



# AbbVie (ABBV)

Updated February 8<sup>th</sup>, 2022 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$142	<b>5 Year CAGR Estimate:</b>	6.2%	<b>Market Cap:</b>	\$248 B
<b>Fair Value Price:</b>	\$141	<b>5 Year Growth Estimate:</b>	2.5%	<b>Ex-Dividend Date:</b>	01/13/22
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-0.1%	<b>Dividend Payment Date:</b>	02/15/22
<b>Dividend Yield:</b>	4.0%	<b>5 Year Price Target</b>	\$160	<b>Years Of Dividend Growth:</b>	50
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	8.5%

## 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 2. The company was able to generate revenues of \$14.9 billion during the quarter, which was 7% more than AbbVie's revenues during the previous year's quarter. AbbVie generated slightly lower revenues than the analyst community had forecasted, as it missed the top line consensus by \$70 million. AbbVie's revenues were positively impacted by healthy growth from some of its drugs, including Skyrizi and Rinvoq, while the impact of the Allergan acquisition was less pronounced compared to previous quarters, as the closing of that acquisition has been fully lapped by now.

AbbVie earned \$3.31 per share during the fourth quarter, which was 13% more than the company's earnings-per-share during the previous year's quarter. AbbVie's earnings-per-share easily beat the consensus analyst estimate by \$0.03. AbbVie's guidance for 2022's adjusted earnings-per-share was announced during the earnings call, the company expects to earn \$14.00 - \$14.20 on a per-share basis this year, which would represent a sizeable increase versus 2021, which had also been a record year already, despite the impact of the pandemic. The company's earnings-per-share guidance excludes non-cash charges for intangible asset amortization related to the Allergan takeover.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	---	\$3.14	\$3.32	\$4.29	\$4.82	\$5.60	\$7.91	\$8.94	\$10.56	\$12.70	<b>\$14.10</b>	<b>\$15.95</b>
<b>DPS</b>	---	\$0.80	\$1.66	\$2.02	\$2.28	\$2.56	\$3.59	\$4.28	\$4.72	\$5.20	<b>\$5.64</b>	<b>\$7.20</b>
<b>Shares<sup>1</sup></b>	---	1590	1590	1610	1590	1590	1550	1490	1780	1780	<b>1800</b>	<b>1750</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 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 nearly disappear 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.

<sup>1</sup> In Millions

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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	13.9	16.7	14.4	12.6	13.4	11.6	10.0	9.9	10.7	<b>10.1</b>	<b>10.0</b>
Avg. Yld.	---	3.7%	3.0%	3.3%	3.8%	3.4%	4.8%	4.8%	4.5%	3.8%	<b>4.0%</b>	<b>4.5%</b>

AbbVie's share price has increased since our last update, but that is mostly offset by higher expected net profits for the current fiscal year. The increased leverage due to the Allergan deal and the Humira patent expiry in the foreseeable future result in some risks, which is why we believe that a price-to-earnings multiple of around 10 seems fair. AbbVie trades in line with our fair value estimate at the current price. AbbVie's shares offer a solid 4% yield for its owners.

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

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	25.5%	50.0%	47.1%	47.3%	45.7%	45.4%	47.9%	44.7%	40.9%	<b>40.0%</b>	<b>45.1%</b>

