Siena Market Line
4th week of April 2016

Abbott Laboratories.

NYSE:ABT

Analyst: Patrick Donovan
Sector: Healthcare

BUY

Price Target: $49.16

Key Statistics as of 4/23/16

Market Price:	$44.08
Industry:	Healthcare Equipment and Supplies
Market Cap:	$64.94B
52-Week Range:	$36.00-51.74
Beta:	.78

Thesis Points:

- Acquisition of Alere will create synergies that will significantly improve Abbott's bottom line.
- MitraClip is taking the market by storm and, along with other top products, will continue to see unprecedented growth and improving margins.
- Aging population is increasing demand for healthcare products, especially point-of-care, Abbott is poised to take great advantage of this.

Company Description:

Abbott is a top manufacturer of medical devices, diabetes management products, both pediatric and adult nutritional products and many diagnostic products and equipment. Products include stents, catheters, nutritional beverages, vascular health devices and optical aids such as contact lenses. The firm generates the majority of its sales, about sixty percent, outside the United States. Headquartered in Chicago, Illinois and founded in 1888 the company has been delivering high quality, innovative products for generations. With an impressive track record in acquisitions, the company continues to grow and expand vertically and horizontally. Below Abbott is compared to the S&P 500 healthcare index and Agilent Technologies (purple), a similarly valued competitor.

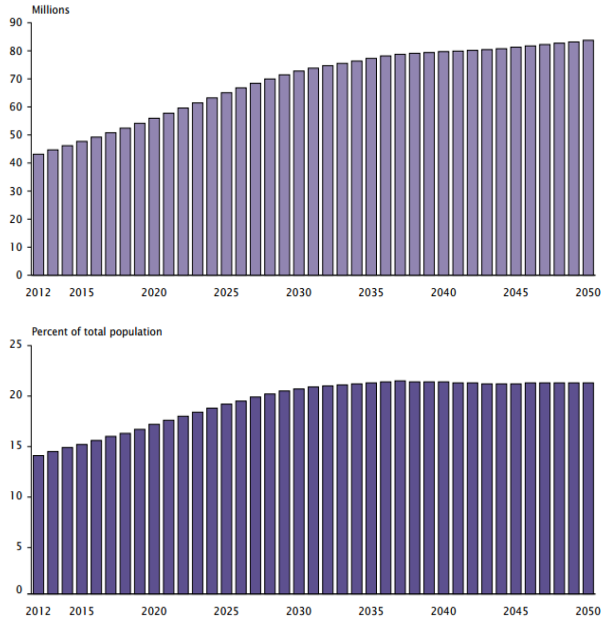
Thesis

Since 2001 Abbott has made 18 acquisitions, some of which the firm has since re-sold to other businesses. The variation in these arrangements is a testament to the management team's commitment to improving the company's market share in many fields but also to innovation. The management team is willing to make bold moves that place Abbott in advantageous positions within the healthcare marketplace. Abbott is currently in talks with Alere Incorporated to acquire the point-of-care giant. This move would not only improve shareholder value for both firms immediately, it will also set Abbott up for significant synergies in the coming years. As the population in the united states moves towards an older average age, the demand for point-of-care diagnostics and services is going to continue to rise. Abbott will be poised to take full advantage of this with their current POC products and the addition of Alere's. The acquisition would make Abbott the leader in American point-of-care products. In regards to the company's product lines, MitraClip was approved by the FDA in October of 2013, since hitting the market in 2015 the product has helped to more than quadruple the value of Abbott's Other Coronary Products segment. Abbott has been able to tap into many international markets with MitraClip and is pushing for further approval in emerging markets. Along with this quickly growing product, Abbott has a series of devices that are rapidly expanding in sales as well. Absorb GT1 is the world's first Bioresorbable Vascular Scaffold, meaning it can be used to hold open a clogged artery for many months until it has healed and regains strength, then the product will simply dissolve. Popularity in the GT1 is growing at a fast pace thanks to incredible reduction in complications post heart surgery, due primarily to the complex construction of the biological scaffold, which is minimally invasive to the body and immune system. With all of the products that Abbott has they have been able to expand their research and development to more efficiently bring about innovative products and refresh existing lines. In 2012 the company had $20 billion in debt, in 2013 the firm paid off almost $14 billion. In comparison to many of their competitors Abbott is particularly well versed in managing debt levels and maintains traditionally lower amount in the capital structure. This being said, Abbott has been using cash effectively outside of paying debts down. The firm has been acquiring competitors and firms that can contribute to the business for more than a decade, and has perfectly positioned itself to take full advantage of the rapidly ageing population in the U.S. and globally. Life expectancies for the entire world are on the rise thanks to improvements in education, healthcare, and aid programs; this means more medical care and therefore more market leading products from Abbott will be demanded in the future.

