

Abbott Laboratories (ABT)

\$89.83 (As of 05/04/20)

Price Target (6-12 Months): **\$97.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/20/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: C

Summary

Abbott exited the first quarter of 2020 with better-than-expected earnings and revenue numbers. In the quarter, Abbott registered strong and consistent performance within EPD and Medical Devices segments. Abbott has been in news within Diabetic Care on growth with FreeStyle Libre. With the healthcare industry shifting its focus to control the coronavirus-led damage, Abbott has witnessed its molecular diagnostics and nutrition businesses putting up impressive performance during this period. The company launched three back-to-back diagnostic tests for covid-19. However, Abbott's Core Laboratory Diagnostics, cardiovascular and neuromodulation sales were significantly down in the reported quarter affected by lower demand in the past few months. Overall, in the past three months, Abbott has been outperforming the industry.

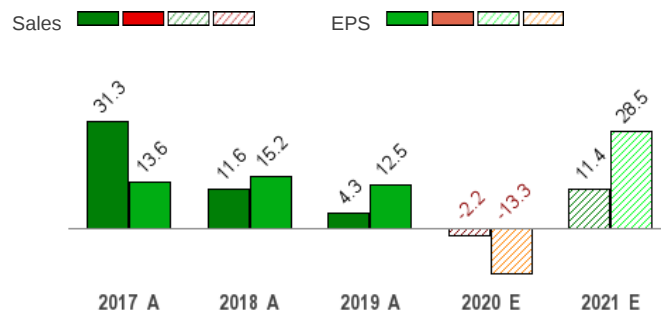
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$100.00 - \$61.61
20 Day Average Volume (sh)	10,159,206
Market Cap	\$158.9 B
YTD Price Change	3.4%
Beta	0.98
Dividend / Div Yld	\$1.44 / 1.6%
Industry	Medical - Products
Zacks Industry Rank	Top 13% (33 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.2%
Last Sales Surprise	8.4%
EPS F1 Est- 4 week change	-9.6%
Expected Report Date	07/15/2020
Earnings ESP	0.0%
P/E TTM	27.6
P/E F1	32.0
PEG F1	2.9
P/S TTM	5.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	8,490 E	8,479 E	8,775 E	9,207 E	34,784 E
2020	7,726 A	6,764 E	7,967 E	8,729 E	31,216 E
2019	7,535 A	7,979 A	8,076 A	8,314 A	31,904 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.78 E	\$0.82 E	\$0.94 E	\$1.06 E	\$3.61 E
2020	\$0.65 A	\$0.41 E	\$0.77 E	\$0.99 E	\$2.81 E
2019	\$0.63 A	\$0.82 A	\$0.84 A	\$0.95 A	\$3.24 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/04/2020. The reports text is as of 05/05/2020.

Overview

Abbott Park, IL-based Abbott discovers, develops, manufactures and sells a diversified line of health care products.

Established Pharmaceuticals Division (EPD) includes branded generics business in the emerging markets. The division accounted for 14% of total sales in 2019 and registered organic growth of 7.3% from 2018.

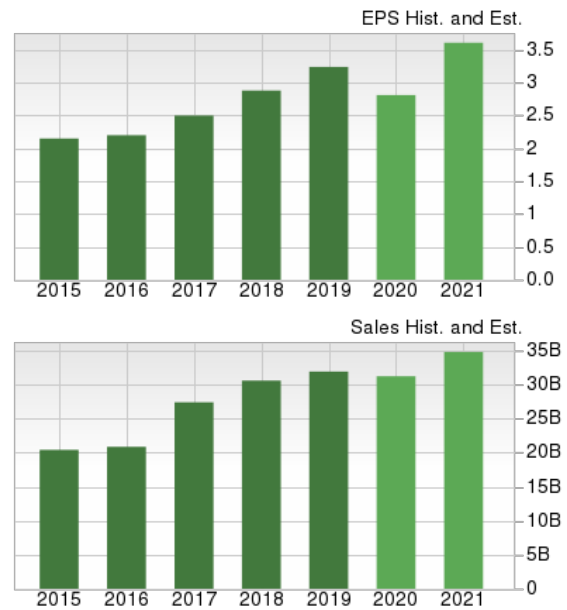
Medical Devices includes the diabetes care, vision care and vascular businesses and accounted for 37.6% of total sales in 2019 and reported organic growth of 10.5% from the year-ago number.

