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Abbott Laboratories (ABT) CEO Miles White on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-16-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.84 misses by $-0.00 | Revenue of $8.08B (5.49% Y/Y) misses by $-28.15M

Earning Call Audio

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Abbott Laboratories. (NYSE:ABT) Q3 2019 Results Earnings Conference Call October 16, 2019 9:00 AM ET

Company Participants

Scott Leinenweber - VP, IR, Licensing and Acquisitions

Miles White - Chairman and CEO

Robert Ford - President and COO

Brian Yoor - EVP, Finance and CFO

Conference Call Participants

David Lewis - Morgan Stanley

Larry Biegelsen - Wells Fargo

Bob Hopkins - Bank of America

Vijay Kumar - Evercore ISI

Robbie Marcus - JPMorgan

Rick Wise - Stifel

Matt Taylor - UBS

Operator

Good morning and thank you for standing by. Welcome to Abbott's Third Quarter 2019 Earnings Conference Call. All participants will be able to listen only until the question-and-answer portion of this call. [Operator Instructions] This call is being recorded by Abbott. With the exception of any participant's questions asked during the question-and-answer session, the entire call including the question-and-answer session is material copyrighted by Abbott. It cannot be recorded or rebroadcast without Abbott's express written permission.

I would now like to introduce Mr. Scott Leinenweber, Vice President, Investor Relations, Licensing and Acquisitions.

Scott Leinenweber

Good morning and thank you for joining us. With me today are Miles White, Chairman of the Board and Chief Executive Officer; Robert Ford, President and Chief Operating Officer; and Brian Yoor, Executive Vice President, Finance and Chief Financial Officer. Miles will provide opening remarks and Brian will discuss our performance and outlook in more detail. Following their comments, we'll take your questions.

Before we get started, some statements made today may be forward-looking for purposes of the Private Securities Litigation Reform Act of 1995, including the expected financial results for 2019. Abbott cautions that these forward-looking statements are subject to the risks and uncertainties that may cause actual results to differ materially from those indicated in the forward-looking statements.

Economic, competitive, governmental, technological and other factors that may affect Abbott's operations are discussed in Item 1A, Risk Factors to our annual report on Securities and Exchange Commission Form 10-K for the year ended December 31, 2018. Abbott undertakes no obligation to release publicly any revisions to forward-looking statements as a result of subsequent events or developments, except as required by law.

Please note that financial results and guidance provided on the call today for sales, EPS and line items of the P&L will be for continuing operations only. On today's conference call, as in the past, non-GAAP financial measures will be used to help investors understand Abbott's ongoing business performance. These non-GAAP financial measures are reconciled with the comparable GAAP financial measures in our earnings news release and regulatory filings from today, which are available on our website at abbott.com. Unless otherwise noted, our commentary on sales growth refers to organic sales growth, which is defined in our earnings news release issued earlier today.

With that, I will now turn the call over to Miles.

Miles White

Okay thanks, Scott. Good morning.

Today, we reported results of another strong quarter with ongoing earnings per share of $0.84, reflecting 12% growth on an absolute basis and even higher growth when excluding the impact of currency.

Sales increased more than 7.5% on an organic basis in the quarter led by double-digit growth in medical devices and sequential improvements in established pharmaceuticals and diagnostics.

We also narrowed our full year adjusted earnings per share guidance range to $3.23 to $3.25 which at current rates would reflect high teens growth excluding the impact of currency and is at the upper end of the range we set at the beginning of the year.

As we've discussed previously, following our recent strategic shaping and acquisitions we've been completely focused on running the company we built. This focus on organic execution is delivering strong performance on a remarkably consistent basis.

Over the last eight quarters, we've averaged 7.5% organic sales growth worldwide with very little variation. We've also continued to strengthen our portfolio with new products, expanded access and reimbursement coverage and generated new clinical data that further enhances the sustainability of our strong growth outlook going forward.

I am particularly pleased with the continued exceptional performance across several of our key growth platforms including FreeStyle Libre, MitraClip and Alinity which I'll highlight as I summarize our third quarter results in more detail.

And I'll start in our medical devices business where sales increased double-digits for the second quarter in a row. In Structural Heart, we achieved 16% sales growth led by MitraClip our market leading device for the treatment of mitral regurgitation or leaking heart valve.

MitraClip sales increased more than 30% in the quarter including U.S. growth of nearly 50%. During the quarter we received U.S. FDA approval for our next-generation MitraClip device and we initiated the first ever U.S. pivotal trial for the minimally invasive treatment of tricuspid regurgitation which will evaluate the safety and efficacy of our TriClip repair system.

Turning now to FreeStyle Libre, our market leading continuous glucose monitoring system that eliminates the need for routine finger sticks. We achieved sales of $0.5 billion in the quarter and continued to add significantly to our global user base, as reflected by organic sales growth of nearly 70%.

