

COMPANY PROFILE

Abbott Laboratories

TABLE OF CONTENTS

Company Overview 3
Key Facts 3
SWOT Analysis 4

COMPANY OVERVIEW

Abbott Laboratories (Abbott or 'the company') is a diversified company involved in discovery, development, manufacture, and marketing of a broad and diversified line of health care products. The company offers a portfolio of diagnostic products, medical devices, nutritionals and branded generic pharmaceuticals. Abbott sells its products under various brands including PediaSure, Pedialyte, Similac, Creon, Duphaston, Brufen, klacid, Alinity, Architect, Mitraclip, Cardiomems, Duphalac and Influvac. The company has business presence in the US, China, Germany, Japan, India, the Netherlands, Switzerland, Russia, France, Brazil, Italy, the UK, Colombia, Canada, and Vietnam. It is headquartered in Abbott Park, Illinois, the US.

The company reported revenues of (US Dollars) US\$27,390 million for the fiscal year ended December 2017 (FY2017), an increase of 31.3% over FY2016. In FY2017, the company's operating margin was 6.3%, compared to an operating margin of 15.3% in FY2016. In FY2017, the company recorded a net margin of 1.7%, compared to a net margin of 6.7% in FY2016.

The company reported revenues of US\$7,390 million for the first quarter ended March 2018, a decrease of 2.6% over the previous quarter.

KEY FACTS

Head Office	Abbott Laboratories 100 Abbott Park Road Abbott Park Illinois Abbott Park Illinois Abbott Park Illinois USA
Phone	1 224 6676100
Fax	
Web Address	www.abbott.com
Revenue / turnover (USD Mn)	27,390.0
Financial Year End	December
Employees	94,000
New York Stock Exchange Ticker	ABT

SWOT ANALYSIS

Abbott Laboratories (Abbott or 'the company') is a diversified healthcare company with a portfolio diagnostic products, medical devices, nutritionals and branded generic pharmaceuticals. The company has shaped much of its recent corporate development through acquisitions, which has helped it diversify its portfolio and expand its reach. However, cost containment pressures could negatively impact the company's profitability.

<p>Strength</p> <p>Broad portfolio of healthcare products ensuring well-balanced revenue flow Steady Revenue Growth Leading Market Position</p>	<p>Weakness</p> <p>Product recalls hampering the company's reputation Decline in operational performance may affect financial flexibility</p>
<p>Opportunity</p> <p>Acquisitions and agreements to strengthen the offerings of the company Recent Collaborations/Partnerships/Alliances Positive Outlook for Global Pharmaceutical Industry</p>	<p>Threat</p> <p>Rise of Generics Stringent Regulations Cost Containment Pressures</p>

Strength

Broad portfolio of healthcare products ensuring well-balanced revenue flow

Abbott offers pediatric and adult nutritional products worldwide. Abbott manufactures and sells a broad line of branded generic pharmaceuticals outside the US in the therapeutic segments of gastroenterology; women's health; cardiovascular and metabolism; pain and central nervous system; and respiratory drugs and vaccines. The company provides diagnostic instruments and tests to the blood banks, hospitals, commercial laboratories, clinics, physicians' offices, government agencies, alternate-care testing sites, and plasma protein therapeutic companies. Abbott also offers a broad line of coronary, endovascular, vessel closure, and structural heart devices for the treatment of vascular disease. The company's blood glucose and continuous glucose monitoring systems, test strips, data management software and accessories are sold to people with diabetes. A diversified product portfolio enables Abbott to address the needs of diverse set of consumers globally. Broad portfolio of products in various healthcare segments provides Abbott with a diversified revenue base. The cardiovascular and neuromodulation products, the largest business segments of the company, accounted for 32.5% of the total revenues in FY2017, followed by nutritional products (25.2%), diagnostic products (20.5%), and established pharmaceutical products (15.6%). The other business segment generated 6% of total revenues in FY2017. Therefore, a diversified revenue base and global customer footprint enables Abbott to cushion the business risks and effectively respond to challenges and opportunities in the market place.

