

SIM SPRING 2016

HEALTH CARE SECTOR

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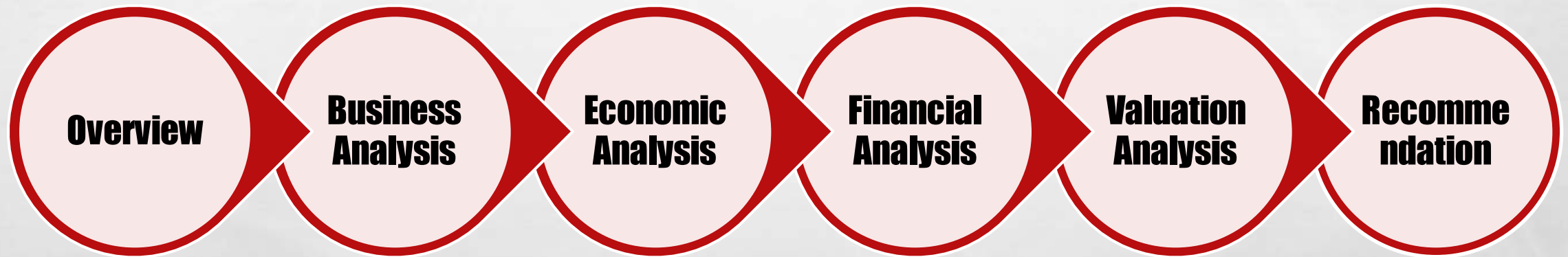
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AGENDA



OVERVIEW

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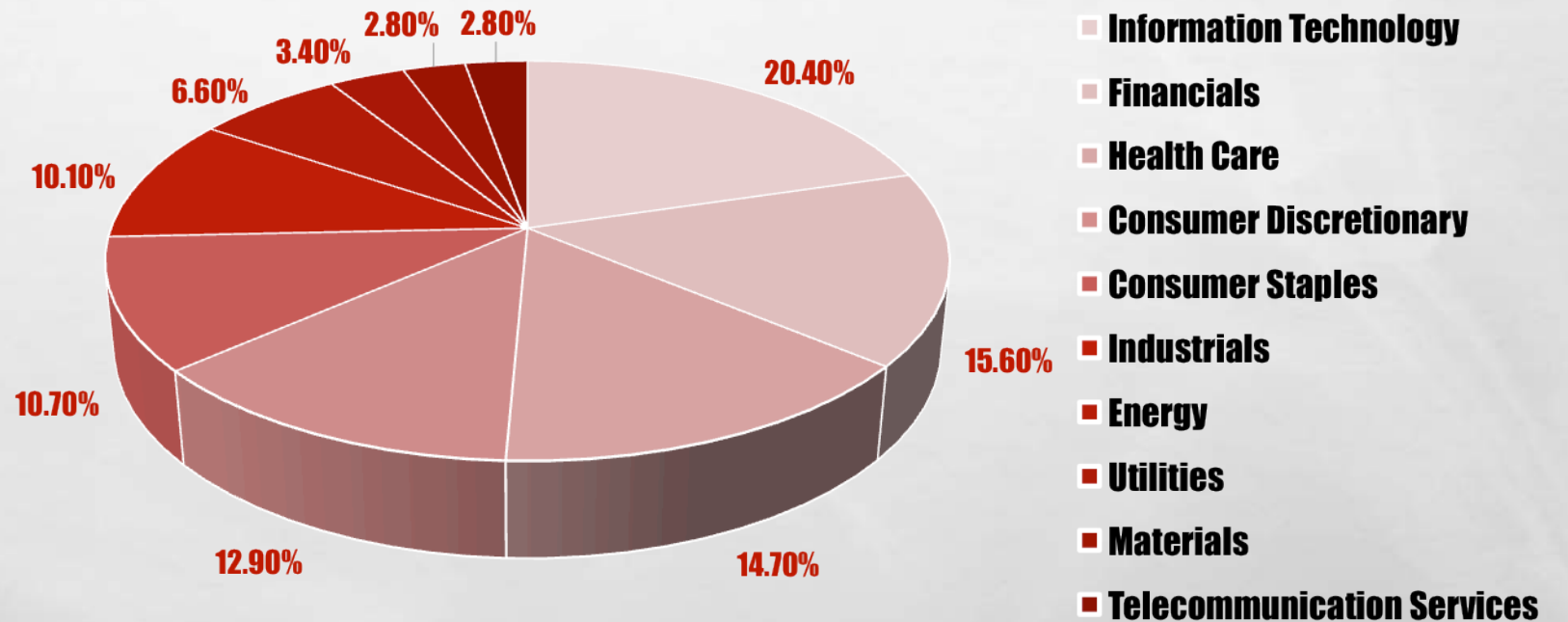


