

# AbbVie

United States of America/Pharmaceuticals,  
Biotechnology & Life Sciences

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**UBS Research**

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## 4Q15 In Line, No Change to 2016 Guidance

- What's new? EPS of \$1.13 vs UBSe of \$1.13 and Consensus of \$1.12
- Our takeaway: Overall solid, but US Viekira could be concerning
- Thoughts on the stock: Probably will be down some
- Valuation: We maintain our Buy rating and PT at \$73

### What's new? EPS of \$1.13 vs UBSe of \$1.13 and Consensus of \$1.12

Revenues were in line with our estimates (-16M). Key product variances included Humira (-\$72M), Viekira Pak (-\$27M), Androgel (+\$33M), Kaletra (+\$35M), Lupron (+\$34M). OpEx were essentially in line, but GM (-290bp) was lower than expected, which was partially offset by a higher than expected non-op income (+\$82M). The net impact was an in line EPS. Mgt confirmed previous 2016 EPS guidance of \$4.90-5.10.

### Our takeaway: Overall solid, but US Viekira could be concerning

The quarter was good overall. And it was good to see Humira did better than the consensus on a global basis, but importantly international sales (volume grew 9.7%) were strong, which has been a key concern because of biosimilar Remicade. Globally, Imbruvica also did better than the consensus forecast, but while International was better than we expected, the US appears weaker than our estimate. However, the 1L indication should reinvigorate growth. Viekira has been a key debate for the stock given the highly competitive landscape, and the miss vs Consensus and our estimate is disappointing. The weakness appears to be in the US, but International was very strong (and it probably did even better ex-FX). Mgt previously indicated that it expected the VA to come back on line, and we look forward to mgt's comments on the franchise. Importantly, mgt re-confirmed its 2016 guidance, which takes into account the slowdown in growth in the Hep C franchise.

### Thoughts on the stock: Probably will be down some

Although the quarter was solid and International Humira looks good, we think investors will be concerned about Imbruvica and particularly Viekira now that we know Merck's pricing strategy for Zepatier in the US.

### Valuation: We maintain our Buy rating and PT at \$73

Our price target is derived using a DCF model and implies a P/E multiple of ~13x our 2017E EPS.

12-month rating	<b>Buy</b>
12-month price target	<b>\$73.00</b>
Price	<b>\$55.85</b>

**Contributing authors:** Zidong Zhang

### Trading data and key metrics

52-wk range	US\$71.23-48.27
Market cap.	US\$92.9bn
Shares o/s	1,664m (COM)
Free float	100%
Avg. daily volume ('000)	2,574
Avg. daily value (m)	US\$149.7
Common s/h equity (12/15E)	US\$7.71bn
P/BV (12/15E)	12.0x
Net debt / EBITDA (12/15E)	2.3x
RIC	ABBV.N
BBG	ABBV US

Sources: UBS, Bloomberg

### EPS (UBS, diluted) (US\$)

	12/15E	
	UBS	Cons.
Q1	0.94	0.94
Q2	1.08	1.08
Q3	1.13	1.13
Q4E	1.13	1.12
12/15E	4.28	4.29
12/16E	5.00	5.03
12/17E	5.65	5.93

Definitions of terms and abbreviations are available in the appendix section of this report, and more extensively on internet at [www.ubs.com/glossary](http://www.ubs.com/glossary)

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# AbbVie

## Company Profile: AbbVie

AbbVie is the proprietary pharmaceuticals business of the previous Abbott Laboratories. The company's revenues are largely derived from Humira (45% of total revenues) as well as other sources, such as the lipid franchise, virology and hormone therapy.

## Statement of Risk

Major risks include Humira biosimilar and additional competition, pipeline risk and emerging markets risk. Our price target is DCF-based.

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<b>Highlights (US\$m)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
Revenues	18,380	18,790	19,879	22,835	26,351	28,351	28,501	27,233
EBIT (UBS)	5,817	6,824	7,193	9,805	11,502	12,520	13,111	12,760
Net earnings (UBS)	5,275	5,066	5,375	7,093	8,381	9,338	9,870	9,665
EPS (UBS, diluted) (US\$)	3.34	3.13	3.32	4.28	5.00	5.65	6.10	6.10
DPS (US\$)	1.60	1.60	1.75	1.96	2.08	2.08	2.14	2.20
Net (debt) / cash	(14,019)	(11,077)	(6,165)	(23,065)	(21,154)	(18,783)	(16,558)	(13,626)
<b>Profitability/valuation</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>
EBIT margin %	31.6	36.3	36.2	42.9	43.6	44.2	46.0	46.9
ROIC (EBIT) %	-	36.8	50.3	45.2	33.6	35.2	36.5	36.0
EV/EBITDA (core) x	9.7	10.5	12.5	10.4	8.9	8.1	7.7	7.9
P/E (UBS, diluted) x	10.3	13.9	16.7	13.0	11.2	9.9	9.2	9.2
Equity FCF (UBS) yield %	9.7	9.1	6.2	(13.9)	9.4	10.4	11.4	11.5
Net dividend yield %	4.7	3.7	3.2	3.5	3.7	3.7	3.8	3.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied.

