RESEARCH REPORT

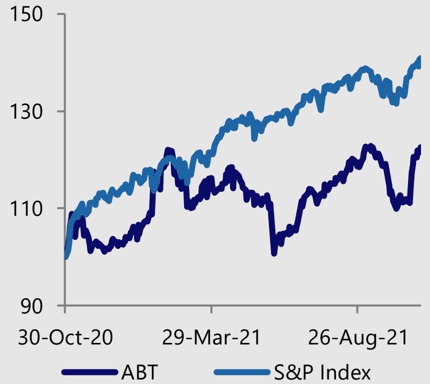
November 1, 2021

Stock Rating	HOLD
Price Target	CAD $131.81
Current Price	CAD $128.89

Bear Case	Price Target	Bull Case
$115.71	$131.81	$155.06

Ticker	ABT
Market Cap (MM)	$228,500
P/E NTM	27.7x
EV/EBITDA NTM	20.2x

52 Week Performance



Abbott Laboratories

Abbott Time to Invest?

Abbott Laboratories (NYSE: ABT) is a multinational medical devices and health care company, serving over 160 countries. In 2013, Abbott split off its research-based biopharmaceutical manufacturer into a separate company called AbbVie Inc. Now, Abbott focuses its revenue across four segments: established pharmaceutical products, diagnostic products, nutritional products, and medical devices.

With traditional success in new product releases, backed by a strong sales force, management team and brand reputation, all Abbott segments have fared well in recent years. Growth will come from the diagnostic products and medical devices segment, while established pharmaceuticals and nutrition act as stable revenue streams.

To value Abbott, we took note of market growth rates and which sub-segments management had greater expectations for. Additionally, credit was given for operating margin improvement that Abbott has seen. However, the Healthcare team believes the stock to be fully priced, with all headwinds and tailwinds accounted for.

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Company Overview

Company Overview

Based in the U.S. and founded by Chicago physician Wallace Calvin Abbott in 1888, Abbott Laboratories (ABT) is a multinational medical devices and health care company serving over 160 countries. ABT generated $34.6B of revenue in 2020 with a market capitalization of $226.4B. Serving medical centres, distributors, and direct consumers, the company touches on many points along the supply chain with relatively fragmented end markets. Abbott also focuses on launching new and improved formulas for branded generics in emerging markets, likely to grow faster due to high degrees of consumer price sensitivities.

In 2013, Abbott split off its research-based biopharmaceutical manufacturer into a separate company called AbbVie Inc. Though some investors suspected that AbbVie was constructed as a repository for ABT to dump imminently expiring patents, Abbott's management claimed that this was a strategic move to narrow Abbott's focus down to four core segments.

Segment Overview

1) **Established Pharmaceutical Products** – Branded generic pharmaceuticals marketed and sold in emerging markets outside the United States. This includes cardiovascular, metabolic, and respiratory products. Known brands include Creon™, Duphaston™, Synthoid™, and Brufen™.

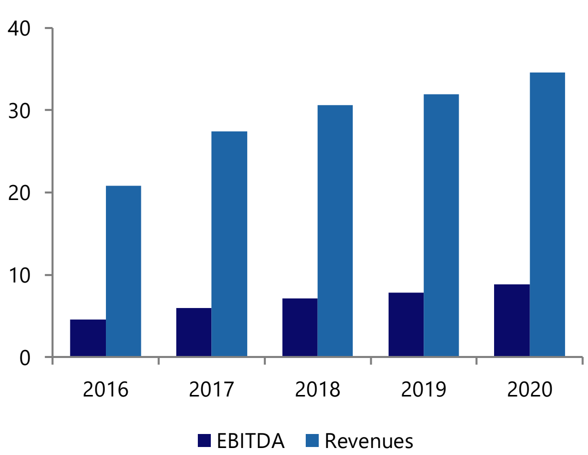
2) **Diagnostic Products** – Diagnostic devices and tests. This includes core laboratory, molecular diagnostics PCR, and point of care systems. Known brands include i-STAT® and the Alinity® family.

3) **Nutritional Products** – Pediatric and adult nutritional products. This includes infant formula and adult and pediatric nutritional products. Known brands include Similac® and PediaSure®.

4) **Medical Devices** – Broad line of rhythm management, heart devices, electrophysiology, diabetes care products, and vascular products. Known brands include HeartMate™ and TriClip®.

EXHIBIT I

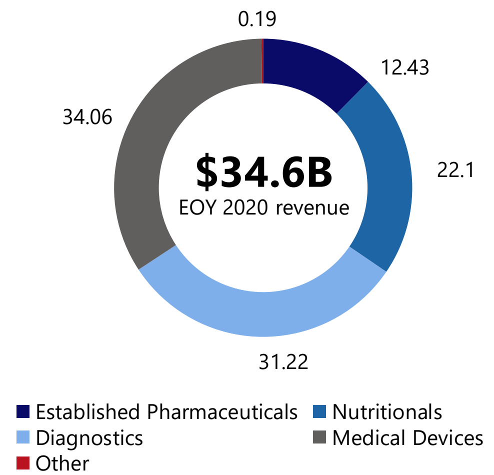
EBITDA and Revenue Growth ($MM)



Source(s): Capital IQ

EXHIBIT II

Revenue Segments



Source(s): Company Reports, Statista

Company Overview

Value Proposition

Abbott's value proposition lies in its innovative research, driving company growth and consumer acquisition. In Q1 of 2021, sales were up 35.8%, with COVID testing making up $2.2B of the total $10.5B revenue. Independent of COVID-related catalysts (specific device and testing revenue segments), sales rose 7.8%. With expectations of a slowdown in testing, the company has kept the 2021 guidance for more than 35% growth. In terms of medical devices, diabetes and heart devices were the primary drivers for revenue. The company is the largest provider of remote heart-failure monitoring, transcatheter mitral valve repair, heart pumps (LVADs), stents, and continuous valve glucose monitoring. Other segments grew at more measured rates, with nutrition increasing by 6.9% and generics increasing by 2.5%.

EXHIBIT III

ABT Selected Brand Collection

Brand	Focus
Similac	Infant Formulas
PediaSure	Kids Nutrition
Pedialyte	Anti-dehydration
EleCare	Amino Acid-based Medical Food and Infant Formula
FreeStyle Libre	Handheld Glucose Monitor
ZONE perfect nutrition bars	Nutrition for On-the-go

Source(s): Company Website

Abbott Laboratories acquired Alere in 2017, a global manufacturer of rapid point-of-care diagnostic tests. This was a catalyst driving Abbott's success during the COVID pandemic. Abbott also completed its acquisition of St. Jude Medical that year, strengthening its portfolio and positioning itself as a leader in the growing field of arterial fibrillation. Recently, ATB acquired Walk Vascular, a manufacturer of blood clot removal devices. This buyout directly expands Abbott's presence in medical devices and indirectly complements its testing services.

