Analyst Rating: Buy

Key Facts:

Industry:	***Healthcare***
Sector:	***Biotech***
Ticker:	**ABBV**
Market Cap:	**$292mm**
Current Price:	**$168.57**

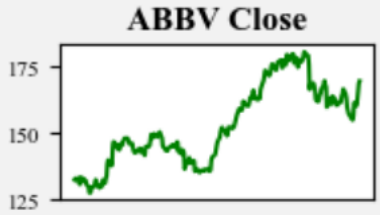
Key Statistics (mm):

TTM Revenue:	**$55,000**
TTM EBITDA:	**$26,249**
Total Debt:	**$74,359**

Ratios and Multiples:

EV/EBITDA:	**13.89x**
P/E:	**55.17x**
ROA:	**6.1%**
ROE:	**59.5%**
Gross Margin:	**71.5%**

TTM Performance:



Project Manager
Mark Gao

Senior Analyst
Yash Ghai

Junior Analysts
Ann Phan
D'Errico McKnuckles
Jimmy Pittacora

Equity Research Association

AbbVie (NYSE: ABBV)

June 6, 2024

Humira Losses Create More Defensive Portfolio: AbbVie's largest drug, Humira, has lost patent exclusivity and has seen a 34.7% decline in sales. While Humira was extremely successful, it greatly concentrated AbbVie's product portfolio. Navigating the loss of the drug, the company is seeing large growth in previously overlooked sectors of their business, namely Aesthetics and Neuroscience. Due to this, AbbVie boasted successful Q1 results. The addition of successful drugs and treatments into these sectors will position AbbVie to have a more defensive product portfolio, making their business resistant to government intervention and loss of patent exclusivity in the future.

Aesthetic Portfolio Growth: AbbVie continues to invest substantial amounts into their Aesthetic Portfolio. The cosmetic surgery industry has seen a 19% increase in procedures between 2019 and 2022 and is expected to maintain a CAGR of 9.8% forecasted to 2032. As cosmetic procedures and treatment options become rapidly available and more cost effective for the public, AbbVie is poised to become a massive player in the industry with portfolio growth expected to outperform the industry in coming years.

Pipeline Acquisition Strategy: AbbVie has and continues to use a drug pipeline acquisition strategy to find revenue replacement chains and growth opportunities for their pharmaceuticals. Particularly, they

