MORNINGSTAR®

Credit Summary: Abbott Laboratories (A, positive)

Recent deleveraging boosts Abbott's credit rating, and its rating trajectory remains positive.

Morningstar Credit Ratings, LLC
8 March 2019

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Executive Summary

Through two rating actions, Morningstar Credit Ratings, LLC has upgraded Abbott's credit rating by two notches since early 2018, reflecting the rapid deleveraging undertaken since the firm completed the St. Jude Medical and Alere acquisitions in 2017. That deleveraging has positively influenced Abbott's leverage-sensitive pillars—Cash Flow Cushion, Solvency Score, and Distance to Default. Going forward, management has indicated a preference for internal investments and increasing balance sheet flexibility, which points to the potential for further deleveraging. Also, the firm's Business Risk pillar could improve, as the company focuses on increasing profitability and managing its balance sheet conservatively. As such, our outlook on Abbott's rating remains positive, and we see the potential for another upgrade in the next couple of years.

Key Takeaways

- Following its split from AbbVie in 2013, Abbott's credit rating declined by four notches, primarily on leverage-increasing acquisitions. However, recent deleveraging actions have prompted two upgrades since early 2018, creating positive momentum in its credit profile.
- The St. Jude and Alere acquisitions increased the company's reliance on medical devices and diagnostics, which generate higher margins and higher organic growth rates currently than its other segments, nutrition and established pharmaceuticals. This mix shift bodes well for future profit growth.
- If Abbott continues to manage its balance sheet conservatively and profits continue to rise moderately, Abbott's Business Risk and/or Solvency Score pillars could improve enough to upgrade in the next couple of years.
- In medical technology, Abbott possesses credit characteristics similar to Medtronic, Stryker, and Baxter. These firms' long-term competitive advantages, or economic moats, are slightly different, which contributes to differences in their Business Risk pillar rankings and credit ratings, despite similar current or target net leverage between 1.5 and 2.0 times. Notably though, with the potential for Business Risk and Solvency Score pillar improvement, Abbott's rating could rise again in the next couple of years, which could push its rating in line with higher-rated Medtronic and Stryker.

Companies Mentioned

Name/Ticker	Rating	Outlook	Coupon	Maturity	Price	Yield	Spread
Abbott Laboratories ABT	A	Positive	3.75%	11/30/2026	101.36	3.54%	+98
Medtronic PLC MDT	A+	Stable	3.35%	04/01/2027	99.71	3.39%	+81
Stryker Corp. SYK	A+	Stable	3.65%	03/07/2028	100.06	3.64%	+103
Baxter International Inc. BAX	A	Stable	2.60%	08/15/2026	93.26	3.64%	+109

Source: Interactive Data, as of March 6, 2019.

Abbott Laboratories Overview

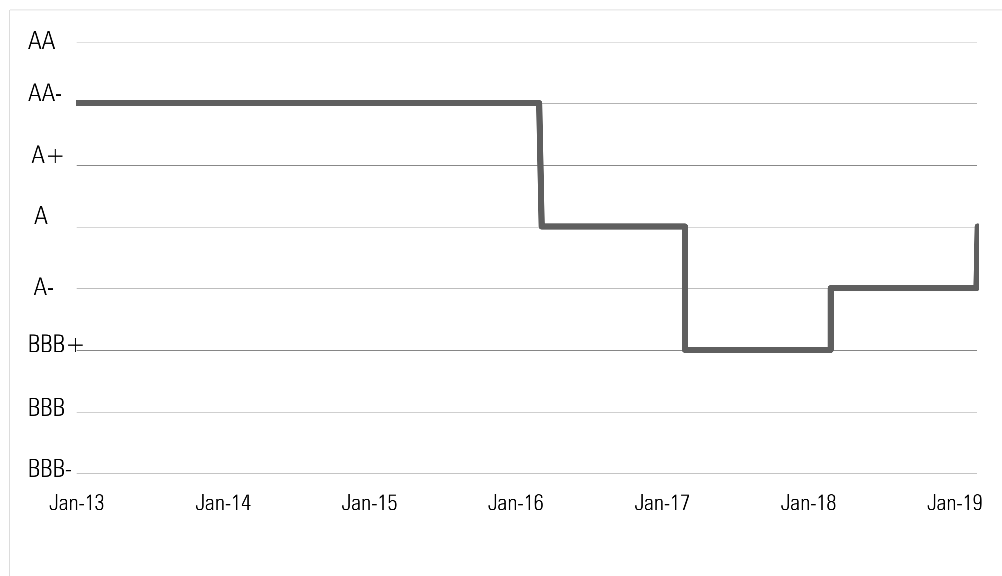
Company Description

Abbott Laboratories (A, positive) operates a diverse set of healthcare businesses through four segments: medical devices, diagnostics, nutrition, and established pharmaceuticals. In its medical device segment, Abbott sells highly engineered cardiac, diabetes, and neuromodulation devices. In diagnostics, Abbott sells a variety of diagnostic equipment and tools. In nutrition, Abbott sells products for children and adults, such as Similac infant formula, Pediasure, and Ensure, primarily through consumer marketing channels. In established pharmaceuticals, Abbott sells branded generic products in emerging markets.

