CONFIDENTIAL
PREMIUM RECOMMENDATIONS

Organization	ABBVIE INC.
Volume 10	Issue 5

VALUE LINE SELECT®

Dividend Income & Growth

Value Line®

MONTHLY STOCK SELECTION SERVICE

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Chicago-based drug maker AbbVie (NYSE: ABBV) has a good sales and earnings track record, following its 2013 spin off from former parent Abbott Labs. Given the rising threat to its premier *Humira* arthritis treatment from biosimilar alternatives, the company has worked to diversify via research & development and acquisitions. The most recent move in this strategy is the pending purchase of Allergan plc. We expect that purchase to soon close, supporting continued positive operating results. Allergan would reduce business risk and help to ensure strong dividend growth and maintenance of the stock's high yield.

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Automatic Data Processing (NDQ: ADP) is the largest domestic provider of payroll and human resources services, with a broad market reach to 140 countries. The company's efforts to incorporate advanced technology in its line of Human Capital Management and Human Resources Outsourcing solutions is helping to gain market share, while lifting revenues and earnings at a favorable rate. This top-quality equity yields 3.0% and, in view of healthy cash flow, the dividend may well progress in the neighborhood of 10% a year through 2023-2025.

A Note From the Managing Editor

BY HARVEY S. KATZ

Wall Street awakened on March 9th to find that the investment world had turned upside down. To wit, trading began with panic intensity selling that brought the indexes to the cusp of a bear market (a peak-to-trough decline of more than 20%) that day. Investors were spooked by growing fears of the coronavirus as well as a price war in the global oil markets, with the latter sending crude prices and energy-related stocks cratering. In all, the Dow Jones Industrial Average would plunge 2,014 points.

And the market continues to rock and roll. So, March 10th saw stocks soar on hopes for a fiscal stimulus package; on March 11th and March 12th, new virus angst, with the World Health Organization's labeling the coronavirus outbreak a pandemic, sent equities tumbling anew, despite the announcement by the Federal Reserve that it would pump large sums into short-term funding. The frenetic selling then resumed on March 16th, with the Dow falling nearly 3,000 points.

The latest employment survey was telling, both for what it said and for what it left unsaid. Specifically, the report noted that the nation added 273,000 jobs in February – nearly 100,000 more than forecast. But the data reflected conditions through mid-February – or before the full fury of the coronavirus had been felt. Heretofore, stocks might have rallied on such reassuring news. But they fell on this release.

Where do we go from here? Clearly, numbers matter, and as we move into spring and review new issuances on employment, manufacturing, and retailing, we will get a truer picture of the economy's weakness. For now, we suspect that GDP growth will likely disappear in the first quarter and contract notably in the second quarter, as the toll from this illness and tumbling oil prices mounts. We also now believe that a recession is increasingly likely. Notwithstanding such concerns,

This is a time for discipline and steadfastness by investors. That's hard, of course, when the news is dour and the performance by equities even worse. However, selloffs do end, and subsequent rallies can be dramatic, as we have seen from time to time. That sequence could recur, with the gains being more sustainable at some point, especially as record low interest rates and falling gasoline prices are likely joined by substantial fiscal stimulus at the federal level.

Conclusion. We think a calm investment approach, which is always desirable, is particularly critical at this juncture. ■

Stock Selection Updates

BY DAVID M. REIMER, EDITORIAL ANALYST

Since our previous *Dividend Income & Growth* report, the 11-years-long bull market in stocks came to an end. Even with a mid-March bounce, indexes remained 20%, or so, below their peaks. As most investors are surely aware, the main culprit was the coronavirus, which was formally declared a global pandemic. The virus has disrupted manufacturing and product supply chains around the world, placing pressure on the macroeconomy, as the future human toll remained unclear. Exacerbating the situation is a conflict between oil producers Saudi Arabia and Russia, regarding the price of that commodity and their output plans. The price of oil has fallen sharply, raising concerns over the viability of many small oil companies and the default threat to the credit markets. Given all of the uncertainty, corporate managers have become more conservative about spending. Ahead, share buyback and dividend growth programs might well be restricted, if earnings slide and managers decide it's necessary to conserve cash. The Federal Reserve's moves to provide liquidity in the credit markets and further reduce short-term interest rates are pluses, but domestic banks will surely feel some additional strain on their net interest margins (the difference between rates charged on loans and interest paid on deposits). Share prices of energy companies, banks, restaurants, and airlines have suffered more than most, lately.

Despite the gloomy current situation, there are some mitigating elements. The spread of the virus seems close to ending at the first epicenter, China, and that country is gradually restarting business operations. Importantly, the White House and Congress seem to have reached rapid agreement on fiscal measures to support commercial businesses and hourly wage employees. Targeted, temporary tax relief for workers and aid to the hardest hit industries seem likely. Economists are pointing to a U-shaped, rather than a V-shaped, recovery, provided the virus has been largely contained. Much of the lost business in, for example, restaurant visits and leisure travel, though, will never be recaptured. The recovery will likely be slow and take place over several quarters. Equity prices have come down to more reasonable levels, but investors should be selective, focusing on stable, financially strong income producers.

Over the most recent 30-day term, ending March 16th, the majority of our Featured and Alternative stock selections did not escape the broader market malaise, but losses were more limited. Showing the greatest stability among our Featured stock selections were Public Storage (NYSE: PSA), Verizon Communications (NYSE: VZ), and Dominion Energy (NYSE: D). In the case of real estate investment trust (REIT) Public Storage, its relative stability, and that of others in the sector, was attributable to the Fed's interest rate cuts. Generally, REITs are highly dependent on debt financing for growth. The share prices of Verizon and Dominion displayed comparative stability, thanks to the dependability of revenue streams from their essential services, which help to ensure solid reliable earnings and cash flow. We continue to rate these issues as Buys. Our rating on insurer Sun Life Financial (NYSE: SLF; TSE: SLF.TO) is down one notch, to Hold, considering likely investment return strain. We advise investors to sell their holdings in Truist Financial Corp. (NYSE: TFC), which faces interest margin stress.

