



Healthcare


--SIM Sector Presentation

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Agenda

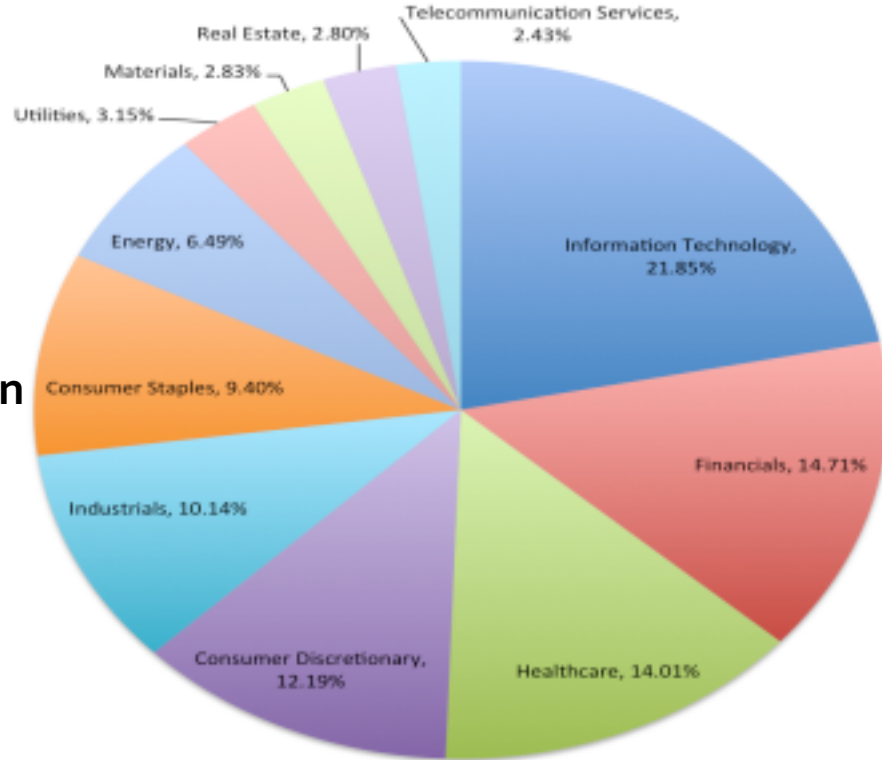
- Sector Overview
- Business Analysis
- Economic Analysis
- Financial Analysis
- Valuation
- Recommendation



Sector Overview

Sector Overview - S&P 500 Sector Weights

**Healthcare
Sector:
14.01%;
\$4.56 Trillion**



Source: Fidelity.com
As of 03/17/2017

Sector Overview — Industries Included

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

Sector Overview - Top Companies



UnitedHealth Group

MKT CAP: \$ 159.0 B



Medtronic

MKT CAP: \$ 110.92 B

MCKESSON

Empowering Healthcare

MKT CAP: \$ 31.01 B



GILEAD

MKT CAP: \$ 91.8 B



EXPRESS
SCRIPTS®

MKT CAP: \$ 38.69 B

ThermoFisher
SCIENTIFIC

MKT CAP: \$ 60.98 B



Abbott

MKT CAP: \$ 77.57 B

Aetna®

MKT CAP: \$ 45.25 B

Sector Overview - Portfolio Composition

Company	Portfolio Weight
Gilead Sciences (GILD)	3.51%
Medtronic (MDT)	2.05%
HCA Holdings (HCA)	4.66%
McKesson (MCK)	4.04%

Current S&P 500 Concentration of Healthcare	Current SIM Concentration of Healthcare	Over/Under Weight
14.10%	14.26%	+ 0.16%

Sector Overview - Performance

Sector:

- QTD: 8.20%
- 1Y Ann. Return: 12.12%
- 5Y Ann. Return: 17.25%

S&P 500:

- QTD: 5.20%
- 1y Ann. Return: 17.61%
- 5Y Ann. Return: 13.31%



AS OF MAR 24, 2017

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EXPORT

Index Name	Index Level	1 Yr Ann. Returns
■ S&P 500 Health Care (Sector) (TR) LAUNCH DATE: JUN 28, 1996	1,252.08	12.12 % ▲
■ S&P 500 (TR) LAUNCH DATE: SEP 11, 1989	4,501.11	17.61 % ▲

