AbbVie Inc ABBV (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	80.21 USD	97.00 USD	0.83	4.48	4.79	117.89	Drug Manufacturers - Major	Standard
01 Nov 2018 22:21, UTC	01 Nov 2018	11 Jul 2018 18:52, UTC		01 Nov 2018	01 Nov 2018	01 Nov 2018		

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Wide
Valuation	★★★★	Undervalued
Uncertainty	Medium	High
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

ABBV

Undervalued	Fairly Valued	Overvalued

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.83	0.99	0.82	0.83
Price/Earnings	19.9	24.4	26.5	20.1
Forward P/E	8.9	—	11.3	13.9
Price/Cash Flow	11.2	15.9	18.4	13.1
Price/Free Cash Flow	11.8	17.5	27.3	19.5
Trailing Dividend Yield%	4.48	3.05	1.50	2.35

Source: Morningstar

Bulls Say

- AbbVie supports a strong dividend yield, which should act as valuation support, as the cash flows to support the dividend look secure over the next few years.
- AbbVie's increasing entrenchment in blood cancers should bode well for growth as pricing power remains solid in this therapeutic area of the pharmaceutical market.
- AbbVie's next generation immunology drugs targeting the IL23 and JAK pathways should help mitigate the competitive threats facing Humira.

Bears Say

- Several of AbbVie's pipeline drugs in immunology have mechanisms of action similar to drugs already approved, taking away the first mover advantage for AbbVie.
- The high profit margins on Humira will likely cause an amplified impact on earnings as sales are lost to eventual biosimilar competition.
- The pricing power of hepatitis C drugs has eroded significantly over the past few years, which may put further pressure on AbbVie next generation hepatitis C platform.

Important Disclosure:

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AbbVie Posts Solid 3Q, but European Humira Biosimilar Price Discounts Weigh on Growth Outlook

Business Strategy and Outlook

Damien Conover, CFA, Sector Director, 27 April 2018

While AbbVie holds a strong portfolio of marketed and pipeline drugs, the increasing competition to the company's key drug Humira should slow the growth for the company. At over 50% of total sales and a higher portion of earnings (due to higher margin revenue), Humira is a key determinant of AbbVie's performance over the next three years.

With approvals in rheumatoid arthritis, psoriasis, and Crohn's disease, Humira should continue to grow in 2018 as these markets as penetration rates are below 25% on average, but longer-term challenges are emerging. Despite a favorable near-term outlook for Humira in 2018, uncertainty around encroaching competition will likely weigh on investor sentiment toward the company. In particular, new JAK inhibitors, IL-17 and IL-23 antibodies represent major drug advancements in rheumatoid arthritis and psoriasis, which will likely lead to some market share losses for Humira. Also, while Humira's biologic composition and longer-lasting patents may deter generic completion following the late-2016 key patent loss in the U.S. and the 2018 patent loss in Europe, we model close to 20% annual revenue declines for Humira by 2021.

Partly offsetting Humira's eventual declines, AbbVie looks well-positioned with the next generation immunology drugs. In particular, pipeline drugs have shown improved efficacy and safety over Humira and other currently leading treatment options.

Beyond immunology, cancer drug Imbruvica is the next-biggest sales contributor. Imbruvica's strong clinical data in several forms of blood cancer should lead to peak sales above $6 billion. AbbVie's remaining drugs are largely mature with patent expirations long past, but have manufacturing or specific dosing complexities which make generic competition less likely.

Looking forward, AbbVie's pipeline is weighted heavily toward new cancer drugs. In particular, AbbVie's pipeline should lead to an increasingly strong position in blood cancer. The company should be able to leverage its solid entrenchment with Imbruvica to launch the new drugs.