Within our Alternative portfolio, the stocks that weathered the recent market downdraft better than most included food processor General Mills (NYSE: GIS), consumer goods company Kimberly-Clark (NYSE: KMB), and drugmaker Merck & Co. (NYSE: MRK). We consider these issues to be Buys. Conversely, stocks taking visible hits were the passenger carrier Delta Air Lines (NYSE: DAL), energy companies Pembina Pipeline (NYSE: PBA; TSE: PPL.TO) and Phillips 66 Partners (NYSE: PSXP), insurer Reinsurance Group of America (NYSE: RGA), and regional banks Northwest Bancshares (NDQ: NWBI) and People's United Financial (NDQ: PBCT). We now have Hold recommendations on DAL, NWBI, and RGA. Investors may want to divest PBA and PSXP. At this juncture, investors need to exercise patience, while waiting for an eventual recovery. *Those with taxable accounts should consider their holding period for capital gains/losses purposes, in combination with their risk preferences.* ■

Value Line Select®: Dividend Income & Growth Featured Stocks[B]

Name	Recent price	Our rec.	Curr. yld (%)	Quarterly Div'd	Dividend Ex-Date	Inception date
Cisco Systems (CSCO)	$33.71	Buy	4.3	$0.36	4/2/2020	12/28/2018
Coca-Cola (KO)	$45.26	Buy	3.6	$0.41	3/13/2020	9/14/2018
Comcast (CMCSA)	$36.04	Buy	2.5	$0.23	3/31/2020	11/29/2019
Dominion Energy (D)	$68.65	Buy	5.5	$0.94	2/27/2020	3/29/2019
International Bus. Mach. (IBM)	$99.08	Buy	6.6	$1.62	2/7/2020	2/28/2020
Lockheed Martin (LMT)	$287.94	Buy[A]	3.4	$2.40	2/28/2020	5/11/2018
Medtronic (MDT)	$77.43	Buy	2.8	$0.54	3/26/2020	4/26/2019
Mondelez Int'l (MDLZ)	$45.10	Buy	2.6	$0.285	3/30/2020	10/12/2018
Novartis (NVS)	$73.14	Buy	4.2	$1.978[C]	3/3/2020	6/28/2019
Oracle (ORCL)	$42.72	Buy	2.2	$0.24	4/8/2020	1/3/2020
PepsiCo (PEP)	$113.09	Buy	3.5	$0.955	3/5/2020	4/5/2013
Public Storage (PSA)	$186.97	Buy	4.5	$2.00	3/13/2020	11/1/2019
Sun Life Financial (SLF)	$31.07	Hold[A]	7.1	$0.416	2/27/2020	1/31/2020
Travelers Companies (TRV)	$85.10	Hold	3.8	$0.82	3/9/2020	2/1/2019
U.S. Bancorp (USB)	$32.57	Buy[A]	5.3	$0.42	12/30/2019	3/1/2019
Verizon Comm. (VZ)	$50.99	Buy	4.8	$0.615	4/9/2020	10/4/2019

(A) Recommendation changed. (B) As of March 16, 2020. (C) Dividend paid annually.

Value Line Select®: Dividend Income & Growth Alternative Stocks [C]						
Name	Current price	Our rec.	Curr. yld. (%)	Quarterly Dividend	Dividend Ex-Date	Inception date
Analog Devices (ADI)	$83.21	Hold	3.0	$0.62	2/27/2020	11/1/2019
Broadcom (AVGO)	$187.58	Buy	6.9	$3.25	3/31/2020	12/28/2018
Crown Castle International (CCI)	$135.82	Buy	3.6	$1.20	3/12/2020	4/3/2015
Delta Air Lines (DAL)	$35.81	Hold[A]	5.0	$0.4025	2/19/2020	3/29/2019
First Amer. Financial (FAF)	$44.65	Hold	3.9	$0.44	3/6/2020	6/28/2019
General Dynamics (GD)	$126.70	Buy	3.5	$1.10	4/8/2020	1/3/2020
General Mills (GIS)	$53.38	Buy	3.7	$0.49	4/8/2020	8/30/2019
HP Inc. (HPQ)	$14.46	Hold	4.8	$0.176	12/10/2019	7/26/2019
Kimberly-Clark (KMB)	$134.71	Buy	3.2	$1.07	3/5/2020	2/28/2020
KLA Corp. (KLAC)	$129.50	Buy	2.6	$0.85	2/20/2020	10/12/2018
Merck & Company (MRK)	$69.92	Buy[A]	3.5	$0.61	3/13/2020	12/28/2018
Northwest Bancshares (NWBI)	$11.29	Hold	6.7	$0.19	2/5/2020	9/14/2018
Nutrien (NTR)	$27.42	Hold[A]	6.6	$0.45	3/30/2020	11/29/2019
OGE Energy (OGE)	$30.62	Hold[A]	5.3	$0.3875	4/8/2020	10/4/2019
Paychex (PAYX)	$57.62	Buy	4.7	$0.62	1/31/2020	5/11/2018
People's United Fin'l (PBCT)	$11.83	Hold	6.1	$0.1775	1/31/2020	12/30/2016
Qualcomm (QCOM)	$64.48	Hold	4.0	$0.62	3/4/2020	5/31/2019
Realty Income Corp. (O)	$53.99	Buy[A]	5.2	$0.233[D]	2/28/2020	2/1/2019
Reinsurance Grp of Amer. (RGA)	$80.33	Hold[A]	3.7	$0.70	2/5/2020	11/1/2019
Starbucks (SBUX)	$58.59	Buy	3.0	$0.41	2/5/2020	8/10/2018
Stryker (SYK)	$143.83	Buy	1.6	$0.575	3/30/2020	11/29/2019
Telus (TU)	$28.97	Buy	3.0[B]	$0.44	3/10/2020	3/31/2017

(A) Recommendation changed. (B) Excludes nonresident tax. (C) As of March 16, 2020. (D) Dividend paid monthly.

This Month's Featured Recommendation

AbbVie Inc.

Chicago-based AbbVie (NYSE: ABBV), our Featured stock selection this month, is a biopharmaceutical company that was spun off from Abbott Laboratories (NYSE: ABT) in 2013. On its own, the company, backed by a staff of 30,000, has produced a strong track record of sales and earnings growth, thanks largely to its arthritis drug *Humira*. That treatment is now contending with increasing competition from biosimilar alternatives offered by other drugmakers in foreign markets. (Biosimilars are nearly identical copies of branded drugs with the same active properties.) Additionally, *Humira* faces looming biosimilar competition in 2023, when AbbVie's patent protection expires in the United States. After hitting a record high of close to $126 in early 2018, AbbVie's share price has come under pressure, given the company's dependence on *Humira*.

