



# Abbott Laboratories (ABT)

Updated October 18<sup>th</sup>, 2023, by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$95	<b>5 Year CAGR Estimate:</b>	5.8%	<b>Market Cap:</b>	\$164 B
<b>Fair Value Price:</b>	\$89	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	10/12/23
<b>% Fair Value:</b>	107%	<b>5 Year Valuation Multiple Estimate:</b>	-1.3%	<b>Dividend Payment Date:</b>	11/15/23
<b>Dividend Yield:</b>	2.1%	<b>5 Year Price Target</b>	\$113	<b>Years Of Dividend Growth:</b>	51
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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. Abbott Laboratories provides products in over 160 countries and employs 115,000 people. The company generated \$44 billion in sales and \$9.4 billion in profit in 2022.

On December 12<sup>th</sup>, 2022, Abbott Laboratories raised its quarterly dividend 7.8% to \$0.51, extending the company's dividend growth streak to 51 years.

On October 18<sup>th</sup>, 2023, Abbott Laboratories reported third quarter earnings results for the period ending September 30<sup>th</sup>, 2023. For the quarter, the company generated \$10.1 billion in sales (62% outside of the U.S.), representing a 2.5% decrease compared to the third quarter of 2022, but this was a deceleration from the decline seen in the preceding period. Adjusted earnings-per-share of \$1.14 compared to \$1.15 in the prior year. Revenue was \$320 million more than anticipated while adjusted earnings-per-share was \$0.04 better than expected.

U.S. sales fell 6.8% while international was higher by 0.2%. Companywide organic sales were lower by 1.5%. Excluding Covid-19 testing products, organic growth was 13.8%. Nutrition improved 18.1% organically as the company continues to see a recovery in market share of its infant formula business following a stoppage of production in 2022. Diagnostics fell 31.9%, mostly due to fewer Covid-19 tests being sold. Excluding this, revenue was higher by 10.1%. Established Pharmaceuticals increased 11.1% due to strength in cardiometabolic, women's health, and central nervous system/pain management. Medical Devices grew 14.7%, led by continued high demand for Diabetes Care, Structural Heart, Electrophysiology, and Neuromodulation.

Abbott Laboratories provided updated guidance for the year as well, with the company now expecting adjusted earnings-per-share in a range of \$4.42 to \$4.46 for 2023, compared to a prior range of \$4.30 to \$4.50. Excluding Covid-19-related resting revenue, organic growth is still projected to be in the low double-digits.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$2.01	\$2.28	\$2.15	\$2.20	\$2.50	\$2.88	\$3.24	\$3.65	\$5.21	\$5.34	<b>\$4.44</b>	<b>\$5.67</b>
<b>DPS</b>	\$0.56	\$0.88	\$0.96	\$1.04	\$1.06	\$1.12	\$1.28	\$1.44	\$1.80	\$1.88	<b>\$2.04</b>	<b>\$2.86</b>
<b>Shares<sup>1</sup></b>	1,548	1,508	1,473	1,473	1,744	1,756	1,781	1,786	1,789	1,754	<b>1,748</b>	<b>1,740</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. 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. With its strong position in growth markets

<sup>1</sup> In millions.

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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 \$4.44 in EPS for 2023.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.8	18.0	21.5	18.4	19.4	22.3	24.9	26.3	22.6	20.6	21.4	20.0
Avg. Yld.	1.6%	2.1%	2.1%	2.1%	2.2%	1.7%	1.6%	1.5%	1.5%	1.7%	2.1%	2.5%

Shares of Abbott Laboratories have decreased \$17, or 15.2%, since our July 20<sup>th</sup>, 2023 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 above fair value, pegged at 20 times earnings, implying the potential for a small valuation headwind of 1.3% annually through 2028.

Abbott Laboratories has declared almost 400 consecutive dividends and increased its payout for 51 consecutive years.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	28%	39%	45%	47%	42%	39%	40%	39%	35%	35%	46%	51%