MCR Credit Rating History

- In January 2013, Abbott Laboratories split into two companies focused on medical products (Abbott Laboratories) and biopharmaceuticals (AbbVie Inc.). After that split, we rated Abbott AA–.
- In March 2016, we downgraded our credit rating on Abbott by two notches to A to reflect the plan to acquire Alere in a leverage-increasing transaction. That deal closed in October 2017.
- In March 2017, we downgraded our credit rating two more notches to BBB+ on Abbott's leverage-increasing acquisition of St. Jude Medical. That deal closed in January 2017.
- In February 2018, we upgraded our credit rating on Abbott by one notch to A– to reflect its early 2018 debt reduction ($4 billion) that improved its Cash Flow Cushion and Solvency Score pillars.
- In February 2019, we upgraded our credit rating on Abbott by another notch on the completion of its $8 billion deleveraging plan in 2018, which improved its Cash Flow Cushion, Solvency Score, and Distance to Default pillars.

Exhibit 1 Abbott Laboratories Credit Rating History



Source: Morningstar Credit Ratings, LLC

Credit Rating Rationale

Abbott's A credit rating and positive outlook reflect its low Business Risk and declining leverage. The firm's large, diverse operations and advantages in medical products still support its Business Risk pillar. Abbott sells medical devices, diagnostics, nutritional products, and established pharmaceuticals. After its early 2017 acquisition of St. Jude, which Morningstar's Equity Research Group had given a wide moat, Abbott expanded its medical device segment, primarily by adding cardiac and neuromodulation products. The late 2017 Alere acquisition expanded its diagnostic operations. While Abbott still earns only a narrow moat from Morningstar's Equity Research Group, it appears situated on the strong end of that category after these recent combinations. However, after the leverage-increasing St. Jude and Alere acquisitions, Abbott owed $28 billion of debt as of December 2017, or gross debt/EBITDA of over 4 times, which constrained the company's Cash Flow Cushion, Solvency Score, and Distance to Default pillars. Since then, Abbott's management followed through on a plan to reduce debt by $8 billion in 2018 with newly accessible cash from U.S. tax reform. As of December 2018, Abbott's debt stood at $20 billion, or gross leverage in the mid-2s. With cash and investments of roughly $5 billion after that redemption, net leverage is now about 2 times. Overall, management's focus on achieving a more flexible financial position after 2017's leverage-increasing acquisitions contributes to our better view of Abbott's credit profile. Also, in January 2019, management highlighted a desire to continue paying down debt and pursuing its own internal investment opportunities rather than making additional leverage-increasing acquisitions. Those factors point to the potential for further deleveraging and a possible upgrade in the next year or two, which keeps our outlook for Abbott in positive territory.

Pillar Analysis

With its rapid deleveraging in 2018 after the St. Jude and Alere acquisitions (both completed in 2017,) Abbott's credit rating continued to improve with better Cash Flow Cushion, Solvency Score, and Distance to Default pillars all contributing to our higher rating. In January, management highlighted a desire to continue paying down debt and pursuing its own internal investment opportunities rather than making additional leverage-increasing acquisitions. Those factors point to the potential for further deleveraging and a possible upgrade in the next couple of years, as the company's leverage-sensitive pillars, particularly the Solvency Score, could continue improving. Our Business Risk pillar could even improve enough to upgrade if its returns on invested capital improve on a sustainable basis, as Abbott focuses on internal opportunities and margin expansion, and our view of management's stewardship for creditors continues improving through conservative balance sheet management.

Exhibit 2 Abbott Credit Pillar Summary

Current Rating: A

Strongest ⟷ Weakest

Rating Pillars	1	2	3	4	5	6	7	8	9	10
Business Risk				■						
Cash Flow Cushion					■	2018				
Solvency Score			■	2018						
Distance to Default		■	2018							

Source: Morningstar Credit Ratings, LLC.

- Business Risk (Low): We continue to view Abbott as having low Business Risk, reflecting its large, diverse operations in generally recession-resistant healthcare businesses. However, the score is somewhat constrained by its narrow, rather than wide, moat, a neutral management score, and ongoing product safety risks that are inherent in the healthcare industry.

Exhibit 3 Business Risk Components

Business Risk Details	Abbott	Notes
Country Risk (10% Weight)	22	1= Very High; 25 = Low
Company Risk (90% Weight)		
Size	10	Very Small=1, Very Large=10
Economic Moat	5	None=1, Narrow=5, Wide=10
Uncertainty	7.5	Extreme=1, Very High=2.5, High=5, Medium=7.5, Low=10
Concentration Risks	4	Highly Concentrated=1, Highly Diversified=5
Management Score	3	Aggressive=1, Conservative=5
Dependence on Capital Markets	4	Extremely Dependent=1; Very Low Dependence=5
Cyclicality	4	Highly cyclical=1; Non-Cyclical=5
Business Risk Pillar	4	Minimal=1, Very High=10

Source: Morningstar Credit Ratings, LLC.

- Country Risk (Low): Abbott operates a geographically diverse business. While we still view its country-related risks as low, this score is constrained somewhat by its significant presence in emerging markets, about 40% of 2018 sales, particularly through its established pharmaceutical and nutrition segments. While emerging markets may grow at a faster pace than developed markets (Abbott's emerging market business grew 12% in 2018), the geopolitical and regulatory environments in emerging markets may be less stable or predictable than in developed markets, which can lead to volatile results at Abbott. For example, prior to new Chinese regulations being implemented in 2018, Abbott's nutrition business experienced weak growth, as lower-priced competitors flooded that market in advance of those new standards. The nutrition segment declined 1.1% in 2016 and only grew 0.4% in 2017 on a reported basis leading up to that regulatory change. Since then, nutritional segment growth has returned to more normal 4.4% growth in 2018.