During the quarter, FreeStyle Libre obtained public reimbursement coverage on Ontario and Quebec becoming the first and only transfer base glucose monitoring system to be listed by any provincial health plan in Canada.

We also continued to advance our strategy to develop integrated solutions where people with diabetes can seamlessly manage their condition across devices, including recent announcements that we are seeking to integrate Libre with the insulin delivery technologies of Sanofi and Tandem as well as the digital care platform of Omada Health.

This easy-to-use affordable device is changing the way millions of people manage their diabetes and our ongoing efforts to expand awareness, adoption and access for Libre around the world will drive tremendous growth for years to come.

Turning now to diagnostics where sales grew 6.5% in the quarter led by double-digit growth in core laboratory diagnostics. The roll out of Alinity in Europe and other international markets continues to drive strong growth in our core laboratory business outside the U.S.

In the U.S. where we continue to outperform the market with our legacy architect system, we’ve made good progress achieving regulatory approvals of immunoassay and clinical chemistry tests for Alinity and are beginning to ramp up our launch efforts in these areas.

With highly differentiated instruments, and a matrix rollout across multiple geographies and diagnostic testing areas over time, Alinity is well positioned to be a multi-year growth platform for our diagnostics business.

In nutrition, sales increased nearly 4% in the quarter, led by double-digit growth in international adult nutrition for the third quarter in a row. In pediatric nutrition, above market growth in the U.S. and several other countries was partially offset by challenging market dynamics in Greater China, which comprises a little less than 10% of our overall nutrition sales.

While consumers continue to trade up for premium brands which is the segment where we compete, we've seen volume in the market decline due to historically low birth rates. We remain focused on strengthening our portfolio and competitiveness across the various segments and purchasing channels in China, and given our broad portfolio and global footprint, anticipate continued strong performance across other geographies and long term growth opportunities such as adult nutrition.

I'll wrap up with established pharmaceuticals or EPD, where sales increased 8% in the quarter led by strong growth in several geographies including India, China and Brazil. Sales growth in EPD has now improved sequentially for each of the last three quarters, with leading market positions in several international growth geographies; EPD is well positioned for sustained above market growth in some of the largest and fastest growing pharmaceutical markets in the world.

So in summary, we're performing well across several areas of the portfolio resulting in another quarter of strong sales and earnings growth. We continue to strengthen our product portfolios and key product platforms with a steady cadence of new product approvals, reimbursement coverage and clinical data and we're well on track to deliver ongoing EPS and organic sales growth at the upper end of the ranges we set at the beginning of the year.

I'll now turn the call over to Brian to discuss our results and outlook for the year in more detail. Brian?

Brian Yoor

Okay, thanks Miles. As Scott mentioned earlier, please note that all references to sales growth rates unless otherwise noted are on an organic basis, which is consistent with our previous guidance.

Turning to our results, sales for the third quarter increased 7.6% on an organic basis. During the quarter, we saw the U.S. dollar strengthen modestly resulting in an unbearable impact on sales of 1.9% from exchange or 50 basis points higher than at rates held steady since the time our call in July.

Reported sales increased 5.5% in the quarter. Regarding other aspects of the P&L, the adjusted gross margin ratio was 59.2% of sales, adjusted R&D investment was 7% of sales and adjusted SG&A expense was 29.1% of sales.

Turning to our outlook for the fourth quarter, we forecast adjusted EPS of $0.94 to $0.96 which reflects nearly 17.5% growth at the midpoint. We forecast organic sales growth of around 8% and at current rates would expect the exchange to have a negative impact that’s somewhat above 1.5% on fourth quarter reported sales.

We forecast an adjusted gross margin ratio of approximately 59.5% of sales, adjusted R&D investment of around 7% of sales and adjusted SG&A expense approaching 27.5% of sales. Before we open the call for questions, I'll now provide a quick overview of our fourth quarter organic sales growth outlook by businesses.

For Established Pharmaceuticals, we forecast high single digit growth. In nutrition, we forecast low-to-mid-single digit growth. In diagnostics, we forecast mid-to-high single digit growth, and in medical devices, we forecast growth similar to the third quarter, which reflects continued double digit growth in several areas of this business.

With that we will now open the call for questions.

Question-and-Answer Session

Operator

Thank you. [Operator instructions] And our first question comes from David Lewis from Morgan Stanley. Your line is open.

David Lewis

Good morning. Just a couple of questions from me. Miles, just I want to start off on gross. So I mean this time of the year investors are very focused on sustainability and you obviously said, you've been averaging 7.5% for seven to eight quarters. So a couple of questions; One, guidance for the fourth quarter implies a little bit of momentum, deceleration in the business, anything specific to call out there? And then more specifically, as you think about 2020, what are those drivers that get you confident that you can deliver your growth in that 7%, 7.5% range that you’ve been doing the last couple of years? And then, one quick follow up.

