Abbott Laboratories ABT [XNYS] | ★★★★

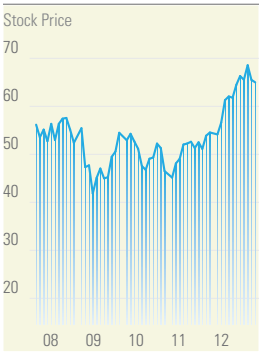
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
65.93 USD	72.00 USD	57.60 USD	90.00 USD	Low	Wide	Standard	AA-	Drug Manufacturers - Major

Abbott's breakup into two pieces should draw more attention to the company's undervalued assets.

by Damien Conover, CFA
Director
Analyst covering this company do not own its stock.

Pricing as of Dec 18, 2012.
Rating as of Dec 18, 2012.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.



Thesis Nov. 19, 2012

On the foundation of a wide lineup of patent-protected drugs, a leading diagnostics business, a strong nutritional division, and a top-tier vascular group, Abbott Laboratories has dug a wide economic moat. We expect these operating lines will continue to generate strong returns and drive growth. Further, the company's decision to split itself into two is likely to result in two well-positioned companies (a drug company and a diversified health-care company) with strong competitive advantages, but likely not as strong as the consolidated company.

Existing drugs and new pipeline products should propel long-term growth. Abbott's pharmaceutical division contains a diverse set of growing blockbusters across many therapy groups. Autoimmune agent Humira, HIV/AIDS drug Kaletra, and cardiovascular treatments Tricor and Trilipix lead the group with more than $10 billion in annual sales (28% of total sales). Humira continues to be the workhorse of the group with 21% growth in 2011, as new indications help propel the drug. The company's active research and development efforts are creating the next potential blockbusters, with several hepatitis C drugs showing particularly strong clinical data.

Outside the pharmaceutical group, Abbott runs top-tier diagnostic and nutritional segments that generate more than 25% of total sales, helping to insulate the company from patent losses in the drug group. The diagnostic group is well positioned as disease therapy becomes more patient-specific.

Complementing the pharmaceutical, diagnostic, and nutritional segments, the firm's vascular line is poised for steady growth. Favorable clinical data on the company's drug-coated stent Xience versus entrenched Boston Scientific BSX stent Taxus has resulted in fast market uptake.

In addition to strong internal operating lines, Abbott has a successful record of acquisitions and partnerships. The favorable acquisitions of Knoll and Kos Pharmaceuticals brought in Humira and Niaspan along with pipeline products. The acquisition of Guidant's vascular business opened the door to a new operating segment and Xience, a drug-eluting stent superior to an in-house stent. Additionally, the acquisitions of Advanced Medical Optics and the drug units from Solvay and Piramal should add value over the long term. The strong record and ample cash flow raise our confidence that external growth opportunities will probably augment internal growth.

Valuation, Growth and Profitability

We are increasing our fair value estimate to $72 from $70 per share based on the sum of the independent valuation analysis of both AbbVie and new Abbott, which we peg at $38 and $34 per share, respectively. Accounting for more than half of AbbVie's projected 2012 sales, Humira is the key driver of AbbVie's valuation and outlook. We believe Humira's leading efficacy and relatively clean side effect profile in underpenetrated treatment areas, including rheumatoid arthritis, psoriasis, and inflammatory bowel disease, will drive an 11% five-year compound annual growth rate 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 4%. 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%. For the new Abbott, we assume the firm will increase revenue at an average of 5% annually through 2016, fueled by strength in pediatric nutrition, adult nutrition outside the United States, molecular diagnostics, and vascular sales. Also important, we see much potential to improve the profitability of Abbott's remaining businesses, and this turns out to be the key factor in our valuation for this company.

Risk

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Johnson & Johnson	USD	196,621	65,921	15,665	8,504
Pfizer Inc	USD	188,776	62,225	16,483	9,694
Baxter International Inc.	USD	36,729	14,031	2,872	2,295

While Abbott maintains diverse operations, it depends heavily on Humira and Xience for future growth. Further, the company's pipeline isn't as large as those of rivals, making any failures with late-stage candidates very costly. Also, the company faces typical industry risks, including drug delays or nonapprovals, as well as an increasingly aggressive generic and managed-care industry.