Though the recent global supply chain shortages have been a significant issue in many industries, Abbott has not reported any considerable availability issues in their purchases in the ordinary course of business (raw materials and operational supplies). Abbott has approximately 43 million square feet of total properties. During the past year, research and innovations have mainly concentrated on producing COVID-related products and testing (especially rapid point–of–care diagnostic tests). Apart from molecular tests, Abbott's priorities have been towards developing coronavirus serology tests. Though the company has reaped significant benefits of being a primary COVID-19 test provider, the pandemic has negatively affected other parts of Abbott's core lab business. Decreases in additional routine testing and elective procedures may account for the decline in revenue in different sectors. Management is expecting these external impacts to continue throughout the second quarter of 2021.

In October, Abbott received FDA approval for two minimally invasive devices: the Amplatzer Amulet Left Atrial Appendage (LAA) Occluder and Portico with FlexNav transcatheter aortic valve replacement (TAVR) system. This strengthens Abbott's structural heart portfolio, which has already contributed more than a million dollars towards annual sales. Going forwards, Abbott expects to sustain its growth by furthering its momentum in cardiovascular products.

Industry Overview

General Overview

Given the highly diversified nature of Abbott's business model, it does not have entrenched competition across all of its segments. However, many largely-diversified healthcare companies such as Johnson and Johnson, Pfizer, and Thermo Fisher Scientific operate in the same segments as ABT- creating a highly competitive business environment.

Generally speaking, key trends underpinning the broader business include significant tailwinds into the Diagnostic Imaging business due to COVID-19-related spending, a corresponding contraction in Medical Devices revenue due to a lack of elective procedures, sustained growth in the nutrition space due to demographic trends, and increased access to healthcare in emerging markets for the Established Pharmaceutical segment. Other broader industry tailwinds include increased regulatory slack on medical devices, increased healthcare spending, and more.

Key business risks for all firms in the segment include austerity measures which may be put in place post-COVID-19 pandemic, currency fluctuations borne from international operations, and further regulatory hurdles implemented in various jurisdictions.

Diagnostics

The Diagnostic Imaging segment has experienced rapid growth over the last 1.5 years, almost entirely due to the increased demand for COVID-19-related diagnostic products. Within this broad segment, ABT is the largest, most diversified player. The ten largest industry players include bioMériuex, a French company, BioRad Laboratories, Danaher, Roche, Qiagen, Quest Diagnostics, Sysmex, and Thermo Fisher Scientific. Although obtaining exact market share information is relatively difficult given the esoteric and diversified nature of the space, Abbott is the largest player. Within the segment, Abbott specializes in rapid diagnostics, particularly due to the acquisition of Alere. Abbott is also a major player in core laboratory diagnostics, particularly with respect to blood tests. Other major players in this segment include Danaher, bioMériuex, Roche, and Siemiens. As the COVID-19 pandemic recedes, rapid diagnostics will become less of an emphasis industry-wide in the segment and focus more on core testing, with many firms adjusting guidance to reflect this reality.

Established Pharmaceuticals

Within this segment, there are several major players, including Sanofi, Pfizer, and Novartis. Since the segment focuses exclusively on generics in emerging markets, key industry trends include aging populations and higher income levels in developing markets. Aging populations drive higher demand for generic pharmaceutical drugs in emerging nations and healthcare interventions in general, proving to be a significant tailwind for the business. Higher income levels in emerging markets also create the potential for more pricing power as brand recognition grows. The growth of the middle class in expanding markets is a significant tailwind to sales in this segment.

Nutritional Products

Key players in the space include Nestle, Danone, ABT, and more. This competitive space is far more varied in nature, consisting of major food conglomerates providing mainstream nutrition products, as well as more specialized diabetes-specific brands better served by healthcare conglomerates such as ABT. Key drivers in this segment include an aging population, driving the need for more adult nutritional products, increasing risk of chronic disease in developed nations, and the rise of the middle-class in emerging markets.

Medical Devices

Major competitors in the space include Intuitive Surgical, Medtronic, Stryker, and Thermo Fisher Scientific. This segment requires substantial R&D spending and is driven by procedure growth- hampered by reallocation of healthcare assets to COVID-19 related procedures. Market penetration will grow through placements in hospitals and additional training of healthcare professionals.

Segment Evaluation: Established Pharmaceuticals

Overview

The Established Pharmaceuticals segment is built on a branded generic drug portfolio, sold to the emerging markets. As ~12% of Abbott's 2020 revenues, sales growth has been relatively flat in the past five years. Drug offerings are diverse, covering areas such as gastroenterology, women's health, cardiometabolic, CNS, respiratory and influenza vaccines. Since the focus is on generic drugs, Abbott does not actively pursue research, choosing instead to acquire products in the advanced licensing stage.

Brand Strength and Competitive Position

The winners in the generic drug market are those who successfully market brand value to key stakeholders, such as consumers and physicians. While Abbott is a not an overarching market leader in generic drug manufacturing, the brands it released have done well due to Abbott's scale, diversification, and strategy. Amongst generic producers, there are few with Abbott's global scale, which allows the company to manufacture and distribute cheaply. Even with pricing competition in the generic markets, Abbott can achieve profits. Moreover, geographic diversification insulates Abbott from emerging market volatility.

EXHIBIT IV

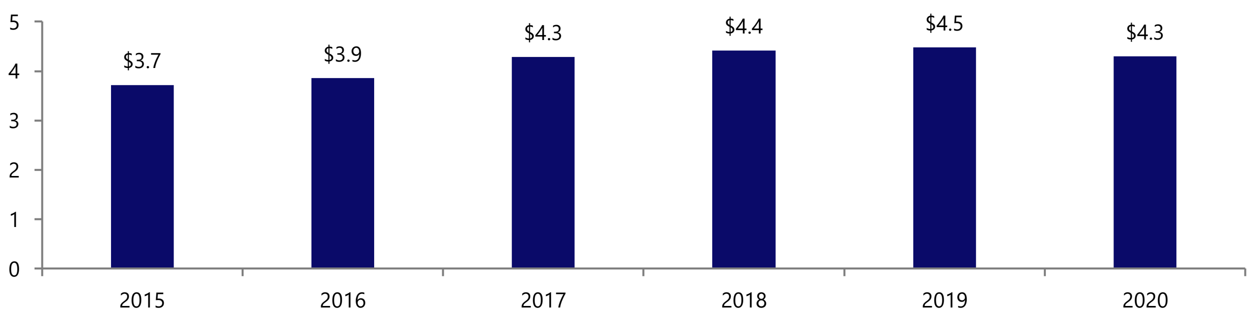
Established Pharmaceuticals Product Highlights