Industry Outlook

As was briefly mentioned above, the healthcare industry as a whole has a very positive outlook in the coming years. The number of people aged 65 and older in the United States and globally is projected to rise significantly over the next decades. Below is a chart from the United States census bureau demonstrating this very projection, it shows the total percentage of the population that will be aged 65 or older from 2012 to 2050. As you can see, the percentage is estimated to increase from roughly 14 to 21 percent during this time period. According to the Carlyle research company and data provided by the world bank, over the next decade the ageing world population should increase average healthcare spending as a percentage of GDP by about 1.2 percentage points. While that may seem insignificant, to put that into dollar terms, the United States would spend an additional $217.2 billion annually on the healthcare industry.

Figure 1.
Population Aged 65 and Over for the United States: 2012 to 2050



Source: U.S. Census Bureau, 2012 Population Estimates and 2012 National Projections.

Specifically addressing Abbott's product lines, the expectations for many of the company's cornerstone products are extremely promising. According to the most recent earnings call (4/20/16) the firm anticipates continued double digit growth in sales within India, which comprises 20% of the Established Pharmaceuticals segment for Abbott. The call also highlighted significant growth in demand for branded generics in emerging markets and growing economies. All in all, the variety in devices and products that Abbott features in its portfolio will provide the backbone for improvements in revenues and margins in the coming years.

Acquisition of Alere

Alere is priced similarly to Abbott, as of 4/23 the company's shares sell for $43.36. While the share prices are similar, Alere has a market cap of roughly $3.75 billion. Abbott has a decent point-of-care business now, but according to Reuters, the acquisition would make Abbott the leader in point-of-care in the United States. Alere operates through to main segments, Professional Diagnostics and Consumer Diagnostics. Synergies will exist immediately amongst research and development, sales and marketing, and of course the distribution and production of both firms' products. The market has been anticipating this acquisition on multiple occasions only to find out that some sort of delay has been announced. Alere has been slow or uncooperative to provide certain documentation to the SEC in regards to the transaction and thusly has slowed the process with Abbott. According to the earnings call on April 20th, the firm is strongly considering the acquisition but cannot currently comment due to the missing documentation. Other analysts agree that Alere will provide a great addition to Abbott's product line and business model. The market looks favorably upon the deal as false announcements have twice already raised the share price of both firms then subsequently returned to their appropriate levels when a corrected announcement was released. Pending any unusual circumstances or some discovery of foul play within the missing documentation from Alere, the acquisition should take place within the next few months, significantly boosting the projections for earnings and shareholder value for 2016.

Financials

Abbott has been on a mission to improve efficiency, margins, and generate new sources of growth. In the past two years the firm has completed projects to open lower-cost production facilities in China and India, which has been a major contributor to improvements in margins in those markets. Since 2014 the company wide ROIC/WACC ratio has been improved from 1.37 to 4.02, displaying the already impressive growth that Abbott has experienced since the introduction of their most recent innovative product lines. The valuation of the firm within the Proforma analysis was done by changing some of the expectations for future financial results. The firms non-adjusted revenue growth will be converging towards the industry average in 10 years of 8% per annum. Operating costs will also be reduced slightly over the same period to 73%, slightly above the industry average. Several measures will remain similar if not equal to their current percentages. The most significant improvement to Abbott's operations will be the reduction of NPPE as a percentage of revenue. The firm expects to continue its movement of production facilities to less expensive locations, and by doing so will improve the usage of NPPE to generate revenue. Gross profit margin has improved by roughly 3 percentage points since 2012. EBITDA, operating, and net income margin have all been steadily increasing since 2013 as well, this can be attributed to great management techniques and improved sales.