In anticipation of the heightened competition from biosimilars, management has pursued acquisitions to diversify operations and reduce business risk. Recently, that is, in June of 2019, a $63-billion cash-and-stock deal was struck to acquire industry peer Allergan plc (NYSE: AGN), headquartered in Dublin, Ireland. (After the acquisition is final, AbbVie would remain incorporated in Delaware and headquartered in Chicago.) As the deal for Allergan moves nearer completion, AbbVie's share price has outperformed the broader market, which has been especially volatile due to the global coronavirus outbreak. AbbVie has minimal exposure to raw-material supply disruptions from the outbreak's first epicenter, China. Notably, the company's *Moderiba* treatment for HCV (hepatitis C) and *Kaletra/Aluvia* therapy for HIV (human immunodeficiency virus) might well prove useful in combating the new virus. We believe the combined AbbVie/Allergan organization will deliver favorable top- and bottom-line performances over the long run, with reduced operating risk. Likely good cash flow ought to help sustain a high yield, currently 6.4%, and fund better-than-average annual dividend hikes. A meaningful share-price recovery ought to take hold in the coming quarters. (For information on the company's dividend reinvestment plan, visit www.abbvie.com.)

Dividend History & Projections

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Dividends Declared	$2.02	$2.28	$2.56	$3.59	$4.28	***$4.72***	***$4.88***	***$5.04***	***$5.20***	***$5.36***
Dividend Yield	3.3%	3.8%	3.4%	3.7%	5.5%	***6.0%***	***5.4%***	***4.8%***	***4.2%***	***3.7%***

Projected dividend yield results from our anticipated increase in the stock price.

Portfolio Enhancement

In 2011, with the aim of boosting value for stockholders, Abbott Labs announced its intention to separate its drug research arm from its core medical products business. At the start of 2013, AbbVie, the research operation, began trading as an independent entity on the NYSE. Abbott stockholders received one share in the new company for each of their shares. Since its separation, AbbVie has amassed a market capitalization of $126 billion, versus about $55 billion at the time of the spinoff. Abbott's market cap is currently $135 billion; at the close of 2012, that company's market valuation was approximately $100 billion. The benefits of the spinoff to investors is clear. In the early days on its own, AbbVie was focused on developing treatments for complex conditions, including rheumatoid arthritis, psoriasis, Crohn's disease, HIV, HCV, cystic fibrosis, low testosterone, thyroid disease, Parkinson's disease, ulcerative colitis, and chronic kidney disease. Top-selling therapies were *Humira*, *AndroGel* (for low testosterone), *TriCor/Trilipix* (high cholesterol), *Kaletra*, and *Niaspan* (vitamin B deficiency). *Humira* accounted for 50% of the company's 2012 pro forma sales of $18.4 billion. Over the years, the company has endeavored to enhance its drug portfolio, as well as stockholder value, via acquisitions, internal development, and partnerships.

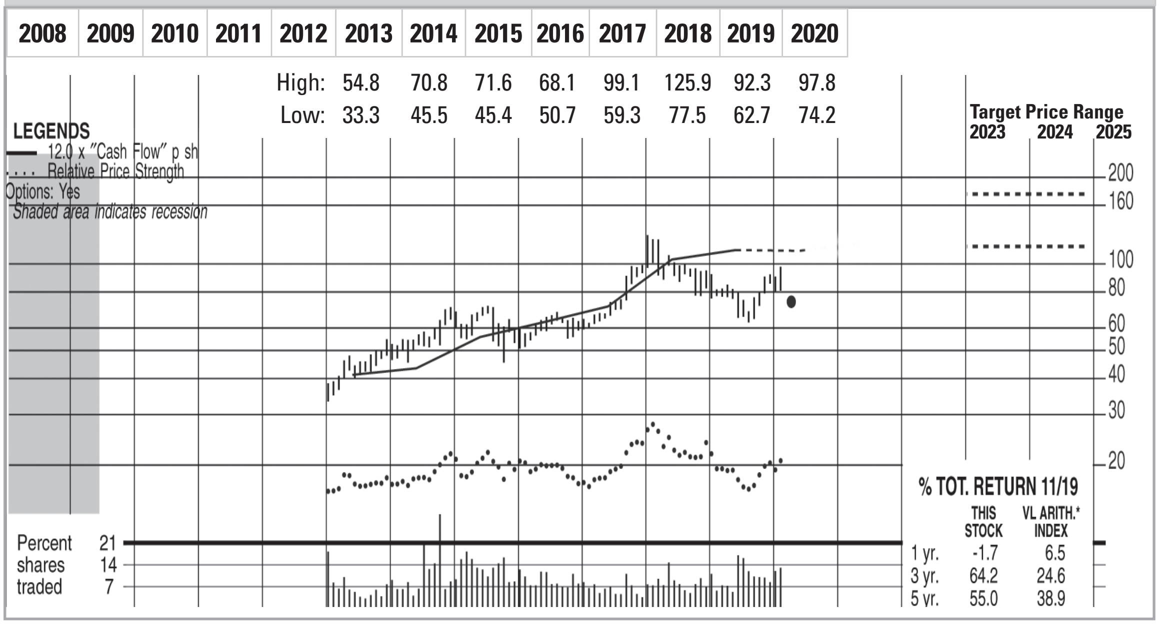
Several acquisitions have been completed, some successful, some not so. In 2014, AbbVie acquired ImmuVen, a company concentrating on remedies for infectious diseases, cancer, and autoimmune disorders, for an undisclosed sum. That same year, management attempted to buy Shire plc, a drug maker domiciled in the English Channel Island Jersey (off the coast of Normandy, France), for $55 billion. The transfer to that domicile would have produced substantial tax savings for AbbVie. This deal, however, fell

Value Line Rank & Projections	
Safety™	3
Recent Price	$74.27
2023-2025 Price Forecast	$115-$175
Company Data	
Industry	Drug
Exchange	NYSE
Ticker Symbol	ABBV
Options	Yes
Financial Strength	A
Actual E.P.S. FY '19	$8.94
Estimated E.P.S. FY '20	$9.65
Estimated E.P.S. FY '21	$10.50
Current P/E Ratio	8.1
Relative P/E [(A)]	0.54
Dividend Yield	6.4%
Actual Payout Ratio FY '19	48%
Shares Outstanding	1,479.2 million
Insider Holdings	Less than 1%
Institutional Holdings	26.0%
Market Cap	$110 billion (Large Cap)
Data As Of	March 16, 2020
Address	1 North Waukegan Rd. North Chicago, IL 60064
Telephone	847-932-7900
Website	www.abbvie.com