Gastroenterology	Women's Health	Cardiometabolic
Creon (#1 pancreatic enzyme replacement therapy)	Duphaston (#1 brand for progesterone deficiency)	Lipanthyl / Triocor / Lipidil (#1 fibrate)
CNS/Pain	**Respiratory**	**Influenza Vaccine**
Brufen (#1 ibuprofen brand)	Kalcid (#1 macrolide antibiotic)	First Halal (certified flu vaccine)

Source(s): Abbott Laboratories

EXHIBIT V

Established Pharmaceuticals Sales ($B)



Source(s): Company Filings

Segment Evaluation: Established Pharmaceuticals

For instance, when demand from China fell due to COVID-19, sales in India compensated for the delta. Finally, Abbott's strategy has furthered its reputation as a quality provider in the emerging markets. Since each country differs in its demand for formulations, packaging, and delivery, Abbott adjusts its go-to-market strategy accordingly. Salespeople work closely with local doctors and pharmacies to recommend the right drug and typically, manufacturing facilities exist in Abbott's main countries, allowing for localized distribution and customization. This strategy has been utilized for decades, allowing Abbott to establish itself as a trustworthy brand.

Still, despite Abbott's strengths, the generic drug market is extremely competitive. A new entrant in any of Abbott's drug treatments will meaningfully impact the price charged, even with scale. On average, with just four generic producers of one drug, prices already decline 79% relative to the original brand price. Therefore, while Abbott can sustain its positioning, its key growth lever in Established Pharmaceuticals will be growth in the emerging markets rather than stealing market share.

Risks / Growth Opportunities

Risk: COVID-19 Weakens Emerging Market Demand

Aside from fierce competition, which is a feature of the industry, the segment has been negatively impacted by COVID-19, as physicians shift their focus. However, diversification greatly mitigated this risk, as weakness in certain geographies was offset by others. As of late 2021, double-digit sales in Russia, China and India continue to compensate for weaker performance globally.

Growth: Emerging Market Demand for Branded Generics

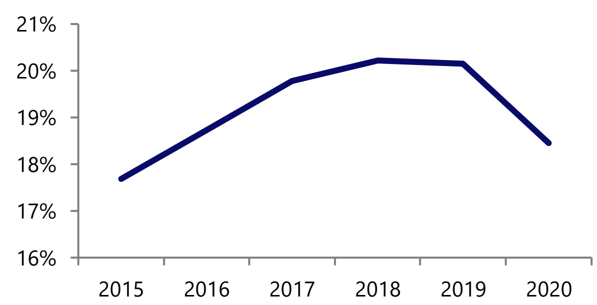
Growth in the Established Pharmaceuticals segment will be driven by the rising income of emerging market customers. Given their price sensitivity, it is likely they will gravitate to generics and brands they trust. To capitalize on this opportunity, it is essential Abbott builds product breadth while offering reasonable prices and marketing heavily.

Conclusion

Abbott's Established Pharmaceutical segment is a stable performer with minimal fluctuation in revenue. However, its brand strength and scale are not sufficient to sustain market leadership. Thus, steady growth will come from the market and the segment acts as a cushion for the rest of the company, in case one area performs poorly.

EXHIBIT VI

Established Pharmaceuticals Operating Margins



Source(s): Company Filings

Segment Analysis: Medical Devices

Overview

The Medical Device Segment (~34% of 2020 revenues) is Abbott's largest segment and one of the company's historical revenue drivers pre-COVID. The segment is broken into seven areas: rhythm management, electrophysiology, heart failure, vascular, structural heart, neuromodulation, and diabetes care. In the U.S., products are sold directly to Abbott-owned distribution centers, hospitals or wholesalers but internationally, some are sold to consumers.

Brand Strength and Competitive Position

For medical devices, competition is based on technological innovation/performance, convenience, service and price. Due to Abbott's innovation at a reasonable price paired with its network and scale, it has several key products as market leaders in their respective segments.

EXHIBIT VII

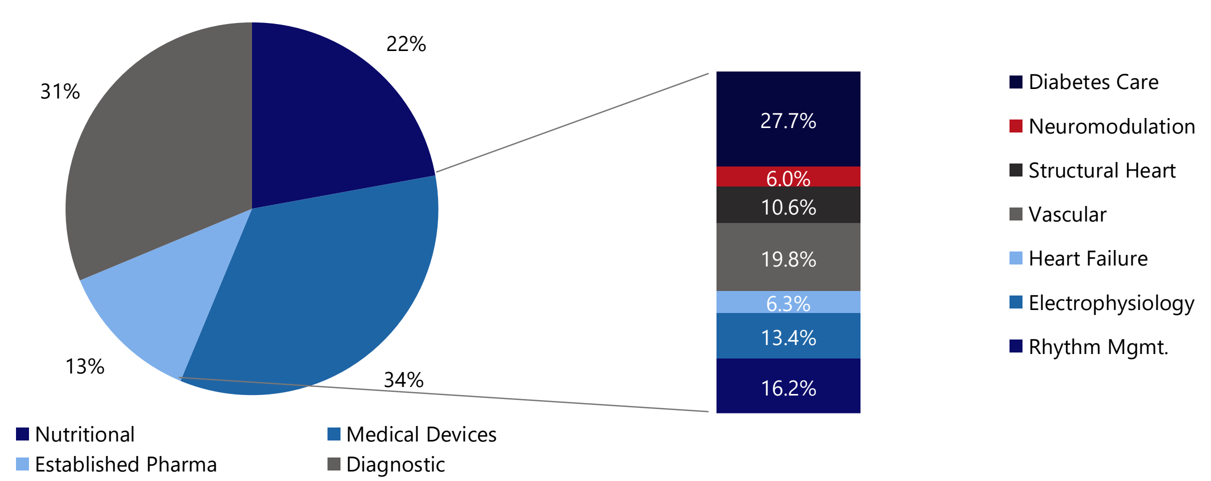
Key Products

Segment	Product
Rhythm Mgmt.	Assurity/Endurity MRI pacemaker systems
Electrophysiology	TactiCath family of ablation catheters
Heart Failure	HeartMate and CardioMEMS HF (heart failure monitoring system)
Vascular	XIENCE (drug-eluting coronary stent systems)
Structural Heart	MitraClip (mitral calve repair system)
Diabetes Care	FreeStyle Libre System (test stripe, sensors, data management decision software for people with diabetes)
Neuromodulation	Proclaim Elite (pulse generators)

Source(s): Company Filings

EXHIBIT VIII

2020 Revenue by Segment



Source(s): Company Filings

Segment Analysis: Medical Devices

Notably, Abbott's success with the FreeStyle Libre system (~7% of 2020 total revenue), the world's leading continuous glucose monitoring system, in Diabetes Care is a case study that illustrates the company's strength in medical devices. Of note is Abbott's size, granting the company a formidable sales source and investment in SG&A. After increasing investment in FreeStyle Libre in 2020, Abbott sustained double-digit growth during COVID. Within the spam of one quarter in 2021, Abbott added ~200K customers (bringing the total to ~3.5M customers) and currently holds 90% market share in the non-insulin/non-intensive insulin user space. Abbott's second advantage of selling technology at an affordable cost, is also seen in FreeStyle Libre. Despite Dexcom's continuous glucose monitor being a close competitor, Abbott inches ahead as it is more affordable and offers a wide array of features. As a result, FreeStyle's global retention rate averages 80% to 90% and its success builds on Abbott's positive brand reputation.