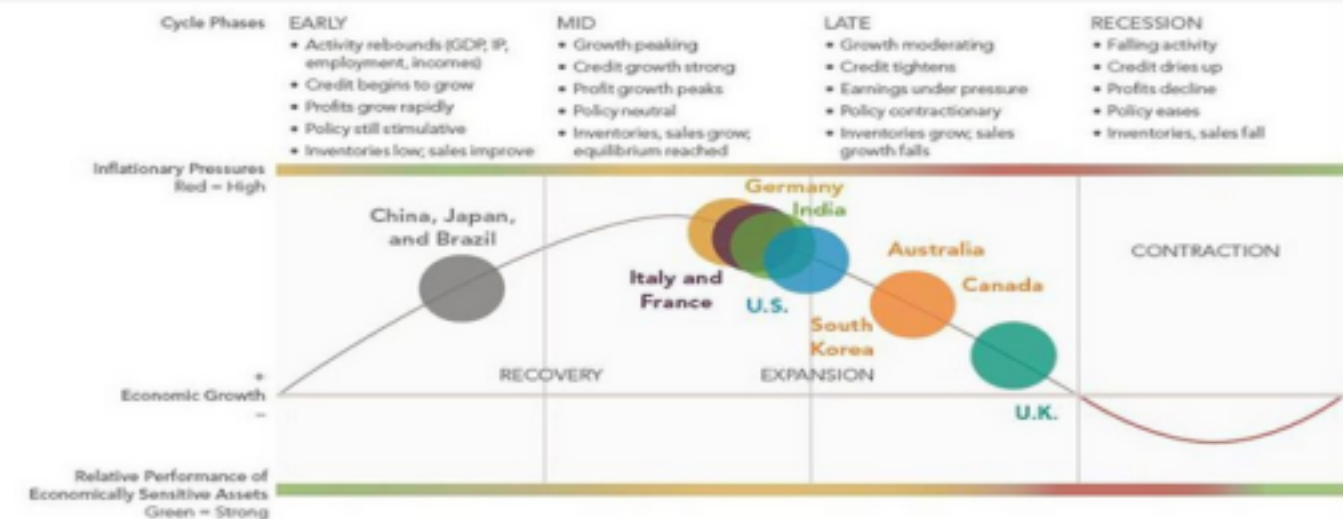


Business Analysis

Business Analysis

The world's largest economies are all in expansion, though at various phases of the business cycle.

Business cycle framework



Sector Performance by Business Cycle Phase

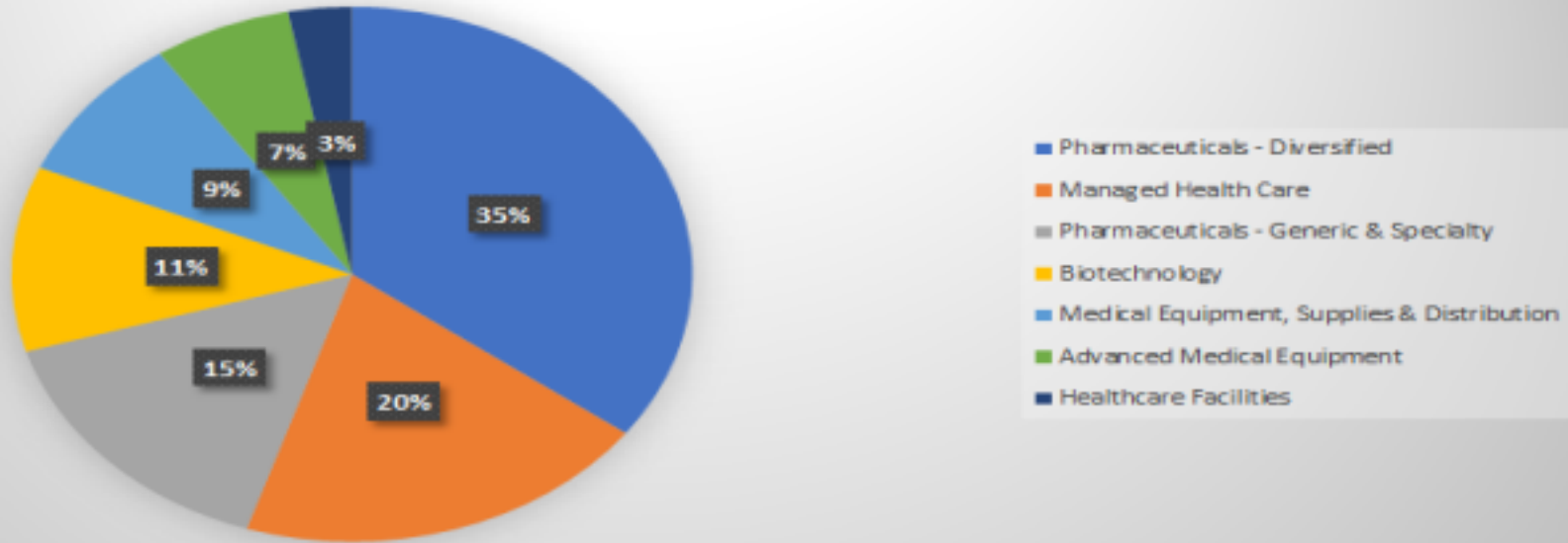
Sector	Early	Mid	Late	Recession
Health Care	-		++	++