(A) Relative P/E is the company's current P/E divided by the market P/E.
For additional definitions, see www.valueline.com/Glossary/Glossary.aspx.

through due to U.S. Treasury changes in corporate tax rules to limit avoidance, and AbbVie had to pay Shire a $1.6 billion breakup fee. In 2015, AbbVie added oncology researcher Pharmacyclics LLC of Sunnyvale, California for $21 billion in cash and stock. Pharmacyclics is known for its blood cancer treatment *Imbruvica*. During the following year, the company finalized another cash-and-stock transaction, this time buying Stemcentrx for $5.8 billion. The Stemcentrx agreement called for up to $4 billion in milestone payments associated with anticipated sales of small-cell lung cancer therapy *Rova-T*. That therapy, unfortunately, did not meet efficacy expectations, and efforts to bring it to the marketplace were abandoned last year. In June of 2019, management announced the agreement to buy Allergan (see below), which would be AbbVie's largest merger & acquisition undertaking. Even with the increased demand on its resources to proceed with the Allergan purchase, the company struck another deal to acquire Mavupharma of Seattle for an undisclosed amount. Mavupharma is a developer of promising STING (STimulator of INterferon Gene) cancer treatments.

AbbVie Inc. Price Chart



As management pursued acquisitions, AbbVie's research & development department was busy creating new drugs. Among the many treatments created, and regulator-approved expanded use indications for existing drugs secured, by the newly independent company were: *Viekira Pak* to treat HCV, *Duopa* for Parkinson's disease, *Venclexta/Venclyxto* for chronic lymphocytic leukemia, *Venclexta* for acute myeloid leukemia, *Orilissa* for pain associated with endometriosis (growths around the uterus and ovaries), *Mavyret/Maviret* for HCV, *Humira* for skin disorders and eye inflammation, and *Imbruvica* for inflammation in organs. The new drugs and indications have allowed AbbVie to post higher sales and earnings each year, albeit at more modest growth rates in recent times due to *Humira* competition.

Supplementing efforts to enhance the product lineup through internal development and asset purchases has been AbbVie's pursuit of partnerships. The drugmaker has inked several such agreements and, as has been the case with acquisitions, some have proven beneficial, while others have not quite lived up to expectations. In the year following its spinoff from Abbott Labs, AbbVie struck a pact with Alphabet

Inc. subsidiary Calico (California Life Company) to research, develop, and market therapies for people with age-related ailments, more specifically, neurodegeneration (e.g., Alzheimer's, Parkinson's) and cancer. This partnership has gone well, and the companies have extended it through 2022. Also in 2014, Infinity Pharmaceuticals agreed to jointly develop and commercialize its PI3K (phosphoinositide 3-kinase) inhibitor pathway treatment for chronic lymphocytic leukemia and small lymphocytic lymphoma. In this licensing deal, AbbVie paid Infinity $275 million upfront and committed to paying another $530 million, depending on drug sales. Unfortunately, disappointing clinical study data soon caused AbbVie and Infinity to step away from the deal. (Verastem Oncology picked up the drug and was able to bring it to market, under the name *Copiktra*, in 2018.)

During 2015, a collaboration, at the time thought to be worth as much as $1.2 billion in annual sales, was established with Halozyme Therapeutics to combine that company's injectable drug-delivery technology with AbbVie formulations. This deal, however, was also discontinued in late 2016, as Halozyme's technology had some shortcomings. In that same year, AbbVie secured an agreement with Synlogic of Cambridge, Massachusetts to promote a probiotic therapy for irritable bowel syndrome. This therapy has proven to be beneficial to patients. As well, in 2016, the company teamed up with the University of Chicago to research treatments for breast, lung, prostate, colorectal, and hematological cancers over a five-year term. The collaboration is providing important insights. Among others, agreements were reached with Argenx to research immunotherapy treatments, entailing an investment of up to $685 million, and with CytomX Therapeutics to develop and market its *Probody* drugs targeted at leukemia and lymphoma, potentially requiring a $500 million investment by AbbVie. The partnerships provide for the sharing of any future sales receipts. All in all, the research, merger & acquisition, and partnership efforts have helped to diversify the business, but, *Humira's* proportion of sales did increase last year to 58% of the total; this highly effective drug continues to be in demand, domestically.

Current Operations

AbbVie's sole division, Pharmaceutical Products, develops and markets treatments across five categories. In immunology, *Humira* is the primary treatment, addressing arthritis, psoriasis, Crohn's disease, and ulcerative colitis. Like most of the division's offerings, it is mainly marketed in North America and the European Union. Two other immunology drug lines include *Skyrizi*, used for plaque psoriasis, and *Rinvoq*, a treatment for rheumatoid arthritis. Among oncology products offered are: *Imbruvica*, a drug for chronic lymphocytic leukemia, mantel cell lymphoma, Waldenström's macroglobulinemia (a blood cancer), marginal zone lymphoma, and cGVHD, or chronic graft versus host disease, more commonly referred to as organ inflammation. In the virology category, the division produces *Mavyret/Maviret, Viekira Pak*, and *Technivie* for HCV; *Synagis* for severe infant respiratory disease; and *Kaletra* for HIV. Metabolics/hormones products include: *Creon* for pancreatic conditions, *Synthroid* for hypothyroidism, and *AndroGel* used for testosterone replacement. In the area of endocrinology, *Lupron* helps to treat prostate cancer and endometriosis. Additional drugs supplemental to the five main categories are *Orilissa* for endometriosis pain, *Duopa/Duodopa* gel for Parkinson's disease, and *Sevoflurane*, an anesthesia. We note that research & development spending varies year to year; in 2018 it equaled 31% of sales, while last year's ratio was 19%. Typically, it takes eight to 12 years to bring a new drug from the discovery stage to market introduction. Often, the securing of regulatory approvals in the United States and Europe facilitates the entry of a drug to other international markets. AbbVie's manufacturing plants in Illinois, Massachusetts, Michigan, Puerto Rico, Italy, Ireland, Germany, and Singapore supply products across 175 countries.