Other high growth devices, such as Abbott's MitraClip (repairing leaky mitral valves in the heart), also benefit from these strengths as a leader in the global transcatheter mitral valve replacement market. Ultimately, while Abbott may not be the market leader in every medical device segment, the company is competitive. Moreover, the diversification across several treatments creates a balanced portfolio, where Abbott is not too reliant on a key product to drive revenue.

Risks / Growth Opportunities

Risk: Decreased Demand from COVID-19 and Slow Recovery in Neuromodulation

COVID has weighted on the medical device segment as cardiovascular and neuromodulation procedures declined. Even as procedures come back in China and other markets, performance is unpredictable with the variant. Mitigating the struggles in this segment is Abbott's FreeStyle Libre (Diabetes Care), which continues its strong growth. Moreover, long-term recovery is expected, seen in double-digit growth in certain sub-segments earlier in 2021 as vaccines rolled out.

Growth: Innovation – Amulet, CardioMEMs and Walk Vascular

After FDA approval recently, Abbott's stroke prevention device, Amulet, will become a growth lever. With 50% market share internationally, the device is expected to capture at least 33% of the U.S. market. In 2022, Abbott is likely to take 20% share immediately due to its scale and technological superiority. The company's salespeople have already approached physicians about the product, meeting 40% of the targeted contracts. Moreover, a study recently demonstrated that Amulet was comparable to its closest competitor, Boston Scientific's Watchman, in performance and allowed fewer patients to be discharged with anticoagulants. Other products to watch for include CardioMEMs and JETi from Walk Vascular in the Heart Failure and Vascular segments. CardioMEMs demonstrated a 28% reduction in heart failure hospitalizations and the acquisition of Walk Vascular allows Abbot to expand further into the peripheral blood clots market. Given the technological success of both products, Abbott will leverage its global power to capture meaningful revenue.

Conclusion

Abbott's performance and innovation track record in the Medical Device segment is promising. While FreeStyle Libre and MitraClip continue to provide stable growth through product expansions and market penetration, the key question is whether Abbott can follow up with similarly strong products. Based on its pipeline, the segment outlook is favorable and the company's physician network and brand will prove to be valuable tools in ensuring that new product launches succeed.

Segment Evaluation: Diagnostic Products

Overview

The diagnostics products segment includes a broad offering of diagnostic systems and tests that are manufactured, marketed, and sold across the globe. These products are generally purchased directly by blood banks, clinics, commercial laboratories, hospitals, retailers, government agencies, alternate care testing sites, and plasma protein therapeutic companies.

The principal products offered by the diagnostics segment are core laboratory systems in the areas of immunoassay, clinical chemistry, hematology, and transfusion medicine; molecular diagnostics polymerase chain reaction (PCR) instrument systems; point of care systems; rapid diagnostics lateral flow testing products in the area of infectious diseases; and informatics and automation solutions for use in laboratories.

Core laboratory systems in the areas of immunoassay, clinical chemistry, hematology, and transfusion medicine are systems that screen or diagnose diseases such as cancer, cardiac disease, HIV, and more. Molecular diagnostics PCR instrument systems are used to make millions of copies of an originally small segment of DNA. The purpose of these systems are to make enough of the target DNA to analyze or use it. Point of care systems are hospital information systems that use bedside terminals (or other devices) to capture and enter data at the location here patients are receiving care. Rapid diagnostics lateral flow testing product deliver rapid diagnoses of serious diseases such as influenza, hepatitis, malaria, and more. Informatics and automation solutions often refer to a suite of informatics tools and professional services used in laboratories.

Brand Strength and Competitive Position

While Abbott does possess brand strength at a broad level across several products, the diagnostics segment does not experience this brand strength the same way the nutrition segment would, for example.

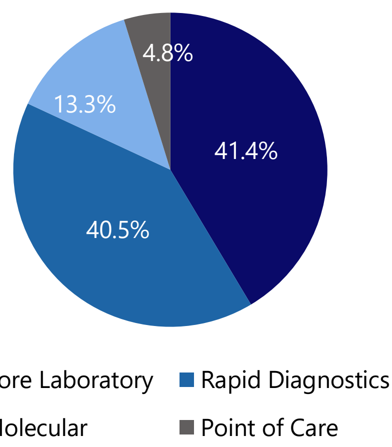
Because the segment generally sells its products to different healthcare organizations as opposed to individual consumers, personal biases for one brand over another do not play nearly as large of a role. Instead, the diagnostics segment's customers value products on the basis of price, convenience of use, instrument warranty provisions, laboratory efficiency, and *product performance*.

The last factor is where Abbott can benefit in terms of the company's brand recognition and position. Because of its established position, customers will often choose Abbott over a lesser-known company, even if the products are virtually identical.

That said, Abbott also leverages its R&D to drive the development of innovative solutions, enabling the company to set itself apart from competitors. Alinity, its next-generation of systems across key laboratory disciplines, has been significantly more efficient than competitors, allowing the product to command a strong market share.

EXHIBIT IX

Abbott's 2020 Diagnostic Segment Revenue Breakdown



Source: Company Filings

Segment Evaluation: Diagnostic Products

Risks / Growth Opportunities

Risk: Decline in Demand for COVID-19 Tests

2020 was a year that required major mobilization from all key players in the diagnostics space. Abbott stepped up to the plate and subsequently benefitted from its sophisticated testing systems and devices to combat the global pandemic . These benefits included the segment's operating earnings increasing by 94.8% and the operating margin profile increasing by 9.6 bps (Exhibit [X]).While COVID-19 did positively impact the segment in 2020 and during much of 2021, the risk comes with the decline in demand for these COVID-19 tests as vaccination rates continue to rise globally. Although the segment has several other revenue streams, it is likely to see a decline in growth considering the significant impact it saw from the COVID-19 pandemic.

Risk: Failure to Meet Growing Price and Volume Pressures

The combination of rising demand for services and health budget restrictions is placing downward pressure on prices within the diagnostics market. With constrained budgets and a trend of decreasing unit prices, the industry is facing intense pressure to innovate and improve quality, while still protecting margins. This pricing pressure creates industry shifts that could potentially threaten to push players out that cannot price their products competitively. While Abbott is a large player within the space and is therefore less likely to be pushed out, the risk exists for all competitors.

