

AbbVie Inc. (ABBV)

Rating	OUTPERFORM*
Price (03 Feb 15, US\$)	61.65
Target price (US\$)	74.00 ¹
52-week price range	69.71 - 46.46
Market cap. (US\$ m)	98,236.31
Enterprise value (US\$ m)	101,595.29

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

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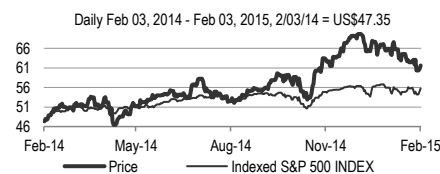
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COMMENT

Biotech Newsflow to Pressure ABBV; Overall Risk-Reward Still Positive

- **Bottom Line: Separate disclosures from GILD on pricing for HCV and AMGN on phase 3 Humira biosimilar data likely to pressure ABBV shares in the near-term. While we continue to see positive risk-reward on ABBV in the medium-term, we acknowledge that shares could be pressured/range bound in the near-term.** We see sentiment on the HCV front for ABBV recovering only with successful execution and quarterly sales disclosures. Also, while AMGN's Humira biosimilar has now demonstrated equivalence with ABBV in a second indication, we continue to see legal hurdles that are likely to keep a Humira biosimilar out of the market until at least the 2018/2019 timeframe. We reiterate our Outperform on ABBV at these levels on inexpensive valuation, strong near- to mid-term growth profile and optionality from pipeline/M&A.
- **GILD disclosure on hepatitis C pricing suggests modest potential downside to our ABBV HCV regimen price, although market size/share assumptions could offset this.** GILD management shared that they expected a 46% gross-to-net adjustment on their HCV regimen in 2015, suggesting modest downside (~5-10%) to our ABBV HCV price assumptions. That said, we continue to be comfortable with our ~\$2.1Bn 2015 estimates for ABBV, particularly as we see potential upside from a market expansion and share perspective, and given ABBV guidance on this front on their recent earnings call. ABBV did confirm to us that the guidance they provided is based on pricing dynamics similar to what GILD discussed on their call today.

Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2014A	0.71	0.82	0.89	0.89
2015E	0.82	1.07	1.17	1.27
2016E	—	—	—	—

Financial and valuation metrics

Year	12/14A	12/15E	12/16E	12/17E
EPS (CS adj.) (US\$)	3.32	4.34	5.13	5.75
Prev. EPS (US\$)	—	—	—	—
P/E (x)	18.6	14.2	12.0	10.7
P/E rel. (%)	99.8	81.7	73.3	73.7
Revenue (US\$ m)	19,879.0	22,452.8	24,357.4	25,649.9
EBITDA (US\$ m)	7,547.5	9,610.6	11,014.4	12,086.4
OCFPS (US\$)	2.35	4.24	5.40	6.05
P/OCF (x)	27.8	14.5	11.4	10.2
EV/EBITDA (current)	13.7	10.8	9.4	8.6
Net debt (US\$ m)	5,501	3,359	-372	-4,898
ROIC (%)	61.90	77.59	89.51	97.98
Number of shares (m)	1,593.45	IC (current, US\$ m)		8,701.94
BV/share (Next Qtr., US\$)	2.1	EV/IC (x)		11.8
Net debt (Next Qtr., US\$ m)	5,386.8	Dividend (current, US\$)		2.0
Net debt/tot eq (Next Qtr., %)	158.3	Dividend yield (%)		0.79

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

- **AMGN top-line phase 3 Humira biosimilar data in rheumatoid arthritis (RA) suggests clinical equivalence; however, we continue to see a US entry in 2017 as unlikely.** Following a phase 3 psoriasis study, this is the second phase 3 study (this time in RA) for AMGN's biosimilar that has demonstrated clinical equivalence to Humira. Given the importance of RA in contribution to Humira sales, and consistent results across two separate important indications we continue to see AMGN's biosimilar as a credible threat to ABBV. However, we look for further evolution on FDA's biosimilar approval pathway/process, and believe that ABBV's Humira intellectual property (IP) estate will be enough to prevent a significant impact on Humira until the 2019 timeframe. However, we do not expect clarity on ABBV's IP strategy until absolutely necessary for ABBV to disclose, a situation that could be precipitated by AMGN filing its biosimilar for approval, potentially in the next 6-12 months.

