



AbbVie (ABBV)

Updated February 3rd, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$105	5 Year CAGR Estimate:	10.6%	Market Cap:	\$190B
Fair Value Price:	\$124	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	04/14/21 ¹
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.4%	Dividend Payment Date:	05/16/21 ²
Dividend Yield:	5.0%	5 Year Price Target	\$144	Years Of Dividend Growth:	49
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	10.2%

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, especially following the closing of its acquisition of formerly independent pharma company Allergan.

AbbVie reported its fourth quarter earnings results on February 3. The company was able to generate revenues of \$13.9 billion during the quarter, which was 59% more than AbbVie's revenues during the previous year's quarter. This was a revenue growth acceleration compared to the previous quarter as well. AbbVie also generated higher revenues than the analyst community had forecasted, as it beat the top line consensus by \$160 million. AbbVie's revenues were positively impacted by strong growth from some of its drugs, but even more so by the addition of Allergan, which was taken over by AbbVie and which impacted the year-over-year revenue growth rate meaningfully.

AbbVie earned \$2.92 per share during the fourth quarter, which was 32% more than the company's earnings-per-share during the previous year's quarter. AbbVie's earnings-per-share also beat the consensus analyst estimate by \$0.07. AbbVie's guidance for 2021's adjusted earnings-per-share was announced during the earnings call, the company expects to earn \$12.32 - \$12.52 on a per-share basis this year, which would represent another sizeable increase versus 2020, which had also be a record year already, despite the pandemic.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	\$3.14	\$3.32	\$4.29	\$4.82	\$5.60	\$7.91	\$8.94	\$10.56	\$12.42	\$14.40
DPS	---	---	\$0.80	\$1.66	\$2.02	\$2.28	\$2.56	\$3.59	\$4.28	\$4.72	\$5.20	\$6.64
Shares³	---	---	1590	1590	1610	1590	1590	1550	1490	1780	1800	1750

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 15% annually. 2018 was a year of outsized earnings-per-share growth, 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 (in the US) and its substantial R&D investments for next-generation drugs should allow the company to keep revenues growing over the coming years. Humira's patent expiry in the US is still a couple of years away, which gives AbbVie enough time to bring new drugs to the market. AbbVie's new, improved drugs that target the same indications as Humira have a good chance at capturing much of Humira's current revenue stream. AbbVie's management believes that company-wide revenues in 2025 will be higher than they were in 2020, despite the fact that Humira's revenues will be much lower in the mid-2020s. The acquisition of Allergan, which has closed in 2020, will also drive future revenue growth and diversify the company further, which will soften the blow from the eventual generic competition for Humira, the world's best-selling drug.

¹ Estimated date

² Estimated date

³ In Millions

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	13.9	16.7	14.4	12.6	13.4	11.6	10.0	9.9	8.5	10.0
Avg. Yld.	---	---	3.7%	3.0%	3.3%	3.8%	3.4%	4.8%	4.8%	4.5%	5.0%	4.6%

AbbVie's share price has risen substantially since our last update, but the company's shares still trade at a rather inexpensive valuation. The increased leverage due to the Allergan deal and the Humira patent expiry a couple of years from now result in some risks, which is why we believe that a price-to-earnings multiple of around 10 seems fair. AbbVie looks undervalued at the current price. On top of that, AbbVie's shares are offering a high dividend yield to its owners.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	25.5%	50.0%	47.1%	47.3%	45.7%	45.4%	47.9%	44.7%	41.9%	46.1%