Miles White

Okay, David. Well I'll start with what you said. We have had eight straight quarters averaging 7.5%. Going into the fourth quarter, we actually are going to be close to 8%, and then going into next year, I think where we are in the range we've given, I think we gave a range at the beginning of this last quarter of seven or eight, somewhere in that range. And frankly I see no change to that. I don't see any change to momentum at all here. If anything, we've got pretty strong momentum across the board. We've got sequential growth in a number of areas that we've expected improvement in, and we're seeing that EPD comes to mind. Obviously our growth drivers, Libre and MitraClip and the Alinity systems etcetera are all very strong structural hearts, very strong.

So, as I said -- as I said in the past many times, this is sustainable and strong going forward. I see no change to momentum, no change to progress, no change to growth rates. If anything it gets better. So, and it clearly will in the fourth quarter. So, it's pretty strong. And the earnings flows with it, and we're not going to make any guidance forecasts or anything, but I think directionally, here all fundamentals are strong for us.

David Lewis

Okay. Very helpful, and just one quick product question Miles. There's been Libre 2 obviously important driver for next year. I just want to get your commentary. The longer this product has not been approved; it's led to a kind of concern about the product, the regulatory timeline. Your view, your Tandem partnership yesterday suggests to us that you're still confident in Libre 2 iCGM. Are you still confident in Libre 2 iCGM and how are you thinking about the timing of potential for that product? Thanks so much.

Miles White

I’d say I’m going to comment myself, and then I’m going to hand it to Robert Ford here to comment as well. But first are we confident? Absolutely. The product is performing wonderfully, the growth is strong, and the expansion is strong. There's a lot to be pretty encouraged about. And while I recognize a lot of people including us are feeling impatience, impatience doesn't translate to concern. We're all impatient, and you know we'd all like everything yesterday, but it's not quite working out as yesterday. And Robert can comment on that here, but there is nothing, but good here looking forward with Libre and we anticipate a lot of experience in with this product including with some of these partnerships that we've announced, and working with the interoperability with various partners for what I think will be the future of glucose monitoring and diabetes management.

I think all of this is not just on plan, but spectacular particularly for diabetes patients. And I have nothing, but confidence in it. So let me turn over to Robert to expand on that.

Robert Ford

Yes. David. Admittedly, it's taking longer than we had expected. We obviously misjudged that. We're currently working through a handful of open items with the agency. And what I can tell you, I'm -- you know I've got the same confidence level that Miles does, I'm confident in the data. I'm confident in the product, right. In the meantime, if you look at Libre in Q3, we had -- we had an exceptional Q3. Sales of just under $0.5 billion, that puts us on a $2 billion run rate here with growth rate over 70%. Our international business grew 50% and that's on a large base.

And in the U.S. sales, sales nearly tripled. So and it's tripled because we're adding new patients at a strong and steady rate, and it's a high rate, and you can see that progression in our tool, our axis. So one of the challenges we've had over the nine months here is, it's really been about how to pulse our demand generation activities with aligning to our supply. And we talked a little bit about kind of some of those supply constraints. So we've now released in the third quarter towards the end of the third quarter our next tranche of manufacturing capacity on plan, on schedule.

And I can tell you the commercial team right now is really feeling excited about not being able to have that constraint over and really start to intensify the commercial promotional efforts, whether that's advertising, whether that’s sampling etcetera, both in the U.S. and international. I think that's, that gives us a lot of a lot of excitement as we as we exit the year going into next year.

The value proposition still continues to be very strong to patients and physicians and to payers. And as Miles mentioned in his opening comments, we achieved reimbursement in Canada, public reimbursement, the only sensor system reimbursed in Canada. And it's important, because it's one of the top five largest glucose monitoring markets in the world. And similar to what we saw in some of these large markets, when we attained national reimbursement, we see a pretty accelerated kind of explosive growth. We saw that in Germany. We saw that in France and U.K. So we expect to see that same trajectory in Canada. An early indication suggests that kind of same curve.

So that'll be also exciting for the team as we move into Q4. And as Miles also said, we're pleased with the partnership strategy that we've -- we've adopted. We've gone through it at a very intentional phased approach first with big foot. As you know, we then moved into announcing our agreements with insulin manufacturers, like Novo and Sanofi that connect Libre to their pen systems and the next phase you start to move into insulin pumps. And that was the agreement that we announced yesterday, with Tandem to co-develop an integrated system because we know this is an important segment also connecting to pumps, and we're now at a phase where we feel that we can start to kind of roll that out as we thought about our partnership strategy.