Growth Opportunity: R&D Investments

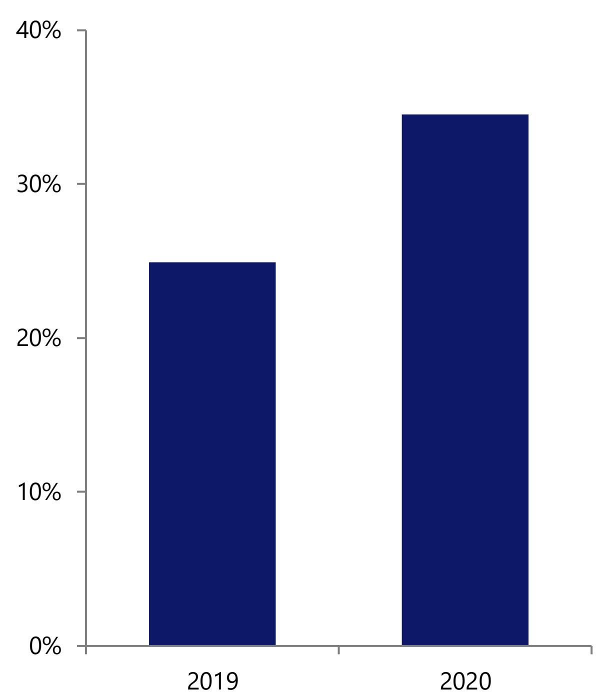
While R&D investments have historically been an integral aspect of the diagnostics industry, they have an even greater role in driving growth in the industry's current landscape. By investing into innovation and technological advancements, Abbott can expand its offerings, improve the capabilities of its existing products, and potentially achieve and cost-savings.

Conclusion

Overall, the HC team sees the diagnostic products segment as an attractive space where Abbott is well-positioned. The market has recently experienced significant tailwinds, and while it is expected to experience a decrease in growth in the near future, the team believes it will continue to be a valuable market as it was attractive before the COVID-19 pandemic. While there is some risk regarding price and volume pressure, the team has conviction in Abbott's ability to leverage R&D to surpass these challenges.

EXHIBIT X

2019 vs 2020 Segment Operating Margin Profile



Source: Company Filings

Segment Evaluation: Nutrition

Overview

The nutrition segment covers both pediatric and adult nutritional products that are manufactured and sold internationally. These products are marketed and sold to institutions, wholesalers, customers, healthcare facilities, government agencies, and other third-party distributors. There are three main types of products: prepared infant formula and follow-on formula, adult and other pediatric nutritional products, and nutritional products used in enteral feeding in healthcare institutions. Marketing efforts includes direct to customers, as well as to physicians and other healthcare professionals for recommendation purposes. Out of Abbott's four segments, Nutrition, which once started out as largest by revenue, is now the second smallest by revenue, sitting at $7.6B in 2020. Abbott is currently focusing on the growth of its current nutrition brands and increasing products in the portfolio.

The nutritional segment, along with the diabetes segment, was the least effected by the pandemic as there was still demand for nutritional products. There were numerous new products released in the last few years that were able to leverage the Abbott brand such as human milk oligosaccharide and high protein Ensure.

For Abbott, total adult nutrition sales grew by 10.3% in 2020 and 6.6% in 2019. This growth was led by Abbott brands, Ensure and Glucerna. Pediatric nutrition sales increased by 0.3% in 2020 and 3.4% in 2019. This growth was driven by sales in Similac, PediaSure, Pedialyte brands, and other infant products. It was, however, deterred by market dynamics in Greater China in the infant category.

Brand Strength and Competitive Position

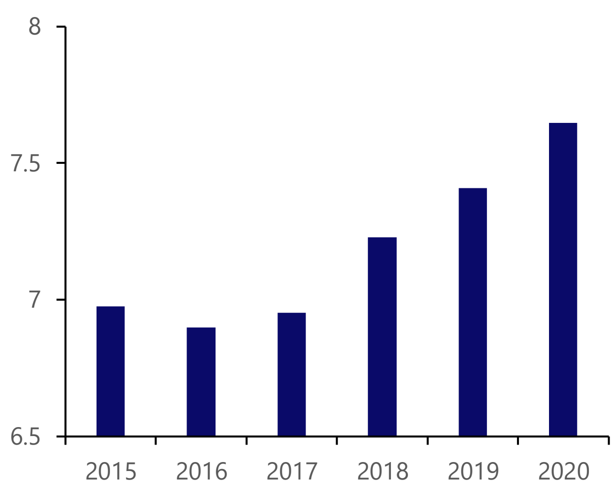
Abbott's nutrition segment has incredible brand strength, allowing the company to, not only see sales grow for current products, but also create new products which also carry the same brand strength.

There are various brands within pediatric nutrition that are recognized worldwide. Similac is one of the most used brands of infant formula and has other products within the brand such as organic and non-GMO formulas, breast milk supplements, and prenatal vitamins. In recent years, expansions were made to the brand to include Similac Pro-Advance and Similac Pro-Sensitive. Another strong brand within the pediatric nutrition category is Pedialyte, a rehydration solution. Recently, 3 new formulations were released: sport, sugar, and immune support. The addition to existing brands proves that the brands themselves are strong enough to encourage new additions.

Within adult nutrition, one of the strongest brands is Ensure, a brand of nutritional supplements and meal replacements. The first Ensure product was first released in 1973. Recently, the Ensure brand expanded with variations like Plant-Based Protein and tailored to conditions like Glucerna to manage blood-glucose levels. These variations are proof of brand strength as customers are loyal to Ensure and want more tailored options.

EXHIBIT XI

Nutritional Products Annual Revenue ($B)



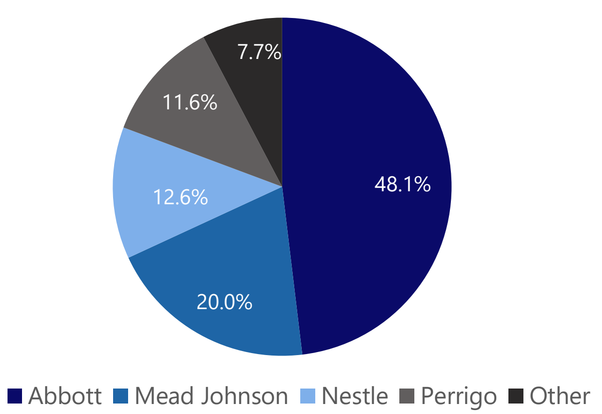
Source: S&P CapIQ

Segment Evaluation: Nutrition

The nutrition industry has a few key players. Competition could increase with more private label and local manufacturers' products. Additionally, the search for new ingredients is a large part of competition in this industry. The major players for infant formula manufacturing are Abbott through the Similac brand, Mead Johnson, Perrigo, and Nestle through the Gerber Good Start. As shown in Exhibit [], Abbott has the highest market share in infant formula manufacturing. Having the highest market share compared to competitors is important for a niche product like baby formula because people will only trust certain brands for what they feed their children. Industries within the adult nutrition are harder to assess due to the different products.