Diagnostics manufactures and markets diagnostic systems and tests in four business lines – core laboratory, molecular, point of care and rapid diagnostics (reflects sales from Alere, which was acquired on Oct. 3, 2017). The division accounted for 25.3% of total sales in 2019, a 5.9% organic growth from 2018.

Nutrition includes a broad line of pediatric and adult nutritional products. The division accounted for 22.9% of total sales in 2019 and registered 5.3% organic growth from the year-ago period.

Abbott has been actively pursuing acquisitions to expand and diversify its portfolio. In 2014, Abbott acquired CFR Pharmaceuticals for \$2.9 billion. In Aug 2015, the company acquired Tendyne Holdings, Inc., In Jan 2017, Abbott acquired St. Jude Medical and in October 2017 the company acquired Alere Inc.

On the other hand, Abbott sold its developed markets branded generics pharmaceuticals business to Mylan in Feb 2015, for 110 million shares of Mylan N.V. Abbott retained the branded generics pharmaceuticals business in emerging markets. Abbott sold its animal health business to Zoetis Inc in Feb 2015. Also the company divested its vision care business, Medical Optics, to Johnson and Johnson for \$4.325 billion in cash.



Reasons To Buy:

▲ **Share Price Performance:** Over the past three months, Abbott has been outperforming the industry. The stock has gained 0.4% as against the industry's 8.1% drop. Abbott exited the first quarter of 2020 with better-than-expected earnings and revenue numbers. Overall, we are optimistic about the firm's strong and consistent EPD performance organically. EPD's underlying market growth and share dynamics remained in line with historical trends during the quarter. Abbott has been riding high on a healthy growth graph within its Diabetes Care business as well. The company has also been in the limelight for developments in its flagship, sensor-based continuous glucose monitoring system, FreeStyle Libre System.

The branded generics and international diabetes businesses should drive growth in the coming quarters. New product launches and acquisitions should boost sales further.

With the healthcare industry shifting its focus to control the coronavirus-led damage, Abbott has witnessed its molecular diagnostics and nutrition businesses putting up impressive performance during this period. Within nutrition, the company noted increased demand, during late March in advance of shelter-in-place restrictions in certain markets. Within molecular diagnostics, the company launched three back-to-back diagnostic tests for covid-19, two for the laboratory setting and one for rapid point-of-care testing.

Further, although, demand for elective cardiovascular procedures declined during the first quarter, over the last few months, the company has announced several new CE Mark approvals in this area, including TriClip, the world's first minimally invasive device for repairing a leaky tricuspid heart valve; Tendyne, a first of its kind device for mitral heart valve replacement, and Gallant, the next generation implantable cardiac defibrillator.

▲ **Molecular & Rapid Diagnostics Grow Strong amid Pandemic:** Abbott is putting a lot of efforts to progress in the area of diagnostic testing for covid-19. In March, the company launched two COVID-19 tests — the ID NOW COVID-19 molecular test (the fastest available molecular point-of-care test delivering results within 13 minutes and positive results in five minutes) and the RealTime SARS-CoV-2 molecular test, which runs on Abbott's m2000 RealTime System located in hospitals and reference laboratories. In April, the company rolled out its third COVID-19 test, which is a serology blood test for the detection of the antibody, IgG, on its lab-based immunoassay testing platforms. The company has already begun shipping these antibody tests and intends to ship 4 million tests in April, ramping up capacity to 20 million tests per month in June and beyond.

Meanwhile, the company is now in process to develop another lab-based serology test to detect one more important antibody, IgM, which it expects to launch in the near future.

▲ **Strong EPD Business:** Abbott's EPD business operates solely in emerging geographies, with leading positions in many of the largest and fastest growing pharmaceutical markets for branded generics in the world. These markets include India, Russia, China and Latin America. The company recently noted that, banking on successful execution of its Branded Generic operating model, EPD is well positioned for sustained above-market growth in many of these growing pharmaceutical markets. In the last reported quarter, sales were strong led by growth in key emerging markets including India, China and Brazil among others. Underlying growth dynamics in these countries continue to remain strong and sustainable.

According to Abbott, its unique branded generics model was built to focus specifically on key emerging countries where long-term growth in medicines is guaranteed by the aging populations and the related rise in chronic diseases. We believe, Abbott's continued focus on enhancing local capabilities and expanding its product portfolio within core therapeutic areas targeted specifically to address local market needs will further strengthen its position in these markets.

▲ **Rapid Diagnostics, a Promising Space:** The integration of Alere has added Rapid Diagnostics to Abbott's existing leadership position in the \$50 billion global diagnostics market. Alere's complementary portfolio of diagnostic products, comprising tests for infections such as HIV, tuberculosis, malaria and dengue will be added to Abbott's portfolio.