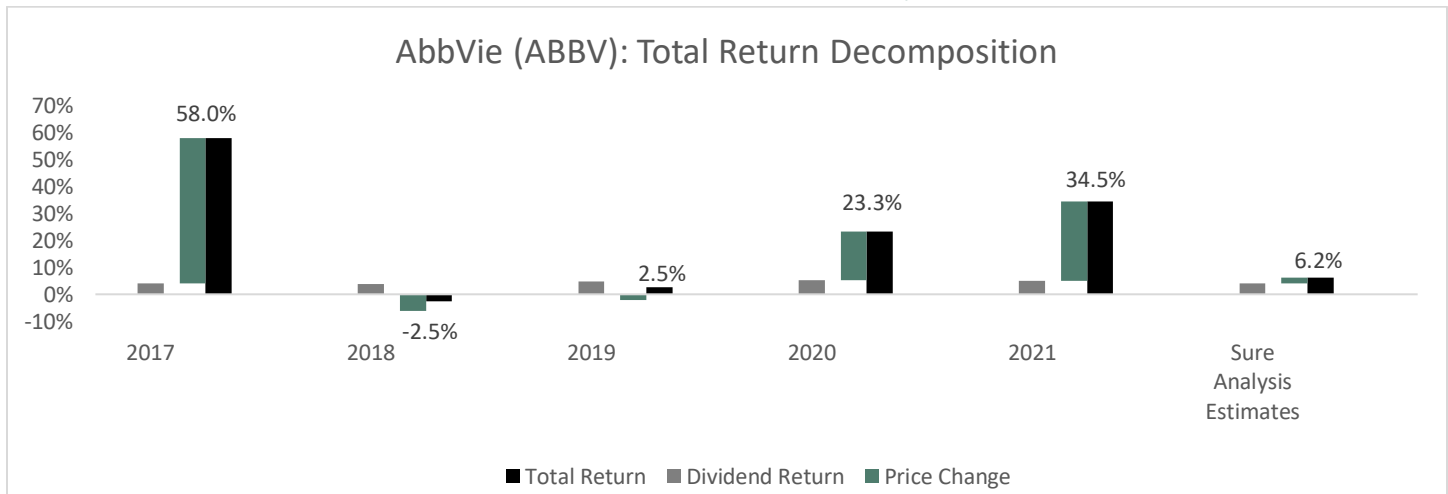
AbbVie started to pay dividends in 2013, and since then, the payout has risen quickly. This was possible due to a combination of strong earnings-per-share growth and an increase in AbbVie's dividend payout ratio. AbbVie does not have a very long dividend growth track record on its own, but we believe 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 over the coming years. Shares trade in line with our fair value estimate and offer solid, but not overly attractive returns over the coming years, which is why we rate AbbVie a hold today.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	18380	18790	19960	22859	25638	28216	32753	33266	45804	56197
<b>Gross Profit</b>	13872	14209	15534	18359	19806	21174	25035	25827	30417	38751
<b>Gross Margin</b>	75.5%	75.6%	77.8%	80.3%	77.3%	75.0%	76.4%	77.6%	66.4%	69.0%
<b>SG&amp;A Exp.</b>	4989	5352	7724	6387	5881	6295	7399	6942	11299	12349
<b>D&amp;A Exp.</b>	1150	897	786	836	1189	1501	1765	2017	6471	
<b>Operating Profit</b>	6105	6002	3763	7687	9540	9872	6807	13368	12561	18886
<b>Op. Margin</b>	33.2%	31.9%	18.9%	33.6%	37.2%	35.0%	20.8%	40.2%	27.4%	33.6%
<b>Net Profit</b>	5275	4128	1774	5144	5953	5309	5687	7882	4616	11542
<b>Net Margin</b>	28.7%	22.0%	8.9%	22.5%	23.2%	18.8%	17.4%	23.7%	10.1%	20.5%
<b>Free Cash Flow</b>	6012	5776	2937	7003	6562	9431	12789	12772	16790	
<b>Income Tax</b>	450	1204	595	1501	1931	2418	(490)	544	(1224)	1440

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	27008	29198	27513	53050	66099	70786	59352	89115	150565	
<b>Cash &amp; Equivalents</b>	5901	9595	8348	8399	5100	9303	7289	39924	8449	
<b>Acc. Receivable</b>	4298	3854	3735	4730	4758	5088	5384	5428	8822	
<b>Inventories</b>	1091	1150	1124	1719	1444	1605	1605	1813	3310	
<b>Goodwill &amp; Int.</b>	8453	8167	7375	32877	44313	43344	36896	34253	116000	
<b>Total Liabilities</b>	23645	24706	25771	49105	61463	65689	67798	97287	137468	
<b>Accounts Payable</b>	556	933	1401	1597	1407	1474	1546	1452	2276	
<b>Long-Term Debt</b>	15672	14723	14977	31671	36842	37368	40310	66728	86056	-
<b>Total Equity</b>	3363	4492	1742	3945	4636	5097	(8446)	(8172)	13076	
<b>LTD/E Ratio</b>	4.66	3.28	8.60	8.03	7.95	7.33	(4.77)	(8.17)	6.58	

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	22.7%	14.7%	6.3%	12.8%	10.0%	7.8%	8.7%	10.6%	3.9%	
<b>Return on Equity</b>	69.0%	105.1%	56.9%	180.9%	138.7%	109.1%			188.3%	
<b>ROIC</b>	34.0%	21.6%	9.9%	19.7%	15.4%	12.6%	15.3%	17.4%	5.9%	
<b>Shares Out.</b>	---	1590	1590	1610	1590	1590	1550	1490	1780	1780
<b>Revenue/Share</b>	11.66	11.71	12.40	13.96	15.72	17.60	21.19	22.42	27.38	31.62
<b>FCF/Share</b>	3.81	3.60	1.82	4.28	4.02	5.88	8.27	8.61	10.04	

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

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