

# AbbVie

United States of America/Pharmaceuticals,  
Biotechnology & Life Sciences

20 April 2017

**UBS Research**

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## Veliparib Failure Shouldn't Disappoint Much

- What's new? Two Phase 3 studies for veliparib failed primary endpoints
- Our takeaway: Expectations were low in these higher risk programs
- Thoughts on the stock: Shouldn't have a meaningful impact
- Valuation: Maintaining our Buy rating and DCF-based PT of \$73

AbbVie evaluated veliparib in combination with chemo in a Phase 3 in front-line squamous NSCLC in a smoker population and a Phase 3 in triple negative breast cancer (TNBC) for neo-adjuvant therapy. Both studies failed to hit their primary endpoints. The results for TNBC will likely be at ASCO and for lung at a different medical meeting.

**Our takeaway: Expectations were low in these higher risk programs**

We believe the veliparib programs carried a higher risk because they were testing a different hypothesis vs other PARPs by targeting a broader population beyond germline mutations and earlier lines of therapy (vs later lines for other PARPs). AbbVie's strategy was to combine veliparib with chemo as early as possible to avoid resistance. In addition, TNBC and sq NSCLC have historically been difficult to treat. No other PARPs have been studied in this context. We believe the Street expectations for positive results were low for veliparib. For TNBC, the standard of care remains chemo therapy, which has limited efficacy. For squamous NSCLC, we believe that the Street had limited expectations for veliparib as most view immuno-oncology as the dominant treatment paradigm given the strong efficacy in front and second line. With that said, other Phase 3 trials for veliparib are still ongoing in front-line non-squamous NSCLC, BRCA1/2 breast cancer, and ovarian cancer, which are also in earlier lines of treatment and a broader population than germline mutations. We also see a high degree of risk for these programs. We currently model ~\$200M risk-adj sales (or ~7 cents) for 2021, but we have not included estimates for lung or TNBC. The consensus expectations were also fairly muted at ~\$350M in 2020.

**Thoughts on the stock: Shouldn't have a meaningful impact**

We believe that the Street has underappreciated AbbVie's PARP inhibitor, given the high degree of risk in the veliparib programs. It would have been nice if veliparib had worked in these indications, but given the low Street expectations, we do not expect a major disappointment from these failed studies.

**Valuation: Maintaining our Buy rating and DCF-based PT of \$73**

We use a 0% (base biz) and ~2% (pipeline) terminal rate and a WACC of 8%.

12-month rating	<b>Buy</b>
12-month price target	<b>\$73.00</b>
Price	<b>\$63.53</b>

**Contributing authors:** Uy Ear

**Trading data and key metrics**

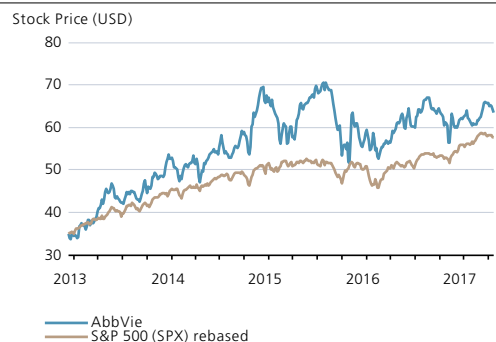
52-wk range	US\$67.39-55.78
Market cap.	US\$103bn
Shares o/s	1,623m (COM)
Free float	100%
Avg. daily volume ('000)	1,931
Avg. daily value (m)	US\$121.9
Common s/h equity (12/17E)	US\$6.81bn
P/BV (12/17E)	15.1x
Net debt / EBITDA (12/17E)	2.7x
RIC	ABBV.N
BBG	ABBV US

Sources: UBS, Bloomberg

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

	12/17E	
	UBS	Cons.
Q1E	1.25	1.26
Q2E	1.41	1.38
Q3E	1.38	1.40
Q4E	1.46	1.46
12/17E	5.50	5.50
12/18E	6.30	6.44
12/19E	6.80	7.37

**Performance**



Sources: Bloomberg, UBS

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 (60% of total revenues) as well as other sources, such as oncology, virology and women's health.

## 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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Highlights (US\$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Revenues	19,879	22,819	25,560	27,763	30,465	31,316	30,561	29,660
EBIT (UBS)	7,193	9,676	10,826	12,087	13,375	14,160	13,548	13,250
Net earnings (UBS)	5,375	7,059	7,904	8,878	10,033	10,712	10,370	10,068
EPS (UBS, diluted) (US\$)	3.32	4.29	4.82	5.50	6.30	6.80	6.70	6.50
DPS (US\$)	1.75	1.98	2.28	2.56	2.64	2.72	2.80	3.24
Net (debt) / cash	(6,165)	(28,774)	(36,460)	(34,343)	(28,550)	(26,360)	(21,752)	(18,340)
Profitability/valuation	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
EBIT margin %	36.2	42.4	42.4	43.5	43.9	45.2	44.3	44.7
ROIC (EBIT) %	50.3	38.1	22.6	21.9	24.8	26.7	26.1	26.7
EV/EBITDA (core) x	12.5	11.6	9.6	9.2	8.3	7.9	8.2	8.4
P/E (UBS, diluted) x	16.7	14.5	12.6	11.6	10.1	9.3	9.5	9.8
Equity FCF (UBS) yield %	2.6	(5.4)	3.8	8.3	9.8	10.5	10.5	11.1
Net dividend yield %	3.2	3.2	3.8	4.0	4.2	4.3	4.4	5.1

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\$63.53 on 20 Apr 2017 10:15 EDT

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UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	45%	29%
Neutral	Hold/Neutral	39%	27%
Sell	Sell	15%	16%

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 December 2016.

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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#### **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**

Company Name	Reuters	12-mo rating	Price	Price date
AbbVie	ABBV US	Buy	US\$63.45	19 Apr 2017

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

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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AbbVie 1, 2, 3;

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## Global rating history -- AbbVie, ABBV US



Source: UBS CIO as of 20 April 2017

### 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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Version 11/2016.

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