Over the past few months, Abbott has made good progress integrating this business and continues to see several levers for growth acceleration, including opportunities for geographic, platform and test menu expansion. In the first quarter, Rapid Diagnostics sales reported 5.4% year-over-year growth on an organic basis.

Progress with Diabetes Business: This business achieved growth of 35.6% in the reported quarter banking on the solid worldwide adoption of FreeStyle Libre. This device alone registered global sales of more than \$600 million in the quarter, marking a surge of 62.5% on an organic basis. The company encouragingly noted that, in a relatively short span, Libre has achieved global leadership among CGM systems for both Type 1 and Type 2 users. Moreover, we are looking forward to the company's two back-to-back alliances with Sanofi and Tandem Diabetes Care to integrate glucose sensing and insulin delivery technologies.

▲ **Stable Solvency Structure with Heavy Payout Load:** Abbott exited first-quarter 2020 with cash and cash equivalents of \$3.67 billion compared with \$4.14 billion at the end of the fourth quarter of 2019. Meanwhile, total debt came up to \$18.27 billion, a slight increase from the sequentially-last-reported figure of \$18.14 billion. Although, the reported quarter's total debt was much higher than the corresponding cash and cash equivalent level, the company has current-year-payable debt of \$1.47 billion on its balance sheet, much lower than the present level of cash in hand. This is good news in terms of the company's solvency position particularly during the year of global pandemic when it is majorly facing manufacturing and supply halt globally.

The quarter's total debt-to-capital of 37.3% stands at a moderately high level right now. It represents a sequential rise from 36.4% in the fourth quarter. On the other hand, the company's first-quarter interest coverage stands at 7.4%, the highest in the past four quarters buoying optimism.

Abbott's capital deployment policy is based on the return of shareholders' money through dividends and share buybacks. The company's current payout ratio stands at a 0.41. Amid the pandemic-led economic crisis, if production and supply halt along with lockdowns continue through the next few months, the company might find paying its regular quarterly dividends to be overburdened.

Reasons To Sell:

▼ **Coronavirus Puts Abbott's Elective Core Businesses into Gloom:** Beginning in February as China implemented quarantine restrictions, Abbott saw sharp declines in its cardiovascular device procedures and routine core laboratory diagnostic testing volumes in that country. Gradually, with the virus engulfing nation after nation, the impact initially expanded to pockets of Asia and Europe from late February, and more broadly across Europe and the United States during March. The healthcare industry all over the globe accordingly, started to postpone non-emergency healthcare activities to focus on COVID-19 treatments. Abbott's Core Laboratory Diagnostics sales were significantly down in the reported quarter affected by lower demand for routine testing in the past few months. In fact, hospital-based elective cardiovascular, EP ablation and neuromodulation procedures saw a sharp decline in demand.

The business environment continues to be challenging. Slow growth in the nutrition business in China will continue dampening top-line growth.

▼ **Tension in China Continues:** Abbott, though trying to expand its nutrition business in emerging markets, is facing weaknesses in Greater China on challenging market dynamics. Especially, in pediatric nutrition, the company is apprehensive about the new food safety regulations and a consequent oversupply of product in the market. Outside of China, the company is witnessing soft market conditions across a few international markets. This may continue hurting the top line in the upcoming quarter as well.

This apart, we are also worried about the ongoing tensions between the United States and China regarding the imposition of tariffs on imports. This has raised concerns for major MedTech players like Abbott as any adverse move may affect their sales performance in China in near term.

▼ **Weak Rhythm Management Sales Ail:** Within Rhythm Management, during the first quarter, sales in the United States were soft and declined 9.4% year over year organically. Internationally, sales declined 3.8%. Although, Abbott is coming up with certain strategic measurements including organizational changes and new product innovations, the near-term outlook is bleak.

▼ **Foreign Exchange Translation Impacts Sales:** Foreign exchange is a major headwind for Abbott due to considerable percentage of its revenues coming from outside the U.S. The strengthening of Euro and some other developed market currencies has been constantly hampering the company's performance in the international markets.

Last Earnings Report

Abbott Posts Q1 Earnings Beat, Reports Strong Diagnostics Sales

Abbott reported first-quarter 2020 adjusted earnings from continuing operations of 65 cents per share, exceeding the Zacks Consensus Estimate by 18.2%. Meanwhile, the adjusted figure improved 3.2% from the prior-year quarter.