Exhibit 1: ABBV Income Statement (2013A - 2023E)

in millions, unless otherwise stated

	FY 2013	FY 2014	FY 2015				FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
			Mar-15 1Qe	Jun-15 2Qe	Sep-15 3Qe	Dec-15 4Qe									
Net Sales	18,790.0	19,879.0	4,821.3	5,561.1	5,794.6	6,275.8	22,452.8	24,357.4	25,649.9	26,239.1	26,584.9	26,691.2	26,635.3	26,511.7	26,271.7
Cost of Products Sold (Ex-Amortization)	4,051.0	3,947.0	949.8	1,056.6	1,072.0	1,085.7	4,164.1	4,384.3	4,360.5	4,381.9	4,386.5	4,404.1	4,421.5	4,427.5	4,413.6
Gross Profit	14,739.0	15,932.0	3,871.5	4,504.5	4,722.6	5,190.1	18,288.7	19,973.1	21,289.4	21,857.2	22,198.4	22,287.2	22,213.8	22,084.3	21,858.1
R&D Expense	2,831.0	3,252.0	771.0	832.7	867.8	964.7	3,436.1	3,539.2	3,627.7	3,700.2	3,728.0	3,728.0	3,690.7	3,580.0	3,472.6
SG&A Expense	5,084.0	5,487.0	1,349.3	1,402.8	1,392.3	1,564.0	5,708.4	5,879.6	6,026.6	6,086.9	6,117.3	6,056.1	5,995.6	5,815.7	5,641.2
Operating Earnings (EBITA)	6,824.0	7,193.0	1,751.2	2,269.0	2,462.5	2,661.4	9,144.2	10,554.3	11,635.1	12,070.1	12,353.1	12,503.1	12,527.5	12,688.6	12,744.2
Interest Expense	299.0	279.0	77.7	77.7	77.7	67.2	300.1	200.7	163.5	117.0	107.7	107.7	107.7	78.9	50.1
Interest (Income)	(21.0)	(29.0)	(5.7)	(5.8)	(6.3)	(5.1)	(22.9)	(18.3)	(27.6)	(28.9)	(38.7)	(51.6)	(66.5)	(81.2)	(87.7)
Net foreign exchange (gain) loss	44.0	12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (income) expense, net	(13.0)	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Taxes	6,515.0	6,924.0	1,679.3	2,197.2	2,391.2	2,599.3	8,867.0	10,371.8	11,499.2	11,982.0	12,284.0	12,446.9	12,486.3	12,690.8	12,781.8
Taxes on Earnings	1,449.0	1,549.0	369.4	483.4	526.1	571.9	1,950.7	2,281.8	2,529.8	2,636.0	2,702.5	2,738.3	2,747.0	2,792.0	2,812.0
Pro forma Net income (Cash basis)	5,066.0	5,375.0	1,309.8	1,713.8	1,865.1	2,027.5	6,916.2	8,090.0	8,969.3	9,345.9	9,581.6	9,708.6	9,739.3	9,898.9	9,969.8
Avg. No. of Shares Outstanding															