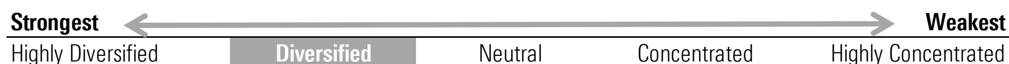
- Company Risk

  Size (Very Large): With $31 billion in 2018 sales, Abbott earns the highest score for size that we award. This pillar component has been positively influenced by the recent St. Jude and Alere acquisitions, and mid-single-digit organic growth trends suggest that it should remain in this top category throughout our forecast period.

Economic Moat (Narrow): Abbott currently earns a narrow economic moat assessment from Morningstar's Equity Research Group (see Appendix). That group recently noted that with the addition of St. Jude, which previously earned a wide moat assessment, Abbott's moat stands on the strong end of the narrow category. However, uncertainty around Abbott's ability to innovate in this sector keeps the group from pushing Abbott into the wide category. In all of its four businesses (medical devices, diagnostics, nutrition, and established pharmaceuticals), though, Abbott is one of the top three or four competitors, which helps it generate higher returns on invested capital than its capital costs and contributes to its sustainable competitive advantages. As the company focuses on internal growth opportunities and margin expansion, Abbott's returns on invested capital could improve enough to warrant a wider moat eventually, which could positively influence its Business Risk pillar.

Uncertainty (Medium): With a relatively diverse product set and limited exposure to cyclical events, Abbott earns a medium uncertainty assessment. Like with most other healthcare companies, though, uncertainty around new innovations, both internally and from competitors, keeps Abbott out of the low uncertainty category.

Product/Customer Concentration (Diversified): With a broad set of medical products in its portfolio, Abbott earns a strong score on this pillar component, just below the scores of highly diversified companies like Johnson & Johnson (AAA, stable).



Management (Neutral): In early 2018, we increased our management score from fairly aggressive to neutral for Abbott to recognize its rapid deleveraging plan in 2018 following the leverage-increasing St. Jude and Alere acquisitions. We appreciate that management followed through on that plan, and if the team maintains a conservative balance sheet on a sustainable basis, this score could continue to improve.

Dependence on Capital Markets (Very Low Dependence): This score is based on the minimum adjusted Cash Flow Cushion in any year of our five-year forecast. After redeeming $8 billion of debt in 2018, this component of the Business Risk pillar has improved, as its

debt-related obligations relative to expected cash flows appear easily manageable through internal means during each of the next five years.

Cyclicality (Mild Cyclicality): While generally recession-resistant, Abbott's results can be influenced by product commercialization cycles in medical devices, laboratory capital spending budgets in diagnostics, and general consumer patterns in its other segments.

Other Company Risk Factor: Like most healthcare companies, Abbott faces product safety risks, which weigh on our Business Risk pillar. Overall, there is a risk that material unintended consequences for users could arise with each new product launch, which can lead to recalls and legal liabilities for the company. We incorporate these ongoing ESG risks in this component of the Business Risk pillar, given that these risks are not fully captured in our other Business Risk inputs. This is similar to how we treat other healthcare companies.

- Cash Flow Cushion (Moderate): After deleveraging rapidly in 2018, this pillar improved another notch by early 2019 primarily as its debt-related obligations fell during our five-year forecast period. Abbott now scores at moderate levels in the Cash Flow Cushion. The company's roughly $2 billion annual dividend payment to shareholders remains a notable, albeit manageable, constraint on this score.

Exhibit 4 Key Cash Flow Cushion Components

$s mms	Abbott	% of Cash + Cash Generation
Starting Cash and Investments (end of 2018)	$4,983	16%
Projected Free Cash Flow (5 Years)*	$38,237	121%
Projected Dividends (5 Years)	($11,048)	-35%
Projected Repurchases (1 Year)	($500)	-2%
Adjusted Free Cash Flow (5 Years)	$26,689	84%
Cash + Cash Generation	$31,672	100%
Debt Maturities (5 Years)	$7,960	25%
Interest Expense (5 Years)	$3,817	12%
Leases (5-Years)	$1,268	4%
Debt-Like Obligations (5 Years)	$13,045	41%
Cash Flow Cushion	2.4x	
Ranking	5	

Source: Morningstar Credit Ratings, LLC estimates.
*Projected free cash flow adds back certain tax-adjusted obligations, such as interest and rental expense.

- Solvency Score (Strong): With significant debt redemptions completed in the past year, this pillar improved another notch since early 2018, as its leverage, interest coverage, and profitability metrics all improved from last year. This pillar already stands at a strong level and could continue to improve in the next couple of years if the company maintains a conservative balance sheet and if returns on invested capital rise after recent acquisition activities.

Exhibit 5 Solvency Score

	2018	2019
Lease-Adjusted TL/TA	0.60	0.55
Quick Ratio	1.96	1.30
ROIC, including goodwill	10.7%	14.4%
EBITDAR/(Int Exp + 1/3 Rents)	7.90	12.20
Raw Solvency Score (Lower = Better)	436.23	368.94
Ranking	4	3

