

The background features a collage of healthcare-related images, including a hand in a blue glove, a stethoscope, a hand holding a tablet, and a hand holding a syringe. These images are overlaid on a grid of white hexagons. Various medical icons are scattered throughout, such as a heart with an ECG line, a first aid kit, a pill bottle, a microscope, and a hospital building. The overall color palette is dominated by light blues and greys.

Health Care Sector Presentation

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Sector size: 9.52% of S&P500

SPX Index Display Alert Export Member Weightings

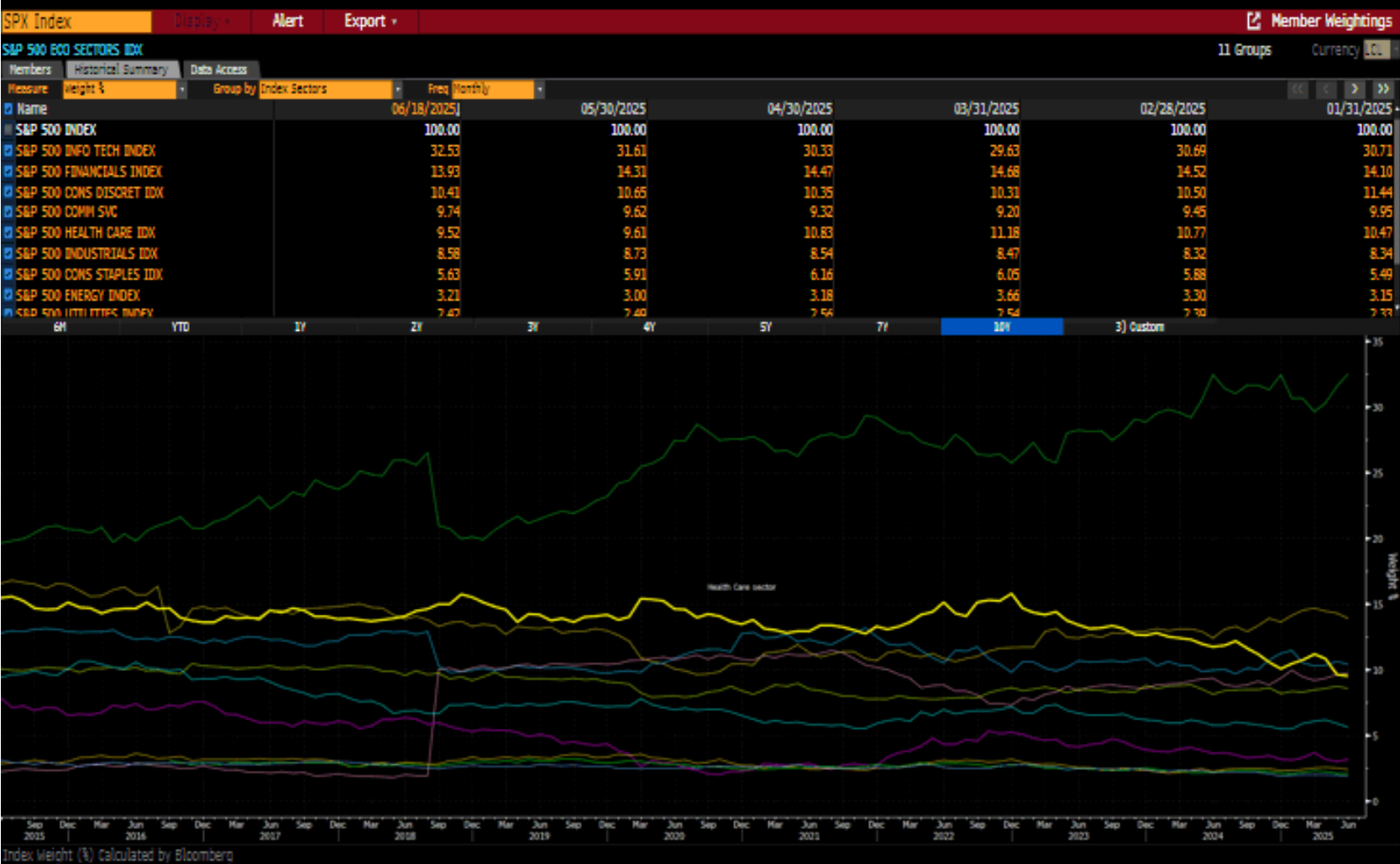
S&P 500 SECTORS IDX 503 Members and 11 Groups Currency