Legend:

- ++ Consistently Overperform
- ++ Consistently Underperform
- No Clear Pattern
- + Overperform
- Underperform

Business Analysis

Industry Concentration



- Pharmaceuticals - Diversified 166.5B
- Managed Health Care 94.2B
- Pharmaceuticals - Generic & Specialty 72.6B

- Biotechnology 53.1B
- Medical Equipment, Supplies & Distribution 42.2B
- Advanced Medical Equipment 31B
- Healthcare Facilities 14.3B

Business Analysis

- **Sector Overview - Defensive**
 - Supply side increasing: Value added to GDP from Healthcare Sector increased 30% from 2008 to 2015
 - Demand side increasing: Changing Demographics
- **Power of Buyers: Low** → Limited bargaining/purchasing power by consumer, relatively inelastic demand
 - Uncertainty drug control price regulation
- **Barriers to Entry: High** → Sector requires large capital expenditures in infrastructure, R&D, and regulation compliance
 - Patent Protection and Exclusivity Rights key value generators
 - Foreign Exchange Risks

Business Analysis

- **Product Substitution: Moderate** → Risk of Loss of patent protections and exclusivity rights, environment of increasing generic alternatives
- **Power of Suppliers: Low** → Large number of suppliers, concentration of sales to a small number of large firms (ex: pharma)
- **Industry Competition: High** → Limited threat of new competition due to small margins which drive economies of scale
 - High probability of acquisition of smaller firms