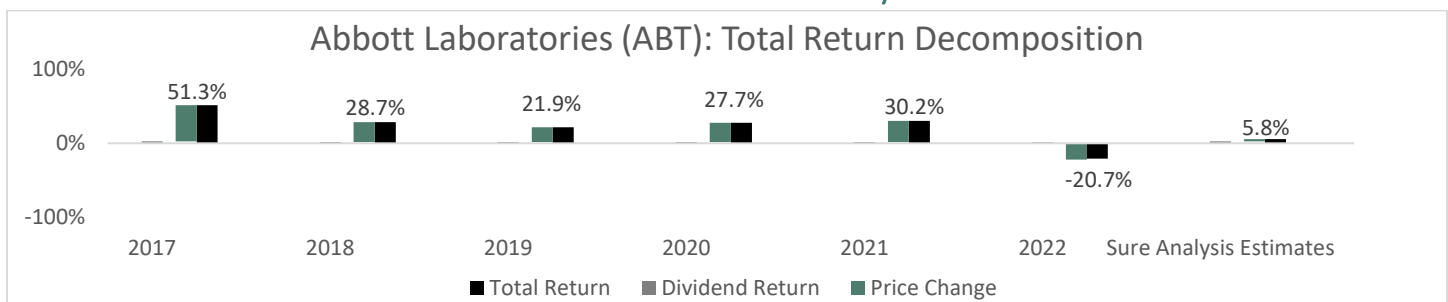
Abbott Laboratories' dividend payout ratio has never been above 50% throughout the last decade. Coupled with the fact that the company's earnings-per-share did not decline during the last financial crisis – it actually continued to grow – Abbott Laboratories' dividend looks very safe.

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 was especially true during the worst of the Covid-19 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 5.8%, up from 2.2% previously. This estimate stems from 5% earnings growth, and a 2.1% starting dividend yield, offset by a low single-digit valuation headwind. Currency exchange and Covid testing demand continues to impact results, but the core business is performing very well with high rates of organic growth seen throughout the company. We have raised our 2028 price target \$1 to \$113 due to updated earnings guidance. Shares earn a hold rating due to projected returns, but we note the high-quality nature of the company.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	19657	20247	20405	20853	27390	30578	31904	34610	43075	43653
<b>Gross Profit</b>	10464	11029	11658	11759	14981	17872	18673	19600	24538	24511
<b>Gross Margin</b>	53.2%	54.5%	57.1%	56.4%	54.7%	58.4%	58.5%	56.6%	57.0%	56.1%
<b>SG&amp;A Exp.</b>	6372	6530	6785	6736	9182	9744	9765	9696	11324	11248
<b>D&amp;A Exp.</b>	1719	1548	1472	1353	3021	3278	3014	3327	3538	3267
<b>Operating Profit</b>	2133	2599	2867	3026	1564	3650	4532	5357	8425	8362
<b>Op. Margin</b>	10.9%	12.8%	14.1%	14.5%	5.7%	11.9%	14.2%	15.5%	19.6%	19.2%
<b>Net Profit</b>	2576	2284	4423	1400	477	2368	3687	4495	7071	6933
<b>Net Margin</b>	13.1%	11.3%	21.7%	6.7%	1.7%	7.7%	11.6%	13.0%	16.4%	15.9%
<b>Free Cash Flow</b>	2179	2598	1856	2082	4435	4906	4498	5724	8648	7804
<b>Income Tax</b>	53	797	577	350	1878	539	390	497	1140	1373

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	42953	41207	41247	52666	76250	67173	67887	72550	75196	74438
<b>Cash &amp; Equivalents</b>	3475	4063	5001	18620	9407	3844	3860	6838	9799	9882
<b>Acc. Receivable</b>	3986	3586	3418	3248	5249	5182	5425	6414	6487	6218
<b>Inventories</b>	2693	2643	2599	2434	3601	3796	4316	5012	5157	6173
<b>Goodwill &amp; Int.</b>	15507	16265	15200	12222	45493	42196	40220	38530	35970	33253
<b>Total Liabilities</b>	17686	19568	19921	31949	45152	36451	36586	39540	39172	37533
<b>Accounts Payable</b>	1026	1064	1081	1178	2402	2975	3252	3946	4408	4607
<b>Long-Term Debt</b>	6561	7830	9001	22006	27924	19566	18139	18750	18050	16773
<b>Total Equity</b>	25171	21526	21211	20538	30897	30524	31088	32780	35802	36686
<b>LTD/E Ratio</b>	0.26	0.36	0.42	1.07	0.90	0.64	0.58	0.57	0.50	0.46

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	4.7%	5.4%	10.7%	3.0%	0.7%	3.3%	5.5%	6.4%	9.6%	9.3%
<b>Return on Equity</b>	9.9%	9.8%	20.7%	6.7%	1.9%	7.7%	12.0%	14.1%	20.6%	19.1%
<b>ROIC</b>	6.5%	7.5%	14.8%	3.8%	0.9%	4.3%	7.4%	8.9%	13.4%	12.9%
<b>Shares Out.</b>	1548	1508	1473	1473	1744	1760	1781	1786	1789	1754
<b>Revenue/Share</b>	12.49	13.26	13.55	14.06	15.66	17.28	17.91	19.38	24.08	24.75
<b>FCF/Share</b>	1.38	1.70	1.23	1.40	2.54	2.77	2.53	3.21	4.83	4.42

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

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