Valuations: based on an average share price that year, (E): based on a share price of US\$55.85 on 28 Jan 2016 19:43 EST

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UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	47%	33%
Neutral	Hold/Neutral	42%	34%
Sell	Sell	11%	23%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2014.

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.

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**Buy:** FSR is > 6% above the MRA. **Neutral:** FSR is between -6% and 6% of the MRA. **Sell:** FSR is > 6% below the MRA.

#### **Key Definitions**

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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#### **Company Disclosures**

AbbVie	ABBV US	Buy	US\$55.85	28 Jan 2016
Company Name	Reuters	12-mo rating	Price	Price date

Source: UBS. All prices as of local market close.

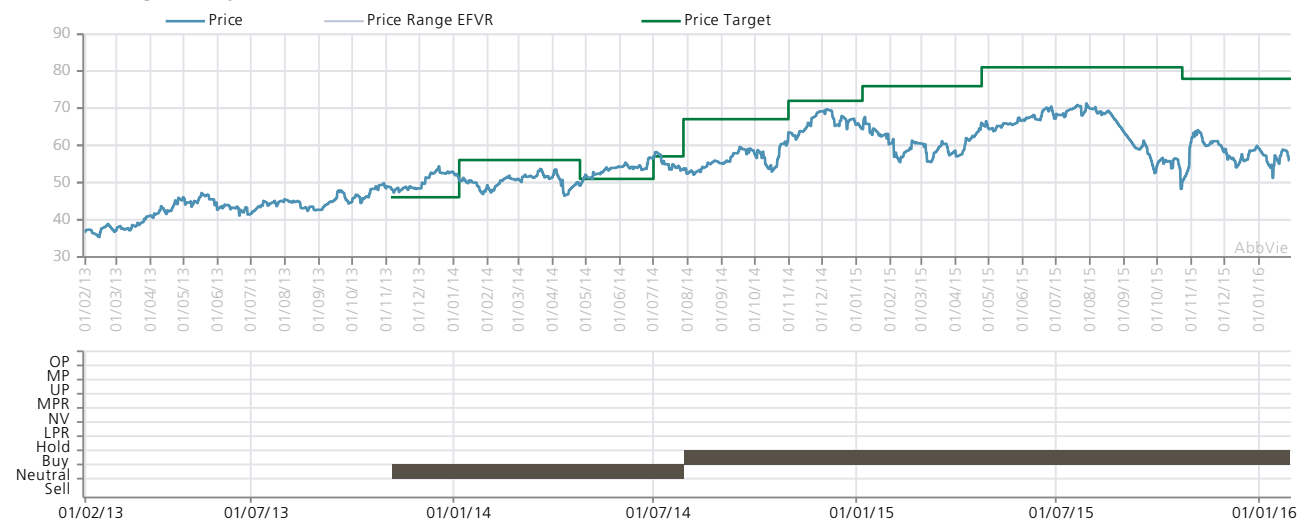
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## Global rating history -- AbbVie, ABBV US