Bulls Say

- Strong clinical data on safety and efficacy give Abbott's stent Xience a leg up in the drug-eluting stent market.
- Aggressive cost-cutting plans should propel Abbott's bottom-line growth much quicker than top-line growth.
- International markets and indications in Crohn's disease and psoriasis for Humira should further propel sales growth for the company's leading pharmaceutical product.
- The acquisition of Piramal's drug unit increases Abbott's exposure to the rapidly growing Indian market.
- The decision to split the company into two could increase the transparency of each unit, which could help investors see the value in the different operations.

Bears Say

- Splitting the company into two could create distractions for management as well as reverse cost synergies such as increasing duplicative areas of operations.
- Lack of robust internal development casts a shadow on the company's ability to create blockbusters in-house.
- Clinical data on drug-eluting stents have recently presented unclear benefits versus bare-metal stents and other treatments. Stent operations and use of drug-eluting stents could fall without supportive new data.
- To prepare for more tuck-in acquisitions, Abbott is probably going to add cash to its balance sheet rather than pursue aggressive share buybacks. The investment community could react negatively toward decisions in favor of acquisitions over returning cash to shareholders via share repurchases.
- Pfizer's JAK inhibitor for rheumatoid arthritis has shown strong efficacy in Phase III trials relative to Humira, which could enable the drug to take significant market share from Humira based on the drug's oral dosing. Also, Roche's RA drug Actemra reported positive head-to-head data versus Humira, which could translate into Humira market share losses.

Financial Overview

Financial Health:Thanks to its acquisitions, Abbott holds less cash than its peers. However, Abbott's robust and relatively stable cash flows should easily meet interest expenses with ample reserves left for share repurchases, increases to dividends, and small acquisitions.

Company Overview

Profile: Abbott manufactures and markets pharmaceuticals, medical devices, blood glucose monitoring kits, and nutritional health-care products. Products include prescription drugs, coronary and carotid stents, and nutritional liquids for infants and adults. Following the Advanced Medical Optics acquisition, Abbott also markets eye-care products. Abbott generates close to half of its revenue from pharmaceuticals.

Management: Overall, we rate Abbott's stewardship as standard. While the company has made some impressive acquisitions over the past decade, including Knoll, which was purchased for $6.9 billion in 2001 and brought in Humira, several of the more recent acquisitions, such as Advanced Medical Optics and Piramal, remain promising but have yet to fully match up to the purchase prices. Despite the uncertainty surrounding these more recent acquisitions and whether the decision to break up into two pieces will bring more value to shareholders, the company has been a better steward of capital than many of its peers in the drug industry.

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Miles White took the helm as CEO in 1998 and chairman of the board the following year. His tenure with Abbott dating back to 1984 provides the experience needed in handling the many operating lines of the company. After the split, White will continue as the CEO of the diversified company, and longtime Abbott executive Richard Gonzalez will take the CEO spot at the pharmaceutical-focused firm. Gonzalez brings many years of experience to the post, having joined Abbott in 1977 and serving in many manager roles across the company, including pharmaceuticals, medical products, and Abbott's medical technology investment arm, Abbott Ventures.

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Analyst Notes

Abbott's Breakup Yields Two Less Competitive Companies Nov. 15, 2012

Abbott Laboratories' ABT decision to break into two pieces has yielded two companies with inferior competitive dynamics and approximately the same sum-of-the-parts valuation. We value the new Abbott and AbbVie at $34 and $38 per share, respectively, which is a slight increase to our current fair value estimate of $70 per share for Abbott, which we plan to raise to $72 based on the independent valuation of the two pieces. However, we believe each company formed out of the breakup of Abbott is less competitively positioned, and we are assigning narrow moats to both the new Abbott and AbbVie.

We have pegged post-split Abbott's valuation at $34 per share. We assume the firm will increase revenue at an average of 4.8% annually through 2016, fueled by strength in pediatric nutrition, adult nutrition outside the United States, molecular diagnostics, and vascular sales. Importantly, we see much potential to improve the profitability of Abbott's remaining businesses, and this turns out to be the key factor in our valuation. On a consolidated basis, Abbott's gross margin significantly trails that of its key competitors in various business segments. The good news is that Abbott competes in several markets that offer relatively high margins, including nutritionals, branded generic drugs, and cardiovascular devices. Additionally, Abbott has already begun efforts to improve productivity and efficiency, as it streamlines distribution channels and build new facilities in lower-cost locations like China and India. We expect Abbott can partially close that gross margin gap and project 500 basis points of improvement over the next four years. While this would still leave Abbott's profitability lagging key rivals in various business segments, it would offer a substantial boost to Abbott's gross profit that could drop to the bottom line. We do not expect much reduction of selling and marketing expenses because the firm will need to maintain and enhance the distribution infrastructure it has built out for penetration of emerging markets for its nutritionals and established pharma products, in particular. Moreover, Abbott will need to fortify its salesforce for the device business, which is usually a relatively expensive proposition, and investment in advertising and merchandising is also key to the nutritionals segment.