Members Historical Summary Data Access

3 Stats Group by Index Sectors 4 Fields As of 09/28/2023

Ticker	Name	Weight (%)	Subgroup Weight	Shares	Price
+ SSINFT	S&P 500 Information Technology Sector GICS Level 1 Index	32.525868		--	4,710.1997
+ SSFINL	S&P 500 Financials Sector GICS Level 1 Index	13.932706		--	833.5128
+ SSCOND	S&P 500 Consumer Discretionary Sector GICS Level 1 Index	10.409598		--	1,698.3867
+ SSTELE	S&P 500 Communication Services Sector GICS Level 1 Index	9.739710		--	381.2733
+ SSHLTH	S&P 500 Health Care Sector GICS Level 1 Index	9.518185		--	1,547.2883
+ SSINDU	S&P 500 Industrials Sector GICS Level 1 Index	8.582975		--	1,200.7666
+ SSCONS	S&P 500 Consumer Staples Sector GICS Level 1 Index	5.630967		--	884.9047
+ SSENRS	S&P 500 Energy Sector GICS Level 1 Index	3.207641		--	669.3259
+ SSUTIL	S&P 500 Utilities Sector GICS Level 1 Index	2.415217		--	406.6058
+ SSRELT	S&P 500 Real Estate Sector GICS Level 1 Index	2.108694		--	260.8730
+ SSMATR	S&P 500 Materials Sector GICS Level 1 Index	1.928439		--	546.5672

Sector performance



Industries

- Biotechnology
- Health Care Equipment & Supplies
- Health Care Tools & Services
- Life Sciences Tools & Services
- Pharmaceuticals