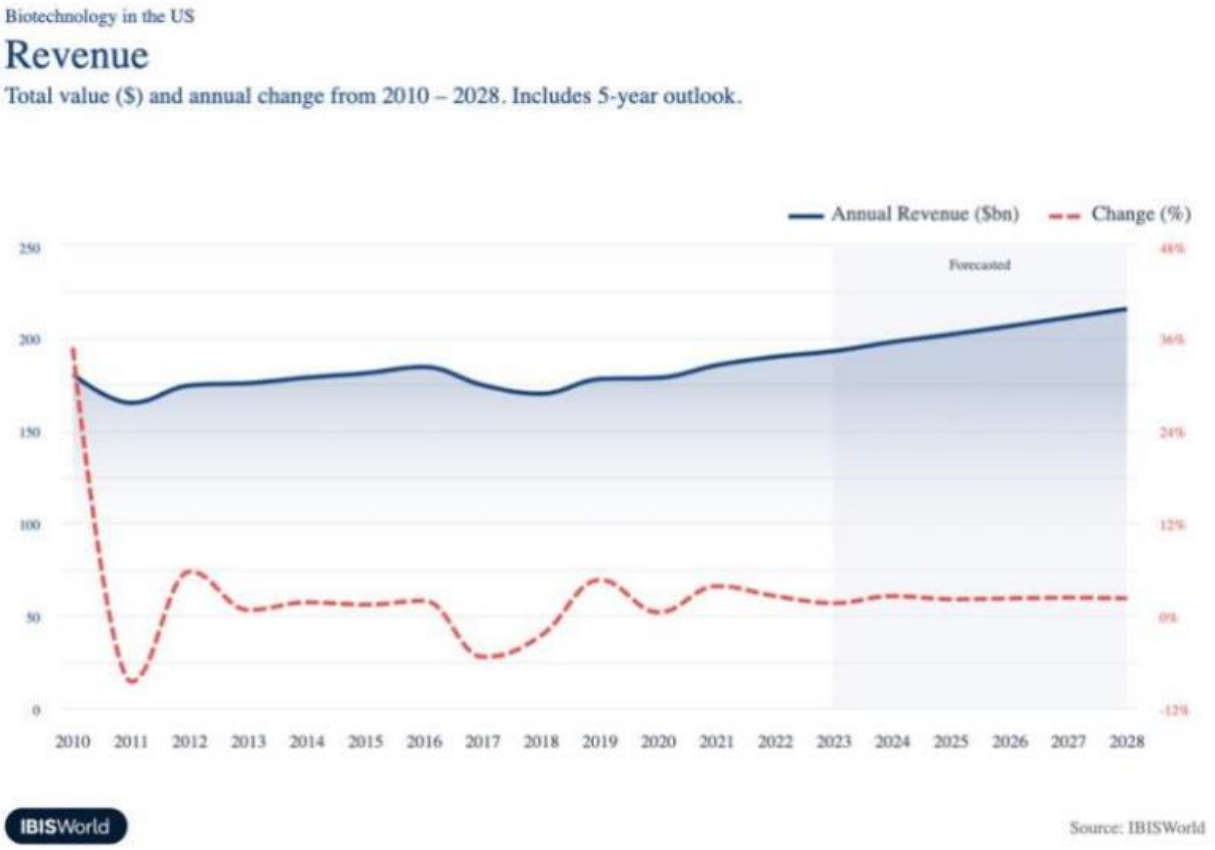
buy out companies with Phase-II and earlier drugs with the hopes that their large capital backing can propel them into FDA approval. This strategy also greatly reduces drug discovery costs for the firm. Notably, the company recently acquired Landos Biopharma and their entire R&D pipeline, which includes the drug NX-13. NX-13 is expected to see extremely promising Phase-II results and could become a new flagship drug for AbbVie.

Business Summary

AbbVie is an American pharmaceutical company, headquartered in North Chicago, Illinois, who strives to deliver innovative medicines and solutions to complex health issues. AbbVie's separation from Abbott in 2013 allowed them to channel all their resources into advancing research-based pharmaceuticals, emphasizing their commitment to innovation and discovery in the field. AbbVie holds a large stake in immunology, oncology, aesthetics, and neuroscience, with numerous FDA approved and research pipeline drugs and treatments in each respective portfolio. Although AbbVie faces patent exclusivity losses from their flagship drug Humira, they remain a dominant player in the Biopharma industry.

Industry Updates

Abbvie operates in the Biotechnology sector, more specifically the largest industry, Health. The biotechnology sector encompasses pharmaceuticals, genomics, and medical devices. This industry has a global market size of $1.38 trillion and the U.S. accounted for $246.18 billion of this value. The industry is expected to grow at a CAGR of 13.96% from 2024-2030 (Grandview Research). In terms of revenue, it sees sales of $183.1 billion, which is expected to reflect industry growth in the same timeframe. However, over the 5-year period of 2018-2023, industry revenues grew at a CAGR of 1.5% (IBISWorld).



Considering factors that diminished the size and the rate at which growth in the industry was occurring is important. Before 2020, the industry in the US saw consistent growth, however at the start of COVID-19 there was a brief dip in revenues. This was a period where there was increased investment into the industry through research and development of crucial vaccinations. Because of high interest rates on the economy, growth plateaued during that period. Which led to investors becoming more averse to investing in biotech companies. Biotech companies, especially smaller companies, rely on investment and R&D to be successful. With decreased investment the growth saw a slowdown. Although Abbvie did not directly invest in COVID vaccinations, this pandemic was still an industry wide factor. Abbvie operates in the Biotechnology industry, however they also face competition across different product offerings. Particularly with Humira, which is an immunosuppressive drug, used to treat autoimmune diseases such as rheumatoid arthritis among others. Humira's patents and exclusivity have all expired in 2023, allowing the opportunity for biosimilars to begin production in the US. The firms that have also begun developing this drug are Pfizer, Amgen, and Boehringer Ingelheim, who

produced Abrilada, Amjevita and Cylteso. In 2021 Humira made more than $20 billion for Abbvie. Although the patents have expired in the US and has given way to more competition, they are still heavily profiting from this drug. Abbvie will continue to face macroeconomic issues as well as competition in the coming years as other companies begin to catch up to Humira. Their ability to innovate will be crucial during these times.