We believe the new Abbott has a narrow moat. After stripping out Humira's patent protection and the difficulty of replicating biologics, new Abbott's remaining four businesses largely reflect narrow moats. In most cases, Abbott is one of three or four competitors that dominate the market, including nutritionals, glucose monitors, coronary stents, and immunoassays. In these markets, Abbott enjoys the benefits of efficient scale and participates in rational oligopolies. Abbott's Similac, Ensure, and various drug brands are also competitive advantages in the nutritional and overseas branded generic drug markets. Finally, Abbott relies on extensive intellectual property to ward off competitors in the device and diagnostic segments.

We value AbbVie at $38 per share, or close to $60 billion in market capitalization. Accounting for more than half of AbbVie's projected 2012 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 rheumatoid arthritis, psoriasis, and inflammatory bowel disease, will drive an 11% five-year compound annual growth rate 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 4%. Aside from Humira, AbbVie holds several drugs that are losing patent protection

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Analyst Notes (continued)

over the next five years, which offsets the near-term Humira growth and results in a total sales five-year CAGR of 5%.

We believe AbbVie supports a narrow moat based on patent-protected drugs, economies of scale, 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 2017-18, we believe excess returns are likely to persist for 10 years, but we cannot be highly certain of this 10-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.

FDA Approves Pfizer's Likely Next Blockbuster Tofacitinib in Rheumatoid Arthritis Nov. 07, 2012
The Food and Drug Administration approved Pfizer's PFE rheumatoid arthritis drug tofacitinib (branded as Xeljanz) at the 5-milligram dosage level as second-line therapy (after failing methotrexate or having intolerance to methotrexate). While the second-line setting (competing with anti-TNF alpha therapies like Abbott's ABT Humira or Amgen's AMGN Enbrel) is a positive surprise for Pfizer, the approval of only the 5 mg dose is a negative, as the 10 mg dose showed better efficacy in clinical studies. We believe access to earlier-stage patients largely counters the negative impact of the limited, low-dose approval, and we don't expect any changes to our fair value estimate for Pfizer. Additionally, we don't expect any changes to our fair value estimate for Abbott based on the approval and increased competitive threat to the firm's leading drug Humira.

The approval of tofacitinib in the second-line setting greatly improves the competitive landscape for the drug. While we believe rheumatologists will continue to primarily prescribe anti-TNF alpha drugs in the second-line setting, due to comfort with their long–term data supporting efficacy and safety, we expect Pfizer to continue to publish longer-term extension data that should in time drive tofacitinib's penetration in new second-line patients. Also, for less severe patients, tofacitinib's oral dosing should be more appealing than injections of anti-TNF alphas. Further, approval in the second-line setting will probably make tofacitinib the drug of choice for patients failing anti-TNF alpha drugs.

The lack of approval for the 10 mg version of tofacitinib will slightly hurt the drug's competitive positioning. As a reminder, the 5 mg dose of tofacitinib failed to hit the primary structural endpoint (mTTS change from baseline) in the Phase III SOLO study while the 10 mg dose was successful. Given the importance that rheumatologists place on structural endpoints, the lack of a 10 mg dose will hurt Pfizer's ability to market tofacitinib. Other Phase III data showed better efficacy results with the 10 mg dose as well. We believe that increased side effects with the 10 mg dose kept the FDA from approving the higher dose. Despite this setback, the 5 mg dose showed very good data across Pfizer's robust Phase III development program and should drive the drug into blockbuster status.