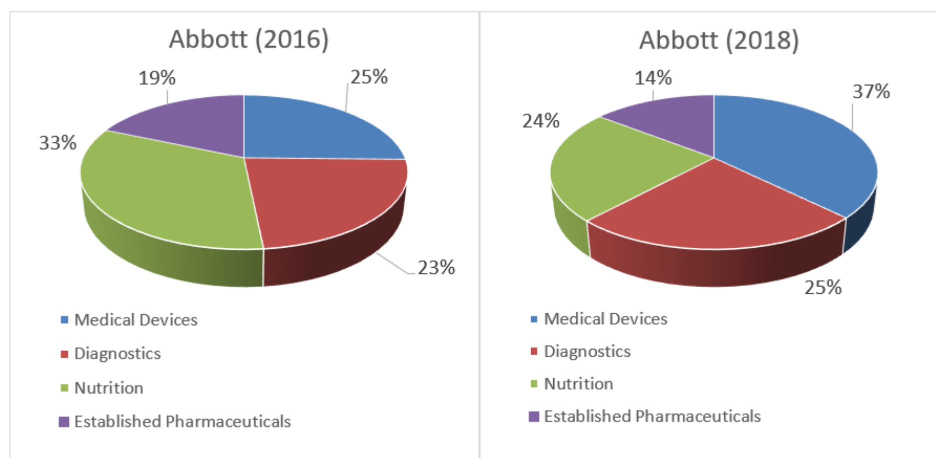
Source: Morningstar Credit Ratings, LLC.

- Distance to Default (Very Strong): With Abbott's equity cushion ($136 billion) greatly exceeding its debt at the end of 2018 ($20 billion), Abbott scores very strongly on this pillar, which is an improvement from early 2018 when Abbott's equity stood at $106 billion and it owed $24 billion of debt. See Exhibit 9 for more details on its capital structure.

Abbott Expands Further Into Devices and Diagnostics After Recent Acquisitions

Through the St. Jude and Alere acquisitions in 2017, Abbott has increased its exposure to the medical device and diagnostic sectors while reducing its emphasis on nutrition and established pharmaceuticals, which we show in Exhibit 6. By our calculations, medical devices accounted for about 37% of sales in 2018, up from 25% in 2016 before the St. Jude acquisition. Through that combination, Abbott increased its exposure primarily to highly engineered cardiac and neuromodulation devices, and it continues to sell other devices, such as glucose monitors for the treatment of diabetes and stents for coronary artery disease. Diagnostics accounted for about 25% of Abbott's sales in 2018, its first full year after the Alere transaction, up from 23% in 2016. Offsetting those mix shifts, the revenue mix from nutrition has decreased substantially, contributing just 24% of sales in 2018 compared with 33% in 2016. This segment has also been growing at the slowest pace for Abbott during the past several years, too, which has influenced this mix decline. The established pharmaceutical segment has also decreased in relative size to 14% of Abbott's sales in 2018 from 19% in 2016, primarily reflecting the recent acquisitions.

Exhibit 6 Business Mix Shift



Source: Company filings.

From a profitability perspective, Abbott has increased its concentration in its highest-margin businesses by expanding in medical devices and diagnostics, which we show in Exhibit 7.

Exhibit 7 Segment Profitability

Operating Margin:	**2018**
Medical Devices	26%
Diagnostics	25%
Nutrition	23%
Established Pharmaceuticals	20%
Total	24%

Source: Company filings.

From a growth perspective, Abbott grew 7% organically year over year in 2018, led by medical devices (9% growth) and then established pharmaceuticals (7% growth), diagnostics (7%), and nutrition (5%). Positively, in 2018 growth accelerated for three of the company's segments: medical devices, diagnostics, and nutrition. In medical devices and diagnostics, new product launches are boosting the firm's organic growth rates while the nutrition business has rebounded after China implemented new food safety regulations in early 2018 that alleviated some competitive pressures.

By segment, medical devices grew 9% in 2018, organically. In this segment, the diabetes care business led the pack, growing 35% year over year primarily on the continued expansion of FreeStyle Libre, a continuous glucose monitor that does not require routine finger sticks. Abbott has seen rapid uptake first internationally and now in the U.S. after the U.S. Food and Drug Administration approved the device in late 2017 and Medicare announced reimbursement coverage in early 2018. For context, that product roughly doubled year over year to over $1 billion of sales in 2018 within Abbott's $2 billion diabetes care business. We expect significant expansion to continue, especially in the U.S., which accounted for only $0.5 billion of the diabetes care division in 2018. The company's electrophysiology division (20% growth)

delivered strong results in 2018 primarily from new cardiac mapping and ablation catheters. The structural heart division (13% organic growth in 2018) also has a strong outlook after submitting promising data for a label expansion for its mitral valve product, MitraClip. New products like these should contribute to the segment's positive momentum going forward. Specifically, management expects the medical devices segment to grow in the high-single digits in 2019.

The diagnostics segment grew 7% organically in 2018. In its core laboratory division (8% growth), the company continues to benefit from the expansion of its new Alinity system in international markets. With the firm aiming to gain U.S. approval for a critical mass of tests later this year, Alinity should be a key growth driver for this segment for the intermediate term. The recently acquired Alere products remain a relatively new element in this salesforce's portfolio, too. In 2019, management expects the diagnostics segment to grow in the mid- to high-single digits.

After multiple years of weak results, the nutrition segment rebounded to 5% organic growth in 2018. In early 2018, China implemented new regulatory standards that led to a more stable pricing and demand environment after noncompliant competitors exited the market. The company expects this more normalized environment to continue and is incorporating low to mid-single-digit growth from the nutrition segment in its 2019 outlook.

The established pharmaceuticals business decelerated to 7% organic growth in 2018, down from 10% in 2017. In this segment, Abbott sells branded generics in emerging markets such as Brazil, Russia, India, and China. The company's 2019 outlook incorporates mid- to high-single-digit top-line growth for this segment.