Basic	1,604	1,608	1,604	1,600	1,596	1,592	1,592	1,577	1,561	1,546	1,530	1,530	1,530	1,530	1,530
Diluted	1,604	1,608	1,604	1,600	1,596	1,592	1,592	1,577	1,561	1,546	1,530	1,530	1,530	1,530	1,530
Pro-forma EPS															
Basic	\$3.14	\$3.34	\$0.82	\$1.07	\$1.17	\$1.27	\$4.34	\$5.13	\$5.75	\$6.05	\$6.26	\$6.35	\$6.37	\$6.47	\$6.52
Diluted	\$3.14	\$3.32	\$0.82	\$1.07	\$1.17	\$1.27	\$4.34	\$5.13	\$5.75	\$6.05	\$6.26	\$6.35	\$6.37	\$6.47	\$6.52
Margin Analysis															
Gross Margin	78.4%	80.1%	80.3%	81.0%	81.5%	82.7%	81.5%	82.0%	83.0%	83.3%	83.5%	83.5%	83.4%	83.3%	83.2%
R&D Expense	15.1%	16.4%	16.0%	15.0%	15.0%	15.4%	15.3%	14.5%	14.1%	14.0%	14.0%	13.9%	13.5%	13.2%	13.2%
SG&A Expense	27.1%	27.6%	28.0%	25.2%	24.0%	24.9%	25.4%	24.1%	23.5%	23.2%	23.0%	22.7%	22.5%	21.9%	21.5%
EBITDA Margin	38.4%	38.2%	38.7%	42.9%	44.6%	44.2%	42.8%	45.2%	47.1%	47.8%	48.2%	48.7%	49.0%	49.9%	50.7%
Operating Margin	36.3%	36.2%	36.3%	40.8%	42.5%	42.4%	40.7%	43.3%	45.4%	46.0%	46.5%	46.8%	47.0%	47.9%	48.5%
Pro Forma Tax Rate	22.2%	22.4%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Net Income	27.0%	27.0%	27.2%	30.8%	32.2%	32.3%	30.8%	33.2%	35.0%	35.6%	36.0%	36.4%	36.6%	37.3%	37.9%
Year/Year Changes															
Total Revenues	1.4%	5.8%	5.7%	12.9%	15.5%	16.8%	12.9%	8.5%	5.3%	2.3%	1.3%	0.4%	(0.2%)	(0.5%)	(0.9%)
Gross Profit	0.6%	8.1%	8.2%	14.9%	16.0%	19.0%	14.8%	9.2%	6.6%	2.7%	1.6%	0.4%	(0.3%)	(0.6%)	(1.0%)
R&D	10.6%	14.9%	0.0%	5.0%	7.0%	10.0%	5.7%	3.0%	2.5%	2.0%	0.8%	0.0%	(1.0%)	(3.0%)	(3.0%)
SG&A	6.4%	7.9%	7.0%	5.0%	5.0%	0.0%	4.0%	3.0%	2.5%	1.0%	0.5%	(1.0%)	(1.0%)	(3.0%)	(3.0%)
Operating Income	(6.7%)	5.4%	13.3%	26.6%	27.3%	38.5%	27.1%	15.4%	10.2%	3.7%	2.3%	1.2%	0.2%	1.3%	0.4%
Pre-Tax Income	(10.3%)	6.3%	13.5%	28.5%	28.1%	39.2%	28.1%	17.0%	10.9%	4.2%	2.5%	1.3%	0.3%	1.6%	0.7%
Net Income	(23.5%)	6.1%	13.9%	28.9%	28.7%	40.2%	28.7%	17.0%	10.9%	4.2%	2.5%	1.3%	0.3%	1.6%	0.7%
Diluted EPS from Operations	(24.6%)	5.7%	14.2%	30.0%	31.3%	43.8%	30.7%	18.1%	12.0%	5.3%	3.6%	1.3%	0.3%	1.6%	0.7%

