded in 1888, is one of the largest medical appliances & equipment manufacturers in the world. With a market capitalization of \$155 billion, only Johnson & Johnson (which also has other businesses such as pharmaceuticals) has a higher market cap. Abbott Laboratories provides products in over 160 countries and employs 103,000 people. The company is on pace to generate \$32 billion in sales this year.

On July 17th, 2019 Abbott Laboratories reported Q2 2019 results for the period ending June 30th, 2019. For the quarter the company generated \$8.0 billion in sales (64% of which was outside of the U.S.) representing a 2.7% increase on a reported basis or a 7.5% increase on an organic basis compared to Q2 2018. The Medical Devices segment (making up 39% of all sales) led the growth, with a 6.4% reported sales increase and a 10.5% organic sales increase for the quarter. Adjusted earnings-per-share came in at \$0.82, which was just ahead of the previous Q2 guidance of \$0.79 to \$0.81, representing a 12.3% year-over-year improvement.

Abbott Laboratories also updated its guidance for fiscal 2019. The company has increased its expectation for adjusted earnings-per-share to come in between \$3.21 and \$3.27 (from \$3.15 to \$3.25 prior), representing a growth rate of 12.5% at the midpoint of guidance. We have adjusted our estimate accordingly. Abbott Laboratories also guided for adjusted earnings-per-share of \$0.83 to \$0.85 for Q3 of 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.72	\$4.17	\$4.66	\$4.99	\$2.01	\$2.28	\$2.15	\$2.20	\$2.50	\$2.88	\$3.24	\$4.34
DPS	\$1.60	\$1.76	\$1.88	\$2.01	\$0.56	\$0.88	\$0.96	\$1.04	\$1.06	\$1.12	\$1.28	\$1.74
Shares	1,552	1,547	1,570	1,577	1,548	1,508	1,473	1,473	1,744	1,760	1,770	1,730

The above table shows a significant gap between the 2012 and 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 is explained by the fact that Abbott Laboratories spun off its biotech business (which is now publicly-traded as AbbVie with the ticker ABBV) 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 7.5% on average. During 2017 and 2018 earnings-per-share growth was in the double digit arena 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. We have tempered our expectations slightly, but still anticipate 6% annual growth over the intermediate-term.

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	22.3	26.9	20.0
Avg. Yld.	3.3%	3.5%	3.7%	3.2%	1.6%	2.1%	2.1%	2.1%	2.2%	1.7%	1.5%	2.0%

Abbott Laboratories' price-to-earnings ratio expanded after the spin-off of AbbVie, which is not surprising, as AbbVie had been the somewhat riskier part of the business. In addition, shares were coming off recession lows. Abbott Laboratories as a med-tech pure play is a low-risk investment, but its current valuation seems quite high nevertheless. We believe that shares are trading above fair value, pegged at 20 times earnings, implying the potential for a significant valuation headwind from this point.

Abbott Laboratories has declared 382 consecutive dividends and increased its payout for 47 straight years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	43%	42%	40%	40%	28%	39%	45%	47%	42%	39%	40%	40%

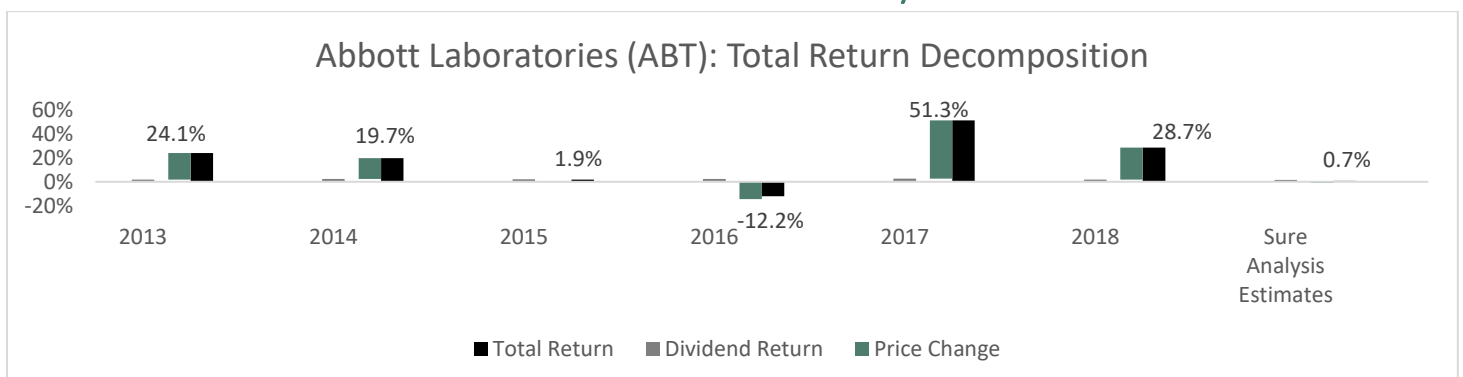
Abbott Laboratories' dividend payout ratio has never been above 50% throughout the last decade. Coupled with the fact that the company's earnings-per-share did not decline during the last financial crisis – it actually continued to grow – Abbott Laboratories' dividend looks very safe.