So I think the momentum here on Libre is exceptional. It is very strong, as we go into Q4. We've got a lot of stuff going right, firing on all cylinders, whether it's commercial, whether it's operation, whether it's our R&D program. So I'm very confident on the sustainability of Libre and Libre going forward.

David Lewis

Great. Thanks so much.

Operator

Thank you. Our next question comes from Larry Biegelsen from Wells Fargo. Your line is open.

Larry Biegelsen

Good morning. Thanks for taking the question. So two for me, one on capital allocation, one on MitraClip. Well let me start, Miles with the capital allocation. Now that you have more financial flexibility, how are you thinking about capital allocation and the importance of reloading the pipeline? I think on the Q2 call, you seem to deprioritize buybacks. Yesterday you announced a $3 billion share repurchase authorization. So has your view changed? And I just had one follow up on MitraClip.

Miles White

Well I'd say, look we've come through a period where we've paid down a lot of debt. And I think we find ourselves in a good capital balance. I think we've got gotten to the place where our net-debt-to-EBITDA ratio is well ahead of what we targeted probably a year earlier than we expected, and that was with an aggressive pay down strategy etcetera. Our business is performing strong, our cash flows are strong. Can we still continue to pay down debt? We can, can we refinance debt? We can. Can we do things that are prudent, good balance sheet management? Yes. And we're also generating cash. We are generating sufficient cash, more than sufficient cash to invest in a lot of manufacturing expansion for all the new products we've talked about. Robert just mentioned one of the biggest, and that's fully funded and obviously coming on line and good.

So you know you say all right well, then how about the dividend? Well we raised the dividend 14% last December, and we have a targeted range where we like to keep that dividend as a percent of our EPS etcetera. So as we go across all the things you can do with your cash, returning cash to shareholders is also a positive thing to do if the conditions are right, and if the return is good, etcetera. And we want to be prepared to have that flexibility on the table as well. We have not done significant share repurchase as you know for several years, while we focused on the pay down of debt. But now, we wanted to add back the flexibility to do that as well.

So I'd say in general, we find ourselves in a strong cash position, strong performance position, good strong balance sheet position. We can continue to pay down some debt, but we've got the flexibility to do just about whatever makes sense for us on a return basis or return to shareholder basis. We don't have any active M&A on the radar screen, to the extent that we track or follow anything. I'd say, it's you know typical bolt-on's and tuck-ins and so forth that are additions to already strong businesses. We're pretty happy with our pipeline, we're pretty happy with our R&D pipeline. So our standards are pretty high right now, about what's attractive and what may not be, but I'm not forecasting anything significant at all in the M&A areas. So obviously, we want to keep our options open here with how we manage cash for our shareholder.

Larry Biegelsen

Very helpful. And then MitralClip, you have U.S. reimbursement goes up in October. You hopefully will have coverage for the functional MR indication next spring. So you're thinking about 2020 as an inflection year for MitralClip, and in Europe, it looks like sales improved, growth improved this quarter. How are you feeling about MitralClip outside the U.S? Thanks for taking the question.

Miles White

Larry, I'm going to toss that to Robert Ford.

Robert Ford

Hey Larry. Thanks for the question. So you know we filed our MitralClip NCD. It was kind of opened in August, so that timeline there is usually takes about nine months. I mean, that's the that's the statutory maximum as we'll say. When we did FMR in MitraClip, that took about seven months, so I think we'll be in the December, January timeframe kind of trying to kind of get exactly what quarter that's going to land in. But in the meantime, you see kind of our growth rate, the reimbursement is going to be important, but a structural heart was up mid-teens, and the big driver of that was MitraClip, up 30% up 50% in the U.S. So reimbursement is going to be important, there will be definitely be an inflection point when we get it. But you know as I said in the previous call, you know that is a component. It's a building block here that we're focusing on.

So opening new centers is another kind of key building block. We have about 400 today and kind of I want to get about 550 overtime. And we've been supporting that with investments, investments in our sales force, our clinical specialists, our therapy development specialists so that we can only train the centers, train the implanters to keep up with that demand that we see, but also to support the demand generation through the development of these patient referral networks.

So that investment is ongoing, on target, on plan, in terms of how we're ramping up the field team. And as Miles said in his open comments, we continue to invest also in the innovation side, on the product development side, so in July we obtain approval for our fourth generation MitraClip which has independent graspers, more sizes, etcetera that, it creates good more options to the position. So I think that you know MitraClip here is in its really early innings where I think this is a multi-year, multi-billion dollar growth opportunity that we've got, and it's going to continue to ramp overtime and we're making the investments to make sure we're going to lead in that.

So as I look into that I think we've got the right momentum, and once we have NCD coverage, yes, I think there'll be an inflection to growth.