Conclusion

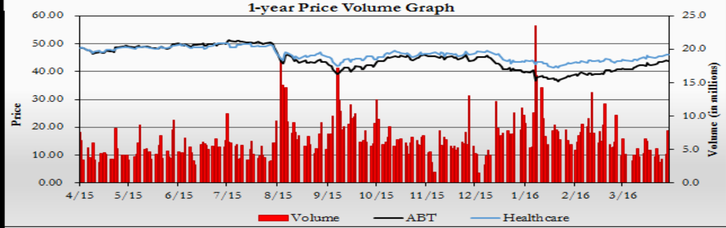
To summarize, Abbott Laboratories is already an industry leader with generations of experience in the field. The firm has made a tremendous priority of acquisitions in order to generate growth, along with serious improvements in cost management. Recent innovations in their product lines have begun to generate new growth and a significant increase in sales in several markets. The healthcare industry as a whole has a very positive outlook and the demand for devices and point-of-care services will be increasing in the coming years. Abbott can take advantage of this through the firm's current business, however. The proposed acquisition of Alere Technologies would generate tremendous value for shareholders. All of this being said and using the Proforma valuation program created by Dr. Girard, I have targeted a value of $49.16 for one year and am recommending a buy.

Siena Market Lin
4th week of April 201

Abbott Laboratories (ABT) — CENTER FOR GLOBAL FINANCIAL STUDIES — NEUTRAL

Analysis by Patrick Donovan	Current Price:	$43.93	Intrinsic Value	$44.60	Target 1 year Return: 14.01%
4/23/2016	Divident Yield:	2.1%	Target Price	$49.16	Probability of Price Increase: 90%

1-year Price Volume Graph



Description

Abbott Laboratories manufactures and sells health care products worldwide.

General Information

Sector	Healthcare
Industry	Healthcare Equipment and Supplies
Last Guidance	November 3, 2015
Next earnings date	July 13, 2016
Estimated Country Risk Premium	6.02%
Effective Tax rate	31%
Effective Operating Tax rate	29%

Market Data

Market Capitalization	$64,645.85
Daily volume (mil)	1.86
Shares outstanding (mil)	1473.24
Diluted shares outstanding (mil)	1498.00
% shares held by institutions	78%
% shares held by investments Managers	61%
% shares held by hedge funds	1%
% shares held by insiders	0.29%
Short interest	0.86%
Days to cover short interest	1.81
52 week high	$51.74
52-week low	$36.00
Levered Beta	0.67
Volatility	34.30%

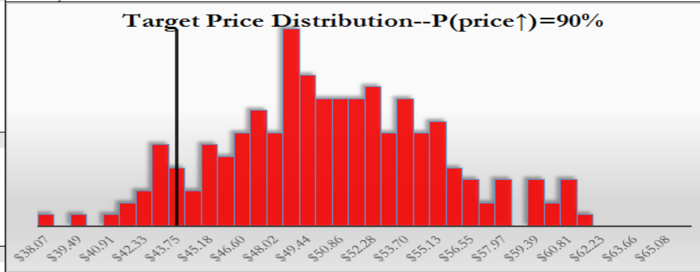
Past Earning Surprises

Quarter ending	Revenue	EBITDA
3/31/2015	0.12%	-14.35%
6/30/2015	-0.81%	-22.36%
9/30/2015	-1.27%	-13.47%
12/31/2015	-4.13%	-13.18%
3/31/2016	0.51%	0.52%
Mean	-1.11%	-12.57%
Standard error	0.8%	3.7%

Peers

- Baxter International Inc.
- Boston Scientific Corporation
- Stryker Corporation
- Becton, Dickinson and Company
- St. Jude Medical Inc.
- Medtronic plc
- Johnson & Johnson
- Edwards Lifesciences Corp.

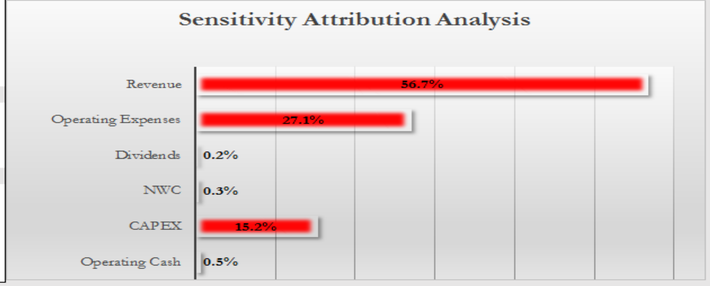
Target Price Distribution--P(price↑)=90%



