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| **Company: Abbott Laboratories** | Ticker: ABT Current Price: $36.37 | Sector: Health Care | Sub Industry: Health Care Equipment |
| Target Price: $44 - $60  Stop Loss: $29.10  52 Week High/ Low: $51.74 / $36.00 | TTM P/E: 22.00  Forward P/E (2016E): 15.40  TTM EPS: $1.83 | Beta: .39  Credit Rating: A2 (Moody’s)  Rating Outlook: Possible Downgrade | Market Cap: $55.1B  Avg. Vol (30 Day): 8.60M  Dividend Yield: 2.85% |

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| **Company Background:** |
| Following the early January 2013 spinoff of its research-based pharmaceuticals operations in the form shares in a new company called AbbVie (ABBV), Abbott's businesses are now largely concentrated in nutritional products, diagnostics, established pharmaceuticals (branded generics), and medical devices. These diverse operations are largely a result of strategic acquisitions made over the years, as well as from internal R&D programs. Abbott commands leading market positions in immunoassay and blood screening products, coronary metallic drug-eluting stents, LASIK devices, and pediatric nutritionals (in the U.S.). The company is the worldwide leader in adult nutritionals. (S&P Capital IQ) |
| **Industry Outlook:** |
| The fundamental outlook for the health equipment sub-industry for the next 12 months in neutral. Although many of the product categories are viewed historically as recession-resistant, growth is expected to slow due to the recent global slowdown. Long-term fundamentals are seen as positive, including increasing demand for quality healthcare, aging populations and rising R&D outlays, leading to a steady flow of new diagnostic and therapeutic products. In 2015, the healthcare equipment sub-industry outperformed the S&P 500 index as a whole, with trailing total returns (daily basis) being -4.58% versus -7.56% for the S&P. (S&P Capital IQ and Morningstar Direct) |
| **Investment Thesis:** |
| Abbott continues to remodel itself following the spinoff of AbbVie, focusing on improving profitability in its remaining segments—nutritionals, devices, diagnostics, and established pharmaceuticals. There have been focused efforts on improving profitability through emphasis on margins and building facilities in low-cost locations like China and India—this emphasis is expected to pay off over the next five years. Abbott has also been introducing innovative new products to its line, such as its Freestyle Libre blood glucose monitor. Additions of CFR and Veropharm have given the company a substantial footprint in Latin America and Russia. Abbott recently announced its acquisition plans for Alere, which is likely to close but awaits approvals, which is expected to create some cost efficiencies. (Morningstar Direct) |
| **Investment Risks:** |
| Abbott operates in heavily regulated industries under the scrutiny of the U.S. FDA and other overseas regulatory agencies, which can lead to delays in product approval or production. Additionally, it is vulnerable to the threat of revolutionary innovation from competitors—a threat to all companies operating within the industry. Hospitals and payers have been harnessing in on budgets, which could lead to pricing pressure for Abbott. On a final note, the company has felt the adverse impact of foreign exchange as a approximately 60% of its sales come from outside the U.S. (Morningstar Direct) |
| **3-5 Takeaways From Last Quarter’s Investor Call Transcripts:** |
| 1. The third quarter adjusted gross margin ratio was 57.5% of sales, up 200 basis points over 2014 and slightly ahead of our forecast, driven by continued margin expansion in Diagnostics and Nutrition. 2. The company continues to forecast adjusted R&D investment of around 6.5% of sales and adjusted SG&A expense approaching 32% of sales. Overall, they expect to expand our full-year adjusted operating margin by more than 100 basis points in 2015. 3. Given continued investor interest in the Chinese economy, Abbott noted that their sales in China, which represents about 8% of our overall sales, increased double digits overall and across each of our reportable business segments. |

