



Abbott Laboratories (ABT)

Updated October 19th, 2022, by Nathan Parsh

Key Metrics

Current Price:	\$98	5 Year CAGR Estimate:	8.0%	Market Cap:	\$183 B
Fair Value Price:	\$104	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	10/14/22
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.2%	Dividend Payment Date:	11/15/22
Dividend Yield:	1.9%	5 Year Price Target	\$133	Years Of Dividend Growth:	50
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 \$183 billion, Abbott Laboratories provides products in over 160 countries and employs 113,000 people. The company generated \$43 billion in sales and \$9.4 billion in profit in 2021.

On October 19th, 2022, Abbott Laboratories reported third quarter results for the period ending September 30th, 2022. For the quarter, the company generated \$10.4 billion in sales (61% outside of the U.S.), representing a 4.8% decrease compared to the second quarter of 2021. Adjusted earnings-per-share of \$1.15 compared unfavorably to \$1.40 in the prior year. Revenue was \$750 million better than expected while adjusted earnings-per-share topped estimates by \$0.21.

U.S. sales declined 6.3% while international was lower by 3.7%. Companywide organic sales growth was 1.3%. Results were mixed and negatively impacted by currency exchange. Nutrition fell 10.3% organically, largely due the manufacturing stoppage of certain infant formulas in February. Production at the plant in question did restart during the quarter. Diagnostics was down 0.6% due to decreased demand for Covid-19 testing materials. Established Pharmaceuticals improved 12.2% due to strength in branded generics and strong results in China, India, Brazil, and Vietnam. Medical Devices was higher by 6.4%, primarily due to double-digit improvements in Structural Heart and Diabetes Care.

Abbott Laboratories raised its guidance for 2022, with the company now expecting adjusted earnings-per-share of \$5.17 to \$5.23 for the year, up from at least \$4.90 and \$4.70 previously.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.99	\$2.01	\$2.28	\$2.15	\$2.20	\$2.50	\$2.88	\$3.24	\$3.65	\$5.21	\$5.20	\$6.64
DPS	\$2.01	\$0.56	\$0.88	\$0.96	\$1.04	\$1.06	\$1.12	\$1.28	\$1.44	\$1.80	\$1.88	\$2.64
Shares¹	1,577	1,548	1,508	1,473	1,473	1,744	1,756	1,781	1,786	1,789	1,764	1,750

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. However, since the spin-off Abbott Laboratories' earnings-per-share growth rate has still been very solid. During the last five years in particular earnings growth has been quite strong.

¹ In millions.

Disclosure: This analyst has a long position in the security discussed in this research report.



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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 are forecasting 5% growth coming off \$5.20 in EPS for 2022.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.6	17.8	18.0	21.5	18.4	19.4	22.3	24.9	26.3	22.6	18.8	20.0
Avg. Yld.	3.2%	1.6%	2.1%	2.1%	2.1%	2.2%	1.7%	1.6%	1.5%	1.5%	1.9%	2.0%

Shares of Abbott Laboratories have decreased \$11, or 10%, since our July 20th, 2022 report. The stock's 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. We believe that shares are trading below fair value, pegged at 20 times earnings, implying the potential for a valuation tailwind of 1.2% annually through 2027.

Abbott Laboratories has declared almost 400 consecutive dividends and increased its payout for 50 straight years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	40%	28%	39%	45%	47%	42%	39%	40%	39%	35%	36%	40%

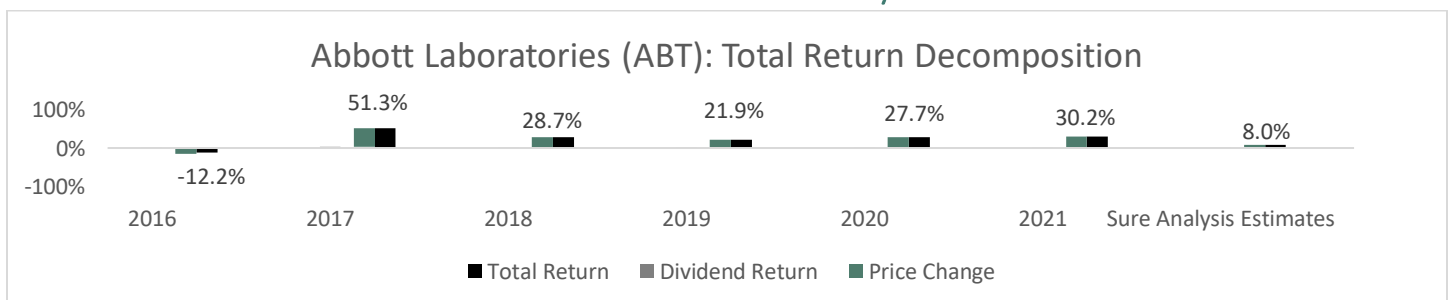
Abbott Laboratories' dividend payout ratio has never been above 50% throughout the last decade. Coupled with the fact that the company's earnings-per-share did not decline during the last financial crisis – it actually continued to grow – Abbott Laboratories' dividend looks very safe.

