

June 30, 2020

Stephen Nguyen, Investment Analyst  
Hayley Hicks, Portfolio Manager

## Return on Investment

Current Share Price	\$91.43
Target Price	\$100.00
Dividend Yield	1.56%
Holding Period Return	11%
Conviction Rating	2

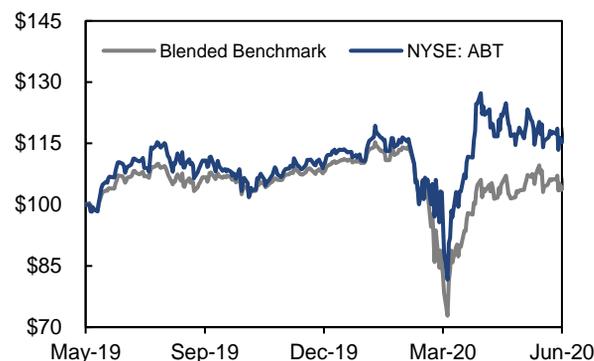
## Market Profile

52-Week Range	\$62.82 - \$98.00
Market Capitalization (US\$m)	\$161,726
Net Debt (US\$m)	\$14,604.0
Enterprise Value (US\$m)	\$176,330
Beta (5-Year Monthly)	0.97

## Metrics

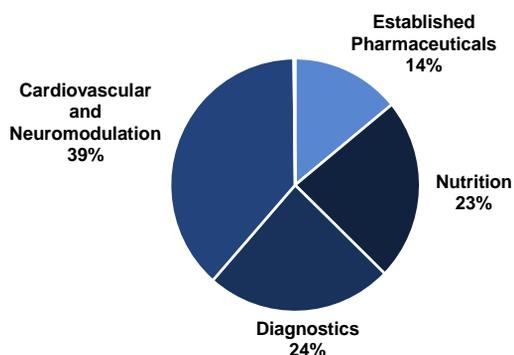
	2020E	2021E	2022E
Revenue (US\$m)	\$31,035	\$36,071	\$38,297
EBITDA (US\$m)	\$7,355	\$8,928	\$9,479
EPS (US\$)	\$2.75	\$3.76	\$4.13
EV/EBITDA	24.0x	19.8x	18.6x

## Holding Period Performance (Indexed to \$100)



Source: S&P Capital IQ

## Figure 1: Segmented Revenue Breakdown



Source: Company Filings

## Business Description

Abbott Laboratories (NYSE: ABT) is a health care company that engages in the discovery, development, production, and sale of a range of medical devices and health care products. The Company operates in four segments: Established Pharmaceuticals; Nutrition; Diagnostics; and Medical Devices. ABT's offerings within its Medical Devices segment can be further divided into Vascular Products, which includes a range of coronary, endovascular, vessel closure, and structural heart devices; Neuromodulation Products, which includes electrophysiology, rhythm management, and neuromodulation devices; and Diabetes Care Products. In 2017, the Company acquired St. Jude Medical, Inc., a company specialized in the development and manufacturing of medical devices. ABT operates in over 150 countries and has research and development facilities in the U.S., China, Colombia, India, Singapore, Spain, and the U.K.

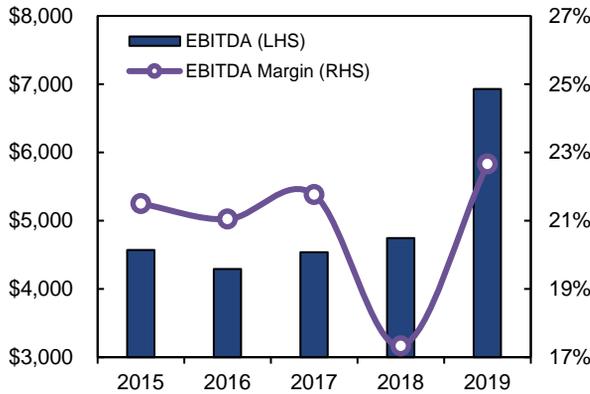
## Original Investment Thesis

The CPMT entered its ABT position in May 2019 due to the Company's history of consistent FCF growth, strong management track record, and increasing levels of insider ownership. ABT's competitive advantages from products such as the Freestyle Libre Glucose monitor and MitraClip led to our estimate of a ~14% five-year revenue CAGR in the Medical Devices segment. The CPMT's revised valuation of ABT in June 2019 estimated a ~9% five-year revenue CAGR. For the Company to maintain its ability to identify profitable growth sectors, we stated that we would like to see meaningful growth in newly approved products by the FDA. An area of concern was the Company's elevated levels of debts in recent years to finance acquisitions; however, the commitment from management to deleverage, along with ABT's access to US\$5B in liquidity from existing agreements have helped to mitigate this issue.