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| **Financial Performance:** | **Discounted Cash Flow** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | 2012 | 2013 | 2014 | Q1-2015 | Q2-2015 | Q3-2015 | | Revenue | 38,874.0 | 21,848.0 | 20,247.0 | 4,897.0 | 5,170.0 | 5,150.0 | | Operating Profit | 8,085.0 | 2,629.0 | 2,599.0 | 610.0 | 729.0 | 713.0 | | Net Income | 5,963.0 | 2,576.0 | 2,284.0 | 2,292.0 | 784.0 | 580.0 | | Revenue Growth % | 2.63% | -45.21% | -7.33% | 2.99% | 2.23% | 1.40% | | EBITDA Margin | 24.17% | 20.13% | 20.82% | 20.03% | 20.91% | 21.28% | | Operating Profit Margin | 15.71% | 11.54% | 12.44% | 46.80% | 15.16% | 11.26% | | Net Income Margin | 11.79% | 11.28% | 22.17% | 12.46% | 14.10% | 13.84% | | D/E | 0.13 | 0.16 | 0.28 | 0.40 | 0.38 | 0.39 | | Interest Coverage | 11.57 | 17.06 | 15.94 | 15.25 | 15.19 | 16.20 | | EPS | 3.72 | 1.62 | 1.49 | 1.51 | 0.52 | 0.38 | | PE Ratio | 15.00 | 18.60 | 28.31 | 28.38 | 27.62 | 22.35 | | Current Ratio | 2.36 | 2.02 | 1.45 | 2.17 | 2.30 | 1.82 | | ROE | 23.31 | 9.93 | 9.78 | 18.56 | 19.39 | 20.73 | | ROA | 9.35 | 4.68 | 5.42 | 9.91 | 10.56 | 10.83 | | Dividend Per Share | 2.01 | 0.56 | 0.88 | 0.24 | 0.24 | 0.24 | | |  |  |  | | --- | --- | --- | |  | 2010-15 | 2015-21 | | Avg. Revenue Growth | -8.67% | 4.05% | | Avg. EBITDA Margin | 22.50% | 25.28% | | Avg. NOPAT Margin | 13.17% | 17.00% | | Cost of Debt | | 1.36% | | Tax Rate | | 18.83% | | Cost of Equity | | 9.64% | | WACC | | 8.60% | | Perpetuity Growth Rate (Terminal) | | 2.00% |   **Analyst Opinion**   |  |  |  | | --- | --- | --- | | Buy: 16 | Hold: 6 | Sell: 0 |  |  |  |  | | --- | --- | --- | |  | Rating | Target | | S&P NetAdvantage | 3-Star | $44 (12 month) | | Morningstar | 5 –Star | $47 (Fair Value) | | Value Line | 1 –Safety  3 – Timeliness | $50-$60 (12 month) | |

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| **Relative Valuation** | **Total Return** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | MDT | SYK | TFX | ISRG | Ind. Average | **ABT** | | Market Capitalization | 133,993 | 36,290 | 22,693 | 19,019 | 2,579 | **55,193** | | Price/Earnings TTM | 41.8 | 31.4 | — | 33.0 | 36.2 | **22.0** | | Price/Book | 2.5 | 4.3 | 3.5 | 4.4 | 3.5 | **2.6** | | Price/Sales TTM | 3.7 | 3.7 | 3.1 | 8.1 | 3.6 | **2.7** | | Rev Growth (3 Yr Avg) | 7.8% | 5.2% | -1.1% | 3.1% | -2.6% | **-19.5%** | | NI Growth (3 Yr Avg) | -9.6% | -27.4% | — | -3.6% | -0.4% | **-21.5%** | | Operating Margin % TTM | 15.7% | 17.1% | -7.4% | 31.0% | 13.1% | **14.0%** | | Net Margin % TTM | 8.9% | 12.0% | -5.4% | 24.7% | 10.3% | **22.2%** | | ROA TTM | 3.2 | 7.0 | -2.3 | 13.3 | 4.8 | **10.8** | | ROE TTM | 6.5 | 13.8 | -6 | 15.3 | 9.6 | **20.7** |   **Prepared By:**  **Sources: Bloomberg, S&P NetAdvantage, VLIS, Morningstar** | |  |  |  |  | | --- | --- | --- | --- | |  | ABT | Sector | S&P 500 | | YTD | -17.03% | -9.41% | -9.19% | | Last 3 Years | -14.69% | -4.58% | -7.56% | | Last 5 Years | 14.62% | 11.71% | 9.30% |   **CSR Characteristics**   |  |  |  | | --- | --- | --- | |  | ABT | Industry | | ESG Disclosure | 52.07 | 27.55 | | Governance Disclosure Score | 66.07 | 56.25 | | Social Disclosure Score | 43.86 | 25.44 | | Environmental Disclosure Score | 49.61 | 24.42 | |