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Analyst Notes (continued)

Pipeline Setback for Abbott with Minor Drug Bardoxolone, No Change to Fair Value Estimate Oct. 18, 2012

Abbott ABT and partner Reata Pharmaceuticals announced the discontinuation of a Phase III study with bardoxolone in chronic kidney disease due to serious adverse events and mortality in the bardoxolone treatment arm. Due to the critical side effects, we believe there is little chance that the drug will now reach the market. However, we don't expect any changes to our fair value estimate for Abbott based on this pipeline setback, since Abbott only controlled international rights (excluding Asia) for the drug. Further, we had only assumed a 65% chance of approval for the drug and potential peak sales of $1 billion by 2021, which resulted in an immaterial contribution to our fair value estimate. Additionally, we believe the recent weakness in Abbott's share price is more attributable to comments made on yesterday's third-quarter conference call that suggested a higher-than-expected tax rate (22% versus our expectations of 12%) for AbbVie as well as a lower than expected outlook for AbbVie sales (flat to down over the next couple years versus our expectations of 3% growth annually through 2014).

Abbott Posts In Line 3Q with Continued Strong Humira Growth; Company Split on Track for Jan. 1 Oct. 17, 2012

Abbott ABT reported third-quarter results that largely matched our expectations as well as consensus expectations and we don't expect any significant changes to our fair value estimate of $70. On the top line, total sales came in a little light, increasing 4% operationally versus the prior-year period as immunology drug Humira and testosterone drug AndroGel posted solid gains offsetting expected weakness in the vascular business. On the bottom line, earnings per share slightly exceeded expectations, increasing 10% year over year, outpacing sales growth largely because of a higher-than-expected gross margin, which we believe was driven by efficiency improvements. Additionally, Abbott tightened its full-year 2012 earnings per share guidance range to $5.06-$5.08 from $5.00-$5.10, which we expect the company to easily meet and likely exceed based on strong year-to-date results.

In the quarter, sales growth largely came in as expected with continued strong growth from nutritionals, Humira, and testosterone gel AndroGel. The strength of these products helped to offset weakness from Abbott's vascular business, which lost some royalty payments from Promus sales. However, we expect the weakness in the vascular business will dissipate toward the end of the year as Abbott gains traction with its recently launched bioresorbable scaffold in Europe. Also, we continue to believe Humira will post double-digit growth over the next two years based on the drug's leading efficacy and safety profile, despite new competition likely from Pfizer's PFE oral rheumatoid arthritis drug tofacitinib in November. We expect Pfizer's competing drug will initially target patients who don't respond to Humira or another anti-TNF alpha therapy.

On the earnings front, Abbott continues to make solid strides in increasing its efficiency. Gross margins increased more than 300 basis points year over year, largely driven by the impact of foreign exchange rates and efficiency improvements. However, we don't expect this trend to continue through 2013 because the patent losses on high-margin cardiovascular drugs Tricor and Niaspan will likely weigh on profitability for the company. Cuts in marketing and support for these drugs should partially offset some of the expected gross margin impact from the loss of exclusivity.

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Analyst Notes (continued)

Regarding the split of the company into two separate firms, everything looks on track for the completion of the split by the end of the year. On the capital structure front, it appears AbbVie will likely carry the bulk of the current Abbott debt, which makes sense to us given the stronger cash flows from the AbbVie business. Also, based on the stronger cash flows, AbbVie will pay out a higher dividend of $1.60 per share (assuming similar share count of AbbVie relative to current Abbott) versus the future Abbott's dividend of $0.56. The total dividend of the two future entities is 6% higher than the current dividend of Abbott. While we expected the dividend of AbbVie to be higher, we were surprised by the significantly higher tax rate to support it (22%, up from our expectations of 12%) as the firm would need to bring more-than-expected overseas cash back to the U.S. to support this dividend boost.

Abbott Reports In Line 2Q Buoyed by Robust Humira Growth; Company Breakup Remains on Track Jul. 18, 2012

Abbott ABT reported second-quarter results that largely matched our expectations as well as consensus expectations and we don't expect any significant changes to our fair value estimate of $70 per share. On the top line, total sales increased 7% operationally versus the prior-year period as strong sales from nutritionals and immunology drug Humira posted solid gains. On the bottom line, earnings per share increased 10% year over year, outpacing sales growth as we believe cost-cutting drove higher gross margins. Also, Abbott reiterated its full-year 2012 earnings-per-share guidance range of $5.00-$5.10, which we expect the company to easily meet.

