



# AbbVie (ABBV)

Updated August 6<sup>th</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$64	<b>5 Year CAGR Estimate:</b>	24.9%	<b>Volatility Percentile:</b>	75.2%
<b>Fair Value Price:</b>	\$98	<b>5 Year Growth Estimate:</b>	9.5%	<b>Momentum Percentile:</b>	9.3%
<b>% Fair Value:</b>	65%	<b>5 Year Valuation Multiple Estimate:</b>	8.8%	<b>Growth Percentile:</b>	89.7%
<b>Dividend Yield:</b>	6.6%	<b>5 Year Price Target</b>	\$154	<b>Valuation Percentile:</b>	95.3%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	98.9%

## 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 \$33 billion annually and with a market capitalization of \$96 billion.

AbbVie reported its second quarter earnings results on July 26. The company was able to generate revenues of \$8.3 billion during the second quarter, which was 0.2% less than AbbVie's revenues during the second quarter of fiscal 2018. This was one of just two revenue declines in a long period of time, yet AbbVie still generated higher revenues than the analyst community forecasted, as it beat the top line consensus by \$170 million. AbbVie's revenues were positively impacted by strong growth from Imbruvica, grossing sales of \$1.1 billion, which was 29% more than the drug's sales during the previous year's quarter. Humira's revenues declined by 6% year over year, though, to \$4.9 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 as it slowly loses patent protection.

AbbVie earned \$2.26 per share during the second quarter, which was 13% more than the company's earnings-per-share during the second quarter of the previous year. AbbVie's earnings-per-share also beat the consensus analyst estimate. AbbVie guides for adjusted earnings-per-share of \$8.82 to \$8.92 during the current fiscal year, which was the result of a small increase in the company's guidance. We have adjusted our estimates accordingly.

## 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>\$8.87</b>	<b>\$13.96</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>1450</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.

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 over the coming years. 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.

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. This is even before the impact of the purchase of Allergan, which AbbVie seeks to acquire in a deal that will likely close over the next couple of quarters. The market did not like that AbbVie will have to take on a significant amount of debt to finance this takeover, but the combined pipelines and cash flows of these two major pharma companies should result in quick deleveraging and meaningful earnings growth through the 2020s, which is why we believe that the long-term growth outlook is favorable for AbbVie.

*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	---	---	---	---	13.9	16.7	14.4	12.6	13.4	11.6	<b>7.2</b>	<b>11.0</b>
Avg. Yld.	---	---	---	---	3.7%	3.0%	3.3%	3.8%	3.4%	4.8%	<b>6.6%</b>	<b>4.6%</b>

Following AbbVie's announcement that it would acquire Allergan, its valuation dropped to an even lower level compared to the already low valuation it was trading at before that. The increased leverage due to the Allergan deal results in some additional risks, which is why we have reduced our target price-to-earnings multiple slightly, but AbbVie still looks massively undervalued at the current price. Shares are offering a very high dividend yield on top of that.

## 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%	<b>48.3%</b>	<b>50.9%</b>

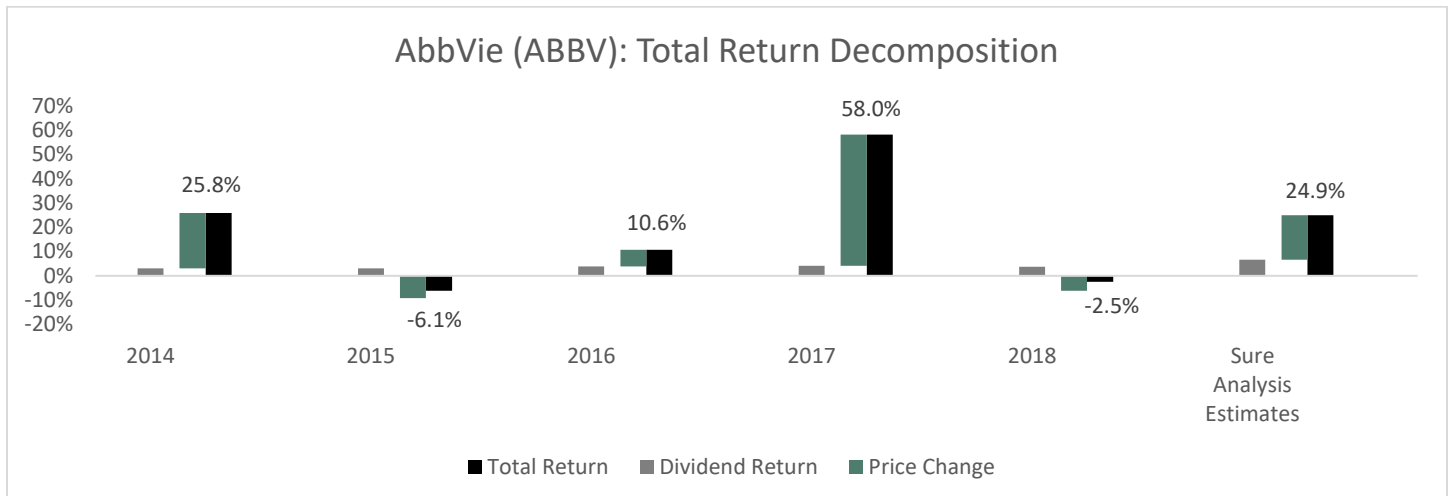
AbbVie started to pay dividends in 2013, and since then, the payout has risen quickly. This was possible due to a combination of strong earnings-per-share growth and an increase in AbbVie's dividend payout ratio. AbbVie does not have a very long dividend growth track record, but we believe that AbbVie's 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. Thanks to next-generation drugs and the takeover of Allergan, there is a good chance that the patent expiration will not be a major headwind for AbbVie. The Humira patent situation provides some uncertainty nevertheless.

## Final Thoughts & Recommendation

AbbVie is a leading biotech and pharma company that has grown both its profits as well as its dividend at a strong pace in the past. The Humira situation will pressure revenue growth over the coming years, but we believe that AbbVie will be able to grow its profits in coming years thanks to a deep pipeline, strong growth from new drugs, and the acquisition of Allergan. Shares look massively undervalued and provide both a strong income yield as well as a great total return outlook, which is why we rate AbbVie a strong buy at current prices.

## 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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