Largest Companies

Lilly \$749.9B

Johnson & Johnson \$366.6B

abbvie \$327.6B

UNITEDHEALTH GROUP \$280.2B

S&P 500 Health Care Sector GICS Level 1 Index

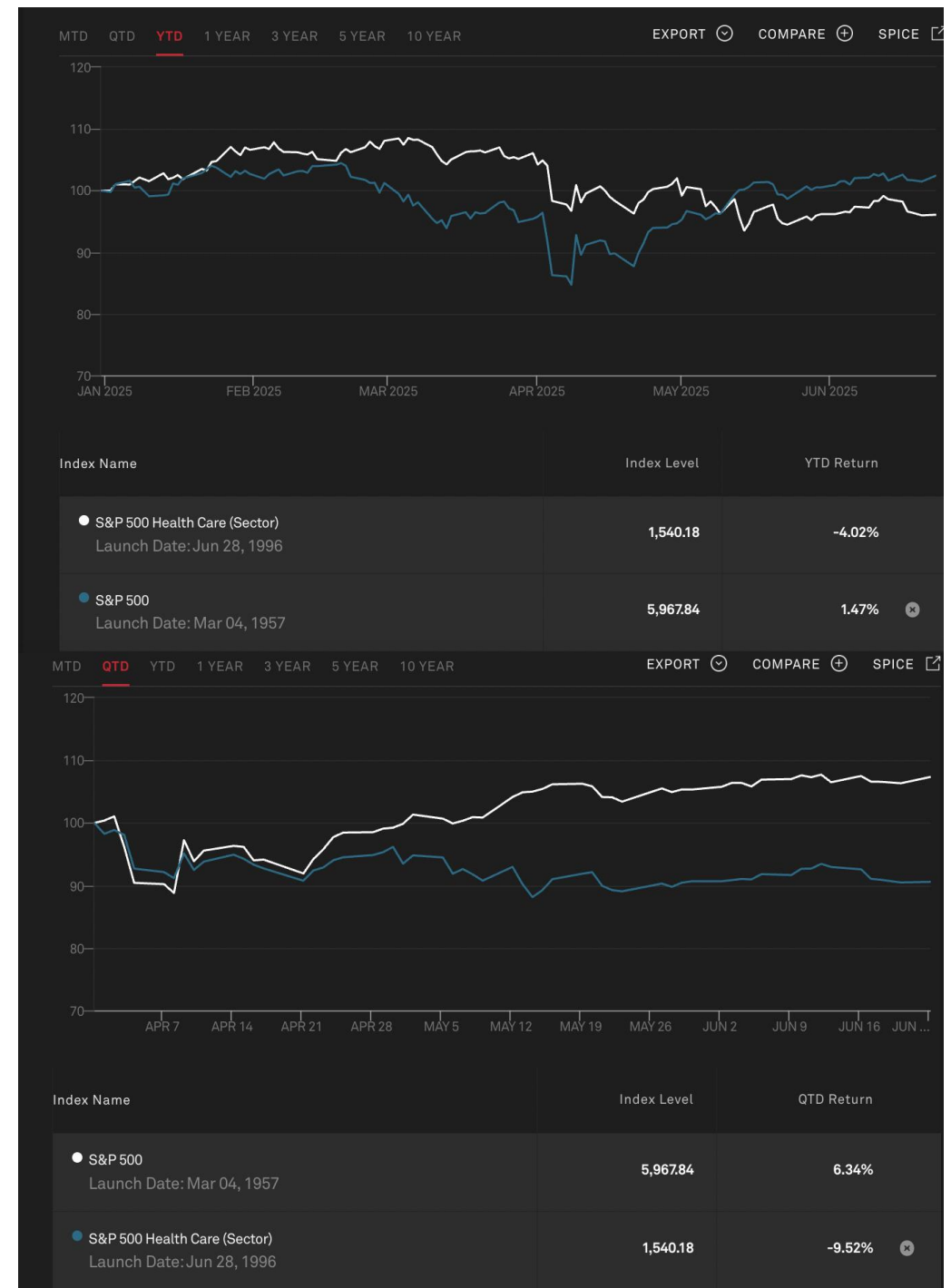
	Ticker	Name	Weight	Shares	Price	Market Cap
1						
2	5.03T	--	--	1		
3	LLY UN Equity	Eli Lilly & Co	--	--	785.0300	749.89B
4	JNJ UN Equity	Johnson & Johnson	--	--	150.7300	366.64B
5	ABBV UN Equity	AbbVie Inc	--	--	185.4900	327.63B
6	UNH UN Equity	UnitedHealth Group Inc	--	--	307.2000	280.19B
7	ABT UN Equity	Abbott Laboratories	--	--	132.4100	230.15B
8	MRK UN Equity	Merck & Co Inc	--	--	79.2900	196.56B
9	ISRG UW Equity	Intuitive Surgical Inc	--	--	509.4900	183.55B
10	AMGN UW Equity	Amgen Inc	--	--	289.6300	155.96B
11	BSX UN Equity	Boston Scientific Corp	--	--	101.3700	150.50B
12	TMO UN Equity	Thermo Fisher Scientific Inc	--	--	392.5600	147.32B
13	SYK UN Equity	Stryker Corp	--	--	373.2600	142.69B
14	DHR UN Equity	Danaher Corp	--	--	194.4400	140.09B
15	PFE UN Equity	Pfizer Inc	--	--	23.8800	136.45B
16	GILD UW Equity	Gilead Sciences Inc	--	--	108.0000	134.34B
17	VRTX UW Equity	Vertex Pharmaceuticals Inc	--	--	448.4000	113.50B
18	MDT UN Equity	Medtronic PLC	--	--	85.7300	110.52B
19	BMJ UN Equity	Bristol-Myers Squibb Co	--	--	46.8400	96.12B
20	MCK UN Equity	McKesson Corp	--	--	728.9100	90.63B

YTD

- Healthcare: -4.02%
- S&P: +1.47%
- Underperforming the market by 5.49%

QTD

- Healthcare: -9.52%
- S&P: 6.34%
- Underperforming the market by 15.86%



Business Analysis – Demand & Supply Analyzation

Industry Life Cycle & Business Cycle Sensitivity: Healthcare sector is a mature industry and less sensitive to recessions than cyclical industries. (stable, defensive growth)

External factors:

- *Aging Population:* The 65+ population share is rising rapidly. Older adults utilize far more healthcare.
- *Technological Innovation:* Newer products and services, improving outcomes or attracting patients who previously went untreated.