EXHIBIT XII

Infant Formula Manufacturing Market Share



Source: IBISWorld

Risks / Growth Opportunities

Risk: Regulation
Regulatory risks for the nutrition segment include governmental cost containment efforts impacting the nutrition business. For example, some states have cost containment programs for infant formula within the Special Supplemental Nutrition Program for Women, Infants, and Children. Competitive bidding has led to states getting rebates from manufacturers of infant formula. Another regulatory risk is that Medicare has implemented competitive bidding systems for some durable medical equipment, which includes enteral nutrition products.

Risk: Falling Birth Rates
Falling global birth rates is a risk as demand for baby formula will decrease. While many thought that COVID-19 would lead to an increase in birthrates, data shows that the opposite has happened; the decision to have a baby is dependent on an optimistic future. The Brookings Institute estimates that, in the U.S., 300,000 babies were not born due to the pandemic and the economic insecurity around it. A decrease in birth rates means that there will be less demand for baby formula and pediatric nutrition.

Growth: R&D
Abbott has announced that the company is looking at spending in research and development within the nutrition segment in gastrointestinal / immunity health, brain health, mobility, and metabolism.

Growth: Partnerships
Abbott has recently entered into partnerships that will help its nutrition segment. Abbott entered into a 3-year deal to be the Health Sciences and Nutrition Partner of the Real Madrid Football Club and global partner of the Real Madrid Foundation. While supporting education and sports, Abbott's nutrition business will get lots of publicity. Another partnership is its new venture with Fonterra, a New Zealand-based company, to build a large-scale dairy farm hub in China. This will help Abbott lower nutritional cost inputs in China.

Conclusion

In conclusion, the Healthcare team thinks that the nutrition segment is average. While growth has not been extremely strong, the nutrition segment has strong brand recognition and is trusted by many. There are various risks and catalysts for the segment, but nothing that stands out to make it a weak or strong segment.

Management, Compensation, and Capital Allocation

Background on Management

Miles White, Abbott's Executive Chairman and Director has been with the company since 1993, where he joined as the Elected Corporate Officer. In 1999, he went on to become the Chairman of the Board and and CEO, where he remained for 21 years. Since 2020, White has served as the company's Executive Chairman and Director.

Robert Ford, the company's President and CEO has been with the company since 2008, where he joined as the Elected Corporate Officer. From 2015 to 2018, Ford served as the Vice President of Medical Devices. In 2020, he became the company's President and COO, and since 2020, he has served as President and CEO.

Beyond Ford and White, the rest of Abbott's executive team is similarly experienced, with the average member having dedicated approximately 23 years to the firm.

Insider Ownership

Abbott's insider ownership accounts for 0.71% of the company's total shares outstanding, which translates to roughly $1.6B in market value. Distributed across its 38 holders, this share is of significant value for each insider owner.

Ford and White both own shares with current market value of $33.9M and $364.1M respectively. Other noteworthy individual owners include Daniel Starks, an independent director who owns $812.7M, and John Capek, the Executive Vice President of Ventures, who owns $37.3M. Management's significant ownership in the company drives the executive team's commitment to generating shareholder value.

Compensation

Abbott's compensation plan can be broken down into three key components; a base salary, an annual incentive plan, and a long-term incentive plan. Abbott's annual incentive plan keeps track of each executive member's performance relative to the company's yearly targets. It is only funded if a particular EPS target is reached. A variety of financial metrics (sales, diluted EPS, ROA, free cash flow), strategic metrics (market share growth, margin growth), and talent and succession metrics, are used to determine the percentage to which an executive has achieved their bonus targets.

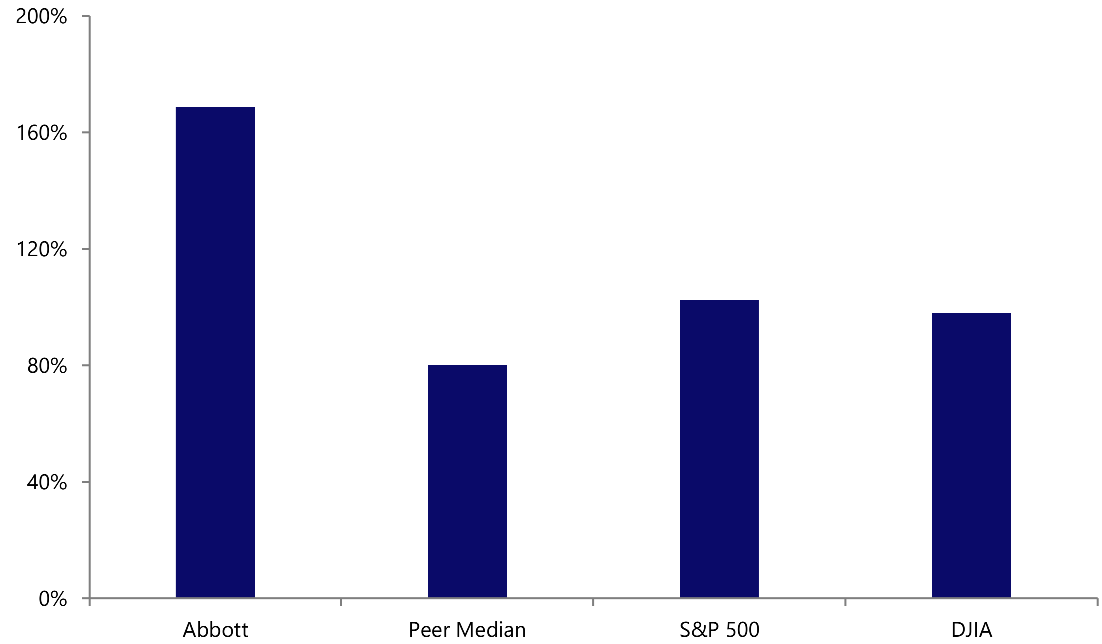
Abbott's long-term incentive (LTI) plans are based on both company and individual performance. The size of such payouts are based on a variety of long-term performance metrics including total shareholder return (TSR), return on equity (ROE), and three-year contributions. Such LTIs will thereby increase or decrease in value depending on the long-term impact of each executive's contributions. 50% will be in the form of performance-restricted shares (which can be fully vested after three years), while the rest are distributed as stock options.

Overall, Abbott's compensation plan is well-balanced and ensures that the company's executives are incentivized to achieve targets that directly align with shareholder interests. On an annual basis, awarding executives for achieving greater sales and free cash flow directly encourages the management team to scale up their operations (which strongly supports Abbott's business strategy). Creating ROA and EPS targets further prioritizes shareholder value creation as they are both direct measures of profitability.