## Outlook and Developments

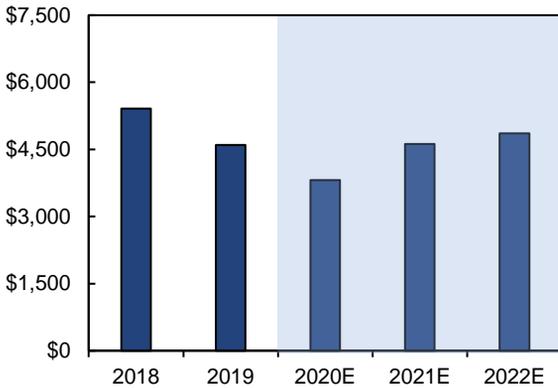
The biotechnology industry has been relatively insulated against the impacts of the COVID-19 pandemic, with the S&P Biotechnology Index outperforming the broader index by ~25% as of June 2020. Growth within the industry has been driven primarily by the interest in a potential vaccine for COVID-19. Regarding ABT, the Company outperformed market expectations. ABT's overall revenues grew ~4.3% on an organic basis in Q1 2020, with strong performance in Diabetes Care, Established Pharmaceuticals, and Molecular and Rapid Diagnostics. Although the Company's Medical Devices segment grew by ~2.9% in Q1 2020, we expect segment revenues to decline in Q2 2020 due to the postponement of elective procedures and reduced office visits. ABT's Nutrition segment grew ~7.3% YoY on an organic basis in Q1 2020 due to increased demand in late March in advance of shelter-in-place restrictions due to the pandemic; however, we expect growth to return to levels between 0% and 1.5% as a result of the Company's robust market share within the Nutrition segment. Q1 2020 sales were particularly affected in countries initially impacted by COVID-19, such as China. Although ABT has stated that it has seen signs of stabilization in Europe and Asia, the current situation in the U.S. poses challenges to companies across all industries; as such, ABT's (cont.)

**Figure 2: EBITDA (US\$m) & EBITDA Margin**



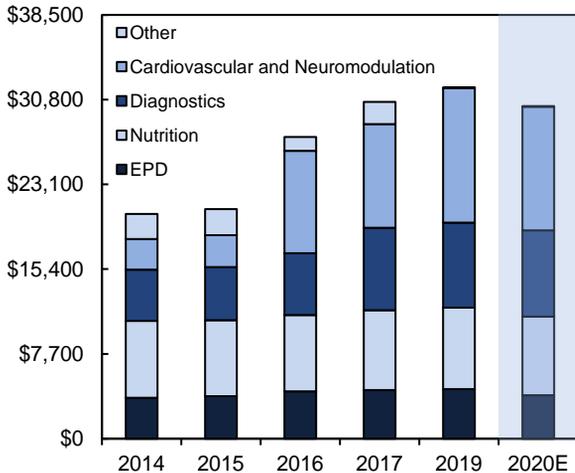
Source: Company Filings

**Figure 3: Free Cash Flow Estimates (US\$m)**



Source: Company Filings, CPMT Estimates

**Figure 4: Segment Revenue Contribution (US\$m)**



Source: Company Filings, CPMT Estimates

geographic diversification positions it well against other companies, with ~64% of its sales occurring outside of the U.S.

**Insulation Against COVID-19**

Although we expect ABT’s Medical Devices segment to be negatively impacted by the pandemic, the Company has outperformed the broader Medical Devices industry by ~6.5% since mid-February. Outperformance has been driven primarily by the consistent adoption of Freestyle Libre, which contributed to ~30% of organic growth in 2019 and saw ~60% sales growth in Q1 2020. As the Company expands the availability of Freestyle Libre to hospitalized patients with COVID-19, along with the expansion of reimbursement coverage for the product globally, the CPMT anticipates growth to remain within double-digit figures. The second version of Freestyle Libre, Libre 2, was approved by the FDA in June 2020 and is expected to launch later in the summer.

ABT has developed three tests in response to the coronavirus: ID Now Molecular Test, m2000 SARS-COVID-19 test, and IgG ARCHITECT serology/antibody test. In April 2020, the Company announced its plans to distribute four million tests in the U.S. and would increase production up to two million per month in June and beyond. COVID-19 diagnostic tests and serology tests are estimated to be priced at US\$30 and US\$5, respectively. The CPMT estimates the tests to increase 2020 revenues by more than US\$1B.

**Mandate Fit**

**Competitive Advantage:** ABT’s extensive R&D activities have allowed the Company to continually identify potential growth sectors over recent years. Although we expect Nutrition and Established Pharmaceuticals to drive less segment value in the future, the Company’s Medical Devices and Diagnostics segments, supported by the expansion of Freestyle Libre as well as the development of tests for COVID-19, provide ABT with a significant competitive advantage over its competitors.

**Strong Balance Sheet:** The Company ended Q1 2020 with ~US\$3.7B in cash and short-term investments, and the Company has additional access to US\$5B in liquidity. ABT has slowly been able to reduce its level of debt since our prior valuation, with Q1 2020 Net Debt/EBITDA at 2.2x in comparison to 2.3x in Q1 2019.

**Quality Management:** Robert Ford has been the CEO and Director of ABT since March 31, 2020. He has experience particularly in Medical Devices, working various positions in the Company’s Diabetes Care unit for over 12 years. He took over the position from Miles White, who had served as the CEO since 1999 and continues to serve as the Company’s Executive Chairman. Historically, the management team has placed an emphasis on a diversified business model and long-term growth platforms.

**Growing Free Cash Flow:** FCF has grown by ~9% over the past four years and we expect ABT to generate over US\$13B in FCF over the next three years.

**Revised Valuation and Thesis**

A five-year DCF valuation of ABT was conducted, applying a 5.8% WACC and a 50/50 blend of the Gordon Growth model (assuming a 2.3% terminal growth rate) and an EV/EBITDA exit multiple of 20x. We arrived at a target price of \$100, implying a 11% holding period return. Expected revenue growth was adjusted to consider the impacts of COVID-19. However, long-term revenue growth remains consistent with prior valuations at ~9% CAGR. Given the satisfied mandate fit, the CPMT believes that ABT remains a strong holding.