Steady Revenue Growth

Abbott exhibited a steady revenue growth during the review year. In FY2017, the company generated revenues of US\$27,390 million as compared to US\$20,853 million in FY2016, with an annual growth of 31.3% over FY2016, which grew at a CAGR of 8.6% during 2013-2017. This growth in annual revenue was driven by the acquisitions of St. Jude Medical and Alere, as well as organic growth in the established pharmaceuticals and diagnostics businesses. Strong financial performance improves investors' confidence in the company and enables it to pursue its expansion plans.

Leading Market Position

Abbott is a global healthcare company that provides solutions to meet the evolving needs of patients worldwide. It has more than 125 years of experience in healthcare and is a market leader in several therapeutic categories. The company's cardiovascular business is one of the world's major providers of vascular care products. Its products are available in 150 countries worldwide. Abbott also has a leading position in pharmaceuticals, neuromodulation, nutrition, diagnostics, and diabetes. It provides nutrition products through PediaSure, Ensure, Glucerna, and Osmolite. It derives its major portion of revenue 64.7% from the market outside the US.

Weakness

Product recalls hampering the company's reputation

The product recalls affect the customer's perception of the company's brand image. It also involves operational costs associated with the recall and a potential loss of future revenue. In May 2017, the company initiated a voluntary recall of specific lots of three catheters: NC Trek RX Coronary Dilatation Catheter, NC Traveler Coronary Dilatation Catheter, and NC Tenku RX PTCA Balloon Catheter. In the same month the company initiated 465,000 pacemakers as there was possibility that the devices could be hacked. The devices recalled will be updated with new software to correct the vulnerabilities.

Decline in operational performance may affect financial flexibility

Abbott's operational performance declined in FY2017, despite growth in revenue. The company reported an operating income of US\$1,726 million in FY2017 as compared to US\$3,185 million in FY2016, registering an annual decline of 45.8%. The decline in operating income was primarily due to higher intangible amortization expense and inventory step-up amortization related to the St. Jude Medical and Alere acquisitions. In FY2017, the company also reported a decline in the operating margin to 6.3% as compared to 15.2% in FY2016. Further, the company's operating margin was lower than key competitors: Boston Scientific Corp and Johnson & Johnson, which reported values of 14.2% and 23.1%, respectively in FY2017. The company reported a net income of US\$477 million in FY2017 as compared to US\$1,400 million, registering an annual decline of 70%. Weak operational performance restricts the company's ability to pursue growth and expansion plans.

Opportunity

Acquisitions and agreements to strengthen the offerings of the company

Abbott supports growth in its diversified portfolio through the acquisition and integration of firms, as part of its inorganic growth strategy. In October 2017, the company acquired Alere to strengthen its presence in in-vitro diagnostics market. Alere is a provider of point of care diagnostics with annual sales of US\$2.5 billion. It offers a broad menu of infectious disease, molecular, cardiometabolic and toxicology tests, and developed first-ever CLIA-waived molecular test for flu and strep that provide results in 15 minutes. In January 2017, the company acquired St. Jude Medical for US\$25 billion. St. Jude has a strong portfolio in atrial fibrillation, heart failure, structural heart, and chronic pain that will complement the company's strong position in coronary interventions and mitral valve disease. Such acquisitions could provide growth opportunities to the company in several areas including cardiovascular and chronic pain management segment.

Recent Collaborations/Partnerships/Alliances

Strong business partnerships can help companies to benefit from synergy, support the sharing of best practice, reduce expenses and increase the product reach. In February 2018, Abbott entered into an agreement with ANGLE plc to supply PathVysion HER-2 DNA FISH Probe kits for ANGLE's ANG-002 FDA study for FISH analysis of circulating tumour cells. In the same month, Abbott entered into an agreement with Surmodics to commercialize rights of Surmodics' SurVeil DCB for the treatment of superficial femoral artery. In July 2017, the company collaborated with Bigfoot Biomedical to develop and commercialize diabetes management systems, thus integrating its FreeStyle Libre glucose sensing technology with Bigfoot's insulin delivery solutions in the US.