Major User Segments & Geographic Demand Distribution: The major user segments align closely with insurance coverage categories and age brackets. It is typically in areas with higher population density and skews toward regions with older populations.

Input-Output Linkages: The sector consumes a vast array of goods and services to deliver care and profoundly affect societal well-being and economic productivity. (healthier workforce in other industries)

New Capacity Additions:

- "Hospital-at-home" programs and virtual care infrastructure to treat patients remotely.
- Medical schools, nursing programs, and allied health training are ramping up enrollment to address shortages.
- R&D expansion on biopharmaceutical and medical technology since COVID.

Business Analysis – Profitability and Pricing

Supply-Demand Interaction: Pricing is heavily influenced by third-party payers (like insurers and government programs). Although healthcare costs keep rising due to the higher wages and expensive new treatment, providers can't raise prices freely due to the high demand.

Product Segmentation: Healthcare sector includes five key segments: Pharma, Biotech, Medical Devices, Services, and Insurance. Each with different levels of risk, profitability, and pricing power.

Industry Structure & Competition: Healthcare competition varies by segment, but overall, the industry is becoming more consolidated, with fewer major player, such as UnitedHealth, HCA, CVS, etc., controlling insurance, hospitals, and drug markets.

Ease of Entry is very low due to strict regulation and strong brand loyalty. New companies also struggle to compete with established players who control networks, talent, and patented technologies.

Strength of Customers/Suppliers: Individual patients have little bargaining power while large buyers hold significant negotiating power over prices and coverage. These large buyers often shaping what care gets delivered and at what cost. Meanwhile, suppliers can have strong power if their product is unique.

Threat of Substitutes: Healthcare faces rising threats from substitutes like telehealth, generics, biosimilars, home care, and even medical tourism, which offer lower-cost or more convenient alternative to traditional services. While not all care can be replaced, much of it can shift.

Economic Analysis



Healthcare is typically seen as a defensive sector:

People seek care regardless of economic cycles

Often used in “safe haven” strategies during downturns



However, not all subsectors behave the same:

Biotech: More speculative, R&D-dependent

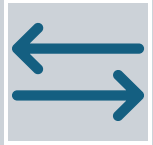
Insurers/Providers: Exposed to policy shifts & labor costs

Pharma/Devices: Sensitive to regulatory changes and inflation

S&P 500 Healthcare (HCX), S&P 500 (^SPX)



Economic Analysis



Beta = -0.175 → Healthcare moved *slightly in the opposite direction* of the S&P 500 during this period



Confirms that **macroeconomic/market trends don't fully explain healthcare performance**



Emphasizes the need to also consider **policy, regulation, and sector-specific dynamics**

Financial Analysis – Sector Overview

Return Analysis: 6 mo. – 1 year (-)

- Potential changes in Medicare/Medicaid, ACA, and other financing
- Tariffs
- Health insurance profit margins decrease
 - Rising utilization, low Medicare advantage rates
- Disappointing trials, uncertainty of drug pricing
- Labor cost inflation, slowing demand post-covid
- P/E: Decreasing, modest growth expectations, regulatory risk, high R&D
 - Below 5-year average 22.71, in-line with 20-year average 17.33
 - Healthcare information services highest P/E
 - Medical devices lowest P/E



Financial Analysis – Sales and Earnings

Increasing sector sales

- Pharmaceutical \$1.7T (highest sales volume) and medical devices \$540B

Rebound in earnings

- Increase in labor costs, Medicare/Medicaid utilization, policy headwinds (2024)
- Boom in GLP-1s, AI integration, reduced labor costs, significant growth in products (24-25)

Margins – fluctuating but improving

- Pharmaceutical 40-80%
- Biotech 70-80%
- Equipment and supplies 20-30%
- Tools and services 20-30%

SPTRHLTH J 2596.13 -4.73 -- / --
 On 18-Jun d Vol 0 2600.86 H 2612.54 L 2582.28 Prev 2600.86
 S5HLTH Index Actions Export Settings
 SAP 500 Health Care Sector GICS Level 1 Index Compare (Sep) Periods 10 Annuals Cur USD

