

September 30, 2021

Katie Tu, Portfolio Manager
Karlen Slater, Investment Analyst

Return on Investment

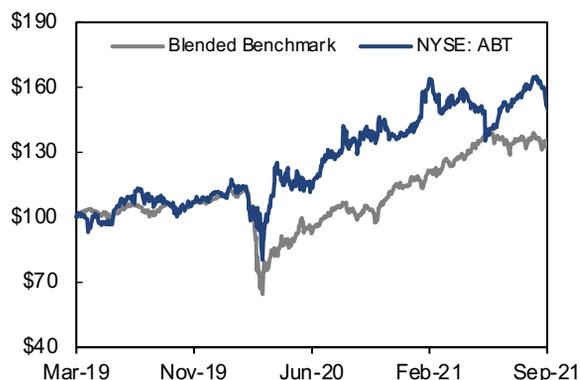
Current Share Price	\$118.13
Target Price	\$126.00
Dividend Yield	1.52%
Implied Return	8%
Conviction Rating	2

Market Profile

52-Week Range	\$103.13 - \$129.70
Market Capitalization (US\$mm)	\$209,423
Net Debt (US\$mm)	\$9,819
Enterprise Value (US\$mm)	\$219,242
Beta (5-Year Monthly)	0.67

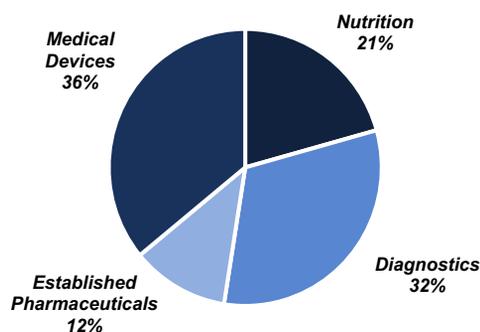
Metrics	2021E	2022E	2023E
Revenue (US\$mm)	\$40,480	\$41,129	\$41,788
EBITDA (US\$mm)	\$8,848	\$9,310	\$9,961
EPS (US\$)	\$2.50	\$2.84	\$3.20
EV/EBITDA	24.8x	23.5x	22.0x

Holding Period Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: Q2 2021 Revenue Breakdown



Source: Company Filings

Business Description

Abbott Laboratories (NYSE: ABT) discovers, develops, manufactures, and markets a wide range of health care products worldwide. ABT currently has ~109,000 employees with operations in more than 160 countries. The Company operates through four main business segments: Medical Devices, Nutritional Products, Diagnostic Products, and Established Pharmaceutical Products. The majority of ABT's revenue comes from its Medical Devices and Diagnostics segments. Medical Devices consists of sales of rhythm management, electrophysiology, heart failure, vascular, structural heart, neuro-modulation and diabetes care products. Diagnostics consists of sales of diagnostic systems and tests for blood banks, hospitals, commercial laboratories, and alternate-care testing sites. In September 2021, ABT announced the acquisition of Walk Vascular, LLC, a small commercial-stage medical device company, to broaden its endovascular product offerings.

Previous Thesis

In March 2019, the CPMT initiated a position in ABT due to the Company's consistent FCF growth, strong management team, and market positioning in the medical devices and diagnostics industry. The revised thesis in July 2020 determined that the Company continued to fit our mandate, with long-term revenue expected to grow at a ~9% CAGR.

Industry Overview and Competitive Landscape

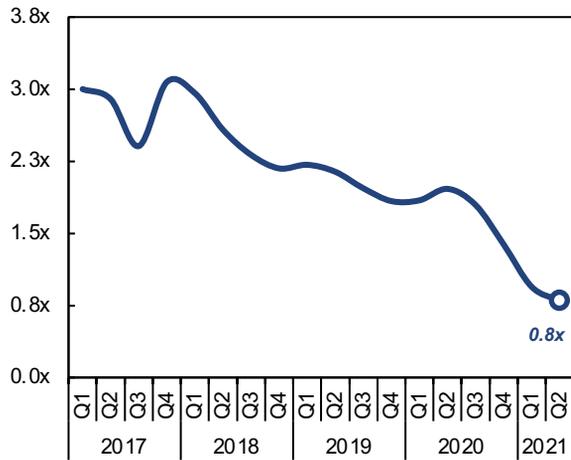
ABT is currently one of the major medical device manufacturers in the U.S. The medical device industry is levered to factors such as health care reform, technological advancements, changing regulations, and an aging population. Furthermore, the increasing burden of illnesses such as cardiovascular diseases, diabetes, and cancer, as well as the growing adoption of advanced medical technologies have been key growth drivers for the industry. Within the medical devices space, ABT's main competitors are Medtronic PLC (NYSE: MDT), Danaher Corporation (NYSE: DHR), General Electric Healthcare (NYSE: GE), and Boston Scientific Corporation (NYSE: BSX).

Within the diagnostics industry, the most prominent growth driver is the increase in molecular diagnostics demand. This increase in demand can be attributed to the COVID-19 pandemic, which has emphasized the need for research and development of treatments and therapies for infectious and chronic diseases. Polymerase chain reaction (PCR), a method of multiplication of the genetic materials, is expected to hold the largest molecular diagnostics market share over the next five years. Within the diagnostics industry, ABT's competitors include DHR, PerkinElmer Inc. (NYSE: PKI), and Thermo Fisher Scientific (NYSE: TMO).

