

Abbott Laboratories (ABT)

\$91.86 (As of 01/22/20)

Price Target (6-12 Months): **\$96.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/20/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: F

Summary

Abbott's fourth-quarter 2019 earnings remained in line with the Zacks Consensus Estimate and revenues exceeded the same. 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. Also, solid contributions from Diagnostics were encouraging on double-digit growth in core laboratory. Within Structural Heart, worldwide uptake of MitraClip improved further. Meanwhile, emerging market performance has been promising. On the flip side, sluggish Neuromodulation and Vascular sales dented growth. Further, increasing currency headwinds and lower infectious disease testing sales in Africa dented the company's international performance.

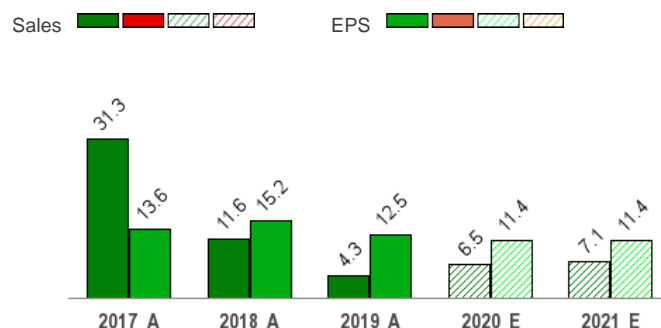
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$92.45 - \$68.80
20 Day Average Volume (sh)	4,670,949
Market Cap	\$162.5 B
YTD Price Change	5.8%
Beta	1.12
Dividend / Div Yld	\$1.44 / 1.6%
Industry	Medical - Products
Zacks Industry Rank	Top 36% (93 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	04/15/2020
Earnings ESP	0.0%
P/E TTM	28.4
P/E F1	25.5
PEG F1	2.3
P/S TTM	5.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					36,362 E
2020	8,013 E	8,491 E	8,628 E	8,853 E	33,966 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					\$4.02 E
2020	\$0.72 E	\$0.90 E	\$0.95 E	\$1.04 E	\$3.61 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 01/22/2020. The reports text is as of 01/23/2020.

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.

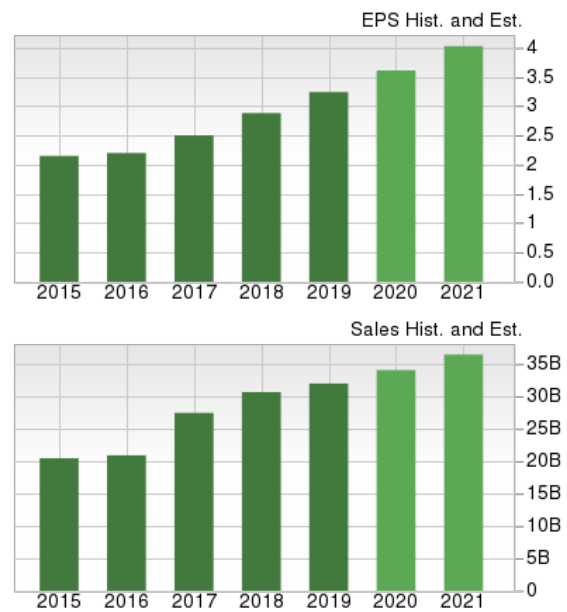
Medical Devices includes the diabetes care, vision care and vascular businesses and accounted for 37.6% of total sales in 2019 and reported organic growth of 10.5% from the year-ago number.

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 year, Abbott has been outperforming the industry. The stock has rallied 31.4% as compared to the industry's 19.8% rise. Through 2019, all four of the company's businesses performed well contributing to full year organic sales growth of more than 7.5%, above the guidance range. The year was capped off on a strong note with fourth-quarter organic sales growth of 8.5%, including double-digit sales growth in Medical Devices, Established Pharmaceuticals and Core Laboratory Diagnostics, along with ongoing EPS growth of more than 17%.