Financial Projections

In 2019, Abbott management expects about 6.5%–7.5% top-line growth and 9%–13% growth in adjusted earnings per share primarily on margin expansion, which is similar to our view of 2019 for Abbott. During our five-year forecast period, which we show in Exhibit 8, we project that revenue will grow in the midsingle digits while adjusted EBITDA and free cash flow grows in the high-single digits, as the company focuses on improving margins and returns after recent acquisition activities. With the maintenance of about $20 billion of debt on its balance sheet through our forecast period, gross leverage may decline as profits rise. Also, we assume the firm boosts its share repurchase program from about $0.5 billion in 2019 up to $2 billion annually in the outer years of our forecast. Even with those outflows and the firm's ongoing dividend payments, the projected cash build suggests that the firm has significant capacity to consider additional capital allocation activities, including more debt redemptions, returns to shareholders, or acquisitions.

Exhibit 8 Financial Estimates

$s in Millions	2016	2017	2018	2019e	2020e	2021e	2022e	2023e	CAGR 2018-2023e
Revenue	$20,853	$27,390	$30,578	$32,671	$34,857	$36,927	$38,885	$40,830	6%
% Growth		31%	12%	7%	7%	6%	5%	5%	
Adjusted EBITDA	$4,538	$6,420	$7,719	$8,662	$9,545	$10,268	$11,116	$11,607	8%
Margin	21.8%	23.4%	25.2%	26.5%	27.4%	27.8%	28.6%	28.4%	
Free Cash Flow	$2,082	$4,435	$4,906	$5,623	$5,927	$6,679	$6,931	$7,647	9%
as % of Sales	10.0%	16.2%	16.0%	17.2%	17.0%	18.1%	17.8%	18.7%	
Debt	$22,003	$27,924	$19,566	$18,859	$19,059	$19,209	$19,459	$19,606	
Cash	$18,775	$10,493	$4,983	$7,829	$10,068	$12,650	$15,394	$17,556	
Net Debt	$3,228	$17,431	$14,583	$11,030	$8,991	$6,559	$4,066	$2,050	
Gross Debt/EBITDA	4.8x	4.3x	2.5x	2.2x	2.0x	1.9x	1.8x	1.7x	
Net Debt/EBITDA	0.7x	2.7x	1.9x	1.3x	0.9x	0.6x	0.4x	0.2x	

Source: Morningstar Credit Ratings, LLC estimates and company filings.

Capital Structure

After obtaining easier access to its overseas cash after U.S. tax reform, Abbott used its substantial financial resources to deleverage in 2018. Following the St. Jude and Alere acquisitions in 2017, Abbott owed $28 billion in debt as of December 2017, consisting primarily of senior unsecured bonds and some borrowings on its revolver and term loan. In 2018, Abbott redeemed $8 billion of debt, including its term loan and revolver borrowings. Considering these redemption activities, Abbott owed $20 billion in debt as of December 2018, or gross leverage in the mid-2s, and held cash and investments of $5 billion, leading to net leverage around 2 times by our calculations. Considering its 2018 redemptions that were offset somewhat by a new euro-denominated bond issuance, Abbott's maturity schedule appears easily manageable. During the next five years, the company has short-term borrowings of $0.2 billion, $1.8 billion due in 2020, $2.9 billion due in 2021, $0.8 billion due in 2022, and $2.4 billion due in 2023. With $5 billion of cash and investments, access to $5 billion on unsecured credit lines that expire in 2023, and its ongoing cash flows (around $5 billion in 2018), the company appears to have significant financial flexibility to manage those obligations. Notably, in January, management highlighted a desire to continue paying down debt and pursuing its own internal investment opportunities rather than making additional leverage-increasing acquisitions. It will also probably push more cash out to shareholders. For example, in 2019, we expect Abbott to make some repurchases, and it pays a dividend of about $2 billion annually.

Exhibit 9 Capital Structure ($s in Millions)

	Debt as of December 31, 2018	x EBITDA
Current Debt	$207	
0.00% notes due 2020	$1,300	
2.80% notes due 2020	$500	
2.90% notes due 2021	$2,850	
2.55% notes due 2022	$750	
0.88% notes due 2023	$1,303	
3.40% notes due 2025	$1,050	
3.88% notes due 2025	$500	
2.95% notes due 2025	$1,000	
1.50% notes due 2026	$1,300	
3.75% notes due 2026	$1,700	
4.75% notes due 2036	$1,650	
6.15% notes due 2037	$547	
6.00% notes due 2039	$515	
5.30% notes due 2040	$694	
4.75% notes due 2043	$700	
4.90% notes due 2046	$3,250	
Other	-$250	
Total Debt	$19,566	2.5x
Cash and Investments	$4,983	0.6x
Net Debt	$14,583	1.9x
Market Capitalization (March 5, 2019)	$138,090	17.9x
Enterprise Value	$152,673	19.8x
Adjusted EBITDA (2018)	$7,719	

Source: Morningstar Credit Ratings, LLC, company filings.

Capital Allocation Policy

Abbott has no formal leverage or rating target. After two major acquisitions in 2017, the company deleveraged substantially in 2018 with newly accessible cash from tax reform, and that deleveraging resulted in two upgrades since early 2018. Also, in January, Abbott's management highlighted a preference for internal investments rather than acquisitions, reflecting its strong organic growth opportunities and current return constraints on potential acquisitions. Also, the management team stated that it would like to continue reducing debt on its balance sheet, and in February, Abbott redeemed $500 million of debt, consisting of its 2.8% notes due 2020. Beyond that, uncertainty surrounds future debt redemption and leverage goals. Our current rating considers future deleveraging primarily through profitability expansion rather than significant debt redemption.