Potential Allergan Benefits

Prospects for a first-quarter 2020 closing of the Allergan acquisition appear good. To garner Federal approval, Allergan has proposed selling an experimental drug for both Crohn's disease and ulcerative colitis to AstraZeneca and cystic fibrosis and food digesting therapies to Nestlé, thereby alleviating antitrust concerns. Last year, Allergan generated $5.84 billion in net income, adjusted for unusual charges, on revenues of $16.1 billion. (The GAAP, generally accepted accounting principles, net loss for 2019 was $5.27 billion.) Cash flow from operations for the year tallied $7.2 billion. Allergan brings to the table greater access to five growth categories. Medical Aesthetics offers ample long-term expansion opportunities, thanks to the success of Allergan's cosmetic neurotoxin, *Botox*. Botox Therapies, a separate category, provides patients relief from migraines, movement disorders, and bladder conditions. With regard to Neuroscience, the company's *Vraylar* product has proven to be an effective antipsychotic for schizophrenia. Two promising CGRP (calcitonin gene-related peptide) inhibitors for migraines also are in development. Like neuroscience, Allergan's Gastrointestinal business category is a nice fit with AbbVie operations. *Linzess* for irritable bowel syndrome and *Viberzi* for diarrhea and abdominal pain are top sellers. In the Women's Health category, *Lo Loestrin* is an effective contraceptive. Additionally, Allergan's eye care business produces substantial cash flow. The enlarged AbbVie would be much less reliant on *Humira*.

The inclusion of Allergan ought to allow AbbVie to sustain average annual sales growth in the high single-digits; over the 2013-2019 span, sales advanced at a 9% rate. Both AbbVie and Allergan have many new drugs, numbering more than 60, in the regulatory approval process. Cost savings of as much as $2 billion, related to selling, general & administration, research & development, manufacturing, and supply chain functions, might well boost operating leverage enough to result in favorable double-digit net income gains, though probably short of AbbVie's strong historical growth rate of 17.5%. Allergan is expected to make an immediate contribution to AbbVie's bottom line, after adjusting for noncash charges. Ample combined cash flow, close to $20 billion, initially, would provide the means to reduce debt and firm up the balance sheet, while the company continues to pay an attractive dividend. By our calculation, the merged entity will have a long-term debt-to-total capital ratio of 53% at the deal's closing. Within two years, that ratio might decline to 47%; further progress in debt reduction seems likely through 2023-2025.

On its own, as our numerical presentation reflects, AbbVie will probably post modest, but respectable, annual sales growth in the mid-single-digits; net income and cash flow advances should be in the high-single to low-double digits. (As per Value Line convention, we do not incorporate acquisitions into our estimates until they close.) The dividend should keep pace with cash flow. *Imbruvica, Venclexta*, *Skyrizi*, and *Rinvoq* look to be significant growth drivers. New drugs and use indications ought to produce strong sales volume, overcoming any likely market pressure on pricing from the political arena. We believe there is sufficient evidence to support the argument that the addition of Allergan would enable AbbVie to sustain solid top- and bottom-line growth. Such growth would support maintenance of a high yield and annual dividend hikes in the low-double-digits. Investors stand to benefit. ■

Income Statement Data (in millions)						
	2019	2020	2021	2022	2023	2024
Sales	$33,266	***$35,925***	***$38,500***	***$41,000***	***$41,000***	***$41,750***
Cost of Goods	5,396	***6,646***	***6,930***	***7,175***	***6,970***	***$6,889***
Gross Profit	$27,870	***$29,279***	***$31,570***	***$33,825***	***$34,030***	***$34,861***
Operating Expenses	11,676	***11,730***	***12,840***	***13,592***	***12,526***	***$11,335***
Operating Income	$16,194	***$17,549***	***$18,730***	***$20,234***	***$21,505***	***$23,526***
Depreciation	464	***475***	***500***	***525***	***550***	***$575***
Interest Expense	1,197	***1,200***	***1,000***	***800***	***600***	***$600***
Other Income (Losses)	43	***50***	***75***	***100***	***125***	***$150***
Minority Interest	—	—	—	—	—	—
Pretax Income	$14,576	***$15,924***	***$17,305***	***$19,009***	***$20,480***	***$22,501***
Income Taxes	1,252	***1,592***	***1,817***	***2,091***	***2,355***	***$2,700***
Effective Tax Rate	8.6%	***10.0%***	***10.5%***	***11.0%***	***11.5%***	***12.0%***
Minority Interest	—	—	—	—	—	—
Equity Income	—	—	—	—	—	—
Preferred Dividends	—	—	—	—	—	—
Net Income	$13,324	***$14,332***	***$15,488***	***$16,918***	***$18,124***	***$19,801***
Diluted Shares	1,484.0	***1,485.0***	***1,475.0***	***1,465.0***	***1,450.0***	***$1,440.0***
Earnings per Share	$8.94	***$9.65***	***$10.50***	***$11.55***	***$12.50***	***$13.75***
Dividends Declared per Sh.	$4.28	***$4.72***	***$4.88***	***$5.04***	***$5.20***	***$5.36***

Percentage Analysis (in millions)						
	2019	2020	2021	2022	2023	2024
Gross Margin	83.8%	***81.5%***	***82.0%***	***82.5%***	***83.0%***	***83.5%***
Operating Margin	48.7%	***48.9%***	***48.7%***	***49.4%***	***52.5%***	***56.4%***
Pretax Margin	43.8%	***44.3%***	***44.9%***	***46.4%***	***50.0%***	***53.9%***
Net Margin	40.1%	***39.9%***	***40.2%***	***41.3%***	***44.2%***	***47.4%***
Payout Ratio	48%	***49%***	***46%***	***44%***	***42%***	***39%***

All numbers, except percentages and per-share data, are in millions. Numbers in bold italics are *Value Line* estimates; all estimates except percentages and per-share figures are rounded to the nearest whole number.