Analyst Note

Damien Conover, CFA, Sector Director, 02 November 2018

AbbVie reported solid third-quarter results, with lower expenses leading to better-than-expected bottom-line growth, but we don't expect any major changes to our fair value estimate based on the minor outperformance. We view the stock as undervalued, with the market likely overly concerned about the Humira biosimilar competition and not appreciating the pipeline. Even though immunology drug Humira (62% of total sales) continues to post steady gains, up 10%, we expect biosimilar pressures to begin to cause this key pillar to decline in 2019. The high concentration of profits from Humira and the likely future declines lead us to view the company's moat as narrow even though the firm has a strong developing pipeline and steady portfolio of currently marketed drugs.

Beyond the Humira gains, hepatitis C drug Mavyret and hematology drugs were key growth drivers that led to total growth of 19%, but we expect this total growth rate to slow significantly in 2019. European biosimilar pressure to Humira started in October and management's expectation of international discounting (including countries without biosimilars) of 26-27% is higher than we expected, likely due to the high number of simultaneous biosimilar launches. Also, we expect biosimilar pressure in the U.S. in late 2020, ahead of the 2023 time frame announced in settlements for some biosimilars, as we view an at-risk launch by Pfizer as likely by 2020. In addition to the pressure from Humira, we expect the bolus demand for Mavyret to level off in 2019, resulting in very minor growth for the drug next year.

Offsetting the expected slowing growth from Humira and Mavyret in 2019, we believe the hematology drugs Imbruvica and Venclexta will continue to post strong gains and the new pipeline launches should help stabilize the business. We expect the recent launch of endometriosis drug Orilissa, and the likely 2019 launches of immunology drugs risankizumab and upadacitinib to add three new

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Johnson & Johnson JNJ	USD	375,450	81,382	23.22	0.00
Pfizer Inc PFE	USD	252,422	53,244	26.70	11.68
Merck & Co Inc MRK	USD	195,768	41,259	14.82	147.06
Eli Lilly and Co LLY	USD	115,840	23,874	13.20	0.00

major blockbusters.

Economic Moat

Damien Conover, Sector Director, 11 July 2018

We believe AbbVie supports a narrow moat based on patent-protected drugs, intellectual intangibles, and a powerful salesforce. As is the case for most drug firms, the core of AbbVie's moat lies in its portfolio of patent-protected drugs. However, unlike AbbVie's Big Pharma peers, which tend to carry wide moats, one drug (Humira) represents the majority of AbbVie's sales (more than 50%) and profits (greater than 70%). As a result of both emerging branded competition to Humira in the immediate term and a potential generic biosimilar threat in the 2018-20 time frame, we believe excess returns are likely to persist for 10 years, but we cannot be as certain of this for our 20-year outlook, which would be needed for a wide-moat rating. While we do model in Humira sales declines beginning in 2020, the rate of decline will likely be more gradual than a typical small molecule-branded drug facing generic competition, because of the complexities in developing and marketing a biosimilar (generic biologic).

Nevertheless, AbbVie derives enormous cash flows from its current product portfolio to fund ongoing discovery and development of the next generation of drugs. The large cash flows create an economy of scale that enables AbbVie to fund the average $800 million required for a new drug. While not as strong as other Big Pharma firms, AbbVie's R&D has created a database of intellectual insights that should help increase the odds of successful drug development. Finally, AbbVie's entrenched salesforce in one of the most sought-after therapeutic areas of immunology should help the firm launch its next generation of drugs and make the company a leading candidate for smaller drug firms needing help to develop and commercialize innovative new drugs.

Fair Value & Profit Drivers

Damien Conover, Sector Director, 11 July 2018

We are decreasing our AbbVie fair value estimate to $97 from $99 largely based on poor top-line data for Imbruvica in first-line Diffuse Large B-Cell Lymphoma (DLBCL). By 2022, we now expect AbbVie to report Imbruvica sales of $4.8 billion, down from $5.4 billion due to the trial setback.