Positive Outlook for Global Pharmaceutical Industry

The company could benefit from the growing global pharmaceutical industry. According to an in-house research report, In 2016, the global pharmacy market had a total value of US\$946.1 billion. The market is further expected to grow at a CAGR of 6.5% during 2016-21 to reach value of US\$1,294.2 billion by the end of 2021. In FY2016, the US accounted for 39.8% of the global pharmaceutical market followed by Asia Pacific (29.2%). Major factors driving the growth include increased specialty drug innovation, greater patient access to medicines in developing countries and reduced impact from patent expiry dates. Apart from these, the global pharmaceutical market is projected to be strongly influenced by positive global GDP growth, innovations and the introduction of new products, wider access to healthcare services and rising funding. The positive growth of the overall pharmaceutical market is expected to create immense number of opportunities to the company in the long-term.

Threat

Rise of Generics

The pharmaceutical industry across the world is expected to report patent expiries of a large number of innovative drugs in the next few years. Over the last couple of years, the looming arrival of the "patent cliff" has been haunting the pharmaceutical industry. As the demand for medicines grows, governments

are exerting increasing pressure on doctors to prescribe cheaper generic medicines. As a result, pharmaceutical manufacturers will be under pressure to develop generic medicines. This makes companies undertake changes in their operations such as deploying the scale and international sourcing capabilities to secure lower prices and better margins on generics in a way in which legislation typically does not permit branded products. An increase in generic medicines will have a direct effect on the prescription medicines. The influx of generics into the market could affect the company's revenue.

Stringent Regulations

Abbott's products, research and development activities and manufacturing processes are subject to various local, state, federal, foreign and transnational laws and regulations. In the US, the FDA regulates the introduction of new medical products, manufacturing and labeling and record keeping procedures for such products. Receiving marketing approval for new medical devices from the US FDA is time consuming and expensive. In Europe, CE marking indicates that a product meets the essential requirements of all relevant European Medical Device Directives and is a legal requirement to market a device in the European Union. In India, the Department of Health under India's Ministry of Health and Family Welfare is responsible for the regulation of medical devices. In China, the State Food and Drug Administration (SFDA) regulates the introduction of new medical products in the Chinese market. In Australia, the Therapeutic Goods Administration (TGA) is the competent authority to approve medical devices. Medical devices must be registered in the database of Australian Register of Therapeutic Goods (ARTG) before entering the Australian market. In Japan, the Pharmaceuticals and Medical Devices Agency (PMDA) is responsible for the registration of medical devices. The company has to comply with regulations governing product standards, packaging and labeling requirements, import restrictions, tariff regulations and tax requirements. Non-compliance with applicable laws and regulations or failure to maintain, renew or obtain necessary permits and licenses could have an adverse effect on its results of operations and financial performance.

Cost Containment Pressures

The company's ability to price the devices could be impacted by the increased scrutiny of the cost effectiveness of treatments by government and private players. The initiatives of managed care organizations and governments to contain healthcare costs in the US led to increased demand for the delivery of more cost-effective therapies. This could affect the sales and prices of the company's products. Physicians, hospitals and other healthcare providers may be reluctant to purchase the company's products if they are not reimbursed by third-party payers such as Medicare, Medicaid and health insurance programs. Governmental cost containment efforts also affect Abbott's nutritional products business. For Instance in US, under regulations governing the federally funded Special Supplemental Nutrition Program for Women, Infants, and Children, all states must have a cost containment program for infant formula. As a result, through competitive bidding states obtain rebates from manufacturers of infant formula whose products are used in the program.

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