Larry Biegelsen

Thank you.

Operator

Thank you. Our next question comes from Bob Hopkins from Bank of America. Your line is open.

Bob Hopkins

Hi, thanks and good morning. Just two quick product related questions. First, a follow up on the Libre 2 commentary just to kind of set expectations. Just curious, has there been any new data requests from the agency and is the approval of Libre 2 in the U.S. you think possible the next couple months or could it take a little longer?

Miles White

Listen, we’ve – what I would say is the fall. We've obviously misjudged that. So I'm not going to sit here and try and pinpoint the exact timeline of the approval. As I said also, we're actively working through a handful of open items with the agency, and that's where we're at.

Bob Hopkins

Okay, fair enough. And then, I also want to ask on pediatric nutritionals in China, and just curious if you could elaborate a little bit more on the -- on the slowdown there. And then, just wondering if you can comment on China more broadly and your confidence in growth continuing in China, so just comment on Pediatric Nutritionals in China please?

Robert Ford

Sure. Let me start off then with the nutritional question here then. So you saw our nutritional business was just under 4%. We had really good growth in the U.S. in pediatrics up 4%, double-digit growth in international adult for the second quarter in a row. So our challenge here really was the international pediatric performance, which was really driven by Greater China and I would say some challenging market dynamics here. As Miles mentioned, we're seeing the consumer trade up into the premium brand segment, but the volume has been declining partly because of these low birth rate.

So this is led to what I would say a much more competitive environment, competitive in terms of pricing, competitive in terms of promotional activities and this has now got our full attention, full attention from the management team here and our key thing is really focusing. And the market dynamics are the market dynamics, but we've got to really focus on improving our competitive fitness, our competitive position here in the pediatric segment.

We're launching a series of new strategies here in the coming weeks regarding media campaigns, strengthening our consumer relationship platforms. We've got some plans to launch the new products for the next several quarters. So I'd say that the key focus of us right now in nutrition really has been at this point here to focus on improving our competitive fitness in China.

Miles White

And I'll follow-up on the rest of the other businesses in China. I'll give you a little bit of context. I think I'll speak as a CEO. We, the multinational CEOs of the world, or we -- if we do business in China, are we nervous about trade? Are we nervous about China? Are we nervous about all this? I think you can't help but be nervous about it, but I'll tell you what's interesting while it's affecting some segments of the U.S. economy and U.S. businesses pretty directly, it doesn't seem to be affecting us or our business.

The nutrition challenge we have is completely separate from any kind of trade or economic or autonomy issues other than birth rates. And the performance in our device businesses or diagnostics businesses and so forth are double digits and strong. There is all kind of ways that people can hypothesize that maybe the Chinese government would intervene and make things more difficult and so forth for U.S. multinationals. But in our business we actually go see that and you know the product approvals are coming in a timely manner. The China FDA is doing everything that they're supposed to do and -- for our products. We haven't seen any of that kind of friction at all. And the demand for our products and the performance of our businesses in China has been strong other than the challenge we got with the pediatric nutrition, all other businesses are doing well. Show no signs of any kind of issues. So, while I know that there are industries and segments that are tied to whether it's automobiles, oil, big industries et cetera that may have challenges particularly agriculture, we're not seeing that. And our China business is good.

Bob Hopkins

Thank you very much. Helpful.

Operator

Thank you. Our next question comes from Vijay Kumar from Evercore ISI. Your line is open.

Vijay Kumar

Thanks for taking my question guys. Two from me maybe Miles starting off with that, that last question on the macro of China. I know there are number moving parts, China 4x7 on the drug side, some questions around maybe a CapEx slowdown, diagnostic slowdown. Just to be clear, what is your exposure is on the drug or diagnostics side to China? And maybe broadly comment on emerging markets in general? It looks like some of those markets are slowing down and how is Abbott position to handle some of t the macro slowdown if you will?

Miles White

We're all looking at each other trying to figure out who answers what part of that question. You know, I'd say this. Underlying growth in emerging markets is still good. Has it slowed some? Yes. It has slowed some, but it still good. It's a relative thing. So the underlying growth we see in India, Latin America, China et cetera, it's all good. You can say there's the occasional Argentina. Okay, that's not good. Argentina is its own thing. But there are -- the advancement of health care systems, the advancement in demand for health products, pharmaceuticals et cetera strong.

China in particular for us for our pharmaceutical business, strong. We're doing well. I don't think we have a lot of exposure. I'll let Robert to expand on that a minute. But overall I think the conditions for us in those markets remain strong. As we've said many, many times, single most difficult thing we deal with is the volatile currency, if it's volatile. And sometime it is, sometimes it isn't. And right now, currency isn't exactly working in our favor in those markets. So while we grow at a pretty health rate on underlying basis and typically faster than the market, currency erases some of that. Robert?

