

Welcome, Phyllis!

Log Out Premium Company Site Company News

Membership Home Portfolio Stocks Bonds Funds ETFs CEF Markets Tools Real Life Finance Discuss

Nasdaq 4131.54 **34.65(0.85%)** **S&P 500** 1888.03 **15.20(0.81%)** **DJIA** 16533.06 **158.75(0.97%)** **Gold** 1287.40 **-7.10(-0.55%)** **Light Crude** 103.85 **1.52(1.49%)** **Expanded ETF Coverage**

AbbVie Inc ABBV |



Add to Portfolio Get E-mail Alerts Print This Page PDF Report Data Question

Quote Chart **Stock Analysis** Performance Key Ratios Financials Valuation Insiders Ownership Transcripts **NEW** Filings Bonds

Analyst Research Analyst Report Archive Top Rated Stocks in Sector

AbbVie's outlook is highly dependent on a well-positioned Humira.



by [Damien Conover](#)

Analyst Note 04/25/2014

AbbVie reported strong first-quarter results that exceeded our expectations and those of consensus, largely thanks to better-than-expected sales from immunology drug Humira. However, we do not expect any material changes to our fair value estimate of \$47 (slightly below the current market price) based on the minor outperformance. While we continue to hold high expectations for AbbVie's pipeline, we remain slightly more bearish on Humira following potential generic competition in 2017-18. Despite the complexities of launching a biosimilar, we project 20% annual declines for the drug in 2018, worse than consensus expectations of 10% declines. Additionally, we are holding firm to our narrow moat rating, given that so much of the future cash flows are dependent on Humira.

Authors can be reached at [Analyst Feedback](#)

Morningstar's [Editorial Policies](#)

Analyst Note

[Buoyed by Humira, AbbVie Posts Strong 1Q: Hepatitis C Drugs Should Launch by Late 2014](#)
by Damien Conover, 04/25/2014

Discuss

[See what other investors are saying about ABBV](#)

During the quarter, strong Humira sales (up 18% year over year) once again supported total sales growth of 7% versus the prior-year period. We expect total company sales to accelerate in the back half of 2014 and into 2015 as patent losses on cardiovascular drugs annualize and the company rolls out its hepatitis C drug launch. Further, we project this sales growth will have an amplified impact on the bottom line, as gains from both Humira and the hepatitis C drugs should carry very high margins.

Turning to the pipeline, AbbVie's hepatitis C treatment remains the crown jewel and could launch in late 2014. Following the April filing in the United States, we believe political pressures and patient needs will drive a quick approval. Gilead posted \$2.3 billion in sales for its hepatitis C drug Sovaldi in the first full quarter of launch, and we think the large, diverse patient population leaves room for several competitors to see strong sales in this market. However, given the second-to-market status and a slightly inferior profile, we project AbbVie's hepatitis C treatment to post just over \$600 million in 2015, with peak potential of more than \$3 billion annually.

Morningstar's Take ABBV

Analyst		
Price 05-21-2014	Fair Value Estimate	Uncertainty
53.27 USD	49 USD	Medium
Consider Buy	Consider Sell	Economic Moat
34.3 USD	66.15 USD	Narrow
Morningstar Credit Rating	Stewardship Rating	
A	Standard	

Bulls Say

- AbbVie supports a strong dividend yield of more than 3%, which should act as valuation support, as the cash flows to support the dividend are very secure over the next few years.
- We believe Humira represents one of the best immunology drugs for RA, Crohn's disease, and psoriasis, and we expect it will continue to penetrate these markets.
- The new competitive RA threat from Pfizer's Xeljanz will not likely take much share from Humira initially as Xeljanz's safety and efficacy profile is still uncertain and the drug requires heavy monitoring during usage.

Bears Say

- We expect AbbVie to lose close to \$2 billion in sales over the 2013-14 time period as patents expire on cardiovascular drugs Niaspan, Trilipix, and Tricor.
- The poor competitive position of HIV drug Kaletra will likely mean a slow sales decline over the next four years, creating a drag on overall company growth.
- Besides the hepatitis C drugs, AbbVie's pipeline prospects are not as strong as the company needs to help ensure long-term growth following the Humira patent loss.