In looking at the remaining company, a key valuation driver to offset eventual likely Humira sales declines is the company's next-generation immunology drugs targeting the IL23 and JAK pathways as these new pathways seem to offer better efficacy and an improved side effect profile over Humira. Further helping offset likely eventual Humira sales erosion, cancer drug Imbruvica holds strong blockbuster potential in leukemia. Also, the company has several other late-stage cancer drugs that should further help mitigate the eventual Humira sales declines. Our $36.4 billion 2020 total sales projection is slightly below management's guidance of over $37 billion. Also, we do expect an acceleration in Humira declines after 2020. We anticipate launches of biosimilar versions of Humira by 2018 in Europe and by 2020 in the U.S. On the bottom line, over the next three years we expect improving margins, largely driven by the higher contribution to total sales by specialty drugs, which carry very high margins. Also, AbbVie's partnership royalties on Humira began to expire in 2017, helping improve gross margins. For the weighted average cost of capital, we use a 7.5% cost of equity and market rates for the cost of debt.

Risk & Uncertainty

Damien Conover, Sector Director, 11 July 2018

Similar to other drug firms, AbbVie faces the risks of new drug failures, reimbursement challenges for new drugs, and drug pricing cuts by large payer groups that are growing increasingly price-sensitive. Further, AbbVie's high concentration of Humira sales makes the company significantly exposed to any new competitive threats to Humira, both from biosimilars and new branded drug competition.

Stewardship

Damien Conover, Sector Director, 26 January 2018

We believe AbbVie's management team has demonstrated Standard stewardship. While the failed acquisition attempt for Shire is concerning, we believe the new abrupt U.S. Treasury laws largely caused the acquisition to collapse, somewhat giving management a pass. Nevertheless, the $1.6 billion breakup fee related to the failed Shire deal does show that management didn't gauge the political landscape correctly. Further, the $21

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billion Pharmacyclics acquisition appears to be a fair use of capital if Imbruvica can reach our $6 billion plus peak sales projection.

Turning to management specifically, AbbVie is led by Rick Gonzalez, who joined Abbott in 1977 and held many managerial posts throughout his career at the firm. However, he only recently led the drug group starting in July 2010 after a brief retirement. His relatively short tenure in the key field of drug commercialization and development is a concern, but execution has been going well under his leadership. Backing up Gonzalez, CFO Bill Chase has been with Abbott for more than 20 years. Chase's background in licensing and acquisitions will be helpful, as AbbVie will need to redeploy the strong cash flows from Humira into acquisitions and partnering to augment the company's developing pipeline.

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Analyst Notes Archive

Trump's Drug Plan Looks to Modestly Lower Drug Prices, Keeping Big Pharma and Biotech Moats Intact

Damien Conover, Sector Director, 11 May 2018

Trump's policy speech on lowering drug prices didn't offer many specifics and focused mostly on reducing middleman profits and raising drug prices overseas. Based on the 2019 U.S. government budget proposal and the Council of Economic Advisors white paper on drug policy, we expect only modest negative headwinds to branded drug prices. We continue to view moats within Big Pharma/Biotech industries as intact, supported by strong pricing power for patent protected drugs. We view the branded drug group in aggregate as undervalued and expect the group to digest the modest pricing headwinds with no major impact to valuations. We view Roche, Sanofi, Biogen, and Allergan as the most undervalued wide moat drug firms.

The biggest negative we have seen the administration propose is shifting Medicare Part B drugs to Part D, where negotiations would likely pressure drug prices. Using a scenario of a 10% price decrease for these drugs, Big Pharma and Biotech's earnings would likely fall by close to 2%, with a heavier hit to firms with more exposure to this drug channel such as Amgen and Regeneron. Beyond this policy, other modestly negative policy proposals include testing new pricing programs for Medicaid, modifying the 180-day exclusivity rules (to increase generic competition), increasing Medicare Part D negotiating power, and modifying the payment structure in Medicare Part D. Excluding the shifting between Part B and D of Medicare, the estimated savings from these initiatives looks like less than 1% of U.S. drug spending.

