

# Abbott Laboratories

United States of America/Pharmaceuticals

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UBS Research

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12-month rating	<b>Neutral</b>
12-month price target	<b>\$41.00</b>
Price	<b>\$43.43</b>

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## In-Line Q1, Guidance Reiterated, Expect ALR Deal and Warning Letter to Be Key Topics on Call

Most major businesses in-line, EPD slightly better, offset by Medical Devices

Management delivered an in-line Q1 with modest upside in Established Pharma, Diagnostics and Nutrition offset by a slight shortfall in Medical Devices relative to our estimates. On the bottom-line, sales net of COGS (in-line), lower than expected SG&A (+3c), lower R&D (+1c) and lower non-op expense (+2c) resulted in adjusted EPS of 48c, above our estimate and consensus of 43c. Management reiterated 2017 EPS guidance of \$2.40-2.50, vs. consensus and our estimate of \$2.45. We expect discussion on the call to revolve around the recently amended ALR deal, the FDA warning letter and implications for MRI-safe timelines and trends in pediatric nutrition. We remain Neutral on ABT.

Solid growth in key area partially offset by Medical Devices

ABT reported Q1 sales of \$6,335 mil (+29.7%, up 3.2% on a comparable operational basis), in-line with our estimates. Lower than expected Medical Device sales (-\$70 mil including AMO) were offset by upside in Established Pharma (+\$38 mil), Diagnostics (+\$16 mil) and Nutrition (+\$11 mil). Most of the shortfall in Medical Devices appears to be in Heart Failure and Rhythm Management (i.e., pacers and ICDs).

Key Topics: Amended ALR agreement, FDA warning letter

We expect the amended ALR acquisition agreement and the recent FDA warning letter to be focus topics for the company's Q1 call this morning. In addition, we expect other key topics for the call to include: 1) Color on OUS Pediatric Nutrition growth trends; 2) FX trends and tone of oil-driven economies; 3) Share trends post MRI-sale pacemaker approval in February and timeline for MRI-safe ICD approval; and 4) Potential commercialization strategy for FreeStyle Libre Pro and expectations for the approval and launch of the consumer version.

### Trading data and key metrics

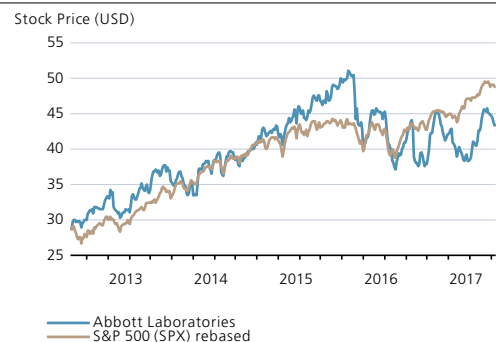
52-wk range	US\$45.72-36.95
Market cap.	US\$64.4bn
Shares o/s	1,483m (COM)
Free float	100%
Avg. daily volume ('000)	2,275
Avg. daily value (m)	US\$99.1
Common s/h equity (12/17E)	US\$30.0bn
P/BV (12/17E)	2.5x
Net debt / EBITDA (12/17E)	2.5x
RIC	ABT.N
BBG	ABT US

Sources: UBS, Bloomberg

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

	12/17E	
	UBS	Cons.
Q1E	0.43	0.43
Q2E	0.60	0.60
Q3E	0.68	0.67
Q4E	0.74	0.75
12/17E	2.45	2.45
12/18E	2.77	2.75
12/19E	3.02	3.06

### 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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# Abbott Laboratories

## Company Profile: Abbott Laboratories

Abbott Laboratories is a global manufacturer and provider of diversified health care and pharmaceutical products, medical devices and equipment in the areas of nutritionals, diagnostics, vascular intervention, diabetes and ophthalmology.

### Statement of Risk

Our price target of \$41 is based on an 11.75x EV/EBITDA multiple and 2018E EBITDA of \$5.8 bil. Risk to our target include deal integration, decrease in value of Mylan shares, capital allocation and strategic activity.