The quarter's adjustments include certain non-recurring expenses primarily associated with acquisitions and restructuring actions, among others.

However, the reported earnings from continuing operations came in at 30 cents, reflecting a 21.1% decline, year on year.

First-quarter worldwide sales of \$7.73 billion were up 2.5%, year over year, on a reported basis. The top-line figure also surpassed the Zacks Consensus Estimate by 8.4%.

On an organic basis (adjusting for the impact of foreign exchange), sales increased 4.3% year over year in the reported quarter.

Quarter in Detail

Abbott operates through four segments — Established Pharmaceuticals Division (EPD), Medical Devices, Nutrition and Diagnostics.

In the first quarter, EPD sales rose 5.2%, on a reported basis (improved 9.3% on an organic basis), to \$1.04 billion. Organic sales in the key emerging markets improved 13.1%, year over year, on a reported basis. This resulted from strong growth across a number of geographies, including Russia, Brazil, and several countries across Latin America and Southeast Asia.

Medical Devices business sales increased 1.4% on a reported basis to \$2.94 billion. On an organic basis, sales grew 2.9%. Growth in cardiovascular and neuromodulation businesses was negatively impacted by the reduced procedure volumes due to the coronavirus pandemic. The company is concerned about the ongoing scenario in healthcare and expects these products to return to their usual growth trajectory when normalcy resumes.

Within Diabetes Care, the company registered 35.6% organic growth banking on the solid worldwide adoption of FreeStyle Libre. This device alone registered global sales of more than \$600 million in the quarter, marking a surge of 62.5% on an organic basis.

Nutrition sales were up 6.3% year over year, on a reported basis (up 7.3% on an organic basis), to \$1.90 billion. Pediatric Nutrition sales improved 6.4%, on an organic basis. Adult Nutrition sales climbed 8.5%, organically. According to the company, sales benefited from the increased demand in late March owing to the shelter-in-place restrictions related to the coronavirus outbreak.

Diagnostics sales were down 0.8%, year over year, on a reported basis (up 0.7% on an organic basis) to \$1.83 billion. Core Laboratory Diagnostics sales declined 4.9% on an organic basis, affected by lower routine testing volumes due to the virus outbreak. However, Molecular Diagnostics jumped 30.3%, on an organic basis. Point of Care Diagnostics sales too improved 2.7%, on an organic basis. Rapid Diagnostics sales improved 5.4%, on an organic basis, in the March-end quarter.

2020 Guidance

The uncertainties regarding the duration and impact of the coronavirus pandemic on the company's overall business have compelled Abbott to suspend its previously-issued 2020 financial guidance.

Quarter Ending **03/2020**

Report Date	Apr 16, 2020
Sales Surprise	8.38%
EPS Surprise	18.18%
Quarterly EPS	0.65
Annual EPS (TTM)	3.26

Recent News

On **Apr 15, 2020**, Abbott announced the launch of its third COVID-19 test, a lab-based serology blood test for the detection of the antibody, IgG, that identifies if a person has had the novel coronavirus or COVID-19.

On **Mar 27, 2020**, Abbott announced the receipt of the FDA's Emergency Use Authorization (EUA) for the fastest available molecular point-of-care test for the detection of novel coronavirus (COVID-19), delivering positive results in as little as five minutes and negative results in 13 minutes.

On **Mar 18, 2020**, Abbott received FDA emergency use authorization and launched test to detect novel coronavirus.

Valuation

Abbott shares are up 3.4% and up 13.6% in the year to date period and the trailing 12-month period, respectively. Stocks in the Zacks sub-industry are down 10.4% while the Zacks Medical sector is down 6.1% in the year to date period. Over the past year, the Zacks sub-industry is down 6% and sector is down 3.2%.

The S&P 500 index is down 12.1% in the year to date period and down 3.7% in the past year.

The stock is currently trading at 29.1X Forward 12-months earnings, which compares to 27.5X for the Zacks sub-industry, 21.7X for the Zacks sector and 20.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.9X and as low as 15.6X, with a 5-year median of 20.2X.

Our Neutral recommendation indicates that the stock will perform in line the market. Our \$97 price target reflects 31.3X forward 12-months earnings.

The table below shows summary valuation data for ABT.