Average Annual Projected Rates of Growth

(2019-2024)

Sales: *4.5%*

Gross Profit: *4.5%*

Operating Income: *7.5%*

Earnings per Share: *9.0%*

Flow of Funds Data (in millions)	2019	2020	2021	2022	2023	2024
Cash Flow	$13,788	*$14,807*	*$15,988*	*$17,443*	*$18,674*	*$20,376*
Debt Financing	31,482	—	—	—	—	—
Preferred Equity Financing	—	—	—	—	—	—
Common Equity Financing	8	*10*	*12*	*14*	*16*	*18*
Other	(249)	*(51)*	*(16,100)*	*(7,077)*	*(2,865)*	*(4,144)*
Total Funds In	$43,894	*$13,566*	*$(1,400)*	*$8,980*	*$14,325*	*$14,650*
Capital Spending	1,135	*1,200*	*1,300*	*1,400*	*1,500*	*1,600*
Other Investments	1,135	*500*	*500*	*500*	*500*	*$500*
Dividends Paid	6,366	*7,000*	*7,200*	*7,400*	*7,550*	*$7,700*
Debt Retired	1,536	—	*10,000*	*10,000*	*10,000*	—
Preferred Equity Retired	—	—	—	—	—	—
Common Equity Retired	629	—	*900*	*1,080*	*1,275*	*$1,450*
Total Funds Out	$9,666	*$7,500*	*$18,600*	*$18,980*	*$19,325*	*$9,650*
Yearend Working Capital	$33,934	*$40,000*	*$20,000*	*$10,000*	*$5,000*	*$10,000*

Historical Balance Sheet Data (in millions)			
	2017	2018	12/31/19
Cash & Equivalents	$9,789	$8,061	$39,924
Receivables	5,088	5,384	5,428
Inventory	1,605	1,605	1,813
Other	4,741	1,895	2,354
Total Current Assets	$21,223	$16,945	$49,519
Net Property, Plant	2,803	2,883	2,962
Intangible Assets	43,344	36,896	34,253
Other	3,416	2,628	2,381
Total Assets	$70,786	$59,352	$89,115
Accounts Payable	10,226	11,931	11,832
Debt Due	6,015	1,609	3,753
Taxes Payable	—	—	—
Other	400	3,699	—
Total Current Liabilities	$16,641	$17,239	$15,585
Long-Term Debt	30,953	35,002	62,975
Other Liabilities	18,095	15,557	18,727
Stockholders' Equity	5,097	(8,446)	(8,172)
Total	$70,786	$59,352	$89,115

Capitalization & Returns on Capital (In millions)						
	2019	2020	2021	2022	2023	2024
Long-Term Debt	$62,975	*$62,975*	*$52,975*	*$42,975*	*$32,975*	*$32,975*
Stockholders' Equity	($8,172)	*($4,000)*	*($2,000)*	*$2,000*	*$4,000*	*$10,000*
Return on Total Capital	25.4%	*25.3%*	*31.4%*	*38.5%*	*49.8%*	*46.8%*
Return on Equity	NMF	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*

Quarterly Sales (in millions)					
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Full Year
2017	6,538	6,944	6,995	7,739	$28,216
2018	7,934	8,278	8,236	8,305	$32,753
2019	7,828	8,255	8,479	8,704	$33,266
2020	*8,325*	*8,850*	*9,225*	*9,525*	*$35,925*
2021	*8,925*	*9,475*	*9,875*	*10,225*	*$38,500*

Quarterly Sales Growth					
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Full Year
2018	21.4%	19.2%	17.7%	7.3%	16.1%
2019	-1.3%	-0.3%	3.0%	4.8%	1.6%
2020	*6.3%*	*7.2%*	*8.8%*	*9.4%*	*8.0%*
2021	*7.2%*	*7.1%*	*7.0%*	*7.3%*	*7.2%*

Quarterly Earnings Per Share[A]					
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Full Year
2017	1.28	1.42	1.41	1.49	$5.60
2018	1.87	2.00	2.14	1.90	$7.91
2019	2.14	2.26	2.33	2.21	$8.94
2020	*2.25*	*2.40*	*2.60*	*2.40*	*$9.65*
2021	*2.45*	*2.65*	*2.80*	*2.60*	*$10.50*

Quarterly Earnings Per Share Growth					
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Full Year
2018	46.1%	40.8%	51.8%	27.5%	41.3%
2019	14.4%	13.0%	8.9%	16.3%	13.0%
2020	*5.1%*	*6.2%*	*11.6%*	*8.6%*	*7.9%*
2021	*8.9%*	*10.4%*	*7.7%*	*8.3%*	*8.8%*

Quarterly Dividends Paid					
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Full Year
2016	0.57	0.57	0.57	0.57	$2.28
2017	0.64	0.64	0.64	0.64	$2.56
2018	0.71	0.96	0.96	0.96	$3.59
2019	1.07	1.07	1.07	1.07	$4.28
2020	1.18	1.18			

(A) Next earnings report due April 23, 2020. Diluted GAAP earnings: 2017, $3.30; 2018, $3.66; 2019, $5.28.

Alternative Stock Selection

Automatic Data Processing, Inc.

Automatic Data Processing (NDQ: ADP) is the largest U.S.-based provider of payroll, tax management, human resources, and related outsourcing solutions for enterprises of all sizes. The Roseland, New Jersey-headquartered company has an expansive customer base, numbering 810,000 accounts, across 140 countries. Over its 70-plus year history, ADP has proven to be capable of generating strong revenues, earnings, and cash flow throughout the economic cycle. This is an important consideration for investors, given the recent market turmoil related to the economic impact of the global spread of the coronavirus. Near-term operating results may come under some pressure, as customers become more cautious about spending. Longer-term, however, ADP's business performance should be favorable due to positive underlying trends in outsourcing. Notably, management continuously looks for attractive new service lines to enter and, in recent years, has focused on the lucrative Human Capital Management market (see below). The adoption of advanced technologies has helped to enhance services and better leverage revenues at the bottom line. We expect ADP's 45-year string of consecutive annual dividend increases to extend, perhaps at an impressive 10% rate, going forward. This top-quality equity has a yield of 3.0%. More than a full share-price recovery seems likely over the pull to 2023-2025. (For information on the company's dividend reinvestment plan, please go to www.adp.com.)

