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| **Company: ABBVIE** | **Ticker: ABBV Current Price: $ 96.10** | **Industry: Pharmaceutical Industry: Drug Manufacturing** |
| Target Price: $110 Stop Loss: $81.6052 Week High/ Low: $55.06 - $98.26 | TTM P/E: 23.6Forward P/E:14.1EPS: 4.64 | Beta:1.1Credit Rating: Baa2Rating Outlook: Positive | Market Cap: 153.2bAvg Vol : 6.5 milDividend Yield: 2.66% |

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| **Company Background:**  |
| AbbVie, Inc. is a research-based biopharmaceutical company. It engages in the discovery, development, manufacture and sale of a broad line of proprietary pharmaceutical products. The company focused on treating conditions such as chronic autoimmune diseases in rheumatology, gastroenterology and dermatology; oncology, including blood cancers; virology, including hepatitis C and human immunodeficiency virus; neurological disorders, such as Parkinson's disease; metabolic diseases, including thyroid disease and complications associated with cystic fibrosis; as well as other serious health conditions. The company was founded on January 1, 2013 and is headquartered in North Chicago, IL. |
| **Industry Outlook:**  |
| The pharma and biotech sectors have bounced back nicely with the NYSE ARCA Pharmaceutical Index gaining 14.8%, while the Nasdaq Biotechnology Index is up 26.9%. This is in sharp contrast to 2016, which was a tough year for pharma and biotech stocks with the sector facing a lot of criticism for rising drug prices. While drug pricing was a key reason for the sector’s underperformance last year, it was not the only challenge for the sector. 2016 was also disappointing from an R&D perspective with a fewer number of drugs managing to gain FDA approval. There were some high-profile pipeline failures as well. Other factors like mixed results, slower-than-expected new product launches and increasing competition also weighed on the sector. However, the sector has rebounded nicely this year. New product sales ramping up, R&D success and innovation, strong results, a higher number of FDA approvals and continued strong performance from key products are some of the factors that could contribute to a sustained recovery in the sector. Tax reforms and cash repatriation should also work in its favor. Deregulation and increased competition seem to be some of the ways that will be used to control drug prices. FDA Commissioner Scott Gottlieb said that the agency is working on a plan to lower healthcare costs by speeding up the development of next-generation treatments, especially for rare diseases or targeted cancer therapies. |
| **Investment Thesis:**  |
|  ABBVIE has one the most valuable late stage clinical pipelines among the major drug manufacturers. Four drug candidates land in the top 20, totaling a NPV of $23.8b according to a recent report from EvaluatePharma. ABBVIE is also an international company doing business in 150 countries. Humira is the top selling drug in the world, close to $16 billion in sales. It represents 60% of AbbVie’s sales. Though the drug Humira will begin facing threats from biosimilars, it secured its position in the U.S through a deal with Amgen that prevents sales of Amgen’s biosimilars in the U.S until 2023. Including ABBV’s time with Abbot Labs, ABBV has increased its dividends for 44 consecutive years. Physicians in general are always hesitant in switching patients to new drugs especially when they have been working with a drug like Humira which has been useful in many applications.  |
| **Investment Risks:**  |
| * Massive competition once Humira’s patent expires.
* Any drug can flame out during a clinical trial which can have a huge impact on a company’s stock price.
* Very risky industry and hard to predict long term stability
* High margins in drug sales are a hot topic currently in the political environment. Regulatory risks also exist
* Currently one of the high D/E ratios. Interest Coverage ratio of 8% among average in the industry
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| **3-5 take away from last quarter investor call transcript:**  |
| * ABBV’s acquisition of Pharmacyclics led to Imbruvica which could generate sales of $5 billion by 2020 with approval of additional indications.
* ABBV’s acquisition of Stemcentrx will start paying off soon: Rovat-T – launch in 2018, vanclyxto/Venclexta – cancer drug (2b in rev by 2020), hep c combo of drugs is already under FDA reviewed, and next generation anti-inflammatory is producing stellar results in its late stage program.
* ABBV won suit against Amgen: Amgen can only sell Humira biosimilars in the US starting in 2023. However, it can will selling in Europe by 2019 but will pay royalties to ABBV.
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| **Financial Performance:** | **Discounted Cash Flow**  |
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|   | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Revenue  |  | 18,380 | 18,790 | 19,960 | 22,859 | 25,638 | 28000 |
| Operating Profit |  | 5,817 | 5,664 | 3,411 | 7,537 | 9,384 | 12460 |
| Net Income  |  | 5,275 | 4,128 | 1,774 | 5,144 | 5,953 | 8690 |
| Revenue Growth % |  | 5.3% | 2.2% | 6.2% | 14.5% | 12.2% | 9.2% |
| Operating Profit % |  | 31.6% | 38.4% | 38.4% | 45.5% | 44.2% | 44.5% |
| Net Income Margin |  | 31.6% | 22% | 8.7% | 22.5% | 23.2% | 31% |
| D/E |  | 4.35 | 3.18 | 6.06 | 7.41 | 7.86 | 5.63 |
| EPS |  | 3.35 | 2.58 | 1.11 | 3.15 | 3.65 | 5.50 |
| PE Ratio  |  | 10.2 | 18.6 | 28.5 | 34.6 | 16.90 | 23.60 |
| ROE |  | 67.69% | 105.11% | 56.91% | 180.90% | 138.05% | 113.06% |
| ROA |  | 22.61% | 14.69% | 6.25% | 12.76% | 9.94% | 9.81% |
| Dividend Per share  |  | N/A | 1.60 | 1.66 | 2.02 | 2.28 | 2.56 |
| FCF |  | 6012 | 5776 | 2937 | 7003 | 6562 | 6652 |
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|  | 2013-17 | 2017-22 |
| Avg Revenue growth  | 8% | 9-15% |
| Avg EBITDA Margin  | N/A | N/A |
| Avg Net Income Margin  | 23.17% | 33.3% |
| Avg Debt/Equity  | 5.75 | 6 |
| Avg FCF / Margin  | N/A | N/A |
| Cost of Debt | 2.4% |
| Tax Rate | 21% |
| Cost of Equity  | 9.80% |
| WACC | 8% |
| Perpetuity growth rate  | 3-5% |