Sales growth in the quarter largely came in as expected with continued strong growth from nutritionals, Humira, and testosterone gel AndroGel. We continue to believe Humira will post double-digit growth over the next two years based on the drug's leading efficacy and safety profile, despite new competition likely from Pfizer's PFE tofacitinib in August. We expect Pfizer's competing drug will initially target patients who don't respond to Humira or another anti-TNF alpha therapy.

Turning to earnings, Abbott continues to make solid strides in increasing its efficiency. Gross margins increased more than 300 basis points year over year, largely driven by improvements in the nutritional, diagnostic, and vascular businesses as well as changes in currency. However, we don't expect this trend to continue through 2013 because the near-term patent losses on high-margin cardiovascular drugs Tricor and Niaspan will likely weigh on profitability for the company. Offsetting some of the expected gross margin impact from the loss of these drugs is the likely cuts in variable spending around supporting the marketing of the drugs.

Regarding the split of the company into two separate firms, everything looks on track for the completion of the split by the end of the year. We expect more details on the structure of the balance sheet and in particular debt holdings of each of the new companies in the third quarter. With these expected disclosures, a more complete valuation perspective of the two new companies should be possible.

The Supreme Court Upholds Health-Care Reform; Valuation Impact on the Sector's Stocks Is Minimal Jun. 28, 2012

The U.S. Supreme Court upheld the individual mandate in a narrow ruling Thursday, clearing the main hurdle for health-care reform known as the Patient Protection and Affordable Care Act (PPACA). While it is possible that the battle over the fate of the health-care law will now shift to

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Analyst Notes (continued)

the legislature, given the low probability of Republicans gaining a filibuster-proof majority in the Senate, we now believe the PPACA isn't likely to be repealed. We've incorporated the anticipated effects of the PPACA in all of our projections, and as a result, the effect of the ruling on our valuations and recommendations across the health-care sector is immaterial.

For the managed-care sector, the ruling is largely a positive, as alternatives were a lot more punitive, particularly for firms operating in the individual marketplace. We factor into our models the more than 30 million individuals that are expected to gain insurance coverage as a result of the law through a combination of expansions to the Medicaid program (although the Court's ruling on this issue may limit the magnitude of this expansion) as well as new subsidies that can be used to buy insurance in the state-based exchanges. Medicaid MCOs like Amerigroup AGP are best positioned to benefit from broader Medicaid eligibility, adding to the already robust growth story from increased outsourcing of Medicaid. We expect most commercial insurers to compete for new individual members in the exchanges, but those with a strong historical position in the individual market and well-known brands, such as WellPoint WLP, seem particularly well positioned. On the other hand, MCOs will continue to face margin pressure from regulatory scrutiny of premium increases, minimum medical cost ratios, and cuts to Medicare Advantage reimbursements. However, we expected most of these headwinds to remain in place even without the PPACA, and we have incorporated deteriorating margins in our valuations.

The other group most affected by Thursday's ruling is health-service providers, such as hospitals, but our valuations already properly account for the anticipated effects from the law's provisions, particularly the expanded insured population. We consider the law's reduction of uncompensated care combined with an influx of newly insured patients into the health-care system as a positive for the health-services industry, while other components of the law, including lower Medicare payments and greater oversight of insurance premium increases, mostly mitigate such benefits. Overall, hospitals may breathe a sigh of relief as without the mandate, the environment for providers would have been rather dire. Regardless of this ruling, we think reimbursement pressure is here to stay thanks to government incentives to curb health-care spending growth and an industry shift to quality-of-care-based payment methods, and health providers still will face an uphill battle to maintain profitability amid the ongoing uncertainty of reimbursements.

For the Big Pharma group, we expect the increased demand for drugs as a direct result of the mandate largely will offset the increased fees and rebates associated with health-care reform. Our valuations are unchanged. However, since the costs related to health-care reform are front-end loaded (which started in 2010) and the increased demand will not likely begin until 2014 (when the mandate goes into effect), we believe investors' sentiment toward the drug group should improve as the tailwind of increased demand for drugs begins to materialize in 2014.

The generic drug manufacturers are largely unaffected, in our view. Most of the generic manufacturers have broad geographic operations and generic drug pricing was relatively unaffected by the law. We think additional drug volumes from newly insured patients are relatively immaterial to our fair value estimates for the generic firms. The biosimilars approval pathway should remain intact.