Economic Analysis

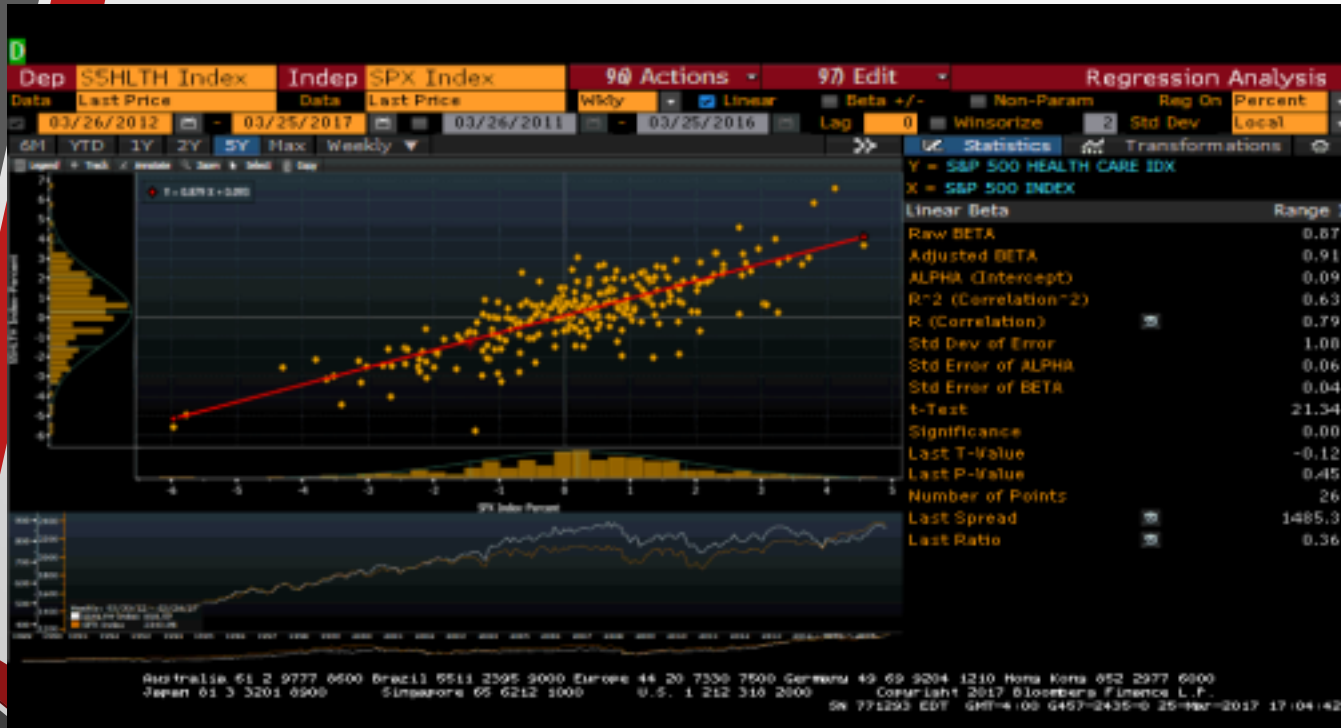
Current Economic Outlook

- U.S. in the Mid to late Expansionary Period of the Business Cycle
- Fed slowly raising interest rates → Raised during March meeting and currently at 0.75-1% target
- In the midst of Healthcare Reform/Uncertainty
- Potential for tax reform and lower corporate taxes
- Foreign Exchange Risk → Strong U.S. Dollar
- Unemployment ~4.7%
- Changing Political Arena → likely more protectionist policies

Macroeconomic Factors Affecting the Healthcare Sector

- Healthcare Sector projected to have largest compounded annual growth of any sector at ~2% from 2014-2024
- Aging Demographics
 - Baby Boomers and increased life longevity
 - The population of adults 65+ predicted to double in the next 25 years to 72 mil
 - 65+ predicted to be ~20% of population by 2030
- Uncertainty over regulation on drug pricing

Regression Analysis

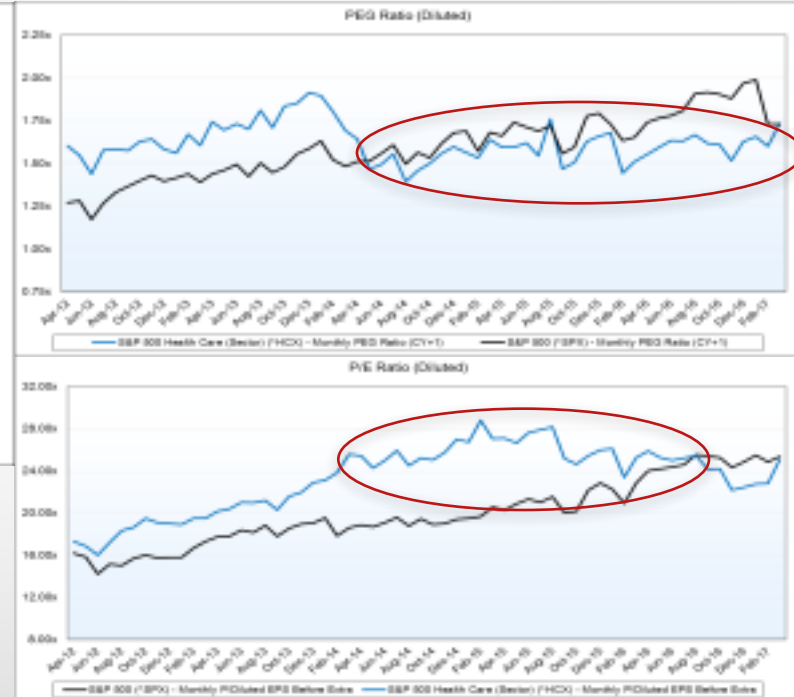
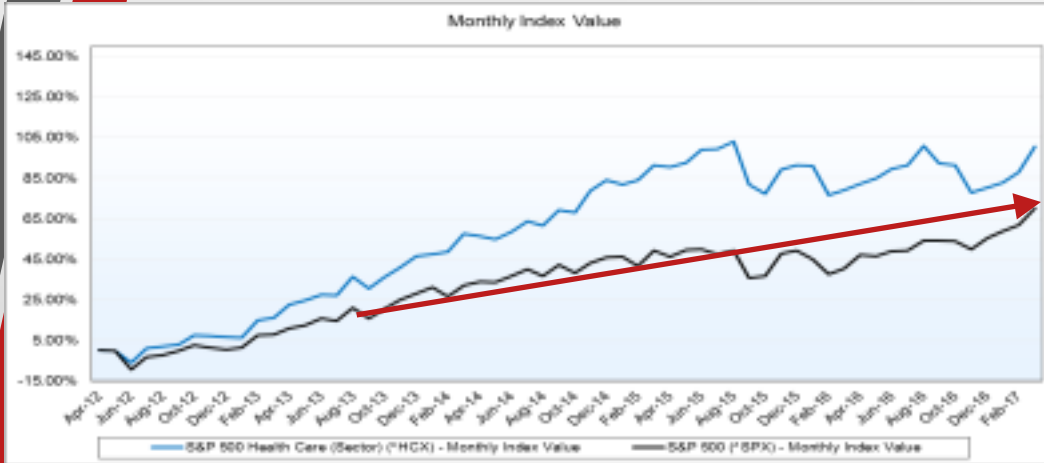