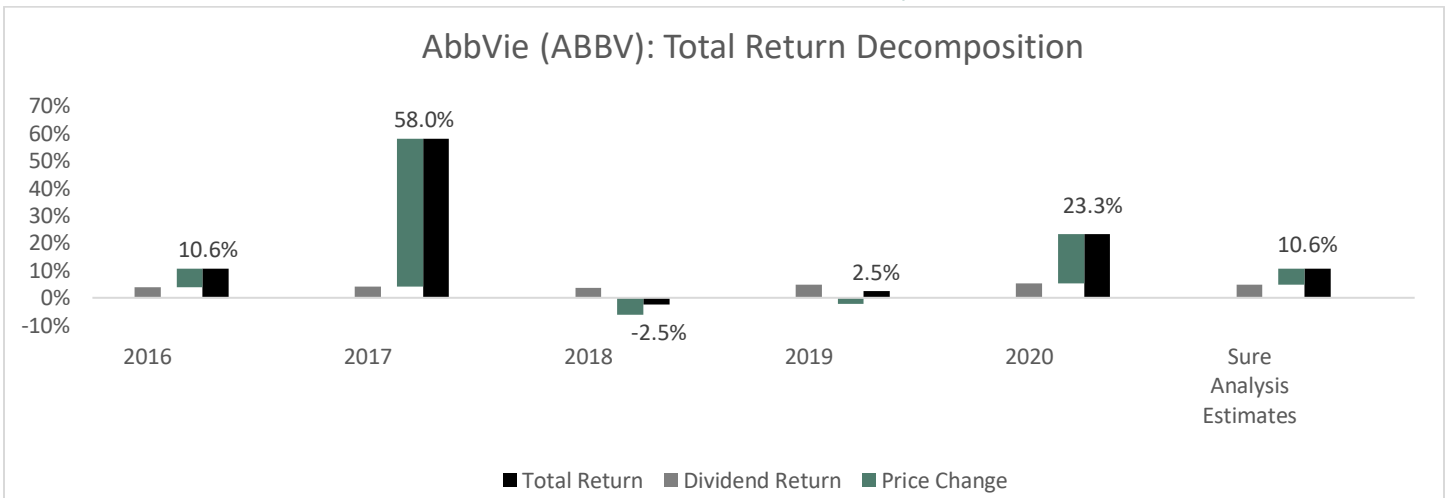
AbbVie started to pay dividends in 2013, and since then, the payout has risen quickly. This was possible due to a combination of strong earnings-per-share growth and an increase in AbbVie's dividend payout ratio. AbbVie does not have a very long dividend growth track record on its own, but we believe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

The healthcare industry, and especially the drug industry, is not very 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 will continue to perform well during recessions. AbbVie's Humira patent protection in the US 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 too much of a headwind. Investors should note that 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 patent situation could pressure revenues in 2023-2025, but we believe that the outlook is still positive, thanks to a deep pipeline, strong growth from new drugs, and the Allergan acquisition that allows for the capturing of some synergies between the two companies. Shares look slightly undervalued and offer a strong yield and substantial total returns, which is why we rate AbbVie a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	15638	17444	18380	18790	19960	22859	25638	28216	32753	33266
Gross Profit	11345	12805	13872	14209	15534	18359	19806	21174	25035	25827
Gross Margin	72.5%	73.4%	75.5%	75.6%	77.8%	80.3%	77.3%	75.0%	76.4%	77.6%
SG&A Exp.	3820	5894	4989	5352	7724	6387	5881	6295	7399	6942
D&A Exp.	1184	1272	1150	897	786	836	1189	1501	1765	2017
Operating Profit	5030	4293	6105	6002	3763	7687	9540	9872	6807	13368
Op. Margin	32.2%	24.6%	33.2%	31.9%	18.9%	33.6%	37.2%	35.0%	20.8%	40.2%
Net Profit	4178	3433	5275	4128	1774	5144	5953	5309	5687	7882
Net Margin	26.7%	19.7%	28.7%	22.0%	8.9%	22.5%	23.2%	18.8%	17.4%	23.7%
Free Cash Flow	4528	5891	6012	5776	2937	7003	6562	9431	12789	12772
Income Tax	658	235	450	1204	595	1501	1931	2418	(490)	544

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	21135	19521	27008	29198	27513	53050	66099	70786	59352	89115
Cash & Equivalents	10	27	5901	9595	8348	8399	5100	9303	7289	39924
Acc. Receivable	3373	3817	4298	3854	3735	4730	4758	5088	5384	5428
Inventories	836	872	1091	1150	1124	1719	1444	1605	1605	1813
Goodwill & Int.	9888	9010	8453	8167	7375	32877	44313	43344	36896	34253
Total Liabilities	5432	7589	23645	24706	25771	49105	61463	65689	67798	97287
Accounts Payable	357	417	556	933	1401	1597	1407	1474	1546	1452
Long-Term Debt	-	48	15672	14723	14977	31671	36842	37368	40310	66728
Total Equity	15703	11932	3363	4492	1742	3945	4636	5097	-8446	-8172
D/E Ratio	-	0.00	4.66	3.28	8.60	8.03	7.95	7.33	(4.77)	(8.17)

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets		16.9%	22.7%	14.7%	6.3%	12.8%	10.0%	7.8%	8.7%	10.6%
Return on Equity		24.8%	69.0%	105%	57%	181%	139%	109%		
ROIC		24.8%	34.0%	21.6%	9.9%	19.7%	15.4%	12.6%	15.3%	17.4%
Shares Out.	---	---	---	1590	1590	1610	1590	1590	1550	1490
Revenue/Share	9.90	11.04	11.66	11.71	12.40	13.96	15.72	17.60	21.19	22.42
FCF/Share	2.87	3.73	3.81	3.60	1.82	4.28	4.02	5.88	8.27	8.61

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

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