Robert Ford

Yes. I'll just, Vijay, on the generic pharma in China, I think you're referring to the four plus seven tendering process there. We haven't seen an impact and we don't anticipate a significant impact going forward. We have a fairly kind of concentrated portfolio here of products, just about 15 products here. Most of these products are more specialized kind of segments in areas where there is kind of difficult to manufacture. So on the generic side of the pharma business we're less susceptible to this. Obviously, we're going to monitor. We're part of this process. We understand how the tendering process is going to work. But if I think about kind of bigger impact, we have a less of an impact here given the portfolio of products we have in China.

Vijay Kumar

That's helpful guys. And just one quick one on that guidance maybe for Brian, Brian, looks like the Q4 guidance is implying really strong margin expansion, 200 basis points plus. Just given some of the comments on FX; maybe clarified the FX hit to Q4 in the margin side. And in general when you look at 2020, what kind of headwinds are we looking at from an FX perspective? Thank you, guys.

Brian Yoor

Yes. From a topline next year, I'm not going to talk about next year, but I think there would be natural some flow-through on the topline next year, Vijay, perhaps, Scott can back you on that. But let me circle back. If you look at Q3, you saw, we had gross margin of 59.2%. You are absolutely correct. Foreign exchange had an impact on us of about 50 basis points. Otherwise, it would be at 59.7%. So I feel good about where we're guiding Q4. Q4 tend to be that quarter where we get a little bit more natural leverage as well and you'll see that play out through the bottom line, pretty consistent with how we thought about this at the beginning of the year.

As you know, I mean, gross margin improvement, it just part of our DNA. Its part of what we do and how we think about in additional cash flow and its something we're going to continue to improve upon across all of our businesses and I think you could expect that to continue in the next year. That's how we'll get the double digit growth that we usually start with it and continue to invest back into our SG&A and R&D for our growth.

Vijay Kumar

Thanks guys.

Operator

Thank you. Our next question comes from Robbie Marcus from JPMorgan. Your line is open.

Robbie Marcus

Great. Thanks for taking my questions. Miles, I was hoping you could touch on the diagnostics business. This is one you've called out for many quarters now as a durable, multiyear growth driver for the company. We saw fantastic growth in Core Lab this quarter even without really benefit from Alinity hitting U.S. Maybe you could just update us on the status of where you are in Europe in terms of the rollout? What you're seeing in terms of competition, because we're seeing some negative results from competitors. And then the latest and thoughts on the U.S. launch and how we think that uptake there?

Miles White

Okay. Thanks Rob. I'm going to have Robert to do that. So Robbie, we've talked about how this is a multiyear opportunity and we've been executing on this very focused here. If you think about the Core Lab and the rollout of Alinity program, it's doing very well and you can see that in our topline. The rollout has been particularly strong in Europe where we're winning over 50% of the businesses where we targeted an entrenched competitor. And if you think about kind of the renewal process where we're retaining nearly all of our current business that comes up for contract, so we placed over 3000 -- over 3700 instruments and when we give out number we're talking about instruments that are actually placed in the market, placed in the account, running tests and generating revenue. So that's gone very well.

In the quarter you saw that we also got an approval in the U.S. for the Alinity blood and plasma screening. So this fourth quarter here the teams already kind of rolling out that commercial launch. We had a lot of success in rolling out the blood plasma systems in Europe and in Asia last year. So it's great to see that a little ahead of schedule here in the U.S. And the team has jumped on the opportunity. As relates to the immunoassay side, a lot of our focus here is really kind of ramping up on the R&D side, ramping up the menu and the assay menu, let's say that assay completion rate of what we need to be kind of fully competitive in Europe is getting close to about 100% mark that we need.

And in U.S. it's a little bit behind, but a lot of our focus here is to get those systems, those assay approved and in place and we'll start to see that kind of play affecting our growth rate in the U.S. as we move into next year. So, I think internationally we're doing really well. U.S. got the opportunity here at the assays come onboard to be able to accelerate our growth rates. So I'm really pleased with the momentum that the team has done here. Of course, we feel that we can always do better. And naturally we're going to keep on pushing too.

Robbie Marcus

Great. And maybe just one quick follow-up in Neuromodulation. Numbers came in a little softer than The Street was looking for. I'm assuming a big chunk of that was in the spinal cord stim market. Maybe you could just update us as to what exactly you're seeing on the ground with Abbott and what you think is driving the deceleration in the market here in the U.S.? Thanks.