Some positive policy proposals for branded drugs have been offered as well, but implementation seems unlikely. Notably, demanding that other countries pay more for drugs seems difficult to implement. Also, breaking up the Pharmacy Benefit Managers to increase competition would likely give drug companies more power with drug pricing. However, if either of these policies were implemented, we would expect a major windfall for the branded drug industry.

Trump's Blueprint to Lower Drug Prices Offers Minor Changes; No Big Pharma and Biotech Moat Impact

Damien Conover, Sector Director, 13 May 2018

The Trump administration's policy paper titled "The Trump Administration Blueprint to Lower Drug Prices and Reduce Out-of-Pocket Costs" offers proposals that don't impact our moat ratings in the Big Pharma and Biotech industries, and the pricing power of branded drugs in the U.S. still looks strong. The blueprint's near-term focus largely supports increasing generic drug competition, slightly strengthening Medicare drug price negotiations, improving drug price transparency, and providing more information to help patients lower out-of-pocket costs, all of which we believe have a limited impact on branded U.S. drug prices. The mild policy proposals appear to largely build on the 2019 U.S. Budget Proposal and the drug white paper issued by the Council of Economic Advisors in February. In aggregate, we think the proposals would likely impact less than 1% of U.S. drug spending, excluding the potential changes to negotiations for Medicare Part B drugs, which could offer another 1%-2% reduction in U.S drug spending depending on the exact implementation.

Overall, the blueprint's proposals create minor headwinds to branded drug pricing. Regarding the proposal to increase generic competition, we have viewed the branded drug industry's tactics of limiting generic competition as relatively ineffective. For generic biologics (biosimilars), we have largely assumed swift competition following patent losses, which is already in line with these policy efforts to increase generic competition on hard-to-make drugs. The policy proposal to limit the use of Risk Evaluation and Mitigation Strategies to delay generic competition is rarely used, but could potentially impact some drug firms; for example, Celgene and its key drug Revlimid could face additional generics and more rapid launches once generics are reviewed by the FDA.

AbbVie Posts Negative Imbruvica Data in New Indication, Leading to Slight FVE Reduction

Damien Conover, Sector Director, 11 July 2018

AbbVie reported poor top-line data for Imbruvica in first-line Diffuse Large B-Cell Lymphoma (DLBCL), leading to a $2 fair value estimate reduction to $97. The negative news puts increased pressure on AbbVie's remaining pipeline to offset upcoming biosimilar pressures on its key drug Humira. However, we believe the firm's solid late-stage pipeline and a likely slower sales erosion for Humira due to its biologic structure support a narrow moat

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for the firm.

AbbVie's negative top-line data from the DBL3001 study was surprising given the strong data from a small Phase I study in DLBCL. Despite strong data for this regimen in the non-GCB subgroup in an early-stage study, the low number of patients may have been a factor that skewed the early data positive and made replicating the results in the larger study more difficult. AbbVie has additional studies with Imbruvica ongoing in other forms of lymphoma, but we are skeptical the drug will work well in the follicular setting based on poor early stage data. We expect the majority of Imbruvica sales will focus in the chronic lymphocytic leukemia (CLL) market. However, the drug holds some potential to expand into the multiple myeloma market with data expected in 2019 from the IMMPACT study in the refractory setting.

By 2022, we now expect AbbVie to report Imbruvica sales of $4.8 billion, down from $5.4 billion due to the trial setback. While the negative study also hurts Johnson and Johnson (AbbVie's partner in commercializing the drug), the impact on the firm's valuation is more diluted due to Johnson and Johnson's more diversified operating structure.