Market Outlook

The overall pharmaceutical market is projected to grow from $846.72B in 2022 to $1.28T by 2030 with a compound annual growth rate of 5.36%. The largest share of AbbVie's sales has come from the drug Humira (adalimumab). Since AbbVie's market share has dropped drastically for their top seller, they need to make up for it in other markets. One area of growth they are expecting is in their immunology drugs. AbbVie has raised its 2027 forecast for revenue of their immunology drugs, Skyrizi and Rinvoq, to $27B which is $6B more than previously anticipated. They expect $16B in sales for 2024, 10.5 for Skyrizi and 5.5 for Rinvoq. Other areas of growth include Venclexta where they experienced a 15.20% increase in quarter 2 of 2024 compared to quarter 2 of last year. Overall revenue for AbbVie is expected to be $58.45B for the average estimate of 2025 compared to revenue expected to be $55.23B for 2024 which is roughly a 5.83% increase. Their Botox sales have also beaten projections, bringing in $1.49B compared to the expected $1.43B, however, new anti-wrinkle injections began hitting the market with their new main competitors for this market being Revance Therapeutics and Evolus. The overall pharmaceutical industry is expected to experience vast growth with the integration of AI-based tools in discovering new candidate therapeutics which can drastically decrease the time it takes to make new discoveries. AI can also improve prediction accuracy, drug safety and efficacy which will boost the research and development for any firm which adopts AI. The US remains the largest player in the global industry accounting for 22% of global production. In terms of cosmetic surgeries and injections, there has been a 19% increase in procedures between 2019 and 2022 with the number procedures only expected to increase with newer and more effective practices hitting the market. Botox alone has had a 26.1% increase between 2022 and 2021 with over 9 million

Botox treatments treated globally. Analysts are suggesting that the global sales of non-invasive aesthetic treatments, which is currently about $60B, could more than triple by 2030.

Risks & Concerns

- **Loss of Intellectual Property:** AbbVie, like all pharmaceutical companies, relies on the acquisition of trademarks and patents on their drugs to protect their revenue streams. As per U.S. patent regulations related to the pharmaceutical industry, however, these patents come with expiration dates – allowing competitors and generic brands to enter the market and undercut AbbVie's products. Notably, AbbVie's flagship drug – Humira – which accounted for 27% of AbbVie's total revenue in 2023, is no longer patent-exclusive and thus facing competition. The rise of generic and other notable pharmaceutical brands mimicking Humira will adversely affect AbbVie's revenue for the year 2024 as consumers shift to other brands. This has already proven the case as Humira sales declined 34.7% in 2023. Loss of patent exclusivity is a problem that AbbVie is particularly vulnerable to, as the bulk of their revenue comes from just a handful of their products. Losing these products without a clear revenue replacement chain will result in diminished cash flows as the company scrambles to obtain FDA approval for new products. After the loss of Humira, the company increased R&D expenditures by 17.89% in search of a replacement.
- **Concentrated Supply Chain:** AbbVie's products rely on a very concentrated supply chain due to the regulatory nature of the business they operate in. A small disruption in the company's supply chain could be detrimental to the manufacturing, research and development, and shipping of any of the company's products. As global supply chain pressures mount (Chinese trade tariffs, canal blockages, bridge collapses, wartime efforts, etc.), AbbVie's business operations will be adversely affected and the company could be forced to potentially switch suppliers: a rather time consuming and costly process for a large and heavily regulated company. Furthermore, the company relies on just three wholesale distributors for essentially

all their pharmaceutical product sales. Should any of these wholesale distributors face financial turmoil, closure, or reduce business with AbbVie, AbbVie will be materially harmed.

