

**AbbVie Inc.
ABBV
Investment Notes**



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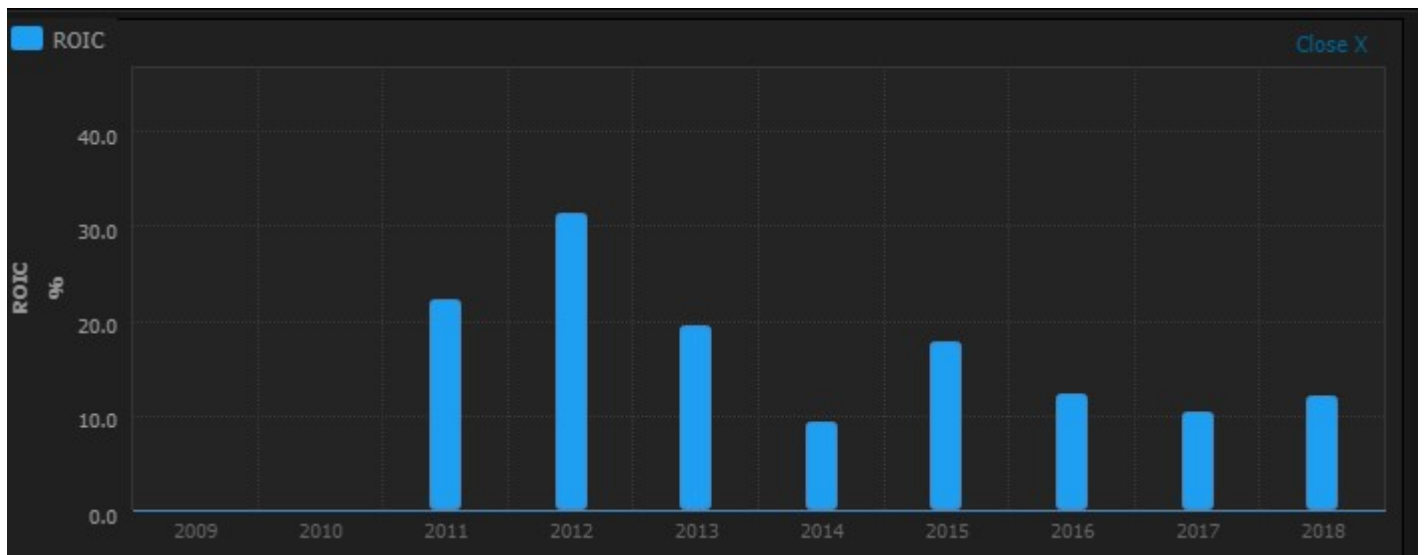
<http://investors.abbvie.com/>

AbbVie Inc. (AbbVie) is a research-based biopharmaceutical company. The Company is engaged in the discovery, development, manufacture, and sale of a range of pharmaceutical products. Its products are focused on treating conditions, such as chronic autoimmune diseases in rheumatology, gastroenterology and dermatology; oncology, including blood cancers; virology, including hepatitis C virus (HCV) and human immunodeficiency virus (HIV); neurological disorders, such as Parkinson's disease and multiple sclerosis; metabolic diseases, including thyroid disease and complications associated with cystic fibrosis, and other serious health conditions. It offers products in various categories, including HUMIRA (adalimumab), Oncology products, Virology Products, Additional Virology products, Metabolics/Hormones products, Endocrinology products and other products, which include Duopa and Duodopa (carbidopa and levodopa), Anesthesia products and ZINBRYTA (daclizumab).