Buoyed by Hepatitis C Drug Gains, AbbVie Posts Strong 2Q; Stock Looks Modestly Undervalued

Damien Conover, Sector Director, 27 July 2018

AbbVie reported second-quarter results slightly ahead of both our and consensus expectations, but we don't expect any changes to our fair value estimate based on the results. Further, we view the stock price pullback following the earnings release as overdone and consider the stock slightly undervalued. While we continue to expect much faster declines for immunology drug Humira versus both consensus and management guidance due to biosimilar pressures by 2021, the stock appears to be implying even sharper declines relative to our expectations. The concerns over Humira's outlook along with the drug representing over 60% of total sales lead us to stay with a narrow moat rating despite an improving pipeline and growing contributions from recently launched drugs.

In the quarter, strong growth from Humira, cancer drug Imbruvica, and hepatitis C drug Mavyret helped propel total sales growth of 17%, but we expect this strong growth rate will slow due to Humira biosimilar launches in Europe by mid-October. We expect European biosimilars to erode AbbVie's Humira sales at an annual rate close to the mid-20% rate seen with Remicade when it faced biosimilar competition in Europe. Additionally, we continue to model an at-risk launch of a U.S. Humira biosimilar by late 2020, likely by Pfizer, which has shown a willingness to launch at-risk in the past with its Remicade biosimilar Inflectra launch in 2016.

Despite the challenges ahead for Humira, AbbVie is making steady progress with recently launched drugs and holds a late-stage pipeline with several new blockbusters. Even with Imbruvica's recent setback in a diffuse large b-cell lymphoma study, we still project the drug will hit peak annual sales over $5 billion, led by support in other blood cancers. Also, we expect AbbVie's hepatitis C platform to support over $3 billion annually for several years based on reaching more patients despite the curative impact of the drug.

Big Pharma Moat Outlook: Companies Still in a Strong Position

Damien Conover, Sector Director, 26 September 2018

In our analysis of the Big Pharma companies, we continue to see the industry as well positioned, with strong economic moats. While our analysis reaffirms most of our moat ratings, we are increasing Bayer's moat to wide from narrow. Bayer's divestiture of its material science group combined with a strong drug business and a well-positioned crop science business (bolstered by the Monsanto acquisition) led us to upgrade its moat rating to wide.

Key to all the moats for Big Pharma companies is the increasing focus on innovation in areas of unmet medical need, enabling strong pricing power to offset the increasing negotiating power from the pharmacy benefit managers in the U.S. and restrictive pricing in developed markets outside the U.S. While drugs carry patent protection, allowing firms to charge near monopolistic prices, a drug's true pricing power is determined by several factors, including its benefit to patients and its uniqueness. Governments outside of the U.S. and the PBMs within the U.S. are increasingly pushing back against drug prices for medicines that lack significant benefits. Overall, the stronger the drug's uniqueness and efficacy, the stronger the drug's pricing power. As a result, the majority of drug companies are focusing more development efforts in areas of significant unmet medical need.

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Additionally, as segments within Big Pharma firms, animal health and consumer healthcare both carry strong moats, augmenting the moat strength derived in the human branded drug segment. Overall, the moat analysis guides our discounted cash flow valuations, which support undervalued calls on Pfizer, Bayer, GlaxoSmithKline, and Sanofi.

AbbVie Posts Solid 3Q, but European Humira Biosimilar Price Discounts Weigh on Growth Outlook

Damien Conover, Sector Director, 02 November 2018

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Quantitative Equity Report | Release: 02 Nov 2018, 10:03 UTC | Reporting Currency: USD | Trading Currency: USD | Exchange:XNYS