After the spin-off of AbbVie, Abbott Laboratories has not grown as fast, 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, and diagnostics are needed whether the economy is doing well or not. This explains why Abbott Laboratories performed so well during the last financial crisis. Moreover, for future recessions, we believe 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

Shares are up 18% since our last report, while earnings expectations have improved slightly. Abbott Laboratories is a fundamentally strong med-tech company that addresses attractive and growing markets. The company's growth trajectory has slowed down after AbbVie was spun off, though, and we believe that earnings-per-share growth will be solid, but not as robust in the long run. We are projecting total return potential of just 0.7% per annum, stemming from 6% growth, a 1.5% starting dividend yield and a 5.8% valuation headwind. The elevated valuation gives us pause, and we are reducing our rating from hold to sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	30765	35167	21407	19050	19657	20247	20405	20853	27390	30578
Gross Profit	17555	20502	11390	10151	10464	11029	11658	11759	14981	17872
Gross Margin	57.1%	58.3%	53.2%	53.3%	53.2%	54.5%	57.1%	56.4%	54.7%	58.4%
SG&A Exp.	8406	10376	7365	6735	6372	6530	6785	6736	9182	9744
D&A Exp.	2090	2624	3044	2782	1719	1548	1472	1353	3021	3278
Operating Profit	6236	6088	1629	1360	2133	2599	2867	3026	1564	3650
Op. Margin	20.3%	17.3%	7.6%	7.1%	10.9%	12.8%	14.1%	14.5%	5.7%	11.9%
Net Profit	5746	4626	4728	5963	2576	2284	4423	1400	477	2368
Net Margin	18.7%	13.2%	22.1%	31.3%	13.1%	11.3%	21.7%	6.7%	1.7%	7.7%
Free Cash Flow	6186	7721	7479	7519	2179	2598	1856	2082	4435	4906
Income Tax	1448	1087	110	-457	53	797	577	350	1878	539

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	52417	60574	60277	67235	42953	41207	41247	52666	76250	67173
Cash & Equivalents	8809	3648	6813	10802	3475	4063	5001	18620	9407	3844
Acc. Receivable	6542	7184	7684	7613	3986	3586	3418	3248	5249	5182
Inventories	3265	3189	3284	3793	2693	2643	2599	2434	3601	3796
Goodwill & Int.	19492	28082	25695	24362	15507	16265	15200	12222	45493	42196
Total Liabilities	29518	37809	35751	40422	17686	19568	19921	31949	45152	36451
Accounts Payable	1281	1536	1721	1797	1026	1064	1081	1178	2402	2975
Long-Term Debt	16456	18918	15415	20476	6561	7830	9001	22006	27924	19566
Total Equity	22856	22677	24440	26721	25171	21526	21211	20538	30897	30524
D/E Ratio	0.72	0.83	0.63	0.77	0.26	0.36	0.42	1.07	0.90	0.64

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	12.1%	8.2%	7.8%	9.4%	4.7%	5.4%	10.7%	3.0%	0.7%	3.3%
Return on Equity	28.5%	20.3%	20.1%	23.3%	9.9%	9.8%	20.7%	6.7%	1.9%	7.7%
ROIC	16.8%	11.4%	11.6%	13.7%	6.5%	7.5%	14.8%	3.8%	0.9%	4.3%
Shares Out.	1,552	1,547	1,570	1,577	1,548	1,508	1,473	1,473	1,744	1,760
Revenue/Share	19.78	22.60	13.66	11.97	12.49	13.26	13.55	14.06	15.66	17.28
FCF/Share	3.98	4.96	4.77	4.72	1.38	1.70	1.23	1.40	2.54	2.77

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

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