June 26, 2019 (\$68.00) 2-Minute Drill and Thesis

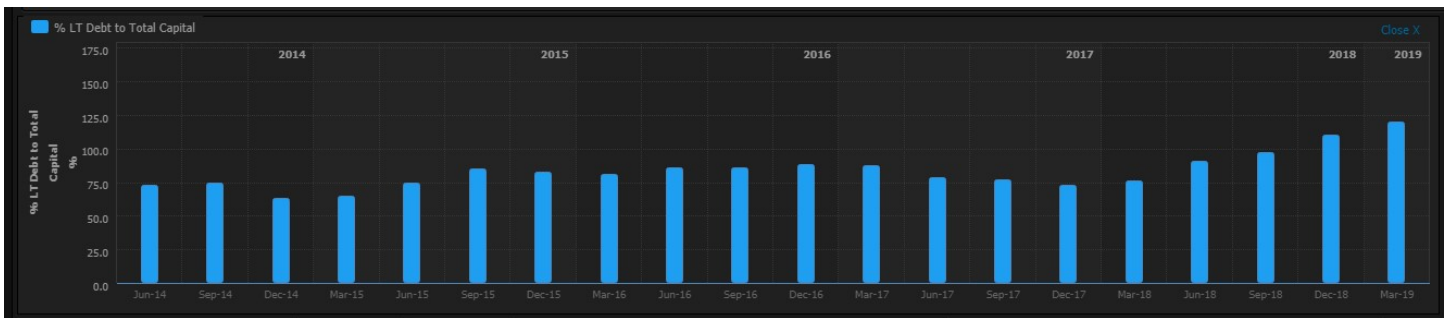
World leader in research-based biopharmaceutical industry, at prices that are fundamentally inexpensive relative to their industry and history. Company carries a solid dividend, and one that seems sustainable. The company is investment grade but was put on "Outlook Negative" on June 25, 2019, in response to the announced take-over of Allergan. Credit Default Swaps do not show any stress at this time, as the 5-year CDSW are priced under 80. Very high ROIC of > 30% on book value. Negative tangible book value. My gut reaction is the purchase of Allergan is synergistic, and a somewhat fair price to all. It gives AbbVie a stronger pipeline to defend Humira coming off patent in USA, in 2023. The company initially expects a \$2B cost savings, with the majority coming from sales and marketing, as well as research and development. Share count has decreased by 132M since F2016, yet recent prices paid have been higher than price as of today.

The price earnings ratio is very low at less than 10X. I think there is sustainability to their earnings, yet perhaps we are on the unknown with the future earnings generation of Humira, as well as the Allergan integration. ROTC warrants a much greater price, but without positive book value, we can't have commensurate of ROE. This should change in time, as earnings should increase book value.



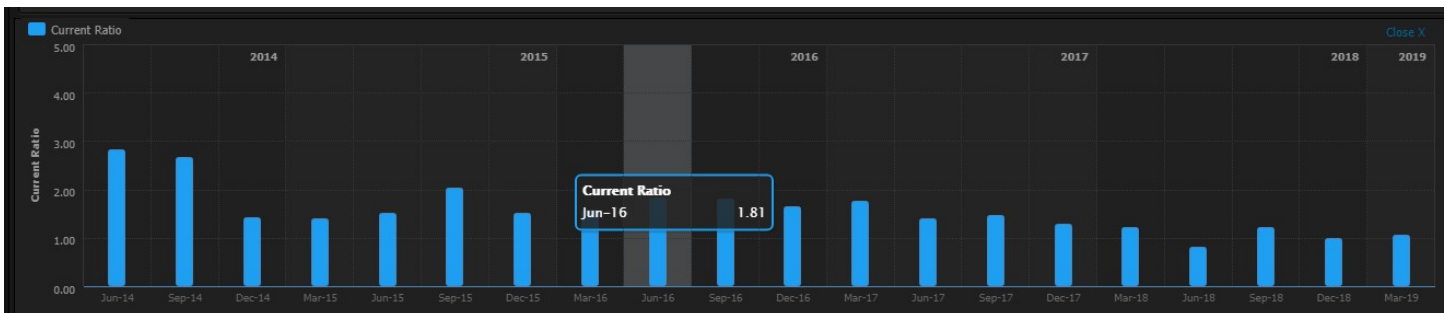
Excellent dividend yield at 6.41%, which appears sustainable. Management commented on June 25, 2019 about the dividend, *“On the dividend, look, again, this just assures that we can continue to drive a strong and growing dividend. We’re absolutely committed to a growing dividend, and nothing has changed. And this gives us a higher level of surety to be able to continue to do that at a robust rate.”*

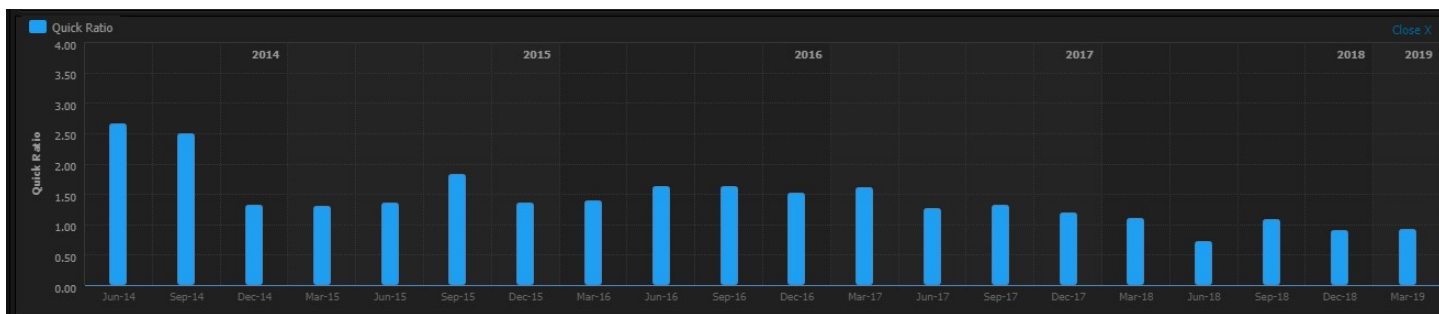
Quite a bit of debt but appears manageable if operating profits continue. Watch the rating services and debt prices! Bonds are selling to yield 2.80% for the 2025’s. You can sell at ~\$100.50 and can buy at ~\$104.47. A year ago, they weren’t distressed, yet were much cheaper with a lower yield. Same bonds were selling to yield 4.51% for the 2025’s. You were able sell at ~\$95 and buy at ~\$97.