Raw Beta: 0.879
Adj. Beta: 0.919
R (Correlation): 0.799



Financial Analysis

Market Value

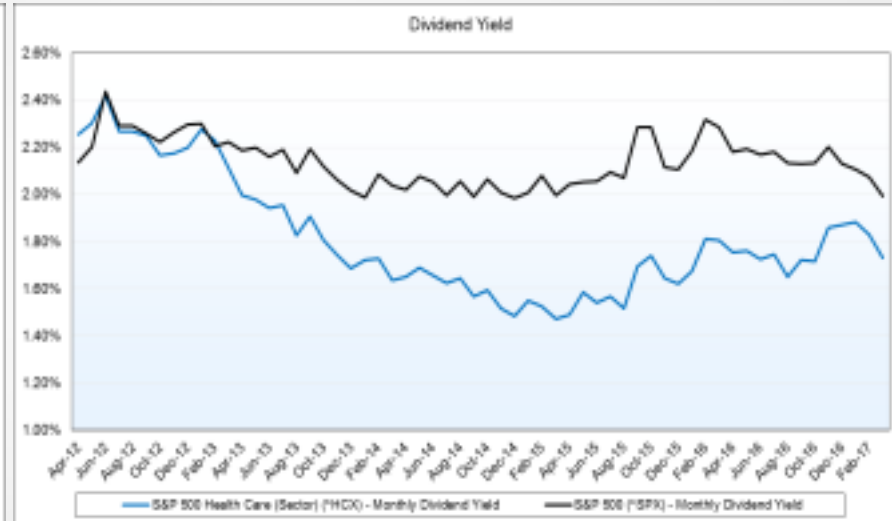
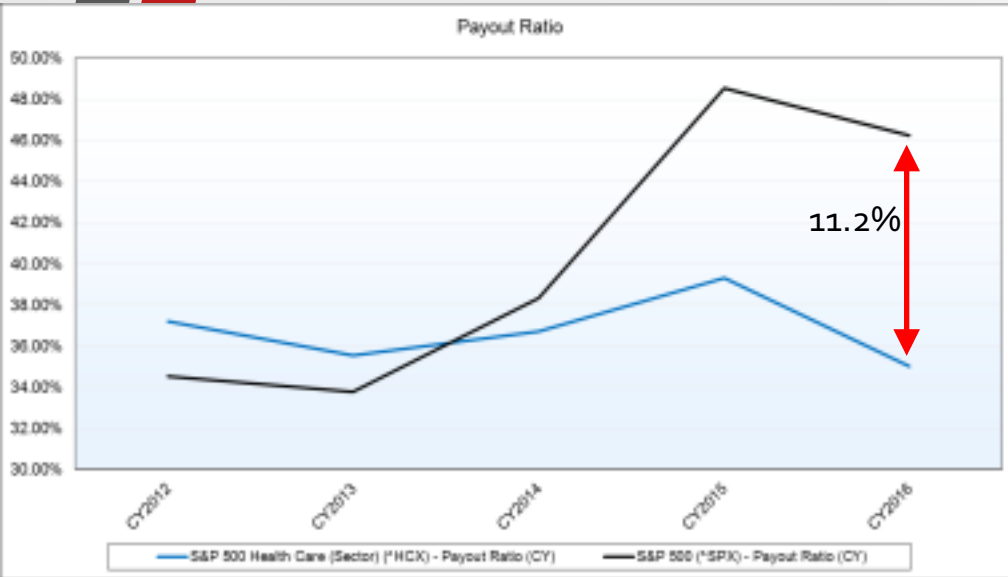