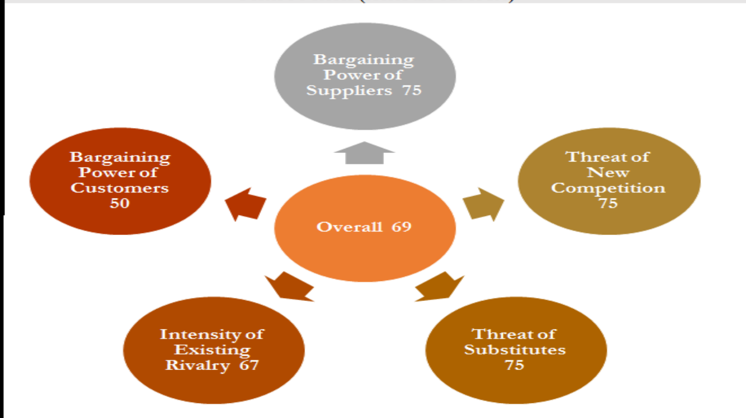
Management	Position	Total compensations growth	Total return to shareholders
White, Miles	Chairman, Chief Executive Of	-5.37% per annum over 5y	4.18% per annum over 5y
Yoor, Brian	Chief Financial Officer and	N/M	0% per annum over 0y
Freyman, Thomas	Executive Vice President of	-8.71% per annum over 5y	4.18% per annum over 5y
Capek, John	Executive Vice President of	-0.88% per annum over 1y	2.07% per annum over 1y
Warmuth, Michael	Executive Vice President of	N/M	0% per annum over 0y
Blaser, Brian	Executive Vice President of	5.58% per annum over 2y	10.65% per annum over 2y

Profitability	ABT (LTM)	ABT (5 years historical average)	Industry (LTM)
ROIC	12.6%	9.26%	9.41%
NOPAT Margin	14%	16.31%	16.4%
Revenue/Invested Capital	0.88	0.57	0.58
ROE	11.4%	9.11%	10.87%
Adjusted net margin	14%	15.53%	13.9%
Revenue/Adjusted Book Value	0.83	0.59	0.78
Invested Funds	**ABT (LTM)**	**ABT (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	23.3%	26.2%	23%
Estimated Operating Cash/Total Capital	19.0%	15.2%	N/A
Non-cash working Capital/Total Capital	0.0%	9.9%	8%
Invested Capital/Total Capital	81.6%	83.9%	72%
Capital Structure	**ABT (LTM)**	**ABT (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.13	0.12	0.21
Cost of Existing Debt	2.56%	2.09%	3.72%
Estimated Cost of new Borrowing	3.77%	3.61%	3.72%
CGFS Risk Rating	BB	BB	B
Unlevered Beta (LTM)	0.62	0.34	0.77
WACC	5.58%	3.85%	6.58%

Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	0.0%	14.3%	2.26
3/31/2017	1.8%	16.8%	2.89
3/31/2018	4.3%	17.7%	2.71
3/31/2019	5.4%	18.4%	2.62
3/31/2020	4.4%	18.3%	2.40
3/31/2021	5.6%	18.5%	2.31
3/31/2022	5.0%	18.7%	2.19
3/31/2023	4.5%	18.7%	2.07
3/31/2024	3.9%	18.8%	1.97
3/31/2025	3.3%	18.8%	1.88
3/31/2026	2.7%	18.9%	1.80
Continuing Period	2.1%	18.9%	1.72

Period	Invested Capital	Net Claims	Price per share
Base Year	$35,306.10	$3,343.70	$45.29
3/31/2017	$31,818.04	$295.00	$49.80
3/31/2018	$25,541.91	-$1,819.47	$53.39
3/31/2019	$26,251.54	-$3,994.05	$57.19
3/31/2020	$23,166.09	-$6,536.60	$61.20
3/31/2021	$21,458.74	-$9,403.98	$65.67
3/31/2022	$24,663.31	-$12,263.82	$70.10
3/31/2023	$27,461.88	-$15,505.19	$74.76
3/31/2024	$30,634.89	-$19,135.85	$79.63
3/31/2025	$33,613.06	-$23,161.56	$84.72
3/31/2026	$36,987.25	-$27,581.53	$90.05
Continuing Period			