The device side was viewed largely as a relative loser when the reform was passed, and the ruling doesn't change much

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Analyst Notes (continued)

in terms of our assessments of the industry's prospects going forward. We anticipate the additional insureds in 2014 will not significantly contribute to volume because many devices are concentrated among Medicare recipients. For example, an estimated 90%-95% of pacemakers in the U.S. are implanted in Medicare patients. However, there are some particular product lines that do skew somewhat younger, such as spine devices, which are split more evenly between Medicare and non-Medicare patients. Firms that are not highly tied to Medicare reimbursement should see the volume boost in some magnitude, but likely not to the extent of other health-care industries. With the law upheld, it also appears that the 2.3% medical device excise tax will stand. We already baked that tax into our valuations two years ago, and at the time we said it would cut into the long-term earnings power of medical device firms by 4%-10%, hardly a devastating impact. We believe the marketplace already baked this into assumptions as well and thus most device firms are currently trading in line with the market. The effect of the tax is being mitigated by several factors, particularly the sales mix by geography, which has generally been shifting away from the U.S. Medical device companies also have been preparing for this tax and additional pricing pressure (not necessarily only because of the ACA), which led to the restructuring of operations and investments in more manufacturing facilities in tax-advantaged locations outside of the U.S. Overall, we think a number of larger regulatory and customer issues--such as changes in the pathway to market and fiscal budget pressures in the developed world--are changing the competitive landscape for medical device firms, and these changing dynamics should have a more substantial effect on this industry than the ACA in the foreseeable future.

For other sectors, the impact is also fairly muted. With regards to biotech, we are maintaining our view that health reform has an overall net neutral impact on our valuations as expanded coverage offsets new fees and drug rebates. However, within the spectrum of our biotech coverage, some firms have fared better than others under reform. Companies like Gilead GILD, Amgen AMGN, and Roche RHHBY have seen the largest hits to their businesses due to larger rebates through Medicaid and industry fees from the higher share of drugs reimbursed by Medicare. Conversely, reform has had little impact on companies like Celgene CELG and BioMarin BMRN with heavy exposure to orphan drugs that are exempt from the industry fee.

We expect drug supply-chain companies, including retail pharmacies, pharmacy benefit managers, and distributors, to experience a modest revenue boost due to increased consumption of health care by the newly insured population. But any positive impact isn't likely to be material to our valuations.

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Abbott Laboratories ABT

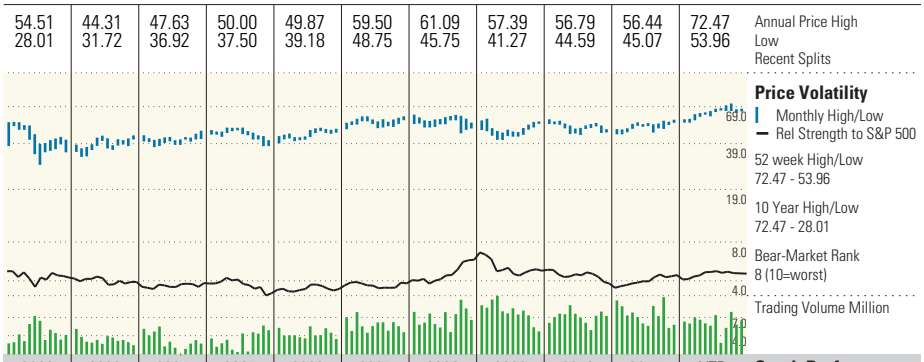
Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
39,414	103,060	Drug Manufacturers - Major	Healthcare

Abbott manufactures and markets pharmaceuticals, medical devices, blood glucose monitoring kits, and nutritional health-care products. Products include prescription drugs, coronary and carotid stents, and nutritional liquids for infants and adults. Following the Advanced Medical Optics acquisition, Abbott also markets eye-care products. Abbott generates close to half of its revenue from pharmaceuticals.