- Sector growth has outperformed the S&P 500
- P/E Ratio historically above the S&P 500
- Sector up to 2017, was undervalued

Forecast: **Sector's outperformance of S&P500 will continue in the foreseeable future.**

**S&P 500 Health Care
Sector EPS growth rate
outperformed S&P 500
since 2012**

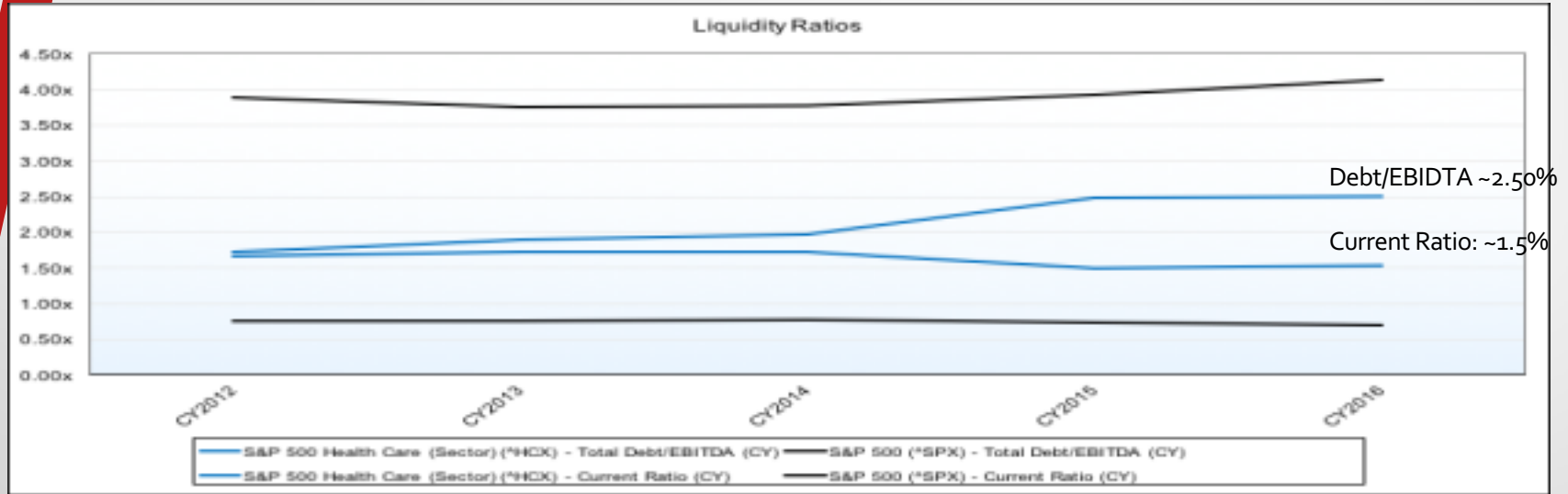
Dividends



- Sector has underperformed the S&P 500
 - Healthcare sector requires large amounts of CAPEX
- **Forecast: Sectors dividend policies will continue to underperform S&P 500, in-line with it being composed of growth stocks**

S&P 500 Health Care Sector
Dividends Per Share has
grown by 42% vs. S&P 500
of 48% since 2012