Source: Company data, Credit Suisse estimates

Exhibit 2: ABBV Revenues (2013A - 2023E)

in millions, unless otherwise stated

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Marketed Products											
Humira	10,659.0	12,543.0	13,842.0	15,198.8	16,007.1	16,078.1	15,634.0	15,276.0	14,665.0	14,005.1	13,304.8
Viekira Pak	0.0	48.0	2,089.2	2,542.9	2,714.6	2,739.4	2,544.6	2,284.0	2,101.3	1,933.2	1,778.5
Tricor/Tirilipix (Fenofibrate Franchise)	303.0	60.0	30.0	20.0	17.0	15.0	13.0	12.0	10.0	8.0	5.0
Niaspan	650.0	90.0	30.0	22.0	17.0	13.0	10.0	7.0	5.0	4.0	3.0
Total Cholesterol Franchise	953.0	150.0	60.0	42.0	34.0	28.0	23.0	19.0	15.0	12.0	8.0
Kaletra	962.0	870.0	787.9	638.1	480.5	369.4	294.9	239.2	194.5	158.7	130.0
AndroGel	1,035.0	934.0	495.0	371.3	297.0	237.6	190.1	57.0	39.9	27.9	19.6
Lupron	785.0	778.0	756.5	735.7	698.9	664.0	635.8	613.7	592.4	571.8	552.0
Synagis	827.0	835.0	843.4	851.8	860.3	868.9	877.6	886.4	895.2	904.2	913.2
Sevoflurane	568.0	550.0	527.0	514.7	499.2	482.5	466.4	450.9	435.9	421.4	407.4
Synthroid	622.0	709.0	716.1	723.3	730.5	737.8	745.2	752.6	760.1	767.7	775.4
Norvir	380.2	332.6	179.4	144.8	126.3	120.1	116.1	113.0	108.9	105.1	101.4
Zemplar	389.0	240.0	222.4	216.4	208.2	197.7	184.8	174.8	165.3	156.4	148.0
Creon	412.0	516.0	577.9	618.4	649.3	668.8	688.8	709.5	730.8	752.7	775.3
Others	1,019.8	1,201.4	1,021.2	990.6	970.8	951.4	932.3	923.0	913.8	904.6	895.6
Duopa/Duodopa	178.0	220.0	304.9	456.0	526.0	578.7	625.7	671.8	704.9	728.9	743.2
Total Marketed Products Revenues	18,790.0	19,927.0	22,422.8	24,044.7	24,802.9	24,722.4	23,959.4	23,170.8	22,323.1	21,449.8	20,552.4
Pipeline Products											
ABT-199 (CLL, NHL, Mantle Cell)	0.0	0.0	30.0	125.0	250.0	400.0	575.0	700.0	862.5	1,040.3	1,216.9
Duvelisib (Partnered with INFI)	0.0	0.0	0.0	35.0	85.0	175.0	275.0	375.0	487.5	585.0	672.8
Elagolix (Endometriosis)	0.0	0.0	0.0	0.0	71.3	175.6	565.6	807.8	1,003.6	1,176.4	1,320.7
ABT-888 (TNBC, S-NSCLC)	0.0	0.0	0.0	0.0	150.0	250.0	400.0	515.0	576.8	622.9	654.1
Atrasentan (Diabetic Nephropathy)	0.0	0.0	0.0	0.0	0.0	25.0	45.0	67.0	89.0	111.0	135.0
Phase II Pipeline Products	0.0	0.0	0.0	0.0	0.0	111.0	286.0	508.0	715.0	925.0	1,095.0
Daclizumab + Eilotuzumab (Alliance Income)	0.0	0.0	0.0	152.8	290.7	380.1	479.0	547.6	577.8	601.4	624.9
Total Pipeline Revenues	0.0	0.0	30.0	312.8	847.0	1,516.8	2,625.6	3,520.4	4,312.2	5,061.9	5,719.3
Total Revenues	18,790.0	19,927.0	22,452.8	24,357.4	25,649.9	26,239.1	26,584.9	26,691.2	26,635.3	26,511.7	26,271.7
Pipeline as % of Total Sales	0.0%	0.0%	0.1%	1.3%	3.3%	5.8%	9.9%	13.2%	16.2%	19.1%	21.8%

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 03-Feb-2015)**AbbVie Inc.** (ABBV.N, \$61.65, OUTPERFORM, TP \$74.0)**Amgen Inc.** (AMGN.OQ, \$152.23)**Gilead Sciences Inc.** (GILD.OQ, \$107.18)**Merck & Co., Inc.** (MRK.N, \$61.02)

Disclosure Appendix

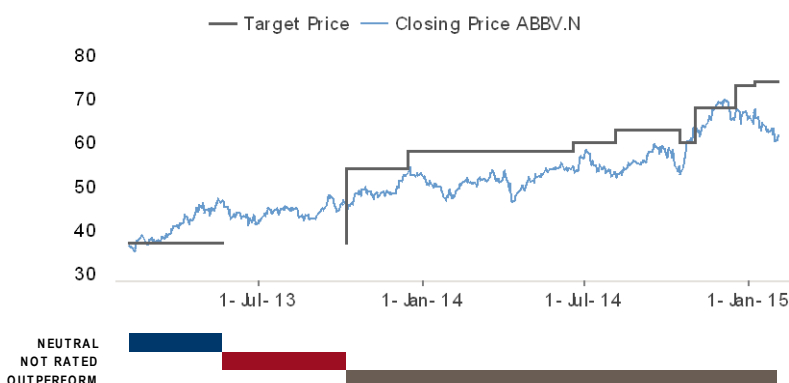
Important Global Disclosures

Vamil Divan, MD, Ari Jahja and Ronak H. Shah, Pharm.D., CFA each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for AbbVie Inc. (ABBV.N)

ABBV.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
07-Feb-13	36.42	37.00	N *
22-May-13	46.76		NR
08-Oct-13	44.52	54.00	O *
16-Dec-13	53.37	58.00	
19-Jun-14	54.19	60.00	
05-Aug-14	52.79	63.00	
16-Oct-14	52.90	60.00	
02-Nov-14	63.46	68.00	
17-Dec-14	66.57	73.00	
08-Jan-15	67.63	74.00	

* Asterisk signifies initiation or assumption of coverage.