Peer Comparison

Abbott possesses similar credit characteristics as Baxter International Inc. (A, stable) and higher-rated Medtronic PLC (A+, stable) and Stryker Corp. (A+, stable). Notably, our assessment of these firms' long-term competitive advantages, or economic moats, is slightly different. Specifically, higher-rated Medtronic and Stryker earn wide moat assessments from Morningstar's Equity Research Group while Abbott and Baxter earn only narrow moats. The differences in these companies' moat rankings contribute to differences in their Business Risk pillar rankings, so despite their similar current or target net leverage between 1.5 and 2.0 times, the Business Risk pillar provides differentiation within these medical technology credits. Our positive outlook on Abbott recognizes that its Business Rank pillar may strengthen in the near future, if the sustainability of its returns over its capital costs looks likely to improve and/or if it manages its balance sheet conservatively on a sustainable basis. Those factors could lead to another upgrade, which would push its credit rating in line with Medtronic and Stryker.

Exhibit 10 Abbott Credit Comparable Table

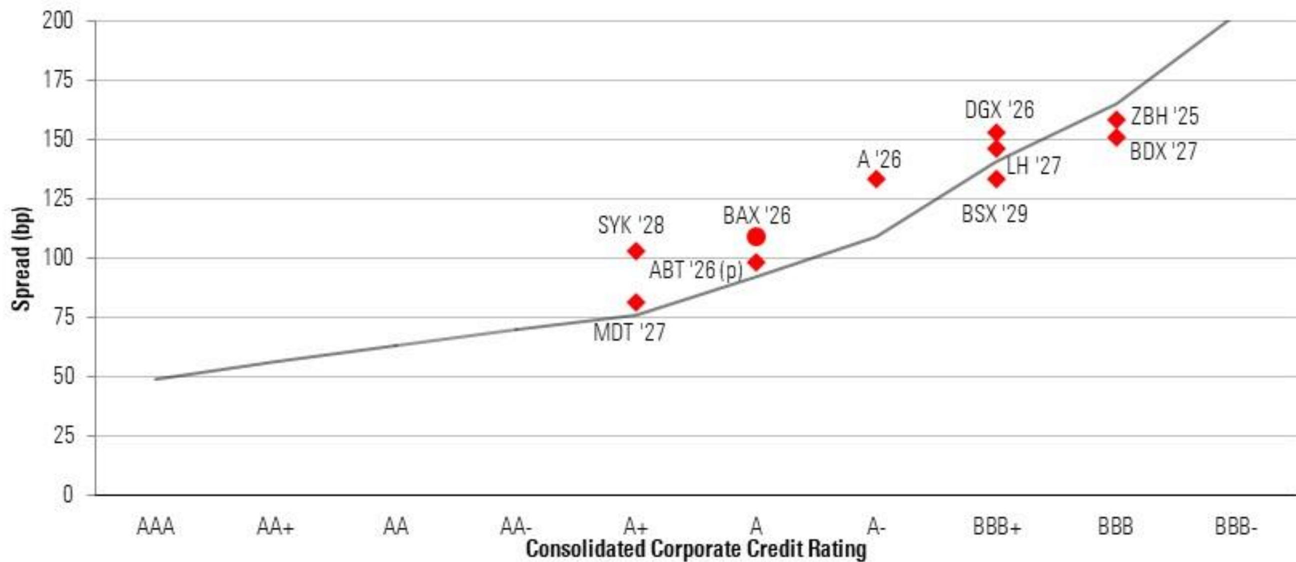
Medical Technology Tickers	**MDT**	**SYK**	**ABT**	**BAX**
Morningstar Credit Ratings, LLC Rating	A+	A+	A	A
Outlook	Stable	Stable	Positive	Stable
Information from Morningstar's Equity Research Group:				
Economic Moat	Wide	Wide	Narrow	Narrow
Moat Trend	Stable	Stable	Stable	Stable
Uncertainty	Medium	Medium	Medium	Medium
TTM as of Date ($s in millions)	1/25/2019	12/31/2018	12/31/2018	12/31/2018
Revenues	$30,555	$13,601	$30,578	$11,127
Adj'd EBITDA	$9,643	$3,569	$7,719	$2,497
Adj'd EBITDA %	32%	26%	25%	22%
Total Debt	$25,030	$9,859	$19,566	$3,477
Cash and Investments	$9,142	$3,699	$4,983	$1,832
Net Total Debt/(Cash)	$15,888	$6,160	$14,583	$1,645
Market Capitalization	$123,490	$70,190	$136,480	$38,300
Enterprise Value	$139,378	$76,350	$151,063	$39,945
Debt % of EV	18%	13%	13%	9%
TD/EBITDA	2.6x	2.8x	2.5x	1.4x
Net TD/EBITDA	1.6x	1.7x	1.9x	0.7x
Adj TD/EBITDAR*	2.8x	3.0x	2.7x	2.0x
Interest Expense	$1,043	$264	$826	$93
EBITDA/Interest	9.2x	13.5x	9.3x	26.8x
(EBITDA-CapX)/Int	8.2x	11.4x	7.7x	19.5x
OCF	$5,958	$2,610	$6,300	$2,096
CapX	($1,091)	($572)	($1,394)	($681)
FCF	$4,867	$2,038	$4,906	$1,415
FCF/Debt	19%	21%	25%	41%
Share Repurchases	($2,935)	($300)	($238)	($2,452)
Dividends	($2,646)	($703)	($1,974)	($376)
Net FCF	($714)	$1,035	$2,694	($1,413)

Source: Company filings and Morningstar Credit Ratings, LLC as of March 7, 2019.
*Adjusted TD includes total debt plus underfunded pension liabilities plus 8 times rents.