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<b>Highlights (US\$m)</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>	<b>12/20E</b>	<b>12/21E</b>
Revenues	20,247	20,405	20,853	26,117	27,152	28,385	29,564	30,673
EBIT (UBS)	3,203	3,377	3,685	4,349	4,682	5,058	5,467	5,842
Net earnings (UBS)	3,503	3,258	3,281	4,233	4,771	5,182	5,592	5,960
EPS (UBS, diluted) (US\$)	2.29	2.17	2.21	2.45	2.77	3.02	3.27	3.50
DPS (US\$)	0.90	0.96	1.04	1.13	1.22	1.32	1.43	1.55
Net (debt) / cash	(3,370)	(2,876)	(5,125)	(17,047)	(14,689)	(12,128)	(9,497)	(9,497)
<b>Profitability/valuation</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16</b>	<b>12/17E</b>	<b>12/18E</b>	<b>12/19E</b>	<b>12/20E</b>	<b>12/21E</b>
EBIT margin %	15.8	16.5	17.7	16.7	17.2	17.8	18.5	19.0
ROIC (EBIT) %	13.2	15.0	18.1	13.7	10.9	12.0	13.1	14.1
EV/EBITDA (core) x	13.2	14.1	11.8	10.4	10.3	9.4	8.5	8.0
P/E (UBS, diluted) x	17.9	21.4	18.3	17.7	15.7	14.4	13.3	12.4
Equity FCF (UBS) yield %	4.2	2.7	2.2	2.2	10.3	11.0	11.5	12.1
Net dividend yield %	2.2	2.1	2.6	2.6	2.8	3.0	3.3	3.6

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\$43.43 on 18 Apr 2017 18:41 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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**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).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

#### Exceptions and Special Cases

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#### Company Disclosures

Company Name	Reuters	12-mo rating	Price	Price date
Abbott Laboratories	ABT US	Neutral	US\$43.43	18 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

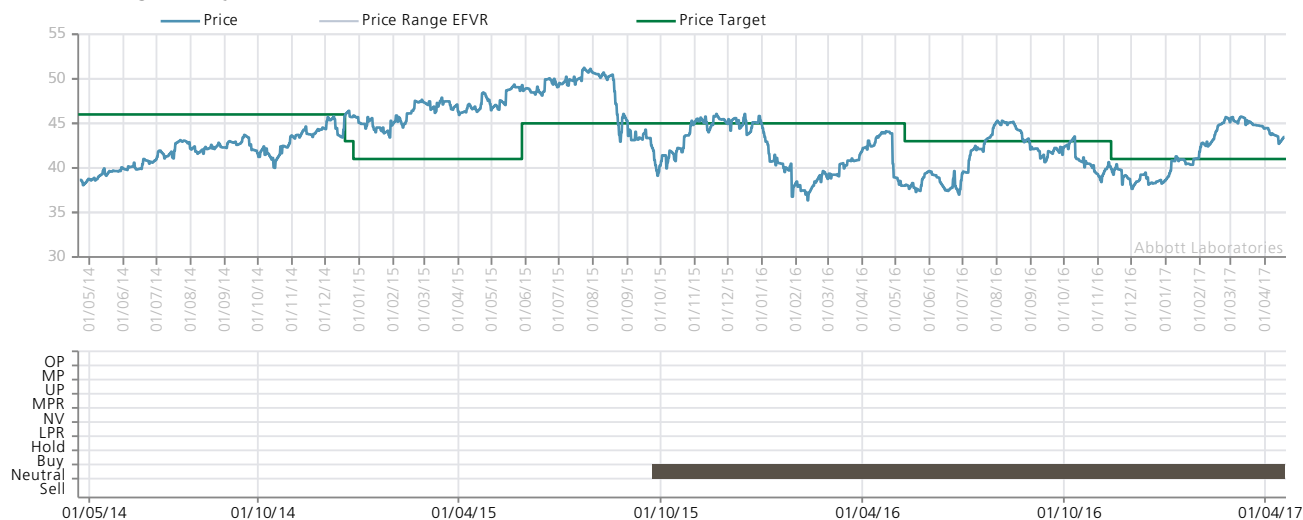
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# Abbott Laboratories

## Global rating history -- Abbott Laboratories, ABT US



Source: UBS CIO as of 19 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

# Abbott Laboratories

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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