100 Abbott Park Road
Abbott Park, IL 60064-6400
Phone: 1 847 937-6100 Website: http://www.abbott.com

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship
—	65.20	—	—	—	—

per share prices in USD



2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
54.51 / 28.01	44.31 / 31.72	47.63 / 36.92	50.00 / 37.50	49.87 / 39.18	59.50 / 48.75	61.09 / 45.75	57.39 / 41.27	56.79 / 44.59	56.44 / 45.07	72.47 / 53.96	Annual Price High / Low
-26.6	18.9	8.8	-13.2	26.5	17.9	-2.5	4.1	-8.1	21.3	19.5	Total Return %
-3.2	-7.5	-0.2	-16.2	12.9	14.4	36.0	-19.3	-20.9	21.3	5.8	+/- Market
-8.0	3.2	13.0	-15.5	12.3	14.5	14.9	-11.2	-11.4	5.8	3.1	+/- Industry
2.3	2.1	2.2	2.8	2.4	2.3	2.6	2.9	3.6	3.3	3.1	Dividend Yield %
58736	68459	72652	61165	74763	86767	82808	83748	74116	87595	103060	Market Cap USD Mil

Growth Rates Compound Annual

Grade: B	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	10.5	9.6	11.6	9.1
Operating Income %	-5.5	0.3	23.0	11.8
Earnings/Share %	1.7	-0.2	21.9	11.8
Dividends %	9.3	10.2	10.1	8.7
Book Value/Share %	7.5	11.4	11.2	10.3
Stock Total Return %	22.4	9.7	5.4	6.7
+/- Industry	2.5	-2.1	-0.1	1.5
+/- Market	5.1	0.4	5.6	2.5

Profitability Analysis

Grade: C	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	25.3	23.9	17.6	20.5
Return on Assets %	10.6	9.9	8.1	8.5
Fixed Asset Turns	5.0	4.2	3.8	7.0
Inventory Turns	4.2	4.4	2.6	17.6
Revenue/Employee USD K	433.1	413.0*	—	1089.8
Gross Margin %	62.2	57.7	71.3	40.0
Operating Margin %	19.7	17.9	22.6	16.6
Net Margin %	16.6	14.9	16.0	11.0
Free Cash Flow/Rev %	19.1	19.1	20.8	0.1
R&D/Rev %	11.0	0.1	—	10.1

Financial Position

Grade: A	12-11 USD Mil	09-12 USD Mil
Cash	6813	7997
Inventories	3284	3814
Receivables	7684	6949
Current Assets	23769	27264
Fixed Assets	7874	7961
Intangibles	25695	24669
Total Assets	60277	63258
Payables	2990	3123
Short-Term Debt	3375	4225
Current Liabilities	15480	16286
Long-Term Debt	12040	12055
Total Liabilities	35837	36244
Total Equity	24440	27014

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Financials
17685	19681	19680	22338	22476	25914	29528	30765	35167	38851	39414	Revenue USD Mil
51.9	51.9	54.9	52.4	56.3	55.9	57.3	57.1	58.3	60.0	62.2	Gross Margin %
3530	3323	3898	4362	2042	4579	5694	6236	6088	5752	7752	Oper Income USD Mil
20.0	16.9	19.8	19.5	9.1	17.7	19.3	20.3	17.3	14.8	19.7	Operating Margin %
2794	2753	3236	3372	1717	3606	4881	5746	4626	4728	6528	Net Income USD Mil
1.78	1.75	2.06	2.16	1.12	2.31	3.12	3.69	2.96	3.01	4.11	Earnings Per Share USD
0.92	0.97	1.03	1.09	1.16	1.27	1.41	1.56	1.72	1.88	1.98	Dividends USD
1573	1572	1571	1564	1537	1560	1561	1547	1556	1567	1588	Shares Mil
6.83	8.36	9.20	9.29	9.16	11.51	11.27	14.73	14.66	15.69	17.09	Book Value Per Share USD
4183	3746	4408	5174	5329	5184	7344	7275	8736	8970	9213	Oper Cash Flow USD Mil
-1296	-1247	-1292	-1207	-1338	-1656	-1288	-1089	-1015	-1492	-1684	Cap Spending USD Mil
2887	2500	3116	3967	3991	3528	6056	6186	7721	7479	7529	Free Cash Flow USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Profitability
11.8	10.8	11.7	11.7	5.3	9.5	11.9	12.1	8.3	7.9	10.6	Return on Assets %
28.3	23.2	23.6	23.5	12.1	22.7	27.7	28.5	20.4	20.2	25.3	Return on Equity %
15.8	14.0	16.4	15.1	7.6	13.9	16.5	18.7	13.2	12.2	16.6	Net Margin %
0.74	0.77	0.71	0.77	0.69	0.68	0.72	0.65	0.63	0.65	0.64	Asset Turnover
2.3	2.0	2.0	2.0	2.6	2.2	2.4	2.3	2.7	2.5	2.3	Financial Leverage