**3-Year Price and Rating History for Amgen Inc. (AMGN.OQ)**

AMGN.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
08-Feb-12	68.06	71.00	N
25-Jul-12	77.96	85.00	O
26-Jul-12	79.30	90.00	
03-Jan-13	88.59	100.00	
22-Jan-13	83.29	90.00	N
04-Mar-13	92.73	100.00	
04-Apr-13	105.90	115.00	
17-May-13	105.63	120.00	
10-Dec-13	114.10	125.00	
30-Jul-14	130.01	135.00	
28-Oct-14	157.19	160.00	
11-Dec-14	166.08	180.00	

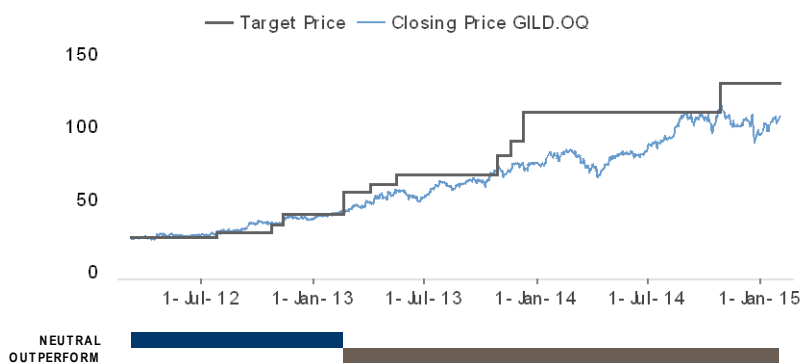
* Asterisk signifies initiation or assumption of coverage.



3-Year Price and Rating History for Gilead Sciences Inc. (GILD.OQ)

GILD.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
09-Mar-12	23.04	24.00	N
27-Jul-12	27.75	27.00	
24-Oct-12	34.17	32.50	
12-Nov-12	36.96	40.00	
19-Feb-13	42.28	55.00	O
04-Apr-13	47.74	60.00	
17-May-13	56.30	67.00	
29-Oct-13	69.50	80.00	
20-Nov-13	71.08	90.00	
10-Dec-13	72.81	110.00	
28-Oct-14	113.45	130.00	

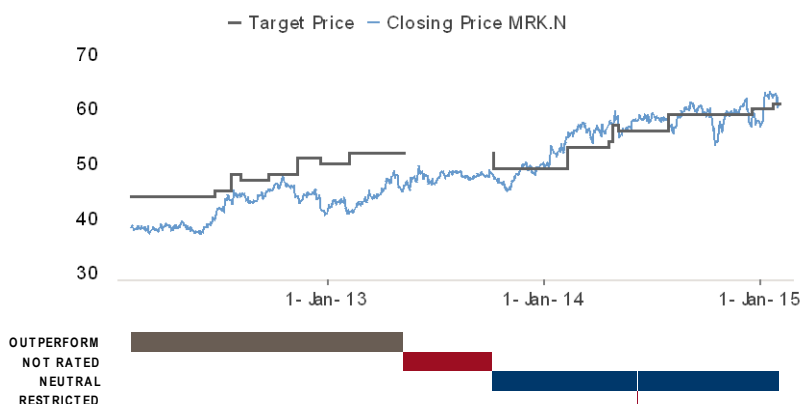
* Asterisk signifies initiation or assumption of coverage.



3-Year Price and Rating History for Merck & Co., Inc. (MRK.N)

MRK.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
06-Feb-12	38.40	44.00	O
25-Jun-12	39.81	45.00	
23-Jul-12	43.27	48.00	
08-Aug-12	44.06	47.00	
25-Sep-12	45.11	48.00	
12-Nov-12	44.02	51.00	
20-Dec-12	42.16	50.00	
07-Feb-13	41.00	52.00	
10-May-13	45.95		NR
08-Oct-13	47.75	49.00	N *
09-Feb-14	54.77	53.00	
21-Apr-14	57.25	54.00	
27-Apr-14	57.24	57.00	
07-May-14	55.84	56.00	
09-Jun-14	57.94		R
12-Jun-14	58.30	56.00	N
30-Jul-14	58.08	59.00	
17-Dec-14	57.63	60.00	
22-Jan-15	62.59	61.00	

* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

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Restricted	2%	

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Price Target: (12 months) for AbbVie Inc. (ABBV.N)

Method: Our \$74 target price is based on 75/25 blend of DCF valuation (\$71) and relative valuation (\$84). We use a 7.5% WACC along with a -1% perpetuity growth forecast for our DCF valuation and apply ~19 times our 2015 EPS estimates for relative valuation.

Risk: Key risks to our \$74 target price include (1) unexpected sales slowdown for Humira; and (2) unexpected issues with key pipeline products.

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See the Companies Mentioned section for full company names

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