On a long-term basis, setting ROE and shareholder return targets (relative to its peers) ensures that shareholder capital is being used efficiently. Additionally, Abbott's dedication towards providing consistent dividends ever since its inception further highlights its proven alignment with shareholder interests.

EXHIBIT XIII

5-Year Total Shareholder Return



Source: ABT 2021 Notice of Annual Meeting of Shareholders

Management, Compensation, and Capital Allocation

While there are several strengths to Abbott's compensation plan, there are also elements that the HC team does not view as positively:

(1) Refusing to fund its own annual incentive plan if the company's target EPS is not reached is simply unreasonable. Many factors that drive future earning potential (i.e., R&D investments) are not reflected in this figure, so using it as the overarching metric in determining the funding of the annual incentive plan may not be the most effective deciding factor.

(2) Although Abbott's stock price appreciation can be explained by its accretive acquisitions (which enhanced both its margins and returns), many executives can also achieve similar stock market results without making significant strategic investments. Thus, providing less stock option awards would help eliminate potential for any misguided incentives or the use of stock option rewards on an unrelated basis.

(3) Measuring long-term performance on more specific individual goals can also make the compensation process seem less abstract. Executive members are often not responsible for their segment's market growth rate, so adding more performance metrics that aren't as impacted by uncontrollable macro-changes could increase the criteria relevancy regarding compensation.

Management, Compensation, and Capital Allocation

Capital Allocation

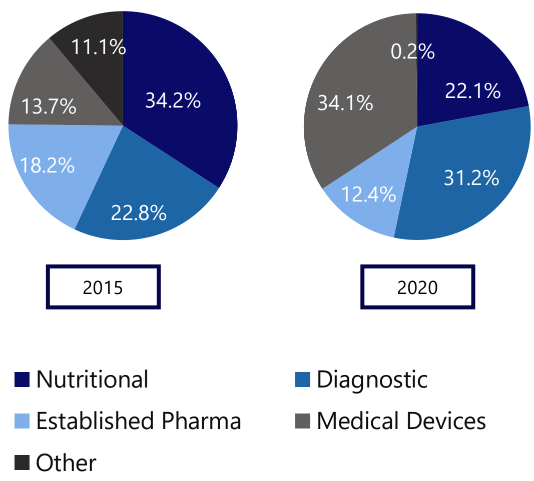
Abbott's capital deployment focuses heavily on M&A opportunities. Regarding these investments, the company places a large emphasis on their potential accretion and does not limit itself to opportunities that maintain its revenue mix, like many companies do.

For example, in 2017, the company made two highly leveraged acquisitions; St. Jude Medical (a medical devices company) and Alere (a diagnostic test manufacturer). As opposed to engaging in simple tuck-in acquisitions, buying these companies expanded Abbott's specializations in heart devices and diagnostics, ultimately leading to accelerated growth in both segments. This shifted its revenue mix and made the company more reliant on medical devices and diagnostics, two of its highest-margin businesses.

Abbott also allocates a notable amount of its capital toward dividends. Its YoY dividend per share growth has increased significantly over the past several years.

EXHIBIT XIV

Abbott's Business Mix Shift (2015 vs 2020)



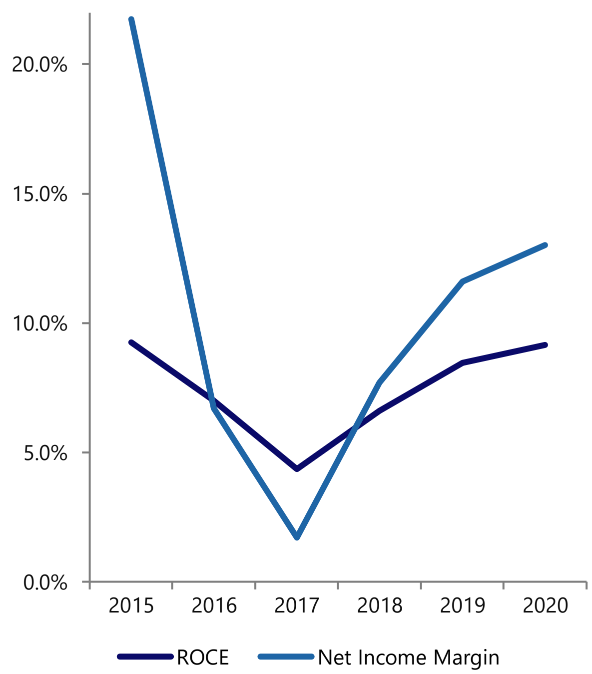
Source: Morningstar ABT Credit Summary

The company's ability to maintain a stable, growing dividend yield gives the HC team conviction in the company's liquidity, solvency, and overall deployment of capital.

Overall, Abbott's management team is willing to allocate capital into opportunities with reasonable amounts of risk to drive shareholder value. Additionally, management's ability to maintain a growing dividend for a significant period of time further solidifies management's capital allocation competency.

EXHIBIT XV

Abbott Laboratories' ROCE and Margin Improvements Following its 2017 Acquisitions



Source: ABT 2020 Annual Report

Valuation

The calculated share price for Abbott Laboratories is $131.81, implying that its current market price is trading below its intrinsic value, resulting in a 2,3% upside for the stock. This was calculated using a discounted cash flow analysis with a five-year projection period. Abbott's valuation was determined by breaking down its core segments and sub-segments to project its future performance using a combination of historical growth rates and market growth rates/expectations. The company's main segments include Medical Devices, Diagnostics, Nutritional, and Established Pharmaceuticals.

Revenues for two of these segments (Nutritional and Established Pharmaceuticals) were both projected to grow annually by 5% over the next five years. Abbott has been a global leader in adult nutrition for the past 40 years. Given how mature this segment is, along with its launch of 30 new nutrition products in 2020, this segment is well-positioned to continue achieving the low-to-mid single digit growth that it has had over the next five years as well.

A 5% growth rate was also applied to the company's Established Pharmaceuticals segment. Although Abbott's Established Pharmaceuticals faced slower growth compared to some of the company's other segments in the past, the growing demand for biosimilars in key emerging markets, like China and India, provides it with promising avenues for sustainable growth in the near-term.

When valuing the other two segments, revenue was analyzed and projected on a sub-segment by sub-segment basis instead. This is because many of Abbott's sub-segments within Medical Devices and Diagnostics possess different tailwinds and growth prospects that are unique to each sub-segment. For mature sub-segments such as core laboratory, projections were close to the 3% range, which aligns well with that particular sub-segment's historical growth rates. However, given that the COVID-19 pandemic has materially transformed and altered the nature of many sectors within healthcare (i.e., point of care diagnostics). Expected growth rates for such sub-segments aligned more closely with future industry growth figures and expectations.