Market Data

Since we highlighted Abbott as an improving credit in February 2018, Abbott's bonds have significantly outperformed its key peers and the broad corporate bond universe. During the past year, Abbott's bonds due 2026 tightened 10 basis points while similar bonds from Medtronic, Stryker, and Baxter widened by 16 basis points on average. Morningstar, Inc.'s Corporate Bond Index also widened during the period by 25 basis points.

Exhibit 11 Medical Technology and Services Sector Versus Morningstar Corporate Bond Index



Source: Morningstar Credit Ratings, LLC and Interactive Data as of March 6, 2019.
(UR) = rating under review/(p) = positive outlook/(n) = negative outlook

Currently, Abbott's bonds due 2026 are indicated 6 basis points wider than the A category of Morningstar, Inc.'s Corporate Bond Index. That is slightly tighter than the average differential in the investment-grade medical technology and services sector, which is 7 basis points wider than the index on average.

Exhibit 12 Medical Technology and Service Sector Spreads

Health Care Issuer	Rating	Rating Outlook/ Review Status	Coupon	Maturity	Yield	Spread	Difference From Index	Average Difference
Stryker Corp	A+	Stable	3.65%	3/7/2028	3.64%	+103	27	
Agilent Technologies	A-	Stable	3.05%	9/22/2026	3.89%	+133	24	
Baxter International Inc	A	Stable	2.60%	8/15/2026	3.64%	+109	17	
Quest Diagnostics Inc	BBB+	Stable	3.45%	6/1/2026	4.08%	+153	12	7
Abbott Laboratories	A	Positive	3.75%	11/30/2026	3.54%	+98	6	
Laboratory Corp of America Holdings	BBB+	Stable	3.60%	9/1/2027	4.05%	+146	5	
Medtronic PLC	A+	Stable	3.35%	4/1/2027	3.39%	+81	5	
Zimmer Biomet Holdings Inc	BBB	Stable	3.55%	4/1/2025	4.08%	+158	-7	
Boston Scientific Corp	BBB+	Stable	4.00%	3/1/2029	3.98%	+133	-8	
Becton, Dickinson and Co	BBB	Stable	3.70%	6/6/2027	4.09%	+151	-14	

Source: Morningstar Credit Ratings, LLC, and Interactive Data as of March 6, 2019.

Appendix

Abbott Laboratories Moat

The following description comes directly from Morningstar's Equity Research Group:

We've given Abbott a narrow economic moat rating. We think the addition of St. Jude pushes Abbott toward the wider side of a narrow moat, but we're not fully convinced that Abbott has tipped into the wide-moat category, especially if the firm cannot nurture the kind of ongoing (and occasionally revolutionary) innovation that is necessary to secure reimbursement over the longer term.

In most cases, Abbott is one of three or four competitors that dominate the market, including nutritionals, cardiac rhythm management devices, surgical heart valves, glucose monitors, coronary stents, and immunoassays. In these markets, Abbott participates in rational oligopolies and enjoys the benefits of intangible assets.

We think the nutritional business is one of the moatiest parts of new Abbott, where it wields a leadership position in this highly consolidated market that is estimated to be $35 billion worldwide. Aside from strength in developed markets, the firm faces brighter growth prospects in emerging markets, where the growth of middle-class families has spurred demand for pediatric and adult nutrition products. Thanks to the strong Similac and Ensure brands, Abbott is in an advantageous position to introduce new formulations and line extensions and penetrate new markets. Abbott made substantial investments early on to build out its infrastructure in emerging markets, including its new venture with New Zealand-based Fonterra to build out a large-scale dairy farm hub in China. The firm should reap the rewards of this investment as it expands the nutritional business.

These building blocks and experience with nutritionals should also play out well when applied to Abbott's established pharmaceutical product segment, which is mainly sold outside the U.S. This business, frequently called branded generics, operates more like a consumer business than traditional branded drugs. For example, Abbott's branded generics will mainly be sold in less developed markets that often lack a well-developed infrastructure for distribution. Instead, Abbott must sell its products directly to pharmacy chains and physicians. As a result, brand recognition and reputation are key factors that Abbott can leverage. Selling to a fragmented market also translates into less pricing pressure for Abbott. This could change over the longer term once more emerging markets turn to the tender system that characterizes developed nations. However, that change remains further off.

In the near and medium term, we think Abbott should benefit from the addition of St. Jude's impressive expertise in cardiac rhythm management, structural heart, and heart failure. However, the jury is still out on Abbott's ability to nurture and renew innovation in this area over the long haul. Abbott has demonstrated its competence at launching next-generation products that are the lifeblood of the device business, but we are less enthusiastic about its attempts at greater leaps of innovation.

Finally, Abbott relies on intellectual property to ward off competitors in the device and diagnostic segments. We think the firm has earned a narrow moat in each of its four segments, which translates to a narrow moat for the entire company.

Morningstar Credit Ratings, LLC | 5 March 2019

Abbott (ABT)

Corporate Credit Rating N/A

Economic Moat (1)	Moat Trend (1)	Outlook
Narrow	Stable	Review

Sector	Healthcare	Business Risk Rank	4
Industry	Medical Devices	Cash Flow Cushion Rank	5
		Solvency Score Rank	3
		Distance to Default Rank	2

Insert company description here.

