



# Abbott Laboratories (ABT)

Updated October 17<sup>th</sup>, 2024, by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$118	<b>5 Year CAGR Estimate:</b>	6.0%	<b>Market Cap:</b>	\$205 B
<b>Fair Value Price:</b>	\$103	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	10/15/24
<b>% Fair Value:</b>	115%	<b>5 Year Valuation Multiple Estimate:</b>	-2.7%	<b>Dividend Payment Date:</b>	11/15/24
<b>Dividend Yield:</b>	1.9%	<b>5 Year Price Target</b>	\$144	<b>Years Of Dividend Growth:</b>	52
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

Abbott Laboratories, founded in 1888, is one of the largest medical appliances & equipment manufacturers in the world, comprised of four segments: Nutrition, Diagnostics, Established Pharmaceuticals and Medical Devices. Abbott Laboratories provides products in over 160 countries and employs 115,000 people. The company generated \$40 billion in sales and \$8.3 billion in profit in 2023.

On December 15<sup>th</sup>, 2023, Abbott Laboratories raised its quarterly dividend 7.8% to \$0.55, extending the company's dividend growth streak to 52 years.

On October 16<sup>th</sup>, 2024, Abbott Laboratories reported third quarter results for the period ending September 30<sup>th</sup>, 2024. For the quarter, the company produced \$10.6 billion in sales (60.5% outside of the U.S.), which represented a 4.9% improvement compared to the third quarter of 2023 and was \$90 million more than expected. Adjusted earnings-per-share of \$1.21 compared to \$1.14 in the prior year and was \$0.01 ahead of estimates.

U.S. sales grew 10.1% while international increased 1.7%. Currency exchange was a 2.5% headwind for the period. Companywide organic sales grew 7.6%. However, excluding Covid-19 testing products, organic growth was 8.2%. Nutrition grew 3.4% organically as the company continues to see a recovery in market share of its infant formula business following a stoppage of production in 2022. U.S. sales were higher by 10.4%. Adult Nutrition was especially strong. Diagnostics grew 1.4%, reversing the trend of year-over-year declines due to fewer Covid-19 tests being sold. Excluding Covid-19 tests, revenue was up 3.3%. Established Pharmaceuticals increased 7.0%, led by gains in gastroenterology, cardiometabolic, and central nervous system and pain management. Medical Devices continues to post excellent results, with sales up 13.3%, led by continued high demand for Diabetes Care, Structural Heart, and Electrophysiology.

Abbott Laboratories provided updated guidance for 2024 as well, with the company now expecting adjusted earnings-per-share in a range of \$4.64 to \$4.70 for the year, compared to \$4.61 to \$4.71 for the year, \$4.55 to \$4.70, and \$4.50 to \$4.70 previously.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.28	\$2.15	\$2.20	\$2.50	\$2.88	\$3.24	\$3.65	\$5.21	\$5.34	\$4.44	<b>\$4.67</b>	<b>\$6.55</b>
<b>DPS</b>	\$0.88	\$0.96	\$1.04	\$1.06	\$1.12	\$1.28	\$1.44	\$1.80	\$1.88	\$2.04	<b>\$2.20</b>	<b>\$3.09</b>
<b>Shares<sup>1</sup></b>	1,508	1,473	1,473	1,744	1,756	1,781	1,786	1,789	1,754	1,748	<b>1,748</b>	<b>1,740</b>

Abbott Laboratories spun off its biotech business (which is now publicly traded as AbbVie with the ticker ABBV) in 2013. AbbVie has been a very successful standalone company. When it was still owned by Abbott Laboratories it was a major growth driver. However, since the spin-off Abbott Laboratories' earnings-per-share growth rate has still been very solid. Results have also been very consistent. Earnings-per-share have a CAGR of 7.7% since 2014 and 7.6% since 2019. With its strong position in growth markets such as diagnostics, where Abbott Laboratories is the market leader in point-of-care diagnostics - and cardiovascular medical devices, Abbott Laboratories should be able to generate attractive long-

<sup>1</sup> In millions.