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

We are optimistic about the strong and consistent performance by the company's EPD and Medical Devices segments on an organic basis. Particularly, Abbott has been riding high on a healthy growth track within its Diabetes Care business. The company has been hogging the limelight for developments in the flagship, sensor-based continuous glucose monitoring (CGM) system — FreeStyle Libre System. Also, solid contributions from Diagnostics were encouraging where sales were led by double-digit growth in core laboratory. Alinity, the company's family of next-generation diagnostics systems is driving robust global growth on strong rollout in Europe. Within Nutrition, the company registered strong growth across several countries and segments of business, including Southeast Asia and Latin America, across both Pediatric and Adult Nutrition as well as above market growth in the United States. In Pediatric Nutrition growth was driven by PediaSure and PediaLyte. In Adult Nutrition, global growth of 10% in the fourth quarter was led by Ensure.

Within Structural Heart, worldwide strong uptake of MitraClip therapy improves further. With the rapid adoption of MitraClip in a highly underpenetrated market as well as a pipeline of technologies targeting new growth areas, the Structural Heart business is well positioned for sustainable long-term growth. Meanwhile, emerging market performance has been extremely promising on several strategic developments.

▲ **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 fourth quarter, Rapid Diagnostics sales reported 2.7% year-over-year growth on an organic basis, led by growing infectious disease testing in developed markets and cardio-metabolic testing globally.

▲ **Progress with Diabetes Business:** This business achieved growth of 35% in the reported quarter led by FreeStyle Libre which achieved global sales of \$534 million in this period, an increase of 62.4% versus the prior year organically. In the full year, Libre achieved sales approaching \$2 billion, an increase of 70% versus the prior year. 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.

▲ **Diagnostics Arm Grows Strong on Alinity:** Within Diagnostics, sales are growing extremely strong over the past few quarters. Alinity, family of highly differentiated instruments is achieving accelerated growth and strong competitive win rates in Europe where more than 50% of Alinity instrument placements are coming from share capture.

In this regard, the company is currently working on the rollout of Alinity suite of instruments across multiple key markets including the United States, where last year Abbott obtained FDA approval of Alinity for blood and plasma screening and have made significant progress obtaining regulatory approvals for a critical mass of immunoassay and clinical chemistry test menu. With a steady menu expansion on multiple different instruments along with its ongoing global rollout, Alinity positions this business for a consistent above market growth for years to come.

Reasons To Sell:

- ▼ **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 fourth quarter, sales in the United States were soft and declined 4.4% year over year organically. 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.
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The business environment continues to be challenging. Slow growth in the nutrition business in China will continue dampening top-line growth.

Last Earnings Report

Abbott Posts In-Line Q4 Earnings, Reports Strong Segmental Sales

Abbott Laboratories reported fourth-quarter 2019 adjusted earnings from continuing operations of 95 cents per share, in line with the Zacks Consensus Estimate. Meanwhile, the bottom line improved 17.3% from the prior-year quarter. Also, reported earnings from continuing operations came in at 59 cents, reflecting a 59.5% surge from the year-ago quarter.

Further, full-year adjusted earnings of \$3.24 rose 12.5% from the year-ago period. Meanwhile, the figure met the Zacks Consensus Estimate and also fell within the company's guided range of \$3.23-\$3.25.

Fourth-quarter worldwide sales of \$8.31 billion were up 7.1% year over year on a reported basis. The top line also exceeded the Zacks Consensus Estimate by 0.6%.

On an organic basis (adjusting the impact of foreign exchange along with the prior-year's first, second and third-quarter results for a non-core business within U.S. Adult Nutrition), sales increased 8.5% year over year in the reported quarter.

For 2019, worldwide sales were \$31.9 billion, up 4.3% on a reported basis and up 7.7% on an organic basis from 2018-levels. This was also slightly ahead of the Zacks Consensus Estimate of \$31.85 billion.

Quarter in Detail

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

In the fourth quarter, EPD sales rose 7.8% on a reported basis (improved 10% on an organic basis) to \$1.17 billion. Sales in the key emerging markets ascended 7% year over year on a reported basis. Organically, sales climbed 9.5% in this market.