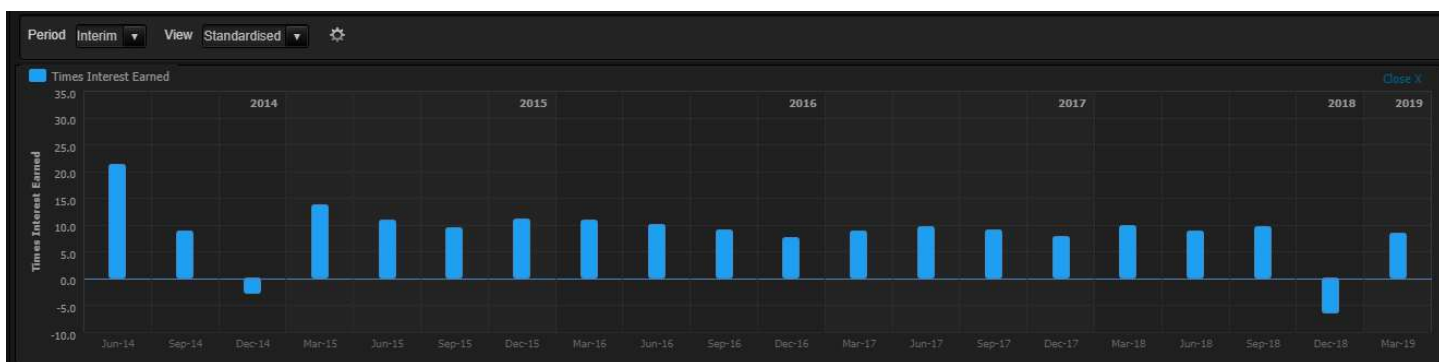
Pension plan is unfunded by ~\$1B, yet this number was ~\$1.5B a year ago. Hence, a concern, but not one that is keeping me up at night (yet).

The Current Ratio and Quick Ratio are lower than I would like. Like the credit ratings, this is important to monitor.





Times Interest earned measures the number of times within a fiscal interim the company generates enough operating income to meet its interest payments. It is calculated as Earnings Before Interest and Taxes for the fiscal interim divided by Interest Expense for the same period. Times Interest earned is fairly healthy. I like to watch this, as we want to ensure debt and interest payments are not distressed. We like to see Times Interest earned at > 4 (or 25% on the inverse). We consider 6 (or inverse 16.67%) as a conservative number. <https://rbcpa.com//favorite-ratios-and-formulas/>



June 25, 2019 (\$66.75) Down \$12.76 or 16.30% after announcing intent to buy AGN

We bought 20,601 shares yesterday for a cost of \$66.98. We now have ~a 4% portfolio position with an average cost of \$77.22. This is currently our 8th largest position.

"In one of the biggest announcements in the healthcare industry this year, U.S. drug maker AbbVie has agreed to acquire Botox-maker Allergan in a cash-and-stock deal valued at \$63 billion. Under the terms, AbbVie will pay 0.866 of its shares and \$120.30 in cash for each AGN unit held, representing a 45% premium to the June 24th closing price. The move would help to satisfy a need for both sides as AbbVie had been looking to diversify its portfolio past its blockbuster drug Humira and Allergan had reportedly been seeking some sort of shake up to improve declining investor sentiment. Shares of AGN surged 30% in price on the news, while shares of ABBV fell as much as 15%. It represents the second-largest pharmaceutical acquisition announced this year behind Bristol-Myers Squibb's \$74 billion bid to buy Celgene." **Value Line 6/25/19**

My gut reaction is the purchase of Allergan is synergistic, and a somewhat fair price to all. It gives AbbVie a stronger pipeline to defend Humira coming off patent in USA, in 2023. The company initially expects a \$2B cost savings, with the majority coming from sales and marketing, as well as research and development.