	2018 Y	2019 Y	2020 Y	2021 Y	2022 Y	2023 Y	2024 Y	Current	2025 Y Est	2026 Y Est
12 Months Ending	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/30/2022	12/29/2023	12/31/2024	06/18/2025	12/31/2025	12/31/2026
Income & Expenses per Share										
Sales	593.07	616.06	681.38	768.57	868.71	932.58	1,021.71	1,074.65	1,129.57	1,194.05
Gross Margin %	30.66	30.90	29.49	29.63	29.06	26.84	25.59	25.20	26.67	26.24
EBIT	55.28	58.66	62.20	70.87	86.75	74.28	67.47	79.42	117.96	129.48
Margin %	9.31	9.47	9.11	9.22	9.96	7.96	6.60	7.39	10.44	10.84
EBITDA	75.55	81.57	87.87	99.46	115.67	104.51	99.02	111.08	137.10	148.72
Margin %	12.73	13.17	12.67	12.94	13.28	11.23	9.69	10.33		
R&D Expense	25.71	27.99	27.84	34.04	35.76	45.94	48.63	48.77		
Earnings	61.63	66.17	69.96	86.40	96.96	81.69	78.69	88.98	92.27	101.07
Earnings before XO	34.75	44.17	48.67	58.13	65.21	53.55	44.02	61.14		
Diluted Earnings from Cont. Ops	51.95	54.09	57.44	72.53	83.12	69.20	69.34	77.63		
Earnings before XO, Positive	35.69	47.50	50.40	65.21	70.24	55.34	49.52	65.21	76.48	86.08

SPX ↑ 5980.87 -1.85 5931.43 / 6027.69
 On 18-Jun d 5987.93 H 6018.25 L 5971.89 Prev 5982.72
 SPX Index Actions Export Settings
 SAP 500 INDEX Compare (Sep) Periods 10 Annuals Cur FRC (USD)

	2018 Y	2019 Y	2020 Y	2021 Y	2022 Y	2023 Y	2024 Y	Current	2025 Y Est	2026 Y Est
12 Months Ending	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/30/2022	12/29/2023	12/31/2024	06/18/2025	12/31/2025	12/31/2026
Income & Expenses per Share										
Sales	1,308.62	1,356.77	1,338.73	1,487.93	1,705.61	1,784.22	1,869.50	1,904.62	1,954.96	2,076.10
Gross Margin %	34.82	35.09	33.59	35.75	34.57	33.50	33.91	34.66	36.97	37.38
EBIT	177.55	181.63	139.91	227.38	250.34	248.29	270.30	287.81	334.12	380.42
Margin %	13.34	13.02	10.31	15.06	14.53	13.48	13.86	14.52	17.09	18.32
EBITDA	250.14	269.38	231.24	308.45	341.11	356.19	393.21	409.92	426.20	480.22
Margin %	18.80	19.30	17.03	20.46	19.81	19.33	20.17	20.68		
R&D Expense	45.65	50.73	49.67	58.28	73.43	85.20	90.10	99.95		
Earnings	160.09	164.66	142.82	198.28	223.97	221.59	237.34	254.10	263.32	295.72
Earnings before XO	134.97	136.84	101.84	180.01	192.34	189.56	204.30	221.92		
Diluted Earnings from Cont. Ops	149.57	152.20	130.36	183.61	210.29	208.10	221.86	235.26		
Earnings before XO, Positive	147.38	145.59	128.70	189.74	201.58	203.39	216.61	231.87	240.72	276.13

Financial Analysis – Cash Flow

- Biotechnology: net generator of cash flows
 - High margins, patent protection, high start up costs
 - High CF generator
- Health Care Equipment & Supplies: net generator of cash flows
 - High margins, recurring sales, high R&D, -20% ROE
- Health Care Tools & Services: net generator of cash flows
 - United Health Group highest FCF (Medicare and retirement segment)
- Life Sciences Tools & Services: net generator of cash flows
- Pharmaceuticals: net generator of cash flows
 - High margins, patent protection, strong demand
 - High CF generator, 10-12% ROE