Medical Devices business sales increased 9.7% on a reported basis to \$3.2 billion. On an organic basis, sales grew 11.3%. Double-digit growth in Electrophysiology, Heart Failure, Structural Heart and Diabetes Care contributed to this upside.

Vascular sales reportedly (up 0.3% on an organic basis) dipped 0.8%. Neuromodulation sales in the quarter were up 2% reportedly (up 3% organically). Rhythm Management sales were up 2.3% on a reported basis (up 3.7% organically) in the quarter.

Nutrition sales were up 5.2% year over year on a reported basis (up 5.8% on an organic basis) to \$1.87 billion. Pediatric Nutrition sales inched up 2.8% on an organic basis. Adult Nutrition sales were up 9.9% organically.

Diagnostics sales were up 5% year over year on a reported basis (up 6.4% on an organic basis) to \$2.06 billion. Core Laboratory Diagnostics sales grew 10% on an organic basis, led by above-market growth in the United States and international markets. However, Molecular Diagnostics slipped 4.4% on an organic basis. Point of Care Diagnostics sales too slid 0.2% on an organic basis. Rapid Diagnostics sales improved 2.7% on an organic basis in the fourth quarter, driven by infectious disease testing in developed markets and cardio-metabolic testing globally, partially offset by lower infectious disease testing sales in Africa.

2020 Guidance

Abbott issued its 2020 guidance.

For the full year, adjusted earnings from continuing operations are expected in the band of \$3.55-\$3.65. The Zacks Consensus Estimate of \$3.61 lies within this projected range. Organic sales growth is projected in the range of 7-8%. The Zacks Consensus Estimate for 2020 worldwide sales is pegged at \$33.97 billion.

The company also provided its first-quarter 2020 adjusted earnings per share outlook. It expects to report adjusted earnings from continuing operations in the bracket of 69-71 cents. The consensus mark of 72 cents surpasses this predicted range.

Quarter Ending **12/2019**

Report Date	Jan 22, 2020
Sales Surprise	0.63%
EPS Surprise	0.00%
Quarterly EPS	0.95
Annual EPS (TTM)	3.24

Recent News

On **Jan 13, 2020**, Abbott announced that the FDA has approved its first-of-its-kind clinical trial that will compare the effectiveness of Abbott's minimally invasive MitraClip device – which has now treated 100,000 patients worldwide – to open heart mitral valve surgical repair in people with primary mitral regurgitation (MR) who are eligible for open-heart surgery.

On **Jan 7, 2020**, Abbott announced FDA approval of a new alternative surgical technique for Abbott's HeartMate 3 heart pump that will allow more advanced heart failure patients to avoid open heart surgery.

On **Dec 13, 2020**, the board of directors of Abbott increased the company's quarterly common dividend by 12.5% to 36 cents per share. This marks the 384th consecutive quarterly dividend to be paid by Abbott since 1924. The cash dividend is payable Feb 14, 2020, to shareholders of record at the close of business on Jan 15, 2020.

Valuation

Abbott shares are up 3.7% and up 29.6% in the six months period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 3.1% while the Zacks Medical sector is up 8% in the six months period. Over the past year, the Zacks sub-industry is up 18.9% and sector is up 6.4%.

The S&P 500 index is up 10.8% in the six months period and up 24.9% in the past year.

The stock is currently trading at 25.3X Forward 12-months earnings, which compares to 25.7X for the Zacks sub-industry, 21.7X for the Zacks sector and 19.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.8X 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 \$96 price target reflects 26.4X 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 F12M	Current	25.27	25.67	21.74	19.13
	5-Year High	26.80	25.67	21.74	19.34
	5-Year Low	15.56	17.00	15.85	15.17
	5-Year Median	20.18	19.52	18.91	17.44
P/S F12M	Current	4.76	4.06	2.87	3.56
	5-Year High	4.83	4.06	3.82	3.56
	5-Year Low	2.51	2.87	2.43	2.54
	5-Year Median	3.30	3.21	2.94	3.00
P/B TTM	Current	5.07	3.22	4.60	4.54
	5-Year High	5.07	4.30	5.03	4.55
	5-Year Low	2.34	2.21	3.43	2.85
	5-Year Median	3.26	2.77	4.29	3.61