An Effective Strategy

In 1949, Henry Taub, along with his brother Joseph, founded a manual payroll processing company called Automatic Payrolls, Inc. During the early days, the late U.S. Senator Frank Lautenberg lent his sales and marketing expertise, and he became a partner in 1957. From the beginning, commercial business customers were drawn to the company's services, which supported administrative functions and freed up their resources to focus more on

Value Line Rank & Projections	
Safety™	1
Recent Price	$122.46
2023-2025 Price Forecast	$195-$235

Dividend History & Projections										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Dividends Declared	$1.95	$2.08	$2.24	$2.52	$3.06	***$3.52***	***$3.72***	***$3.92***	***$4.12***	***$4.32***
Dividend Yield	2.3%	2.5%	2.3%	2.2%	2.1%	***2.5%***	***2.4%***	***2.3%***	***2.1%***	***2.0%***

Projected dividend yield results from our anticipated increase in the stock price.

important core activities. The payroll operation's name changed to Automatic Data Processing in the early 1960s, reflecting an emerging reliance on advanced technology to deliver efficient solutions. At that time, ADP began to lease IBM mainframe computers to support its services. Ever since, management has been quick to adopt relevant, attractive new technologies. ADP is well aware that digital technology, globalization, and developing business models are reshaping how people work and, on a regular basis, reconfigures its processes and system platforms to appropriately meet the changing needs of clients.

Management's strategy is based on three objectives. The first is to develop a comprehensive suite of cloud-based HCM (Human Capital Management) solutions for customers, ranging in size from small mom-and-pop businesses to large corporations. Simply stated, HCM Solutions is a complete set of practices for recruiting, managing, and developing employees, with the aim of optimizing the performance and value

Automatic Data Processing, Inc. Price Chart

of an organization. HCM cloud-based software services rely on remote (off-premises) computing assets housed in ADP facilities. These services cover part-time, full-time, and freelance employees, as well as retirees. The second objective of the strategy is to effectively leverage the company's business platforms and processes to gain greater scale in the Human Resources Outsourcing (HRO) market. ADP's HRO line of offerings is focused on providing human resources department administration, payroll, talent management, employee benefits, employer liability, HCM, and other associated services. The third main objective is for the company to use its broad global presence and high-level capabilities to deliver HCM and HRO solutions to client work locations anywhere in the world. ADP combines its local, in-country software assets with its cloud-based, multi-country resources to provide a complete array of supportive services.

Next-Generation Platforms

The company is incorporating a number of "next-generation" platforms into its lineup to deliver top-quality services to the customer base. Process automation, cloud-computing, and mobile Internet access are facilitating the dissemination of HCM solutions to thousands of clients around the world. Such technologies enable customers to adequately address where, when, and how employees are paid. Cloud-based services can be tailored to specific customer needs, while being sufficiently secure, compliant with government regulations, and capable of expansion in scale. Key to ADP's next-generation efforts is the deployment of Artificial Intelligence (AI) to draw on Big Data (large amounts of real world information) to produce organizational and market insights and to aid in management decision-making. Machine Learning, based on algorithms and statistical models, is utilized in the AI software systems to speed and simplify processes. Noteworthy service platforms offered by the company include: the *ADP National Employment Report*, a monthly release of domestic economic data tracking nonfarm employment; *ADP DataCloud*, which accumulates wage, time, location, industry, and other client-specific data to help to gain insights for improved management in, for example, employee overtime and turnover; *ADP Pay Equity Explorer* reveals any significant gaps in compensation within a workforce and in relation to industry norms; *Wisely by ADP* is a platform whereby an organization's members, staff, and/or retirees can use a payroll banking card to quickly access digital accounts; and *ADP Marketplace* is a mobile applications service for clients that collects and processes employee data, while allowing employees to access payroll and human resources department information around the globe. Additionally, the WorkMarket business unit concentrates on providing tailored HCM services to clients employing freelancers.

Operating Segments

ADP has two operating segments identified as Employer Services and Professional Employer Organization (also known as PEO Services). Employer Services accounts for about 70% of annual revenues. This segment markets technology-oriented HCM and HRO services to single-employee organizations, small businesses, mid-sized companies, and large enterprises. Specific service categories are: payroll (e.g., paychecks, electronic wage payment), benefits (medical coverage), talent (recruiting, career development), workforce (time and attendance), compliance (tax withholding, garnishments), insurance (group health plans), and retirement (401-k plans) management and administration. Cloud-based offerings are bundled into three primary domestic service packages including, *RUN Powered by ADP*, which is aimed at small business customers, is utilized by roughly 640,000 clients; *ADP Workforce Now*, meeting the requirements of 70,000 mid-sized and large commercial accounts; and *ADP Vantage HCM*, utilized by 500 of the biggest enterprises in the customer base. ADP characterizes small businesses as those entities having 49 employees, or less, mid-sized companies as employing 50 to 999 people, and large organizations as those including workforces of 1,000 or more people. The most prominent enterprises (including some government agencies) may have tens of thousands of workers. We note that the company's primary service packages incorporate *ADP SmartCompliance* to ensure that all relevant tax and regulatory standards are satisfied. Outside of the United States, the *ADP GlobalView, ADP Celergo*, and *ADP Streamline* packages deliver in-country and multinational services to about 65,000 clients.

PEO Services, branded as *ADP TotalSource*, is an outsourcing business, whereby the company provides in-house staff, or "worksite employees," skilled in comprehensive employment administration, for its clients. The operating segment has adopted a co-employment model in serving its primary customer base of small and mid-sized businesses. Under this model, ADP assumes certain employer responsibilities, most prominently payroll processing and tax filings (e.g., W-2 documents), allowing its client to concentrate more on day-to-day operations. Essentially, ADP creates a virtual human resources department, based on cloud HCM software, having capabilities on a par with those of a fully-staffed corporate HR office. PEO Services has about 12,500 customers and 580,000 worksite employees in place across all 50 states. *ADP TotalSource* provides clients of more modest size and means the same critical solutions offered by the Employer Services segment. The *ADP Comprehensive Services* line offered by the segment is the key to delivering a full suite of services. With ADP's services, smaller clients can better manage their staff, while providing enhanced benefits, career development and support, than they could on their own.

The PEO Services segment also markets related solutions, via its *ADP Comprehensive Outsourcing Services* line, to large enterprise customers. This line is combined with the *ADP Vantage HCM* offering to meet those customers' particular requirements. The larger customers can benefit from savings on HR department outlays and the ability to devote more resources to core activities, strategy, and operating performance. Additionally, the segment offers *ADP Recruitment Outsourcing Services*, which helps customers to customize and refine their search for talent, in line with their specific business strategy. Outside of the United States, the company markets payroll and HCM solutions to customers of various sizes, covering a total employee population of 15 million.