- **Accelerated Revenue Erosion:** AbbVie is poised to start seeing the effects of the Inflation Reduction Act of 2022 which penalizes companies whose drug prices rise faster than inflation and places more Medicare benefit costs on drug manufacturers. This act prevents AbbVie from attaining much, if any, gross margin growth. Furthermore, one of AbbVie's drugs – Imbruvica – has been selected as of one of 10 drugs to be subject to government-set prices beginning in 2026. If any more of AbbVie's products are selected for price ceilings, the company could face diminished capital returns, ultimately accelerating the revenue erosion of their products before patents expire.

Recent Performance & Near-Term Guidance

ABBV recently announced their results for Q1 2024. Combined, all of AbbVie's net revenues were 12.31B, a 0.7% YOY increase from Q1 2023. Broken down by product portfolios, the company reported the following YOY revenue changes:

Immunology Portfolio: 3.9% decrease, driven by a 35% decline in sales for Humira (their largest drug), and a large increase in sales for both Skyrizi and Rinvoq.

Oncology Portfolio: 9.0% increase, driven by a large increase in sales for their drug Imbruvca.

Neuroscience Portfolio: 15.9% increase, coming from increased sales and demand factors for all their neuroscience drugs.

Aesthetics Portfolio: 4.0% decrease, mainly driven by largely decreased sales for Juvederm due to increased competition for similar products.

During the quarter, AbbVie also completed their acquisition of ImmunoGen, which added a successful cancer drug to AbbVie's already strong oncology product portfolio. Furthermore, the deal includes several drugs in the R&D/FDA approval pipeline which, if approved, could bolster AbbVie's oncology

portfolio more in coming quarters. The company also received FDA approval for a new cancer drug Elahere, which it expects to begin selling in volumes in coming quarters.

The company also continues to announce promising results from their partnership and acquisition growth strategy. In the quarter, they moved forward with a definitive agreement with Landos Biopharma to acquire the company their prized asset NX-13 which is currently in phase II clinical trials with major results expected to come in Q4 of 2024. AbbVie has also reached several strategic partnerships for the discovery and research of drug candidates to eschew R&D costs while maintaining a strong future product portfolio outlook. Due to all these factors, their CEO has an optimistic outlook and has in fact raised AbbVie's operating targets for the year ended 2024.

Medium Term Forecast

In our base case, revenues are continually driven by some of AbbVie's established drugs. Revenues from Skyrizi and Rinvoq are reasonably expected to generate more sales volume and potentially lift AbbVie's revenue guides for FY24. Furthermore, the base case scenario sees only modest sales disruption for Humira. Even though 8 generic drugs have entered the market, Humira continues to hold on to a high market share.

In our upside case, AbbVie receives topline results from drug trials and sees Skyrizi outperform volume targets for FY24. The upside case also uses a catalyst – the drug Elahere - which is expected to see EU approval for High Platinum Resistant Ovarian Cancer and potential success for phase-II trials in treating Platinum Sensitive Ovarian Cancer. If phase-II results come back positive, Elahere is poised to become a dominant ovarian cancer treatment. Finally, the upside case also factors in a dominance and growth in AbbVie's aesthetic product portfolio, further diversifying the company away from Skyrizi, Humira, and Rinvoq and creating less revenue erosion risk.

The downside case puts AbbVie in a difficult position with respect to volume losses from Humira due to biosimilar SIMLANDI pricing them out of the market and mixed trial results from promising pipeline drugs. In this case, Skyrizi and Rinvoq are still expected to move in volumes, but as

Humira sales decline without clear replacements, AbbVie is materially harmed and forced to increase R&D/acquisition expenses for FY24 in search of new drivers.

The downside case also sees that the Biden administration, if elected again, will move forward with allowing biosimilars to receive interchangeable status, which would heavily dilute Humira volume at the pharmacy level.