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Top 36% (93 out of 255)



Top Peers

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

Industry Comparison Industry: Medical - Products				Industry Peers		
	ABT Neutral	X Industry	S&P 500	BAX Neutral	BSX Neutral	MDT Neutral
VGM Score	D	-	-	B	C	C
Market Cap	162.45 B	296.58 M	24.65 B	46.54 B	61.40 B	162.31 B
# of Analysts	10	2	13	10	11	13
Dividend Yield	1.57%	0.00%	1.77%	0.97%	0.00%	1.78%
Value Score	C	-	-	C	C	C
Cash/Price	0.03	0.07	0.04	0.06	0.00	0.07
EV/EBITDA	25.08	0.07	13.98	19.53	27.28	19.00
PEG Ratio	2.28	2.71	2.05	2.12	2.15	2.94
Price/Book (P/B)	5.07	4.11	3.38	5.94	6.33	3.20
Price/Cash Flow (P/CF)	19.11	20.38	13.60	19.79	20.39	16.66
P/E (F1)	25.19	27.39	19.07	24.41	24.56	21.62
Price/Sales (P/S)	5.09	5.36	2.69	4.17	5.91	5.25
Earnings Yield	3.93%	0.12%	5.24%	4.09%	4.06%	4.62%
Debt/Equity	0.55	0.10	0.72	0.72	0.99	0.49
Cash Flow (\$/share)	4.81	-0.00	6.94	4.61	2.16	7.27
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	7.68%	10.04%	10.60%	NA	15.02%	6.06%
Proj. EPS Growth (F1/F0)	11.39%	13.60%	7.53%	10.59%	14.50%	7.30%
Curr. Cash Flow Growth	1.30%	5.21%	13.90%	14.69%	14.92%	6.26%
Hist. Cash Flow Growth (3-5 yrs)	11.45%	9.81%	9.00%	-5.21%	6.75%	15.58%
Current Ratio	1.54	2.78	1.22	2.78	1.14	2.77
Debt/Capital	35.52%	13.16%	42.99%	41.88%	49.72%	32.80%
Net Margin	11.56%	-15.64%	11.21%	13.80%	10.49%	15.11%
Return on Equity	18.34%	-6.74%	17.16%	22.99%	23.10%	14.52%
Sales/Assets	0.47	0.64	0.55	0.68	0.43	0.34
Proj. Sales Growth (F1/F0)	6.46%	12.29%	4.08%	4.43%	12.29%	3.17%
Momentum Score	F	-	-	A	F	C
Daily Price Chg	2.37%	0.00%	-0.04%	0.10%	-0.05%	0.64%
1 Week Price Chg	4.26%	1.55%	2.29%	4.46%	-3.04%	0.33%
4 Week Price Chg	5.25%	3.49%	2.05%	7.64%	-2.78%	6.43%
12 Week Price Chg	9.34%	9.34%	6.92%	18.57%	4.86%	11.55%
52 Week Price Chg	31.40%	0.00%	21.50%	30.90%	18.45%	38.93%
20 Day Average Volume	4,670,949	140,281	1,518,423	2,547,427	6,899,627	3,500,076
(F1) EPS Est 1 week change	-0.06%	0.00%	0.00%	-0.19%	-0.10%	0.00%
(F1) EPS Est 4 week change	-0.06%	0.00%	0.00%	0.20%	0.10%	0.00%
(F1) EPS Est 12 week change	-0.30%	-1.89%	-0.23%	-0.68%	0.34%	0.69%
(Q1) EPS Est Mthly Chg	-2.78%	0.00%	0.00%	1.78%	0.00%	-0.03%

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	C
Growth Score	C
Momentum Score	F
VGM Score	D

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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