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term growth rates for both earnings-per-share and dividends. We forecast 7% growth coming off expected earnings-per-share of \$4.67 for 2024.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.0	21.5	18.4	19.4	22.3	24.9	26.3	22.6	20.6	24.5	25.3	22.0
Avg. Yld.	2.1%	2.1%	2.1%	2.2%	1.7%	1.6%	1.5%	1.5%	1.7%	1.9%	1.9%	2.1%

Shares of Abbott Laboratories have increased \$18, or 18%, since our July 19<sup>th</sup>, 2024 report. The stock's price-to-earnings ratio expanded after the spin-off of AbbVie, which is not surprising, as AbbVie had been the somewhat riskier part of the business. In addition, shares were coming off recession lows. Abbott Laboratories as a med-tech pure play is a low-risk investment. We reaffirming our target price-to-earnings ratio of 22 from 20 as this better reflects the stock's average earnings multiple over the last decade. With shares trading at more than 25 times earnings estimates, this implies a 2.7% headwind to annual returns through 2029 from multiple compression.

Abbott Laboratories has declared 403 consecutive dividends and increased its payout for 52 consecutive years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	39%	45%	47%	42%	39%	40%	39%	35%	35%	46%	47%	47%

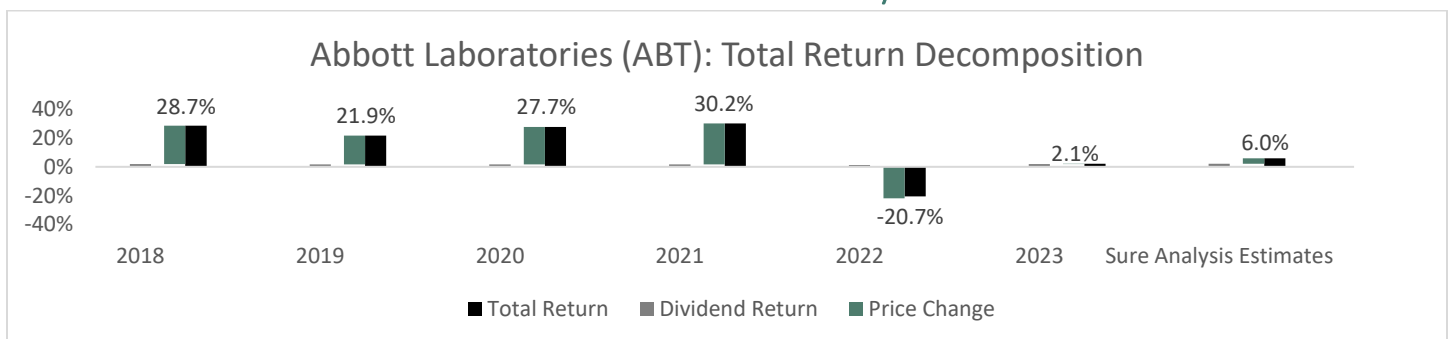
Abbott Laboratories' dividend payout ratio has never been above 50% throughout the last decade. Coupled with the fact that the company's earnings-per-share did not decline during the last financial crisis – it actually continued to grow – Abbott Laboratories' dividend looks very safe.

After the spin-off of AbbVie, Abbott Laboratories has proven to be a very stable performer with a solid outlook. The markets that Abbott Laboratories addresses are not cyclical as medical devices and diagnostics are needed whether the economy is doing well or not. This explains why Abbott Laboratories performed so well during the last financial crisis. Moreover, for future recessions, we believe Abbott Laboratories will most likely not be vulnerable. The company is a leader in the markets it addresses, such as in point-of-care diagnostics, which provides competitive advantages due to Abbott Laboratories' scale and global reach. This was especially true during the worst of the Covid-19 pandemic.