Miles White

Yes. Sure. So obviously still work in progress here. It's a little longer than we had initially hoped. When we talked about it over the last couple of quarters we talked about the salesforce hiring, the salesforce productivity and it’s a very specific selling process here in devices, and if you're new rep, it takes some time to kind of understand it. So that's been going – that's been progressing well. We've had some stabilization in the sales force and some of the monthly KPIs that we track them on, they're improving. But we've also seen as you pointed out a little of market decline especially in the first half of this year and it follows a couple years of double-digit growth, right?

So lot of our focus here is got to be on salesforce execution and productivity, the approval of Proclaim XR this quarter, I think really provide a nice addition to the portfolio and provide the salesforce with a new technology to promote. And early signs of the launch, it's only been a couple of weeks, but early signs are positive. We tend to look at our trials and our trials across the U.S. in spinal as our leading indicator. And I'd say, early signs are positive, but there's more monitoring there for us to be aware of.

On the market side, there's really no third-party data source here like we have in stents or pacemakers et cetera, so it’s a little bit difficult to peg the growth rate here. We usually have to wait until everybody reports and can kind of look at added up and kind of see where it's at. So I would anticipate here Q3 to be similar in terms of market growth rate. That's the first half of this year which is in that low to mid single digit decline here.

Robbie Marcus

Appreciate it.

Operator

Thank you. Our next question comes from Rick Wise from Stifel. Your line is open.

Rick Wise

Good morning everybody. Miles, I'm always embarrassed to ask questions about EPD business because I always feel like I don't really understand it, but I understand enough to see that the actually X currency has another solid quarter in many of the emerging markets that you're targeting. Maybe just help us understand some of your high level thoughts there, the outlook as it going as you would have expected growth has slowed a little bit relative to the last few years. But again, seems like on track and sustainably on track. Is that the right way to think about it?

Miles White

Yes. Rick, I'd say, I'm never quite as satisfied as I'd like to be, that's for sure. We've learned a couple of things. I think of the seven or eight years we've now been fundamentally focused on emerging markets and their growing economies and so forth. I'd say, if anything was under estimated it was the degree of volatility of currency which is also heavily driven by the strength of U.S. dollar, while we can't predict those things since this business is 100% in emerging markets that's always a bit of a challenge.

Now that said, the underlying growth in those markets has been steadily strong and it's interesting. One indicator of the attractiveness from those markets is, let's just say the multiples and prices and so forth that anybody who owns a pharmaceutical business in those markets thinks that the company is worth. And as we track those for long time, probably some of the highest multiples in the world than any business -- businesses that make money, you know they're attractive, the markets are attractive and they are the attractive parts of branded generic pharmaceutical worldwide.

They are the most profitable there. They are very profitable markets for good branded products as compared to Europe or the U.S. or something like that if you're in that business. So, we targeted this business for a reason. There's underlying real growth. Brands matter, quality matters, breadth matters. And its kind of all the fundamentals that we think are stable, durable, attractive et cetera and frankly all those economies have progressed as we would like maybe not as stably and maybe not as strongly in some cases, but the growth there are still strong. Our own challenge is the R&D investments to continue to expand product lines and product depth into the markets. We keep our R&D somewhat decentralized by region. India has its own. Latin America has its own et cetera.

We're always looking for greater and greater productivity and greater and greater launch activity out of our teams. Every now and then we're going to run into Argentina, a Venezuela or a tax issue in a country like we did in India couple years ago et cetera that are going to put dent in the growth rate for a given year and we've seen that. But the underlying fundamentals are quite strong, quite good and we keep plugging away at all fundamentals that we know how to manage. And as you can tell this last year, we've had steady sequential improvement in our performance excluding exchange and there are 38%.

I think that's pretty good. That means that we know how to take the corrective actions to get stronger, to get better, to drive business better and I think the fact that the managers of pharmaceutical business are up to an 8% growth rate and looking forward to even improvement in that. I think that's pretty strong. So yes, we like business.

Rick Wise

Great. And if I could follow-up just on two quick things. At TCT, we saw some very solid Portico data. I assume we're still on track for mid-2020 U.S. launch. Any updates there'll be great on Portico? And last just in the U.S. vascular business still seems pressured, not really improving. What are the issues? What you're doing? I know you're still focused on execution. Is it competition? Is it – how do you turn that portion of the business around? Thank you.

Robert Ford

Hey, Rick. This is Robert here. So on your Portico question, yes, we submitted end of Q3, so we expect a kind of mid-year approval here and launch, and we're getting ready for that. On your question on vascular, as we previously mentioned there are couple what I would call noncommercial items that impact the growth rate here. These are third-party royalties, third-party manufacturing agreements that we put in place is part of the St. Jude divestiture, some of the assets.