**Analyst Opinion : Morningstar**

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| --- | --- | --- |
| Strong buy: | buy: 3 | hold:3 |
|  | Rating  | Target  |
| S&P Net Advantage  |  |  |
| Morning Star |  |  |
| Value Line  |  |  |

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| **Relative Valuation** | **Total Return** |
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|  | ABBVIE | Biogen Inc | Roche | Amgen | Pfizer |
| P/E | 23.6 | 22.2 | 20.7 | 16.70 | 26.6 |
| P/B | 25.5 | 6.2 | 8.8 | 4.2 | 3.70 |
| Dividend Yield  | 2.7% | N/A | 3.4% | 2.4% | 3.5% |
| PEG Ratio  | 1.6 | 2.3 | 2.1 | 9.0 | 2.4 |
| EPS | 4.07 | 15.24 | 11.26 | 10.98 | 1.37 |
| 5 year Revn CAGR%  | 8.0% | 17.8% | 3.50% | 8.1% | -2.8% |
| NI Grth (5yr) | 11.6%  | 24.57% | 0.49% | 15.96% | -6.34% |
| Operat Margin 5yr | 31.6%  | 40.9% | 28.7% | 32.3% | 27.2% |
| Debt / Equity  | 5.6 | 0.5 | 0.70 | 1.1 | 0.60 |
| Market Cap | 153,192 | 71,485 | 205,222 | 133,501 | 216,602 |
| Revenue TTM | 26,710 | 11,717 | 51,898 | 23,050 | 52,347 |
| Net Income TTM | 6,615 | 3,293 | 9,675 | 8,174 | 8,323 |
| FCF TTM | 6,652 | 2,061 | 12,357 | 9,726 | 13,280 |
| ESG | 34.3 | 46.28 | 50.83 | 49.17 | 33.06 |
| Governance | 57.14 | 62.50 | 51.79 | 66.07 | 60.71 |
| Environmental  | 28.68 | 44.96 | 47.29 | 50.39 | 23.26 |
| Social | 24.56 | 33.33 | 57.89 | 29.82 | 28.07 |

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|  | ABBV | Major Drug Manu | S&P 500 |
| YTD | 57.5% | 21.48% | 15.0% |
| 2016 | 9.55% | 30.54% | 9.54% |
| Last 3 Years  | 23.7% | 10.3% | 32.6% |
| Last 5 Years  | N/A | 12.4% | 79.7% |

**CSR Characteristics**

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|  | ABBV | Industry  |
| Governance Disclosure Score | 57.14 | 59.64 |
| ESG Disclosure:  | 34.30 | 42.73 |
| Social Disclosure Score | 24.56 | 34.73 |
| Environmental Disclosure ScoreCSR Rating | 28.68 62 | 38.92 49 |

**https://www.csrhub.com/CSR\_and\_sustainability\_information/AbbVie** **Prepared by Avinash Chugani (Oct 22, 2017) using Bloomberg, Value Line, S&P Net Advantage, Morning Star, Yahoo Finance** |

2016 Dow Jones Sustainability World Index named AbbVie the Biotechnology Industry Leader in this global benchmark for our leadership in responsible economic, environmental and social performance.

AbbVie is included in the 2016 FTSE4GOOD Index series based on our strong environmental, social and governance practices.

AbbVie earned the highest overall score among 40 biotechnology companies and led the industry on 13 of 25 criteria. In two categories, Environmental Reporting and Policy Influence, AbbVie scored a perfect 100. The company's Labor Practice Indicators and Human Capital Development scores showed the greatest increases from 2016, both increasing by more than 15 points.

<https://news.abbvie.com/news/abbvie-leads-biotechnology-industry-on-dow-jones-sustainability-index-for-second-consecutive-year.htm>