AbbVie Inc ABBV ★★★★★Q

02 Nov 2018 02:00 UTC

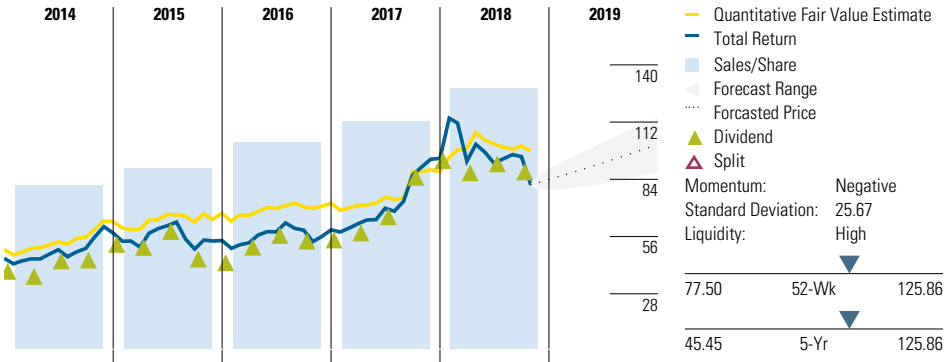
Last Close	Fair ValueQ	Market Cap	Sector	Industry	Country of Domicile
01 Nov 2018	02 Nov 2018 02:00 UTC	01 Nov 2018			
80.21	96.77	117.9 Bil	Healthcare	Drug Manufacturers - Major	United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

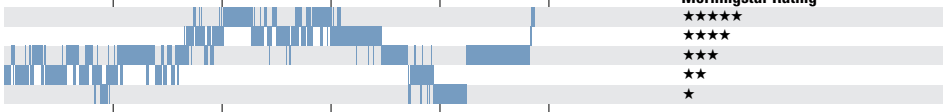
AbbVie is a drug company with a strong exposure to immunology and oncology. The company's top drug, Humira, represents over half of the company's current profits. The company was spun off from Abbott in early 2013.

Price vs. Quantitative Fair Value



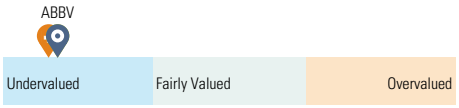
2014	2015	2016	2017	2018	
27.1	-6.4	9.6	58.5	-13.3	Total Return %
14.2	-7.1	-2.9	37.1	-17.1	+/– Market (Morningstar US Index)
2.54	3.41	3.64	2.65	4.48	Trailing Dividend Yield %
3.00	3.85	4.09	2.94	4.79	Forward Dividend Yield %
28.5	34.6	16.9	23.5	19.8	Price/Earnings
5.4	4.4	4.1	5.7	4.1	Price/Revenue

Morningstar RatingQ



Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Wide	100	100	99
Valuation	Undervalued	40	36	45
Quantitative Uncertainty	High	98	98	95
Financial Health	Moderate	51	34	51



Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.83	0.99	0.82	0.83
Price/Earnings	19.9	24.4	26.5	20.1
Forward P/E	8.9	—	11.3	13.9
Price/Cash Flow	11.2	15.9	18.4	13.1
Price/Free Cash Flow	11.8	17.5	27.3	19.5
Trailing Dividend Yield %	4.48	3.05	1.50	2.35
Price/Book	—	24.7	3.4	2.4
Price/Sales	4.1	4.4	4.2	2.4

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	487.4	117.7	12.4	12.9
Return on Assets %	10.0	10.3	6.2	5.2
Revenue/Employee (Mil)	1.0	0.8	0.3	0.3

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.5	0.7	0.6	0.5
Solvency Score	487.9	—	494.6	552.4
Assets/Equity	13.9	12.8	1.4	1.7
Long-Term Debt/Equity	6.1	6.1	0.1	0.4

Growth Per Share

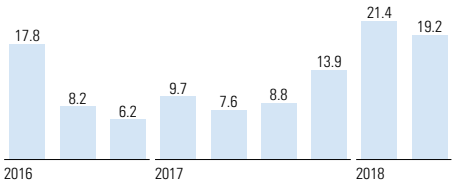
	1-Year	3-Year	5-Year	10-Year
Revenue %	10.1	12.2	9.0	—
Operating Income %	2.2	41.2	10.5	—
Earnings %	-9.1	44.2	-0.3	—
Dividends %	12.3	15.5	—	—
Book Value %	10.0	43.0	8.5	—
Stock Total Return %	-9.3	14.2	13.5	—