Competitors ABBV

Name	Price	% Chg	TTM Sales \$ mil
AbbVie Inc	\$53.27	-0.50	19,024



[Site Directory](#)
[Site Map](#)
[Our Products](#)

[Corrections](#)
[Help](#)
[Advertising Opportunities](#)
[Licensing Opportunities](#)
[Glossary](#)
[RSS](#)
[Mobile Portfolio](#)
[Affiliate](#)
[Careers](#)

[International Sites: Australia](#)
[Canada](#)
[China](#)
[France](#)
[Germany](#)
[Hong Kong](#)
[Italy](#)
[The Netherlands](#)
[Norway](#)
[Spain](#)
[U.K.](#)
[Switzerland](#)

Stocks by: [Name](#) | [Ticker](#) | [Star Rating](#) | [Market Cap](#) | [Stock Type](#) | [Sector](#) | [Industry](#)
Mutual Funds by: [Star Rating](#) | [Investment Style](#) | [Total Assets](#) | [Category](#) | [Top Holdings](#) | [Top Sectors](#) | [Symbol / Ticker](#) | [Name](#)
ETFs by: [Star Rating](#) | [Category](#) | [Total Assets](#) | [Symbol / Ticker](#) | [Name](#) **Articles by:** [Title](#) | [Date](#) | [Author](#) | [Collection](#) | [Interest](#) | [Popularity](#)
Investment Categories by: [Topic](#) | [Sector](#) | [Key Indicators](#) | [User Interest](#) | [Market Cap](#) | [Industry](#)
Premium Stocks by: [Name](#) | [Ticker](#) | [Star Rating](#) | [Market Cap](#) | [Stock Type](#) | [Sector](#) | [Industry](#)
Premium Mutual Funds by: [Star Rating](#) | [Investment Style](#) | [Total Assets](#) | [Category](#) | [Top Holdings](#) | [Top Sectors](#) | [Symbol / Ticker](#) | [Name](#)
Premium ETFs by: [Star Rating](#) | [Category](#) | [Total Assets](#) | [Symbol / Ticker](#) | [Name](#) **Popular Articles by:** [Title](#) | [Date](#) | [Author](#) | [Collection](#) | [Interest](#) | [Popularity](#)
Popular Investment Categories by: [Topic](#) | [Sector](#) | [Key Indicators](#) | [User Interest](#) | [Market Cap](#) | [Industry](#)

Independent. Insightful. Trusted. Morningstar provides stock market analysis; equity, mutual fund, and ETF research, ratings, and picks; portfolio tools; and option, hedge fund, IRA, 401k, and 529 plan research. Our reliable data and analysis can help both experienced enthusiasts and newcomers.

© Copyright 2014 Morningstar, Inc. All rights reserved. Please read our [Terms of Use](#) and [Privacy Policy](#). Dow Jones Industrial Average, S&P 500, Nasdaq, and Morningstar Index (Market Barometer) quotes are real-time. Russell 2000 quote is 10 minutes delayed.

Investment Thesis 02/04/2014

Armed with a best-in-class immunology drug Humira, AbbVie is well positioned to drive strong cash flows to support the company's next generation of pipeline drugs. However, with AbbVie's next generation of drugs not likely to reach the market until 2015 and several midsize drugs losing patents in the near term, Humira's cash flows are particularly important.

Johnson & Johnson	\$101.14	0.89	71,922
Roche Holding AG ADR	\$37.15	-0.23	52,444
Roche Holding AG	\$298.33	0.24	52,444
Roche Holding AG	\$296.00	-0.02	52,444
Novartis	\$89.15	-0.32	0

[Compare These Stocks](#)

At over 50% of total sales and a higher portion of earnings (due to higher margin revenue), Humira is well positioned to drive the majority of AbbVie's performance over the next five years. With approvals in rheumatoid arthritis, psoriasis, and Crohn's disease, Humira should continue to grow in these markets as penetration rates are below 25% on average. With leading efficacy and a favorable side-effect profile, we expect Humira to continue to post double-digit growth over the next couple of years.