Source: UBS CIO as of 29 January 2016

### Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
1H, 2H, etc. or 1H11, 2H11, etc.	First half, second half, etc. or first half 2011, second half 2011, etc.	1Q, 2Q, etc. or 1Q11, 2Q11, etc.	First quarter, second quarter, etc. or first quarter 2011, second quarter 2011, etc.
2011E, 2012E, etc.	2011 estimate, 2012 estimate, etc.	A	actual i.e. 2010A
ADR	American depository receipt	ARPU	Average Revenue Per User
AUM	Assets under management = total value of own and third-party assets managed	Avg.	average
bn	Billion	bp or bps	Basis point or basis points (100 bps = 1 percentage point)
BVPS	Book value per share = shareholders' equity divided by the number of shares	CAGR	Compound annual growth rate
Cant Inc/Capita	Cantonal income per capita (Switzerland only)	Capex	Capital expenditures
CF	Cash flow	CFO	1) Cash flow from operations, 2) Chief financial officer
COGS	Cost of goods sold	COM	Common shares
Cons.	Consensus	Core Tier 1 Ratio	Tier 1 capital minus tier 1 hybrid securities
Cost/Inc Ratio (%)	Costs as a percentage of income	CPI	Consumer price index
CR	Combined ratio = ratio of claims and expenses as a percentage of premiums (for insurance companies)	CY	Calendar year
DCF	Discounted cash flow	DDM	Dividend discount model
Dividend Yield (%)	Dividend per share divided by price per share	DPS	Dividend per share
E	expected i.e. 2011E	EBIT	Earnings before interest and taxes
EBIT Margin (%)	EBIT divided by revenues	EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA Margin (%)	EBITDA divided by revenues	EBITDA/Net Interest	EBITDA divided by net interest expense
EBITDAR	Earnings before interest, taxes, depreciation, amortization and rental expense	EFVR	Estimated fair value range
EmV	Embedded value = net asset value + present value of forecasted future profits (for life insurers)	EPS	Earnings per share
Equity Ratio (%)	Shareholders' equity divided by total assets	EV	Enterprise value = market value of equity, preferred equity, outstanding net debt and minorities
FCF	Free cash flow = cash a company generates above outlays required to maintain/expand its asset base	FCF Yield (%)	Free cash flow divided by market capitalization
FFO	Funds from operations	FY	Fiscal year / financial year
GDP	Gross domestic product	Gross Margin (%)	Gross profit divided by revenues
H	half year	h/h	Half-year over half-year; half on half
hist av.	Historical average	Interbank Ratio	Interbank deposits due from banks divided by interbank deposits due to banks
Interest Coverage	Ratio that expresses the number of times interest expenses are covered by earnings	Interest exp	Interest expense
ISIN	International securities identification number	K	One thousand
LLP/Net Int Inc (%)	Loan loss provisions divided by net interest income	LLR/Gross Loans (%)	Loan loss reserves divided by gross loans

# AbbVie

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
LPR	Least Preferred: The stock is expected to both underperform the relevant benchmark and depreciate in absolute terms.	Market cap	Number of all shares of a company (at the end of the quarter) times closing price
m/m	Month-over-month; month on month	mn or m	Million
M and A	Merger and Acquisition	MP	Marketperform: The stocks expected performance is in line with the sector benchmark
MPR	Most Preferred: The stock is expected to both outperform the relevant benchmark and appreciate in absolute terms.	n.a.	Not available or not applicable
NAV	Net asset value	Net Debt	Short- and long-term interest-bearing debt minus cash and cash equivalents
Net DPS	Net dividends per share	NIM or Net Int Margin (%)	Net interest income divided by average interest-bearing assets
Net Margin (%)	Net income dividend by revenues	NV	Neutral View: The stock is expected to neither outperform nor underperform the relevant benchmark nor significantly appreciate or depreciate in absolute terms.
n.m. or NM	Not meaningful	NPL	Non-performing loans
OP	Outperform: The stocks is expected to outperform the sector benchmark	Op Margin (%)	Operating income divided by revenues
p.a.	Per annum (per year)	P/BV	Price to book value
P/E or PE	Price to earnings / Price Earnings Ratio	P/E Relative	P/E relative to the market
P/EmV	Price to embedded value	PEG Ratio	P/E ratio divided by earnings growth
PPI	Producer price index	Prim Bal/Cur Rev (%)	Primary balance divided by current revenue (total revenue minus capital revenue)
Profit Margin (%)	Net income divided by revenues	q/q or QQQ	Quarter-over-quarter; quarter on quarter
R and D	Research and development	ROA (%)	Return on assets
ROAE (%)	Return on average equity	ROCE (%)	Return on capital employed = EBIT divided by difference between total assets & current liabilities
ROE (%)	Return on equity	ROIC (%) or ROI	Return on invested capital
Shares o/s	Shares outstanding	Solvency Ratio (%)	Ratio of shareholders' equity to net premiums written (for insurance companies)
sotp or SOTP	Sum of the parts	Tax Burden Index	Swiss tax index; 100 = average tax burden of all cantons
tgt	Target	Tier 1 Ratio (%)	Tier 1 capital divided by risk-weighted assets; describes a bank's capital adequacy
tn	Trillion	UP	Underperform: The stock is expected to underperform the sector benchmark
Valor	Swiss company identifier	WACC	Weighted average cost of capital
CIO	UBS WM Chief Investment Office	x	multiple / multiplier
y/y or YOY	Year-over-year; year on year	yr	Year
YTD	Year-to-date		

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