Mandate Fit

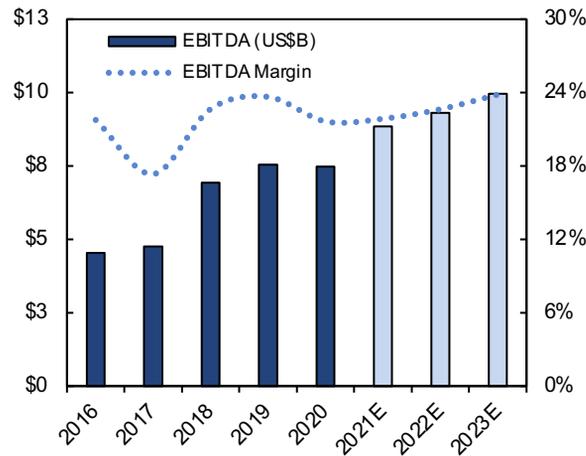
Quality Management: Robert B. Ford has been with the Company since 1996 and currently sits as President and CEO. Ford previously served as the COO, leading the Company's medical devices business and the integration of the St. Jude Medical acquisition. Since taking on the CEO position, Ford has led the COVID-19 testing development and distribution, (cont.)

Figure 2: Net Debt/LTM EBITDA



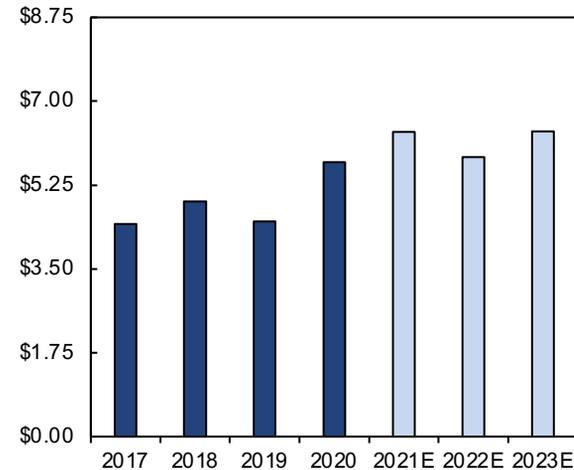
Source: Company Filings

Figure 3: LHS EBITDA vs RHS EBITDA Margins



Source: Company Filings, CPMT Estimates

Figure 4: Free Cash Flow Generation (US\$B)



Source: Company Filings, CPMT Estimates

as well as developing technology to monitor health through devices. Miles D. White, the Executive Chairman of the Board has been with ABT since 1984 and served as the Company’s CEO from 1999 to 2020. While White was serving as CEO, he was known for increasing the global stature and valuation of ABT and expanding the Company’s worldwide sales channels.

Competitive Advantage: ABT’s main competitive advantage lies within the Company’s Medical Devices segment, supported by extensive R&D activities that can identify and capture growth opportunities within the space. Recently, the Company introduced the Amulet, a left atrial appendage closure device that is comparable to the Watchman that was developed by BSX and is currently used by electrophysiologists and interventional cardiologists. IDE trials have been somewhat promising, determining that the device has the potential to treat a wider range of anatomies compared to the Watchman. However, the Fund is cautiously optimistic about market demand for the Amulet, as clinical trials have also indicated higher procedural complications with the device. At this time, we hesitate to assume that the Amulet will be a significant growth driver for ABT.

Strong Balance Sheet: ABT has continuously focused on paying down its debt since the Company’s last major acquisition of Alere in 2017, which is demonstrated in its LTM Net Debt/EBITDA of 0.80x at the end of Q2 2021, a reduction from 1.96x seen in Q2 2020. Furthermore, ABT currently has investment grade credit ratings of A+ and A3 from S&P and Moody’s, respectively.

Growing Free Cash Flow: In 2020, ABT introduced pandemic-related testing kits that were quick to market, which provided significant revenue growth for the Company. Management expects ABT’s COVID-19 testing related sales for 2021 to be between US\$4B - US\$4.5B, representing ~13% of total sales. From 2017-2020, FCF has grown at a ~6.5% CAGR. The Fund expects continued FCF growth in the near term, due to the sales expected from COVID-19 testing products and rebounds in the base business from economic reopening of international markets. However, growth is expected to slow with an eventual decline in COVID-19 testing demand and the slow growth ABT has seen in emerging markets.

Revised Valuation and Investment Thesis

The CPMT’s revised valuation is based on a five-year DCF calculated with a WACC of 5.58%. The target price of US\$126 was determined using a 50/50 blend of (1) the Gordon Growth method (assuming a terminal growth rate of 2.0%) and (2) an exit EV/EBITDA multiple of 18x. The Fund has chosen to keep estimates conservative to reflect an eventual decline in COVID-19 testing revenues and our views on new product launches, resulting in a revenue CAGR forecast of ~6% over the valuation period. Overall, the CPMT continues to view ABT as a fundamentally-sound holding within our Health Care portfolio. ABT operates within industries levered to attractive growth drivers and is currently in a sufficiently strong credit standing to maintain its capital deployment towards building its product pipeline. Furthermore, management has continued to demonstrate its ability to quickly pivot during times of shifting market demand. However, the CPMT believes that ABT faces clear headwinds, as COVID-19 testing sales currently makes up a significant portion of revenues and it is unclear whether ABT’s recent product launches or exposure to emerging markets will be sufficient to maintain growth to justify current valuations. As a result, we recommend a trim on our current position to 2% AUM, reflecting a decrease in conviction from 2 to 1, and we will continue to review the name to ensure its alignment with our investment mandate.