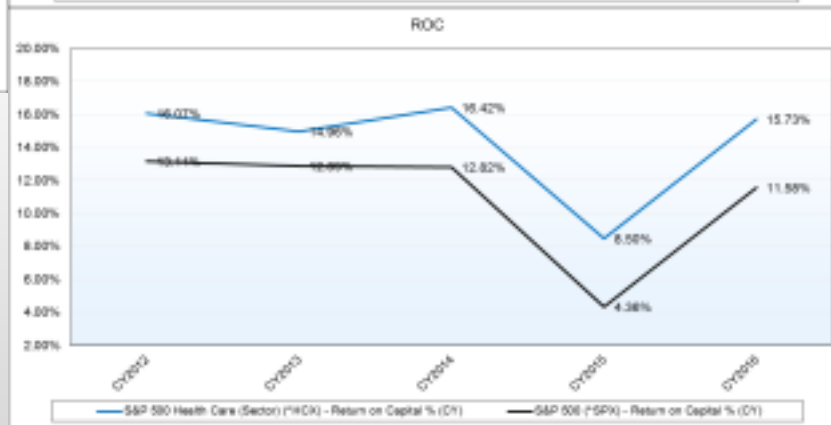
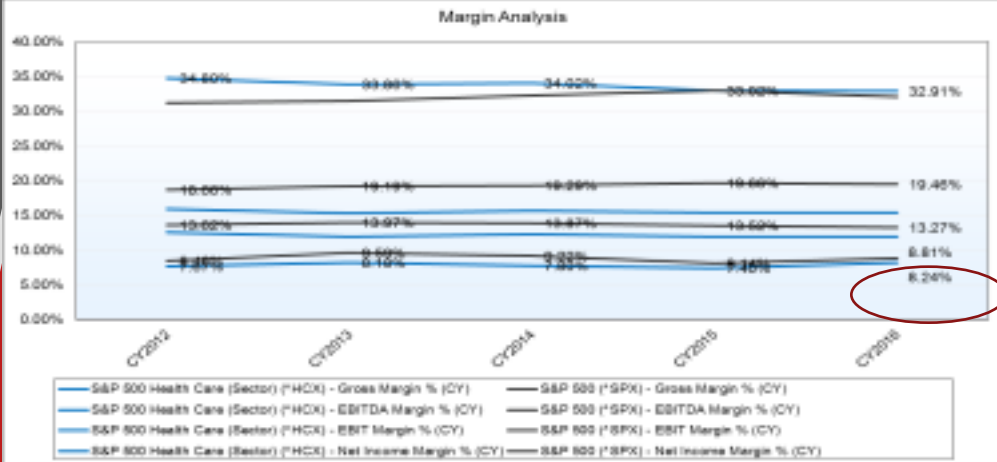
Liquidity Ratio



- Sector is less leveraged than S&P 500
- Sector is financially healthy
- Sector is a generator of Free Cash Flow
- Forecast: Sector to remain less leveraged than S&P 500

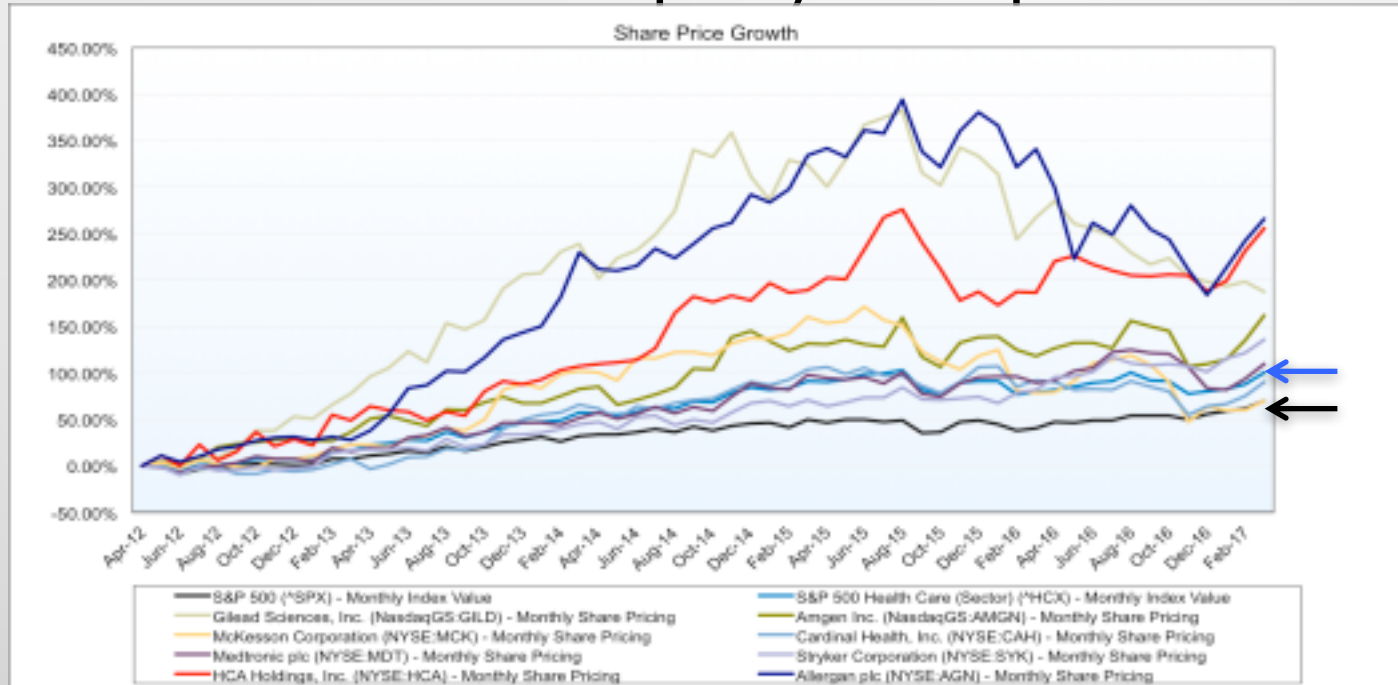
S&P 500 Free Cash Flow grew by 56% S&P 500 Health Care Sector grew by 38% since 2012