Valuation Multiples - ABT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	29.12	27.47	21.70	20.16
	5-Year High	32.96	27.47	21.70	20.16
	5-Year Low	15.56	17.01	15.81	15.19
	5-Year Median	20.18	19.72	18.83	17.44
P/S F12M	Current	4.90	3.83	2.66	3.22
	5-Year High	5.38	3.99	3.84	3.44
	5-Year Low	2.51	2.88	2.25	2.54
	5-Year Median	3.33	3.22	2.96	3.01
P/B TTM	Current	5.22	3.02	3.67	3.77
	5-Year High	5.70	4.25	5.05	4.55
	5-Year Low	2.34	2.21	2.92	2.84
	5-Year Median	3.31	2.77	4.29	3.64

As of 05/04/2020

Industry Analysis Zacks Industry Rank: Top 13% (33 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Bio-Rad Laboratories, Inc. (BIO)	Neutral	3
Boston Scientific Corporation (BSX)	Neutral	3
Cardiovascular Systems, Inc. (CSII)	Neutral	4
DexCom, Inc. (DXCM)	Neutral	2
Hologic, Inc. (HOLX)	Neutral	3
Johnson & Johnson (JNJ)	Neutral	3
Medtronic PLC (MDT)	Neutral	4
Smith & Nephew SNATS, Inc. (SNN)	Neutral	4

Industry Comparison Industry: Medical - Products				Industry Peers		
	ABT	X Industry	S&P 500	BAX	BSX	MDT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	F	-	-	D	F	C
Market Cap	158.90 B	306.15 M	19.65 B	44.41 B	50.03 B	127.66 B
# of Analysts	10	3	14	11	11	14
Dividend Yield	1.60%	0.00%	2.19%	1.01%	0.00%	2.27%
Value Score	D	-	-	D	D	C
Cash/Price	0.02	0.10	0.06	0.09	0.00	0.09
EV/EBITDA	22.17	0.24	11.76	25.14	25.66	15.14
PEG Ratio	2.97	3.72	2.48	2.41	3.82	2.66
Price/Book (P/B)	5.22	3.34	2.63	5.74	3.60	2.46
Price/Cash Flow (P/CF)	18.00	17.23	10.38	17.56	14.91	13.11
P/E (F1)	32.77	31.03	18.81	26.50	37.22	18.83
Price/Sales (P/S)	4.95	4.95	2.02	3.85	4.64	4.11
Earnings Yield	3.13%	0.14%	5.07%	3.77%	2.68%	5.31%
Debt/Equity	0.55	0.11	0.73	0.84	0.62	0.48
Cash Flow (\$/share)	4.99	-0.01	7.01	4.97	2.40	7.27
Growth Score	D	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	10.11%	12.07%	10.87%	NA	13.88%	6.24%
Proj. EPS Growth (F1/F0)	-13.21%	5.65%	-8.14%	-0.52%	-39.07%	-1.99%
Curr. Cash Flow Growth	4.54%	4.10%	5.88%	4.10%	12.08%	6.26%
Hist. Cash Flow Growth (3-5 yrs)	11.80%	7.71%	8.55%	-6.10%	10.33%	15.58%
Current Ratio	1.43	2.71	1.25	2.74	0.97	2.75
Debt/Capital	35.58%	16.06%	44.07%	45.61%	38.24%	32.25%
Net Margin	11.15%	-23.31%	11.00%	8.85%	39.75%	17.11%
Return on Equity	18.61%	-8.22%	16.43%	22.70%	19.40%	14.76%
Sales/Assets	0.47	0.59	0.55	0.64	0.40	0.34
Proj. Sales Growth (F1/F0)	-2.16%	0.00%	-1.76%	2.44%	-11.12%	0.30%
Momentum Score	C	-	-	C	F	D
Daily Price Chg	-0.02%	0.00%	-0.01%	-0.65%	-0.44%	0.13%
1 Week Price Chg	-4.48%	0.00%	0.53%	-5.47%	-2.47%	-4.19%
4 Week Price Chg	8.58%	7.79%	6.66%	2.76%	8.97%	1.24%
12 Week Price Chg	1.73%	-11.25%	-20.38%	-4.39%	-15.14%	-20.20%
52 Week Price Chg	13.61%	-10.05%	-13.44%	12.87%	-4.12%	5.67%
20 Day Average Volume	10,159,206	207,451	2,567,149	2,893,687	11,061,593	5,835,651
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-6.12%	-14.89%	-2.17%
(F1) EPS Est 4 week change	-9.62%	0.00%	-6.96%	-7.41%	-36.57%	-11.67%
(F1) EPS Est 12 week change	-21.85%	-9.27%	-13.90%	-11.83%	-45.94%	-16.09%
(Q1) EPS Est Mthly Chg	-39.47%	0.00%	-13.62%	-15.29%	-115.31%	-23.35%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	C
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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