“On the dividend, look, again, this just assures that we can continue to drive a strong and growing dividend. We're absolutely committed to a growing dividend, and nothing has changed. And this gives us a higher level of surety to be able to continue to do that at a robust rate.” **ABBV on conference call 6/25/19**

Yield is 6.41% (\$4.28). Earnings expected at \$8.70 which would give a P/E of 7.67X. Dividend payout has averaged 47.17% for the last 6 years, as company went public during 2013. The payout ratio was 46% in F2017, and 43% in F2018. Dividend payout ratio expected to be 49% for F2019 and 47% for F2020. ROE has averaged NMF% for the last 6 years. ROE was NMF% in F2017, and NMF% in F2018. ROE is expected to be NMF% for F2019, and NMF% for F2020. ROTC has averaged 31.75% for the last 6 years. ROTC was 26.4% in F2017, and 48.5% in F2018. ROTC is expected to be 45.5% for F2019, and 44.0% for F2020. Average P/E for the last 10 years has been 13.88X. Projected eps for F2020 is \$9.45 which equates to a forward P/E of 7.06X. VL gives it 'A' financial strength, and a Safety rating of 3. VL projects a price of \$115 - \$175, between 2022 – 2024 (4/5/19).

Shares outstanding projected to be 1,460 at December 31, 2019, and 1,440 at December 31, 2020.

S&P credit rating is 'A-' Lower Rung of Upper Medium Grade Outlook Negative (6/25/19)

Moody's credit rating is 'Baa2' Middle Rung of Lower Medium Grade Outlook Negative (6/25/19)

Fitch doesn't rate ABBV.

The company has a \$228M net operating loss carryforward.

The company repurchased approximately 109M shares during F2018 for \$10.7B. This is about \$98.17 per share. They also repurchased under an older plan, 11M shares for \$1.3B. This is about \$118.18 per share. Obviously, with today's quotation at \$68.00, not a prudent move (yet).

The funding of future pensions appears reasonable with Assets of \$5.6B, and obligations of \$6.6B.

Review of 1Q19 earnings:

First -Quarter Diluted EPS of \$1.65 on a GAAP Basis; Adjusted Diluted EPS of \$2.14 Reflects Growth of 14.4 Percent. This was materially higher than we were expecting.

First -Quarter Net Revenues Were \$7.828B, an increase of 0.4 Percent on an Operational Basis. This was also greater than we were expecting.

First -Quarter U.S. HUMIRA Net Revenues Were \$3.215B, an increase of 7.1 Percent; Internationally, HUMIRA Net Revenues were \$1.231B, a decrease of 23.0% on an operational basis. This obviously is concerning to investors.

Updates 2019 GAAP diluted EPS guidance range to \$7.26 to \$7.36; Raises 2019 adjusted diluted EPS guidance range from \$8.65 to \$8.75 to \$8.73 to \$8.83, representing growth of 11.0% at the midpoint. This also was higher than we were modeling.

R&D was 16.5% of net revenues on a GAAP basis.

There is a concern about Humira competition in Europe. The company expects erosion, but we really don't know how much that revenue erosion might be. At the same time, their oncology franchise is expanding, and could be \$5.1B in revenues for F2019, compared to \$3.9B in F2018. This is driven by sales of Imbruvica. AbbVie is seeking to enhance revenue streams from Humira. Humira accounted for 61% of total revenue in 2018. Humira already faces competition from biosimilars in Europe and will face biosimilars in the U.S. by 2023. The company combined with Allergan, will likely generate \$48B in revenues, and they should become one of the top-5 largest biopharmaceutical firms.