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	09-12	Financial Health
2120	2651	3909	3971	-669	4939	5451	10264	5055	8289	10978	Working Capital USD Mil
4274	3452	4788	4572	7010	9488	8713	11266	12524	12040	12055	Long-Term Debt USD Mil
10665	13072	14326	14415	14054	17779	17480	22856	22388	24440	27014	Total Equity USD Mil
0.40	0.26	0.33	0.32	0.50	0.53	0.50	0.49	0.56	0.49	0.45	Debt/Equity

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
22.6	26.7	23.1	18.3	43.5	24.3	17.6	14.6	16.2	18.7	15.9	Price/Earnings
—	—	—	—	—	—	—	—	—	1.1	1.0	P/E vs. Market
3.6	3.7	3.7	2.8	3.3	3.4	2.8	2.7	2.1	2.3	2.6	Price/Sales
5.9	5.6	5.1	4.2	5.3	4.9	4.7	3.7	3.3	3.6	3.8	Price/Book
15.1	19.6	16.6	11.9	14.1	16.9	11.3	11.5	8.5	9.8	11.2	Price/Cash Flow

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	15.9	18.3	17.7	15.8
Forward P/E	12.2	—	—	14.2
Price/Cash Flow	11.2	11.6	11.2	7.8
Price/Free Cash Flow	13.8	14.7	13.9	19.4
Dividend Yield %	3.1	—	3.9	2.1
Price/Book	3.8	4.0	2.8	2.0
Price/Sales	2.6	2.7	2.7	1.2
PEG Ratio	1.6	—	—	1.9

Quarterly Results

Revenue USD Mil	Dec 11	Mar 12	Jun 12	Sep 12
Most Recent Period	10377.5	9456.6	9807.1	9773.2
Prior Year Period	9967.9	9040.9	9616.3	9816.7

Rev Growth %	Dec 11	Mar 12	Jun 12	Sep 12
Most Recent Period	4.1	4.6	2.0	-0.4
Prior Year Period	13.4	17.4	8.9	13.2

Earnings Per Share USD	Dec 11	Mar 12	Jun 12	Sep 12
Most Recent Period	1.03	0.78	1.08	1.21
Prior Year Period	0.93	0.55	1.23	0.19

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Abbott Laboratories	103060	39414	15.9	25.3
Johnson & Johnson	196593	65921	23.3	13.6
Pfizer Inc	186678	62225	19.7	11.3

Major Fund Holders

	% of shares
	—
	—
	—

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

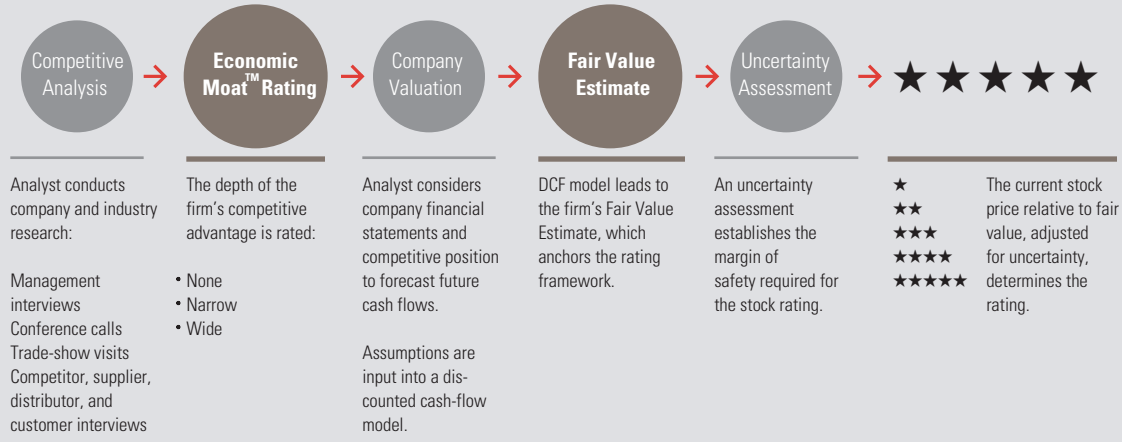
Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies



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economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

Our corporate 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.

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