After the spin-off of AbbVie, Abbott Laboratories has proven to be 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

We continue to find that Abbott Laboratories is a fundamentally strong company that addresses attractive and growing markets. We are projecting total annual return potential of 8.0%, up from 4.6% at the time of our last report. This projected return stems from 5% earnings growth, a 1.9% starting dividend yield, and a small valuation tailwind. Nutrition remains a headwind, but the production restart at the formula plant is a positive sign. We have raised our 2027 price target \$8 to \$133 due to earnings guidance, but continue to rate shares of Abbott laboratories as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	19050	19657	20247	20405	20853	27390	30578	31904	34610	43075
Gross Profit	10151	10464	11029	11658	11759	14981	17872	18673	19600	24538
Gross Margin	53.3%	53.2%	54.5%	57.1%	56.4%	54.7%	58.4%	58.5%	56.6%	57.0%
SG&A Exp.	6735	6372	6530	6785	6736	9182	9744	9765	9696	11324
D&A Exp.	2782	1719	1548	1472	1353	3021	3278	3014	3327	3538
Operating Profit	1360	2133	2599	2867	3026	1564	3650	4532	5357	8425
Op. Margin	7.1%	10.9%	12.8%	14.1%	14.5%	5.7%	11.9%	14.2%	15.5%	19.6%
Net Profit	5963	2576	2284	4423	1400	477	2368	3687	4495	7071
Net Margin	31.3%	13.1%	11.3%	21.7%	6.7%	1.7%	7.7%	11.6%	13.0%	16.4%
Free Cash Flow	7519	2179	2598	1856	2082	4435	4906	4498	5724	8648
Income Tax	-457	53	797	577	350	1878	539	390	497	1140

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	67235	42953	41207	41247	52666	76250	67173	67887	72550	75196
Cash & Equivalents	10802	3475	4063	5001	18620	9407	3844	3860	6838	9799
Acc. Receivable	7613	3986	3586	3418	3248	5249	5182	5425	6414	6487
Inventories	3793	2693	2643	2599	2434	3601	3796	4316	5012	5157
Goodwill & Int.	24362	15507	16265	15200	12222	45493	42196	40220	38530	35970
Total Liabilities	40422	17686	19568	19921	31949	45152	36451	36586	39540	39172
Accounts Payable	1797	1026	1064	1081	1178	2402	2975	3252	3946	4408
Long-Term Debt	20476	6561	7830	9001	22006	27924	19566	18139	18750	18050
Total Equity	26721	25171	21526	21211	20538	30897	30524	31088	32780	35802
LTD/E Ratio	0.77	0.26	0.36	0.42	1.07	0.90	0.64	0.58	0.57	0.50

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	9.4%	4.7%	5.4%	10.7%	3.0%	0.7%	3.3%	5.5%	6.4%	9.6%
Return on Equity	23.3%	9.9%	9.8%	20.7%	6.7%	1.9%	7.7%	12.0%	14.1%	20.6%
ROIC	13.7%	6.5%	7.5%	14.8%	3.8%	0.9%	4.3%	7.4%	8.9%	13.4%
Shares Out.	1577	1548	1508	1473	1473	1744	1760	1781	1786	1789
Revenue/Share	11.97	12.49	13.26	13.55	14.06	15.66	17.28	17.91	19.38	24.08
FCF/Share	4.72	1.38	1.70	1.23	1.40	2.54	2.77	2.53	3.21	4.83

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

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