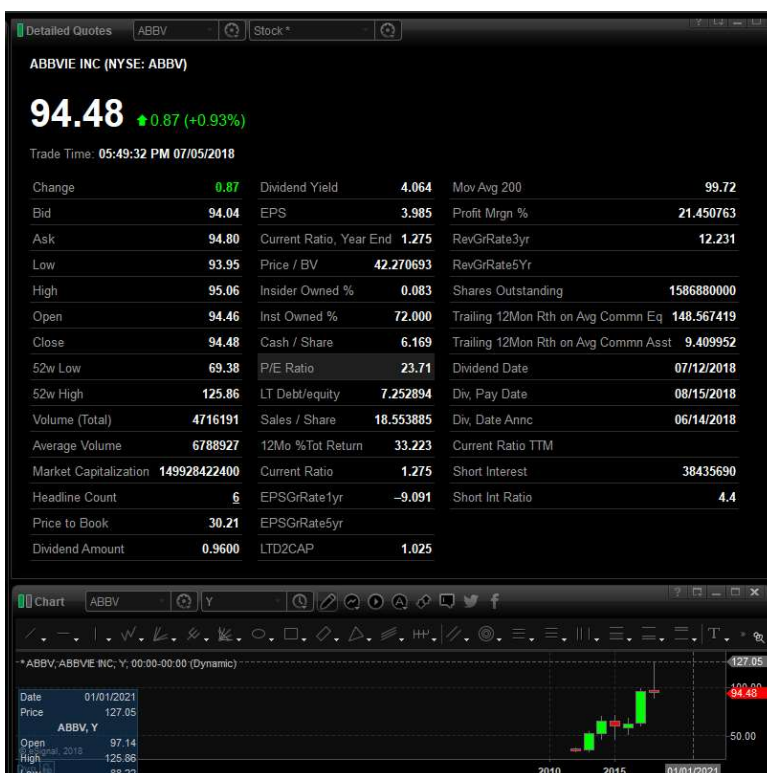
AbbVie repurchased 4 million shares for \$300 million during the three months ended March 31, 2019. This is an average cost of \$75.00.

Other items:

AGN seems to be protected from opioid exposure as Teva has indemnified AGN twice and any exposure if Teva is unable to pay is related is quarantined by the LLC sub sold to Teva.

July 5, 2018 (\$94.64) – established a 2.25% position today at \$94.65

1.61B fully diluted shares brings a market cap of 152.4B.



The principal business of AbbVie Inc. is the discovery, development, manufacture, and sale of a broad line of pharmaceutical products.

Very high ROIC of > 30% on book value. Negative tangible book value. Quite a bit of debt but appears manageable if operating profits continue. Watch the rating services. Some insider buying last month:

Abbvie Inc. (ABBV)

[Company Overview](#) |
 [Current Sentiment](#) |
 [Sentiment History](#) |
 [Insider Transactions](#) |
 [Email this page](#) |
 [External Sites](#)

Number of records: 50

SEC Filing	Insider	Trade Date	Transaction	Shares	Avg. Price	Total	% Holdings	Return
29-Jun-18 2:30 PM View	Tilton Glenn E Director	27-Jun-18	Market Purchase	5,400	\$91.90	\$496,274.00	16% 34.34K to 39.73K	(2%)
22-Jun-18 5:56 PM View	Rapp Edward J Director	20-Jun-18	Market Purchase	1,013	\$98.63	\$99,908.80	5% 19.73K to 20.74K	(8%)

Bonds are selling to yield 4.51% for the 2025's. You can sell at ~\$95 and can buy at ~\$97.

FCF seems stronger than NI, but I need to spend time and verify that.

Pension plan unfunded by ~\$1.5B.

years ended December 31 (in millions)	2017	2016	2015
HUMIRA	\$18,427	\$16,078	\$14,012
IMBRUVICA	2,573	1,832	754
HCV	1,274	1,522	1,639
Lupron	829	821	826
Creon	831	730	632
Synagis	738	730	740
Synthroid	781	763	755
AndroGel	577	675	694
Kaletra	423	549	700
Sevoflurane	410	428	474
Duodopa	355	293	231
All other	998	1,217	1,402
Total net revenues	\$28,216	\$25,638	\$22,859

Yield is 4.06% (\$3.84). Earnings expected at \$7.80 which would give a P/E of 12.13X. Dividend payout has averaged 46.6% for the last 5 years. The payout ratio was 47% in F2016, and 46% in F2017. Dividend payout ratio expected to be 46% for F2018 and 48% for F2019. ROE has averaged NMF% for the last 5 years. ROE was NMF% in F2016, and NMF% in F2017. ROE is expected to be NMF% for F2018, and NMF% for F2019. ROTC has averaged 28.4% for the last 5 years. ROTC was 20.4% in F2016, and 26.4% in F2017. ROTC is expected to be 33.0% for F2018, and 33.0% for F2019. Average P/E for the last 5 years has been 14.20X. Projected eps for F2019 is \$8.50 which equates to a forward P/E of 11.13X. VL gives it 'A' financial strength, and a Safety rating of 3. VL projects a price of \$125 - \$185, between 2021 - 2023 (7/6/18).

Shares outstanding projected to be 1,580 at December 31, 2018, and 1,570 at December 31, 2019.

Standard and Poor's credit rating is 'A-' Outlook Stable (4/28/16) This is lower rung of Upper Medium Grade.

Moody's credit rating is 'Baa2' Outlook Stable (6/1/16) This is Middle rung of Lower Medium Grade.

Fitch credit rating is N/A.

Disclaimer

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