All values (except per share amounts) in: USD Millions	2016	2017	2018	Forecast 2019	2020	2021	2022	2023
Income Statement								
Revenue	20,853	27,390	30,578	32,671	34,857	36,927	38,885	40,830
Gross Profit	11,829	15,053	17,872	19,439	20,914	22,341	23,720	24,906
Operating Income	3,185	1,726	3,650	4,846	5,921	6,811	7,807	8,424
Adjusted EBITDA	4,538	6,420	7,719	8,662	9,545	10,268	11,116	11,607
Net Income	1,400	477	2,368	3,727	4,680	5,451	6,276	6,818
Balance Sheet								
Cash + Investments	18,775	10,493	4,983	7,829	10,068	12,650	15,394	17,556
Total Debt	22,003	27,924	19,566	18,859	19,059	19,209	19,459	19,606
Total Adjusted Debt	23,020	29,406	21,243	20,659	20,980	21,244	21,602	21,856
Cash Flow Statement								
Cash Flow From Operations	3,203	5,570	6,300	6,930	7,321	8,157	8,487	9,280
Capital Expenditures	(1,121)	(1,135)	(1,394)	(1,307)	(1,394)	(1,477)	(1,555)	(1,633)
Free Cash Flow (CFO-Capex)	2,082	4,435	4,906	5,623	5,927	6,679	6,931	7,647
Free Cash Flow / Sales	10.0%	16.2%	16.0%	17.2%	17.0%	18.1%	17.8%	18.7%
Growth (% YoY)								
Revenue	2.2%	31.3%	11.6%	6.8%	6.7%	5.9%	5.3%	5.0%
Gross Profit	1.5%	27.3%	18.7%	8.8%	7.6%	6.8%	6.2%	5.0%
Operating Income	11.1%	-45.8%	111.5%	32.8%	22.2%	15.0%	14.6%	7.9%
Adjusted EBITDA	4.6%	41.5%	20.2%	12.2%	10.2%	7.6%	8.3%	4.4%
Profitability (%)								
Gross Margin	56.7%	55.0%	58.4%	59.5%	60.0%	60.5%	61.0%	61.0%
Operating Margin	15.3%	6.3%	11.9%	14.8%	17.0%	18.4%	20.1%	20.6%
Adjusted EBITDA Margin	21.8%	23.4%	25.2%	26.5%	27.4%	27.8%	28.6%	28.4%
Net Margin	6.7%	1.7%	7.7%	11.4%	13.4%	14.8%	16.1%	16.7%
Adjusted ROIC	13.8%	12.7%	11.9%	14.4%	16.4%	17.9%	19.8%	20.6%
Adjusted RONIC	16.0%	13.7%	-36.1%	-36.3%	-254.6%	-54.3%	-165.2%	76.9%
Coverage / Cash Flow								
Adjusted EBITDA / Interest Expense	10.5	7.1	9.3	13.3	14.0	13.9	13.2	12.9
(Adj. EBITDA-CapEx) / Int. Exp.	7.9	5.8	7.7	11.3	11.9	11.9	11.3	11.1
Adj. EBITDAR / (Int. Exp. + 1/3 Rents)	9.9	6.8	8.9	12.2	12.8	12.8	12.2	12.0
Dividends / FCF	74%	42%	40%	35%	35%	33%	34%	32%
Share repurchase (issuance) / FCF	13%	-5%	5%	9%	17%	30%	29%	26%
Leverage								
Total Debt / Adj. EBITDA	4.8	4.3	2.5	2.2	2.0	1.9	1.8	1.7
Net Debt / Adj. EBITDA	0.7	2.7	1.9	1.3	0.9	0.6	0.4	0.2
Total Adj. Debt / Adj. EBITDAR	4.9	4.5	2.7	2.3	2.1	2.0	1.9	1.8
EV /Adj. EBITDA	0.7	2.7	1.9		-	-	-	-
Debt / Capital	52%	47%	39%	37%	36%	36%	35%	33%
FCF / Total Debt	9%	16%	25%	30%	31%	35%	36%	39%

Descriptors for Pillar Analysis

		Rating Pillars			
	Score Range	**Business Risk**	**Cash Flow Cushion**	**Solvency Score**	**Distance to Default**
Strongest	1-2	Minimal	Very Strong	Very Strong	Very Strong
	3-4	Low	Strong	Strong	Strong
	5-6	Moderate	Moderate	Moderate	Moderate
	7-8	High	Weak	Weak	Weak
Weakest	9-10	Very High	Very Weak	Very Weak	Very Weak

Business Risk Pillar Components

Country Risk (10% of Business Risk Score)

Weakest	Very High Risk
	High Risk
	Moderate Risk
Strongest	Low Risk

Company Risk (90% of Business Risk Score)

	Size	**Economic Moat**	**or Sustainable Competitive Advantage**	**Uncertainty**
Weakest	Very Small	None	None	Extreme
	Small			Very High
	Moderate	Narrow	Moderate	High
	Large			Medium
Strongest	Very Large	Wide	Substantial	Low

	Product/Customer Concentration	**Management**	**Dependence on Capital Markets**	**Cyclicality**
Weakest	Highly Concentrated	Aggressive	Extremely Dependent	Highly Cyclical
	Concentrated	Fairly Aggressive	Highly Dependent	Cyclical
	Neutral	Neutral	Dependent	Average Cyclicality
	Diversified	Fairly Conservative	Low Dependence	Mild Cyclicality
Strongest	Highly Diversified	Conservative	Very Low Dependence	Non-Cyclical

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