One additional variable that is key to Abbott's recent performance is the growth it experienced with its recent COVID-19 testing activities. In 2020 alone, Abbott Laboratories achieved more than $3B in revenue from its sales of COVID-19 tests. Acknowledging that demand is relatively declining for testing as more Americans get vaccinated, the model partially removes that benefit in the near-term. With Abbott expecting $4-5B in COVID-related revenues for 2020, this value is partially deducted from its 2022 revenue expectations and is fully deducted from its 2023 revenue expectations.

Overall, given the diversity of Abbott's business, the company's position as a broad-based healthcare company provides it with numerous avenues for growth. There is no single segment or project that is expected to generate material cash flows over the next five years. Because of this, there was no need to factor in changes to capex or account for M&A within Abbott's valuation. According to Abbot Laboratories' CEO Robert Ford, the company "does not need M&A to support Abbott's top-tier performance." Gross Margins remained flat at 56%, but operating margins will likely expand with newer and more innovative high-margin products making up a larger percentage of the company's annual sales.

Since the onset of COVID, Abbott's stock has increased by around 90% within the past year. Abbott's stock has proven to be resilient by driving consecutive years of shareholder value creation. However, with most of the company's value being factored in by the market (given a thin 2,3% upside), the HC team finds Abbott to be a "hold." Despite the company lowering its revenue expectations following decline in diagnostics demand post-covid, their price continued to grow. With most of its value already being factored in – the HC team believes that there are better opportunities within the healthcare space to look towards instead.

Valuation

EXHIBIT XVI

Operational Summary	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E
		Actual					Forecast			
Revenues										
Medical Devices	10,325	11,370	12,239	11,787	14,321	15,855	17,513	18,796	20,160	21,333
Diagnostics	5,616	7,495	7,713	10,805	15,784	16,897	11,742	12,324	12,895	13,496
Nutritional	6,925	7,229	7,409	7,647	8,285	8,699	9,134	9,591	10,070	10,574
Established Pharmaceuticals	4,287	4,422	4,486	4,303	4,719	4,955	5,104	5,257	5,415	5,577
Other	237	62	57	66	64	60	60	60	60	60
Consolidated Revenues	27,390	30,578	31,904	34,608	43,173	46,467	43,553	46,028	48,600	51,040
Revenue Growth		*11.6%*	*4.3%*	*8.5%*	*24.7%*	*7.6%*	*-6.3%*	*5.7%*	*5.6%*	*5.0%*
EBITDA	4,583	6,928	7,546	8,684	13,901	12,870	11,937	12,729	13,552	14,333
EBITDA Margin	16.7%	22.7%	23.7%	25.1%	32.2%	27.7%	27.4%	27.7%	27.9%	28.1%
Net Income	477	2,368	3,687	4,495	7,463	5,462	4,938	5,383	5,846	6,285
Earnings Per Share	$ 0.27	$ 1.34	$ 2.08	$ 2.54	$ 4.21	$ 3.08	$ 2.79	$ 3.04	$ 3.30	$ 3.55

EXHIBIT XVII

Valuation at December 31, 2020					
WACC	**6.00%**	**7.00%**	**8.00%**	**9.00%**	**10.00%**
Enterprise Value	56,850	56,850	56,850	56,850	56,850
Equity Value	343,048	277,631	236,002	207,182	186,048
Intrinsic Value Per Share	$ 191.59	$ 155.06	$ 131.81	$ 115.71	$ 103.91
2020 Multiples					
EV / EBITDA	6.5x	6.5x	6.5x	6.5x	6.5x
P / E	75.6x	61.2x	52.0x	45.6x	41.0x
2021 Multiples					
EV / EBITDA	4.1x	4.1x	4.1x	4.1x	4.1x
P / E	45.5x	36.8x	31.3x	27.5x	24.7x

	Terminal Growth Rate				
WACC	1.5%	2.0%	2.5%	3.0%	3.5%
6.0%	$302.44	$527.54	$191.59	$219.00	$257.36
7.0%	$214.61	$500.38	$155.06	$171.04	$191.59
8.0%	$168.99	$475.70	**$131.81**	$142.27	$155.06
9.0%	$141.14	$453.17	$115.71	$123.09	$131.81
10.0%	$122.40	$432.53	$103.91	$109.39	$115.71

Terminal Growth Valuation	
Discount Rate	8.0%
Terminal Growth Rate	2.5%
PV Unlevered FCF	56,850
PV Terminal Value	187,330
Enterprise Value	**244,180**
(-) Debt	18,730
(+) Cash	8,944
Value Before Options	**234,394**
(+) Cash from Options	1,608
Equity Value	
FD Shares Outstanding	1791
Implied Share Price	**$131.81**
Current Share Price	$128.89
Implied Return / (Loss)	**2.3%**

Valuation

EXHIBIT XVIII

Company Name	Market Cap (Millions)	Enterprise Value (Millions)	EV/EBITDA		EV/EBIT		EV/Sales	P/E	
			LTM	2021E	LTM	2021E		LTM	2021E
Johnson & Johnson	$429,166	$429,519	13.4x	12.2x	17.5x	13.5x	4.6x	21.9x	16.3x
Danaher Corporation	$221,290	$246,642	25.6x	22.9x	33.0x	29.1x	8.4x	33.5x	27.2x
Medtronic plc	$161,807	$177,280	18.5x	17.1x	25.7x	18.9x	5.6x	29.4x	17.3x
Stryker Corporation	$101,251	$111,669	24.0x	21.9x	30.5x	23.9x	6.5x	47.6x	25.3x
Boston Scientific Corporation	$60,941	$67,734	22.3x	18.1x	34.4x	20.2x	5.7x	62.2x	24.3x
Mean	$194,891	$206,569	20.8x	18.5x	28.2x	21.1x	6.2x	38.9x	22.1x
Median	$161,807	$177,280	22.3x	18.1x	30.5x	20.2x	5.7x	33.5x	24.3x
Abbott Laboratories	$227,009	$238,373	18.6x	20.5x	25.7x	23.6x	5.5x	32.5x	26.4x

Given the relatively high valuations currently seen within the medical devices and diagnostics space, conducting a relative valuation analysis to compare Abbott's multiples with those of its peers is critical. As seen in the chart above, Abbott's EV/EBITDA multiple is expected to increase in 2021E. This indicates that the street projects a decrease in its EBITDA for 2021. This may be due to uncertainties around the stickiness of the company's new covid-related revenues. This decrease is seen in its EV/EBIT multiples as well.

Although its LTM PE ratio is below its peer average, in 2021E, its PE ratio falls right behind Danaher as the second most expensive stock. Although this indicates high investor expectations towards Abbott's future performance, paying so much per dollar of Abbott's earnings would require the HC Team to have a significant amount of conviction in the long-term prospects of the company.

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