12 Months Ending	2018 Y 12/31/2018	2019 Y 12/31/2019	2020 Y 12/31/2020	2021 Y 12/31/2021	2022 Y 12/30/2022	2023 Y 12/29/2023	2024 Y 12/31/2024	Current 06/18/2025	2025 Y Est 12/31/2025	2026 Y Est 12/31/2026
Cash Flow Items per Share										
Cash From Operations	61.35	67.07	80.18	98.81	104.87	89.13	73.89	88.45	107.70	120.36
Cash Flow From Investing	-19.58	-41.80	-55.56	-53.46	-49.08	-47.62	-66.83	-40.08		
Cash From Financing	-27.75	-31.44	-12.32	-47.61	-51.45	-24.97	-30.23	-49.52		
Capital Expenditures	-11.24	-12.23	-12.96	-14.66	-15.84	-17.25	-17.55	-17.98	-17.96	-18.77
Free Cash Flow	50.10	54.84	67.22	84.57	89.03	71.88	56.56	70.46	88.23	96.73
Dividends	17.37	19.50	21.02	23.02	25.06	26.47	28.27	29.08	30.49	32.39
Dividends, Gross	17.37	19.50	21.02	23.02	25.06	26.47	28.27	29.08		
Dividends, Net	17.37	19.50	21.02	23.02	25.06	26.47	28.27	29.08		
Reference Items										
Free Cash Flow Yield	5.00	4.62	5.08	5.14	5.61	4.52	3.52	4.55		
Dividend Yield	1.74	1.64	1.59	1.40	1.58	1.66	1.76	1.88	1.97	2.09
Dividend Yield (Gross)	1.74	1.64	1.59	1.40	1.58	1.66	1.76	1.88		
Dividend Yield (Net)	1.74	1.64	1.59	1.40	1.58	1.66	1.76	1.88		

\$24.86B
United Health FCF

7.42%
Sector operating
margin ↑

10-15%
Sector ROE

10-12%
Sector average
R&D % return
on sales

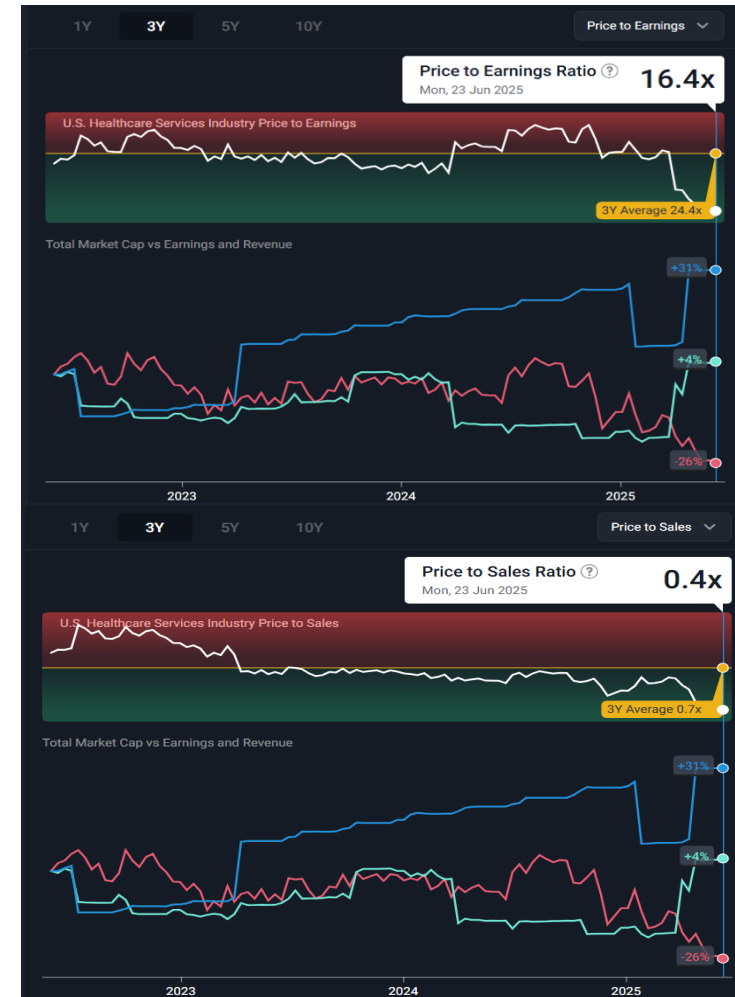
Valuation Analysis

P/E, P/S, and P/B Ratios

- Forward P/E is 16.4; cheaper relative to rest of S&P 500, low for 3 year median
 - P/S is around .4, which is relatively low for the industry (~.7 3 year median)
 - P/B is ~4-5, but varies from company to company
 - Valuation in the sectors varies widely from industry to industry

Ex: Pharmaceuticals P/E are ~15-20, while Medical devices are ~25-30. Additionally, biotech has a very high P/E, but it is not a meaningful due to main goals being on future growth.