## Final Thoughts & Recommendation

We continue to find that Abbott Laboratories is a fundamentally strong company that addresses attractive and growing markets. We are projecting total annual return potential of 6.0%, down from 9.5% previously. This estimate stems from 7% earnings growth and a starting dividend yield of 1.9% that are offset by a small amount of multiple contraction. The impact of lower Covid-19 testing related revenues is becoming less pronounced. The remaining businesses are performing quite well. We reaffirm our 2029 price target of \$144 due to earnings guidance for 2024, but shares are now rated as a hold due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	20247	20405	20853	27390	30578	31904	34608	43075	43653	40109
<b>Gross Profit</b>	11029	11658	11759	14981	17872	18673	19605	24538	24511	22134
<b>Gross Margin</b>	54.5%	57.1%	56.4%	54.7%	58.4%	58.5%	56.6%	57.0%	56.1%	55.2%
<b>SG&amp;A Exp.</b>	6530	6785	6736	9182	9744	9765	9696	11324	11248	10949
<b>D&amp;A Exp.</b>	1548	1472	1353	3021	3278	3014	3327	3538	3267	3243
<b>Operating Profit</b>	2599	2867	3026	1564	3650	4532	5357	8425	8362	6478
<b>Op. Margin</b>	12.8%	14.1%	14.5%	5.7%	11.9%	14.2%	15.5%	19.6%	19.2%	16.2%
<b>Net Profit</b>	2284	4423	1400	477	2368	3687	4495	7071	6933	5723
<b>Net Margin</b>	11.3%	21.7%	6.7%	1.7%	7.7%	11.6%	13.0%	16.4%	15.9%	14.3%
<b>Free Cash Flow</b>	2598	1856	2082	4435	4906	4498	5724	8648	7804	5059
<b>Income Tax</b>	797	577	350	1878	539	390	497	1140	1373	941

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	41207	41247	52666	76250	67173	67887	72548	75196	74438	73214
<b>Cash &amp; Equivalents</b>	4063	5001	18620	9407	3844	3860	6838	9799	9882	6896
<b>Acc. Receivable</b>	3586	3418	3248	5249	5182	5425	6414	6487	6218	6565
<b>Inventories</b>	2643	2599	2434	3601	3796	4316	5012	5157	6173	6570
<b>Goodwill &amp; Int.</b>	16265	15200	12222	45493	42196	40220	38528	35970	33253	32494
<b>Total Liabilities</b>	19568	19921	31949	45152	36451	36586	39545	39172	37533	34387
<b>Accounts Payable</b>	1064	1081	1178	2402	2975	3252	3946	4408	4607	4295
<b>Long-Term Debt</b>	7830	9001	22006	27924	19566	18139	18747	18050	16773	14679
<b>Total Equity</b>	21526	21211	20538	30897	30524	31088	32784	35802	36686	38603
<b>LTD/E Ratio</b>	0.36	0.42	1.07	0.90	0.64	0.58	0.57	0.50	0.46	0.38

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	5.4%	10.7%	3.0%	0.7%	3.3%	5.5%	6.4%	9.6%	9.3%	7.8%
<b>Return on Equity</b>	9.7%	20.6%	6.7%	1.8%	7.7%	11.9%	14.0%	20.5%	19.0%	15.1%
<b>ROIC</b>	7.5%	14.8%	3.8%	0.9%	4.3%	7.4%	8.9%	13.4%	12.9%	10.7%
<b>Shares Out.</b>	1,508	1,473	1,473	1,744	1,756	1,781	1,786	1,789	1,754	1,748
<b>Revenue/Share</b>	13.26	13.55	14.06	15.66	17.28	17.91	19.38	24.08	24.75	22.93
<b>FCF/Share</b>	1.70	1.23	1.40	2.54	2.77	2.53	3.20	4.83	4.42	2.89

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

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