2013	2014	2015	2016	2017	TTM	Financials (Fiscal Year in Mil)
18,790	19,960	22,859	25,638	28,216	30,946	Revenue
2.2	6.2	14.5	12.2	10.1	9.7	% Change
5,664	3,411	7,537	9,384	9,592	10,188	Operating Income
-2.6	-39.8	121.0	24.5	2.2	6.2	% Change
4,128	1,774	5,144	5,953	5,309	6,449	Net Income
6,267	3,549	7,535	7,041	9,960	11,366	Operating Cash Flow
-491	-612	-532	-479	-529	-541	Capital Spending
5,776	2,937	7,003	6,562	9,431	10,825	Free Cash Flow
30.7	14.7	30.6	25.6	33.4	35.0	% Sales
2.56	1.10	3.13	3.63	3.30	4.04	EPS
-23.6	-57.0	184.5	16.0	-9.1	22.4	% Change
3.47	2.96	2.73	4.25	5.26	6.79	Free Cash Flow/Share
1.60	1.66	2.02	2.28	2.56	2.95	Dividends/Share
2.25	2.92	3.02	4.06	4.20	-2.23	Book Value/Share
1,587	1,591	1,610	1,593	1,592	1,514	Shares Outstanding (Mil)
						Profitability
105.1	56.9	180.9	138.1	108.6	487.4	Return on Equity %
14.7	6.3	12.8	9.9	7.7	10.0	Return on Assets %
22.0	8.9	22.5	23.1	18.7	20.7	Net Margin %
0.67	0.70	0.57	0.43	0.41	0.48	Asset Turnover
6.5	15.8	13.4	14.3	13.9	—	Financial Leverage
75.6	77.8	80.3	77.3	75.1	74.9	Gross Margin %
30.1	17.1	33.0	36.6	34.0	32.9	Operating Margin %
14,292	10,565	29,240	36,440	30,953	30,579	Long-Term Debt
4,492	1,742	3,945	4,636	5,097	-3,375	Total Equity
8.3	8.3	9.1	9.9	10.4	11.4	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2018	7,934.0	8,278.0	—	—	—
2017	6,538.0	6,944.0	6,995.0	7,739.0	28,216.0
2016	5,958.0	6,452.0	6,432.0	6,796.0	25,638.0
2015	5,040.0	5,475.0	5,944.0	6,400.0	22,859.0
Earnings Per Share ()					
2018	1.74	1.26	—	—	—
2017	1.06	1.19	1.01	0.03	3.30
2016	0.83	0.98	0.97	0.85	3.63
2015	0.63	0.83	0.74	0.92	3.13

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

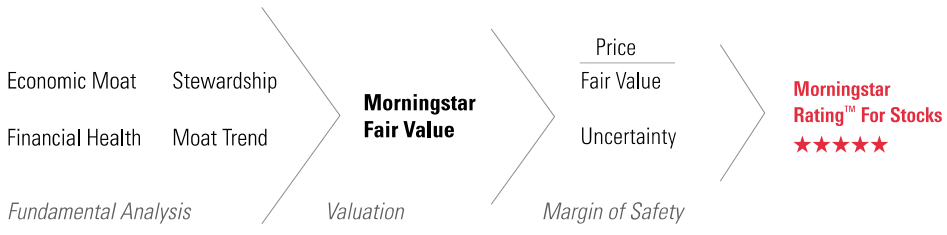
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Morningstar Research Methodology for Valuing Companies



Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

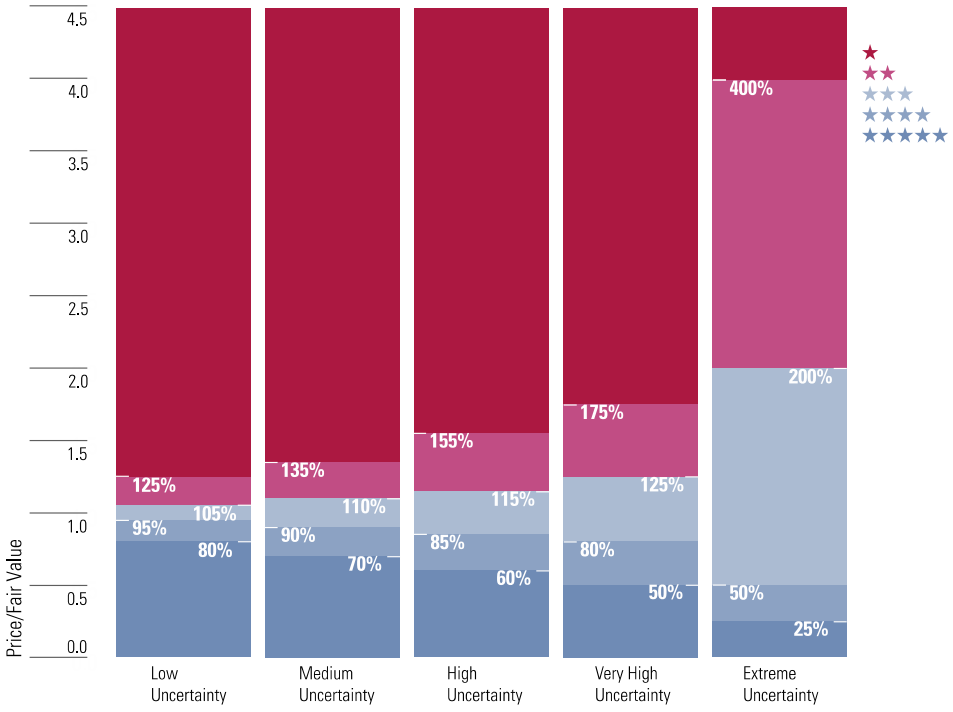
- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

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Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of:

(i) Quantitative Fair Value Estimate
(ii) Quantitative Star Rating
(iii) Quantitative Uncertainty
(iv) Quantitative Economic Moat
(v) Quantitative Financial Health

(collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("“Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.
Log (Quant FVE/Price)<–1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.
Log (Quant FVE/Price) between (–1*Quantitative Uncertainty, –0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.
Log (Quant FVE/Price) between (–0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.
Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) >1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- Low: the interquartile range for possible fair values is less than 10%.
- Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- Weak: assigned when Quantitative Financial Health <0.2
- Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- Strong: assigned when Quantitative Financial Health >0.7

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Research Methodology for Valuing Companies

Other Definitions

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ► Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- ► Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- ► Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit http://global.morningstar.com/equitydisclosures.

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AbbVie Inc ABBV (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	80.21 USD	97.00 USD	0.83	4.48	4.79	117.89	Drug Manufacturers - Major	Standard
01 Nov 2018 22:21, UTC	01 Nov 2018	11 Jul 2018 18:52, UTC		01 Nov 2018	01 Nov 2018	01 Nov 2018		

Price/Fair Value Morningstar data as of Nov 01, 2018

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AbbVie Inc ABBV (XNYS)

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01 Nov 2018 22:21, UTC	01 Nov 2018	11 Jul 2018 18:52, UTC		01 Nov 2018	01 Nov 2018	01 Nov 2018		

investment decision and when deemed necessary, to seek the advice of a legal, tax, and/or accounting professional.

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AbbVie Inc ABBV (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	80.21 USD	97.00 USD	0.83	4.48	4.79	117.89	Drug Manufacturers - Major	Standard
01 Nov 2018 22:21, UTC	01 Nov 2018	11 Jul 2018 18:52, UTC		01 Nov 2018	01 Nov 2018	01 Nov 2018		

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