

# Abbott Laboratories (ABT)

Updated October 21<sup>st</sup>, 2020 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$107	<b>5 Year CAGR Estimate:</b>	0.5%	<b>Market Cap:</b>	\$192 B
<b>Fair Value Price:</b>	\$72	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	10/14/20
<b>% Fair Value:</b>	149%	<b>5 Year Valuation Multiple Estimate:</b>	-7.7%	<b>Dividend Payment Date:</b>	11/16/20
<b>Dividend Yield:</b>	1.3%	<b>5 Year Price Target</b>	\$101	<b>Years Of Dividend Growth:</b>	48
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	12.5%

## Overview & Current Events

Abbott Laboratories, founded in 1888, is one of the largest medical appliances & equipment manufacturers in the world, comprised of four segments: Nutrition, Diagnostics, Established Pharmaceuticals and Medical Devices. With a market capitalization of \$192 billion, Abbott Laboratories provides products in over 160 countries and employs 107,000 people. The company generates over \$30 billion in sales and \$5 billion in annual profit.

On October 21<sup>st</sup>, 2020 Abbott Laboratories reported Q3 2020 results for the period ending September 30<sup>th</sup>, 2020. For the quarter the company generated \$8.85 billion in sales (62% of which was outside the U.S.), representing a 9.6% improvement compared to Q3 2019 on a reported basis and a 10.6% improvement on an organic basis. Established Pharmaceutical sales were down, which was more than offset by increases in Medical Devices, Nutrition and Diagnostics, which showed a 38.2% improvement driven by strong demand for COVID-19 tests. Reported earnings-per-share equaled \$0.69, with adjusted EPS totaling \$0.98 compared to \$0.84 in the prior year period.

Prior to the COVID-19 pandemic, Abbott expected \$3.55 to \$3.65 in adjusted EPS, which had since been first suspended and then reinstated to "at least \$3.25." In the latest quarter Abbott raised this guidance back to "at least \$3.55."

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$4.17	\$4.66	\$4.99	\$2.01	\$2.28	\$2.15	\$2.20	\$2.50	\$2.88	\$3.24	<b>\$3.60</b>	<b>\$5.05</b>
<b>DPS</b>	\$1.76	\$1.88	\$2.01	\$0.56	\$0.88	\$0.96	\$1.04	\$1.06	\$1.12	\$1.28	<b>\$1.44</b>	<b>\$2.02</b>
<b>Shares<sup>1</sup></b>	1,547	1,570	1,577	1,548	1,508	1,473	1,473	1,744	1,756	1,781	<b>1,790</b>	<b>1,770</b>

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 moderately to 8.3% on average. However, during the last three years earnings growth has been quite strong.

The integration of St. Jude Medical and cost synergies related to the acquisition will continue to be an earnings driver in the years to come. 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.

The ongoing COVID-19 pandemic puts a large unknown on short-term demand across the globe. However, we believe that Abbott will be resilient in this environment – especially considering the COVID-19 diagnostics tests. We have increased our earnings expectations for this year, per management guidance, while reducing our growth rate estimate to 7% annually. However, this still implies improved intermediate-term expectations coming off a higher base.

<sup>1</sup> In millions.

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## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.2	11.0	12.6	17.8	18.0	21.5	18.4	19.4	22.3	24.9	29.8	20.0
Avg. Yld.	3.5%	3.7%	3.2%	1.6%	2.1%	2.1%	2.1%	2.2%	1.7%	1.6%	1.3%	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 meaningful valuation headwind from this point. This effectively offsets the solid expected growth rate.

Abbott Laboratories has declared 387 consecutive dividends and increased its payout for 48 straight years.

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

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	42%	40%	40%	28%	39%	45%	47%	42%	39%	40%	40%	40%