- Because there is variation from industry to industry, there is also variation from company to company, depending on area of specialization
- P/E ratios have contracted since 2021 due to COVID gains returning to normal and interest rates rising
- P/S ratios also contracted harshly post-COVID, but have since returned to normal
 - P/B is relatively stable; was less effected by COVID than other ratios
- P/CF varies widely from industry to industry and company to company, so not much consensus on expanding or contracting



Sp500
Healthcare--->

▼			CY 2021	CY 2022	CY 2023	CY 2024	LTM
▼	TEV/ Total Revenue (x) ⓘ	Average	2.26	2.08	1.92	1.99	1.79
▼	TEV/ EBITDA (x) ⓘ	Average	15.20	13.58	14.00	17.00	15.05
▼	TEV/ EBIT (x) ⓘ	Average	20.09	17.25	18.15	22.93	19.83
▼	Price/ Earnings before Extra (x) ⓘ	Average	31.40	23.02	26.36	40.06	32.27
▼	Price/ Normalized EPS (x) ⓘ	Average	31.25	26.59	27.88	35.61	30.76
▼	Price/ Book (x) ⓘ	Average	5.05	4.91	4.66	5.09	4.79
▼	Price/ Tangible Book (x) ⓘ	Average	NA	NA	NA	NA	NA
▼	TEV/ Unlevered FCF (x) ⓘ	Average	23.34	22.11	21.96	36.34	29.52
▼	Market Cap/ Levered FCF (x) ⓘ	Average	22.40	21.24	21.29	37.22	29.36

SP500----->

▼			CY 2021	CY 2022	CY 2023	CY 2024	LTM
▼	TEV/ Total Revenue (x) ⓘ	Average	3.31	2.77	2.70	3.27	3.39
▼	TEV/ EBITDA (x) ⓘ	Average	17.16	13.54	14.01	16.70	16.74
▼	TEV/ EBIT (x) ⓘ	Average	25.00	18.16	18.81	22.38	22.32
▼	Price/ Earnings before Extra (x) ⓘ	Average	33.91	21.48	24.08	28.15	27.72
▼	Price/ Normalized EPS (x) ⓘ	Average	37.65	26.74	27.71	33.17	33.01
▼	Price/ Book (x) ⓘ	Average	4.54	4.11	4.13	4.86	4.94
▼	Price/ Tangible Book (x) ⓘ	Average	14.03	12.85	12.28	13.29	12.52
▼	TEV/ Unlevered FCF (x) ⓘ	Average	32.08	27.67	29.63	34.79	35.28
▼	Market Cap/ Levered FCF (x) ⓘ	Average	33.44	28.17	29.91	35.90	36.18

Valuation Analysis

Valuation Expansion/Contraction

- Currently, the healthcare sector is trading at a discount, and the lowest discount in the last few decades

Expansion: Because interest rates have stabilized, I believe we can expect this discount to move closer to even, which would result in expansion. Additionally, continued innovation and an older population should both be positive for the sector.

Technical Analysis

- In the short term, technical analysis suggests the sector to be bearish due to its recent decline in the past week. Long-term technical analysis also suggests a negative trend
 - Continued decreases in the market from 2021 highs
 - So, looking at where the sector is at in its cycle, its valuation can be expected to expand, but its technical analysis shows continued downwards trends both in the short-term and long-term, so it is difficult to say.

Final Recommendation

SIM should keep the same weight

- SP500 weighting: 9.52%, SIM weighting 10.69%
 - Keep the same weight (overweighted)
- **Positives:** market momentum, R&D, innovation, GLP-1s
- **Risks:** approvals, public policy, insurance carrier backlash
- **Overweigh:** Pharma (low volatility, high returns)
- **Under weigh:** Biotech, medical equipment and supplies
 - vulnerable to regulatory changes, interest rates and approvals
- Sector specific part we're interested in is more pharmaceutical and devices, less insurance and service