Video Reports ABBV [More...](#)



Despite a strong near-term outlook for Humira, uncertainty around encroaching competition will likely weigh on investor sentiment toward the company. In particular, Pfizer's new RA drug, Xeljanz, represents a key new competitor, as it offers patients efficacy potentially as good as Humira in an oral form (in contrast to twice-monthly Humira injections). Also, while Humira's biologic composition may deter generic completion following the late-2016 patent loss in the U.S. and the 2018 patent loss in Europe, we model in 20% annual revenue declines for Humira post-patent-protection.

Turning to the remainder of the company, a combination of products losing patent protection and mature drugs largely represents sales outside of Humira. The company's lipid-lowering drugs--Tricor, Trilipix, and Niaspan--started facing generic competition in 2013-14. In addition, many of the other remaining products have already lost patent protection, but due to manufacturing complexities have been able to retain a significant portion of sales.

Looking ahead, AbbVie's pipeline is weighted heavily toward 2015 launches, with its hepatitis C drugs representing the crown jewel in the pipeline with upside reaching over \$3 billion annually. Also, we expect AbbVie will redeploy capital with acquisitions to strengthen its pipeline.

Economic Moat 02/04/2014

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 (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 2017-18 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. Further supporting our narrow moat rating, AbbVie holds a relatively weak pipeline with a high concentration of new drugs in the very competitive hepatitis C market. A stronger pipeline and a more diverse product lineup would be needed for a wide moat rating.

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 sales force 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.

Valuation 04/25/2014

We are raising our fair value estimate to \$49 per share from \$47 per share based on increased projections for AbbVie's hepatitis C drugs and slightly higher estimates for Humira. Accounting for more than half of AbbVie's projected 2014 sales, Humira is the key driver of its valuation and outlook. We believe Humira's leading efficacy and relatively clean side-effect profile in underpenetrated treatment areas, including RA, psoriasis, and inflammatory bowel disease, will drive an 10% three-year CAGR for the drug. However, we expect Humira sales will begin to decline approximately 20% beginning in 2018 as generic biologics increase and greater branded competition intensifies, which lowers our 10-year CAGR for the drug to negative 8%.

Aside from Humira, AbbVie holds several drugs that are losing patent protection over the next five years, which offsets the near-term Humira growth and results in a total sales five-year CAGR of 5%. Over the longer term, we expect pipeline products will help mitigate the heavy Humira declines in 2018. On the bottom line, over the next five years we expect slightly improving margins, largely driven by the higher contribution to total sales by Humira and hepatitis C drugs, which carry very high margins. However, we expect margins will fall toward the back half of our 10-year explicit forecast period as sales from Humira decline. For the weighted average cost of capital, we use an 8% rate that combines a 8% cost of equity and market rates for the cost of debt.

Risk 02/04/2014

Similar to other drug companies, AbbVie faces the risks of new product 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 very exposed to any new competitive threats to Humira. Key emerging competitive threats to Humira include Pfizer's oral RA drug Xeljanz, cheaper generic versions of Remicade in Europe, and several other Phase III drugs that hold very strong efficacy or more convenient dosing than Humira.

Management 02/04/2014

We believe AbbVie's management team has demonstrated Standard stewardship, as the key leaders haven't had much of a track record yet and many decisions were overseen by Abbott's leadership, which had to balance a more diversified company. However, AbbVie's departure from Abbott highlights the company's high degree of exposure to Humira. Under Abbott's umbrella, AbbVie didn't create enough pipeline products both internally and through acquisitions to create the wide moat that

many of its more diversified peers hold. The company's relatively poor positioning is a concern, but holding AbbVie management accountable is difficult given that AbbVie wasn't calling all the shots as part of Abbott.

AbbVie is led by Rick Gonzalez, who joined Abbott in 1977 and held many managerial posts throughout his career there. 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 light pipeline.

Overview

Profile:

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

S&P 500 index data: S&P 500 Copyright @ 2014

All data from Morningstar except U.S. intraday real-time exchange quotes, which are provided by BATS when available. End-of-day quotes for Nasdaq, NYSE, and Amex securities will appear 15 minutes after close. Graph times are Eastern Standard. @ Copyright 2014 Morningstar, Inc.