So those – as those ramp down as those manufacturing agreements ramp down, as those royalties ramp down, they obviously impact the growth rate. And we've allocated those agreements into the U.S. line even though they are global agreement. So, if you remove those items that are naturally going down as we transition the manufacturing over to the new owners of those businesses and as the royalties ramp down, you remove that out. Our vascular business was flat. And the dynamic there was really little bit of pricing that we've seen on the stent side. We've continued to grow share in the U.S. actually and maintain our leadership position in the international markets.

And that price pressure was then offset by double-digit growth in our Endo and peripheral business and in our imaging and diagnostic business, and that's part of our strategy which is we know that there will be some pricing pressure on the DS side and we know we need to make our investments to maintain our competitive position there, but we also know that we're over investing in our Endo and our imaging strategy so that those businesses can get large enough and those double digits then can really return vascular to a healthy growth rate.

Rick Wise

Thanks Robert.

Miles White

Operator, we'll take one more question.

Operator

Thank you. And our last question comes from Matt Taylor from UBS. Your line is open.

Matt Taylor

Hi. Good morning. Thanks for taking the questions. I was hoping that you might just expand a little bit on the Libre dynamics given the continued strength that you've seen outside the U.S. Could you comment on anything like installed base, mix of Type 1 versus Type 2, our payers are getting involved, do they see value there. Anything like that that could help us understand the sustainability of the growth especially outside the U.S. where you continue to have larger and larger base?

Robert Ford

Yes. So let's talk about that base. I mean, the one way to describe it here that it's pretty large and it's growing. We focus lot on the sales side, but if you look at the user base where we're at the 1.5, close to 1.6 million users at the end of this quarter. As we talk a little bit, there's a little bit a constraint on that user base given our manufacturing capacity. So, as we've now unleashed it, I think we've got the potential here that kind of grow that user base even faster.

One of the things that is important here that we've seen as payers and contract start to look at this is that they're very convinced on the outcomes of using sensor-based technology. There's a lot of clinical data that proves that. We actually have RCT trial that show that Libre reduces hypo, reduces time out of range, reduces the time that patients are in hypoglycemia and we backed it up with some fairly large real world evidence trials showing that. And competitors also have that too.

So the value proposition here is how do you get that outcome at a cost that makes sense for the payer where they can actually expand the use of the product and the technology into a much larger user base versus kind of niching it to, kind of very small segments. And that's been the value proposition that we've adopted. And as I said in the beginning of the call, that value proposition is not only very intact, but it is growing, and we see that in the negotiations we had with Canadian Reimbursement Authorities. We see that expansion of the technology beyond just the Type 1 or insulin users in other markets we start to see it expand into Type 2.

So, we think the value of proposition here is very strong and it's a real an opportunity to provide the benefit of the outcomes that are proven at a cost profile that makes sense for the payer. So and it's ultimately about having the impact on outcome for patients and we're seeing that through our trials and through our real world evidence. If you think about the composition of the patients we're looking at 50/50. We're getting a lot of Type 1s and insulin users, but we're also getting a lot of Type 2s, Type 2 that are single injections or Type 2 that are on oral medication. There are different utilization rates, but we're getting all those patients.

Matt Taylor

One quick follow-up, are you now completely unconstraint on manufacturing?

Miles White

Yes.

Matt Taylor

Okay, great. Thanks a lot. Thanks for the color.

Miles White

Okay. I'm going to wrap up where we started. We had a strong quarter, exceptionally strong quarter. Our momentum continues. We've got some great growth drivers in Libre, MitraClip, the Alinity platforms. Other businesses, they are all growing, many of them double digits and across the board. So the balance of that performance across all businesses and across all geographies is heartening. It is sustainable. Our topline growth rate was 7.6% this quarter.

We think it will be close to 8% in the fourth quarter and as we look into 2020, I see no reason to change any expectations about the strength of our topline sales growth rate which is I think all of you know for a fairly large company unusual to find the other people that are able to do this for tech companies. And so we got some great strength here owing to the strength of our pipeline, our new product launches, the improvements to access and/or reimbursements and further capabilities of those products. So we've got a good sustainable road ahead of us.

Obviously, there are surprises or things that don't meet our expectations from time to time or the speed with which we want to accomplish things. But overall I think this is good evidence to all, good performance, super performance really and sustainably. So, we look at 2020 with great optimism and great expectations in spite of a lot of the uncertainties in the world and in the economies around the world. We're feeling pretty strong and pretty bullish about where we sit. So with that, we'll see in 90 days.

Scott Leinenweber

Very good. Well, thank you operator and thank you for all of your questions. This now concludes Abbott's conference call. A webcast replay of this call will be available after 11 am Central Time today on Abbott Investors Relations website at abbottinvestor.com. Thank you for joining us today.

Operator

Ladies and gentlemen, thank you for participating in today’s conference. This does conclude the program. You may all disconnect. Everyone, have a wonderful day.