Profitability



- Historically S&P 500 stronger margins
 - Net income gap margin is tightening
- Sector more efficient at generating income from equity and capital
- **Forecast: Continued to be more efficient at generating income from equity and capital, supporting higher earnings**

Sector to Company Comparison



	Sector Outperformed the S&P 500	Sector Forecasted to Outperform the S&P 500
Market Value	Yes	Yes, but margins will contract
Profitability	Yes	Yes
Dividends	No	No
Liquidity	Yes	Yes
S&P 500 to Sector to Company Analysis	Yes	Yes



Valuation Analysis

Valuation Analysis



S&P 500 Health Care Sector Index

- 50-day moving average stood at 844: outperformance

Valuation Analysis

Healthcare Sector	High	Low	Median	Current
P/E	24.39	9.94	15.50	19.48
P/B	4.42	2.20	3.18	3.46
P/S	1.92	0.97	1.44	1.56
P/EBITDA	14.40	6.48	9.62	11.53

Relative to S&P 500	High	Low	Median	Current
P/E	1.35	0.48	0.99	0.92
P/B	1.59	1.06	1.31	1.18
P/S	1.35	0.82	1.05	0.84
P/EBITDA	1.75	0.94	1.32	1.02

- Current relative valuation resides in the high range
- Remain conservative to the healthcare sector

Valuation Analysis

Multiples	Entity	2012	2013	2014	2015	2016	Current
Price/Earnings	Healthcare	13.63	17.20	22.04	23.02	18.02	19.48
	S&P 500	14.39	16.15	17.60	18.37	20.49	21.10
Price/Book Value	Healthcare	2.65	3.23	3.76	4.00	3.48	3.46
	S&P 500	2.14	2.41	2.65	2.80	2.93	2.93
Price/Sales	Healthcare	1.29	1.59	1.85	1.92	1.61	1.56
	S&P 500	1.34	1.52	1.73	1.82	1.97	1.86
Price/EBITDA	Healthcare	8.09	10.46	12.94	13.65	11.40	11.53
	S&P 500	7.33	8.52	9.03	10.15	10.65	11.28

- Healthcare sector has expanded over the past five years and outperformed the market
- Possible volatility and underperformance in the near future due to policy uncertainty

Recommendation

- Sector Summary - Defensive
 - Composed of Growth Stocks
- Positives
 - Outperformed the S&P 500 market – Strong ROE and ROC
 - Increase demand for healthcare due to aging pool of baby boomers
 - Restructuring and cost cutting initiatives sector wide will increase net margins
- Risks “Headwinds”
 - Ambiguity in political and regulatory guidance
 - Drug Deflation
 - Trending to be: Overvalued
- Industry Weight
 - Increase Pharmaceutical Distributor Sector weight

Maintain sector weight relative to S&P 500 (Short Term)

Data Sources

Job growth in Healthcare Sector: <https://www.bls.gov/news.release/ecopro.to2.htm>

Economic Cycle Graph: <https://www.forbes.com/sites/fidelity/2016/12/26/economy-2017-outlook/#5a6b8fcd7eab>

https://eresearch.fidelity.com/eresearch/markets_sectors/sectors/sectors_in_market.jhtml?tab=sdbusiness§or=35

Aging Population: <https://www.cdc.gov/aging/pdf/State-Aging-Health-in-America-2013.pdf>

Industry Concentration: <http://markets.on.nytimes.com/research/markets/usmarkets/sectors.asp?sector=56>