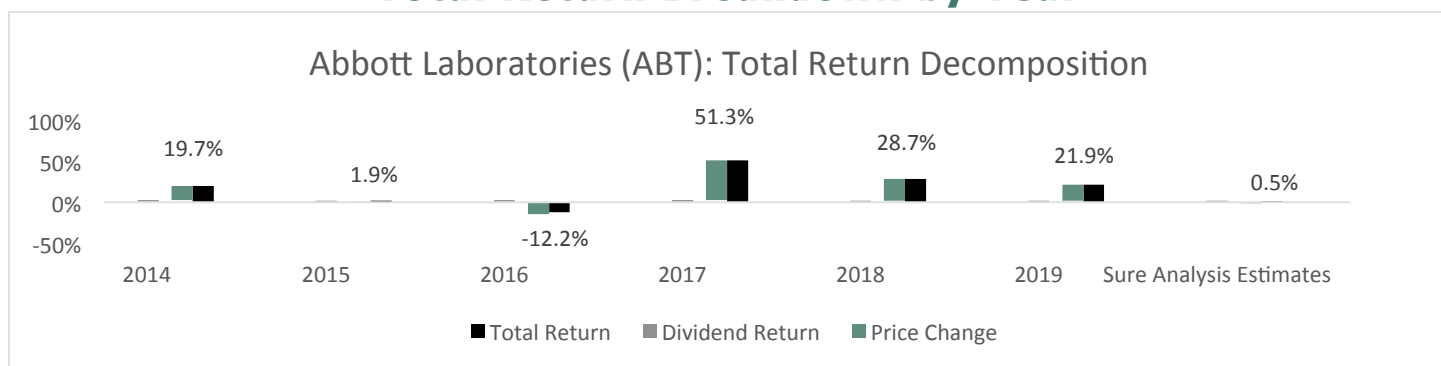
Abbott Laboratories' dividend payout ratio has never been above 50% throughout the last decade. Coupled with the fact that the company's earnings-per-share did not decline during the last financial crisis – it actually continued to grow – Abbott Laboratories' dividend looks very safe.

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 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. 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. This is especially true given the current global pandemic.

## Final Thoughts & Recommendation

Shares are up 11% since our last report, while earnings expectations have improved as well. Abbott Laboratories is a fundamentally strong company that addresses attractive and growing markets. The company's growth trajectory has slowed down slightly after AbbVie was spun off, but it is still quite impressive. However, the current valuation leaves something to be desired. We are projecting total return potential of just 0.5% per annum, stemming from 7% growth and a 1.3% starting dividend yield offset by a material valuation headwind. The elevated valuation continues to give us pause. So much so that shares earn a sell rating, despite the high quality of the underlying business.

## Total Return Breakdown by Year



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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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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	35167	21407	19050	19657	20247	20405	20853	27390	30578	31904
Gross Profit	20502	11390	10151	10464	11029	11658	11759	14981	17872	18673
Gross Margin	58.3%	53.2%	53.3%	53.2%	54.5%	57.1%	56.4%	54.7%	58.4%	58.5%
SG&A Exp.	10376	7365	6735	6372	6530	6785	6736	9182	9744	9765
D&A Exp.	2624	3044	2782	1719	1548	1472	1353	3021	3278	3014
Operating Profit	6088	1629	1360	2133	2599	2867	3026	1564	3650	4532
Op. Margin	17.3%	7.6%	7.1%	10.9%	12.8%	14.1%	14.5%	5.7%	11.9%	14.2%
Net Profit	4626	4728	5963	2576	2284	4423	1400	477	2368	3687
Net Margin	13.2%	22.1%	31.3%	13.1%	11.3%	21.7%	6.7%	1.7%	7.7%	11.6%
Free Cash Flow	7721	7479	7519	2179	2598	1856	2082	4435	4906	4498
Income Tax	1087	110	-457	53	797	577	350	1878	539	390

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	60574	60277	67235	42953	41207	41247	52666	76250	67173	67887
Cash & Equivalents	3648	6813	10802	3475	4063	5001	18620	9407	3844	3860
Acc. Receivable	7184	7684	7613	3986	3586	3418	3248	5249	5182	5425
Inventories	3189	3284	3793	2693	2643	2599	2434	3601	3796	4316
Goodwill & Int.	28082	25695	24362	15507	16265	15200	12222	45493	42196	40220
Total Liabilities	37809	35751	40422	17686	19568	19921	31949	45152	36451	36586
Accounts Payable	1536	1721	1797	1026	1064	1081	1178	2402	2975	3252
Long-Term Debt	18918	15415	20476	6561	7830	9001	22006	27924	19566	18139
Total Equity	22677	24440	26721	25171	21526	21211	20538	30897	30524	31088
D/E Ratio	0.83	0.63	0.77	0.26	0.36	0.42	1.07	0.90	0.64	0.58

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	8.2%	7.8%	9.4%	4.7%	5.4%	10.7%	3.0%	0.7%	3.3%	5.5%
Return on Equity	20.3%	20.1%	23.3%	9.9%	9.8%	20.7%	6.7%	1.9%	7.7%	12.0%
ROIC	11.4%	11.6%	13.7%	6.5%	7.5%	14.8%	3.8%	0.9%	4.3%	7.4%
Shares Out.	1,547	1,570	1,577	1,548	1,508	1,473	1,473	1,744	1,760	1,781
Revenue/Share	22.60	13.66	11.97	12.49	13.26	13.55	14.06	15.66	17.28	17.91
FCF/Share	4.96	4.77	4.72	1.38	1.70	1.23	1.40	2.54	2.77	2.53

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

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