ADP's main market is the United States, with Canada and Europe being the next most significant sales territories. None of ADP's 810,000 clients account for more than 2% of annual revenues. Over the years, the company's two operating segments, supported by a combined staff of 58,000, have competed well against the likes of SAP, Workday Inc., Ultimate Software Group Inc., Oracle Corp., and Paychex. We view the company's efforts to utilize cloud computing, artificial intelligence, machine learning, and mobile applications as prudent. Such technologies should enable ADP to meet the rapidly changing requirements of its clients and their employees. They augur well for long-term growth, net income, and cash flow.

Funds Held for Clients

A meaningful component of ADP's business is the nonoperating segment Funds Held for Clients. On the profit-and-loss statement, interest earned on client funds is reported as revenues, and it amounted to $562 million, or about 4% of the top line, in fiscal 2019. (Note that fiscal years end June 30th.) That interest was earned on $29.1 billion in total funds held as an obligation to clients on the balance sheet. This obligation is quite large, in comparison to the company's long-term debt balance of $2.0 billion, but it is funded by the customer base. Interest earned on the funds held has increased from $397 million in fiscal 2017, as the obligation has expanded by $1.9 billion. Expansion of this balance-sheet responsibility is a positive indication of growing business. ADP invests client funds in high-quality senior debt, including auto loan, credit card, equipment lease, and rate reduction (or securitized cash flow) receivables, mostly backed by prime collateral. Furthermore, the company invests client funds in senior debt issued by the Federal Home Loan Bank and Federal Farm Credit Bank systems. Management ladders the maturities of all of these investments over a number of years, thereby containing risk from interest rate volatility. Recent Federal Reserve rate cuts will probably restrain growth in interest earned in the coming quarters. ADP holds funds for its clients to facilitate recurring payroll transaction requirements.

Favorable Results

ADP has a good track record of posting favorable operating results. Since the 2007-2009 recession, the company's positive top- and bottom-line progress was only interrupted twice, in fiscal 2007 and in 2015, due to the respective-year spinoffs of a securities brokerage services business (Broadridge Financial Solutions) and an auto dealer services operation (CDK Global). Though profitable, these service support operations were a bit outside of the company's core competencies. Even with the modest setbacks to financial results, ADP's revenues advanced a very respectable 5.0% a year and net profit increased 7.3% a year, on average, from fiscal 2007 through 2019. Cash flow improved at a 6.7% annual rate during that period. A 19% reduction in shares outstanding supported better per-share growth trends in the one-to-two percentage-point range. In the most recent five-year period, ending in fiscal 2019, though top-line gains did ease to 3.0% a year, effective operating leverage helped to lift net profits at a stronger 11.0% annual clip, while cash flow increased at a rate of 10.3%. The top-line progress slowed due to greater scale, unfavorable foreign currency translation, and lower interest rates. Debt leverage was not significant in fiscal 2007, but it stepped up to 27% of total capital in fiscal 2019. In late 2015, the company issued $2.0 billion in low-coupon (2.25%-3.375%) debt to fund the repurchase of 25 million common shares and, thereby, reduce its overall cost of capital. We note that from fiscal 2007 to 2019, ADP's return on total capital improved from the low-20% level to the low-30% range. Over this time span, the stock produced a total return (share-price appreciation and dividend income) of 311%, versus 104% for the Standard & Poor's 500 Index.

Looking to 2023-2025, we project average annual increases in revenues, net income, and cash flow of 7%, 10%, and 9% respectively. That should support per-share dividend growth of 10%, or more, a year; stock buybacks look to continue. Backing, in part, our projections is that fact that worldwide new business bookings have been on track with management's 7%-9% annual growth goal. Also, in recent times, ADP's efforts to better align its services with end-market needs, reduce costs (via a voluntary early retirement program), and to optimize employee productivity are paying off in improved profitability. Client retention has reached record levels, of late. The negative impact of the coronavirus on the macroeconomy poses a risk. Should this prove to be more of a long-term phenomenon, ADP ought to fare better than the broader market averages. Earnings and cash flow look to be healthy enough to keep the dividend moving higher; ADP's yield will probably stay above 2.0%. More than a full long-term share-price recovery seems likely. Indeed, we believe ADP stock will outpace the S&P 500 Index over the next three to five years. ■

Quarterly Sales (in millions)					
	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Fiscal Yr.
2017	2,917	2,987	3,411	3,065	$12,380
2018	3,079	3,235	3,693	3,319	$13,326
2019	3,323	3,506	3,847	3,499	$14,175
2020	3,496	3,670	*4,100*	*3,734*	*$15,000*
2021	*3,725*	*3,900*	*4,375*	*4,000*	*$16,000*

Quarterly Sales Growth					
	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Fiscal Yr.
2018	5.6%	8.3%	8.3%	8.3%	7.6%
2019	7.9%	8.4%	4.2%	5.4%	6.4%
2020	5.2%	4.7%	*6.6%*	*6.7%*	*5.8%*
2021	*6.6%*	*6.3%*	*6.7%*	*7.1%*	*6.7%*

Quarterly Earnings Per Share [A]					
	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Fiscal Yr.
2017	0.81	0.87	1.31	0.59	$3.58
2018	0.90	1.05	1.45	0.25	$3.66
2019	1.15	1.27	1.73	1.09	$5.24
2020	1.34	1.50	*1.95*	*1.36*	*$6.15*
2021	*1.55*	*1.70*	*2.15*	*1.60*	*$7.00*

Quarterly Earnings Per Share Growth					
	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Fiscal Yr.
2018	11.1%	20.7%	10.7%	-57.6%	2.2%
2019	27.8%	21.0%	19.3%	NMF	43.2%
2020	16.5%	18.1%	*12.7%*	*24.8%*	*17.4%*
2021	*15.7%*	*13.3%*	*10.3%*	*17.6%*	*13.8%*

Quarterly Dividends Paid					
	Mar. 31	Jun. 30	Sep. 30	Dec.31	Full Year
2016	0.53	0.53	0.53	0.53	$2.12
2017	0.57	0.57	0.57	0.57	$2.28
2018	0.63	0.63	0.69	0.69	$2.64
2019	0.79	0.79	0.79	0.79	$3.16
2020	0.91	0.91			

(A) Next earnings report due April 29, 2020. EPS may not add to total due to change in share count.

NOTES

Value Line®

Value Line Publishing LLC
551 Fifth Avenue
New York, NY 10176
1-800-VALUELINE

www.valueline.com