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SECTOR MARKET SHARE

Market Share of Each Sector in S&P 500

Sector size: \$4.13 T
Market weight: 14.7%
Third Largest weight



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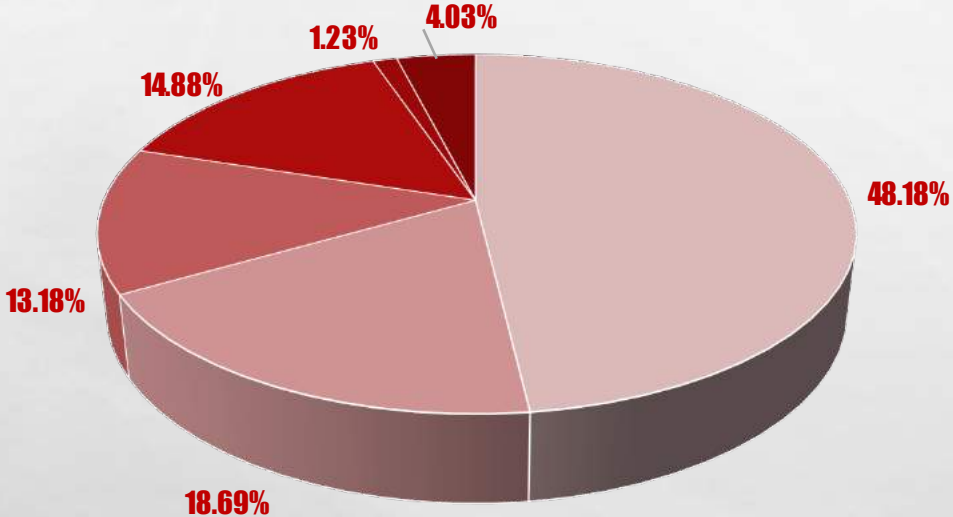
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INDUSTRIES WITHIN SECTOR

Market Share of Each Industry Within Sector



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

SECTOR MAJOR COMPANIES (TOP 10)

TOP TEN MARKET CAP COMPANIES	MARKET CAP	COUNTRY
Johnson & Johnson	\$296.63B	U.S.
Pfizer	\$182.12B	U.S.
Novartis AG	\$172.53B	Switzerland
Merck & Company	\$145.01B	U.S.
Novo Nordisk A/S	\$141.99B	Denmark
Medtronic plc	\$137.35B	U.S.
Gilead Sciences	\$123.39B	U.S.
UnitedHealth Group Incorporated	\$120.47B	U.S.
CVS Health Corporation	\$111.58B	U.S.
Agmen	\$109.44B	U.S.

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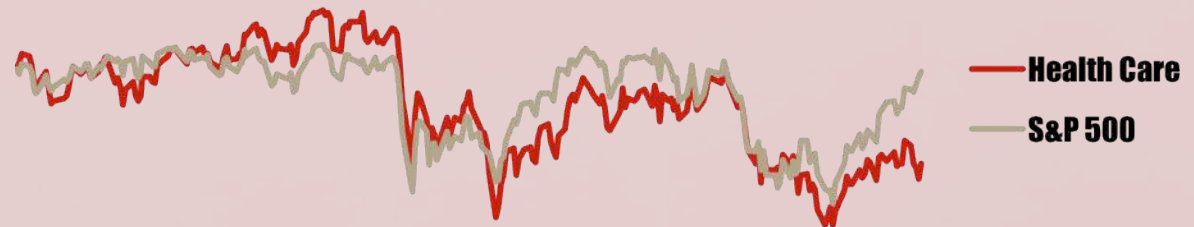
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SECTOR PERFORMANCE

Year-To-Date

- **-7.05% (Source From Fidelity)**
- **Last Sector**

Sector VS S&P 500



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BUSINESS ANALYSIS

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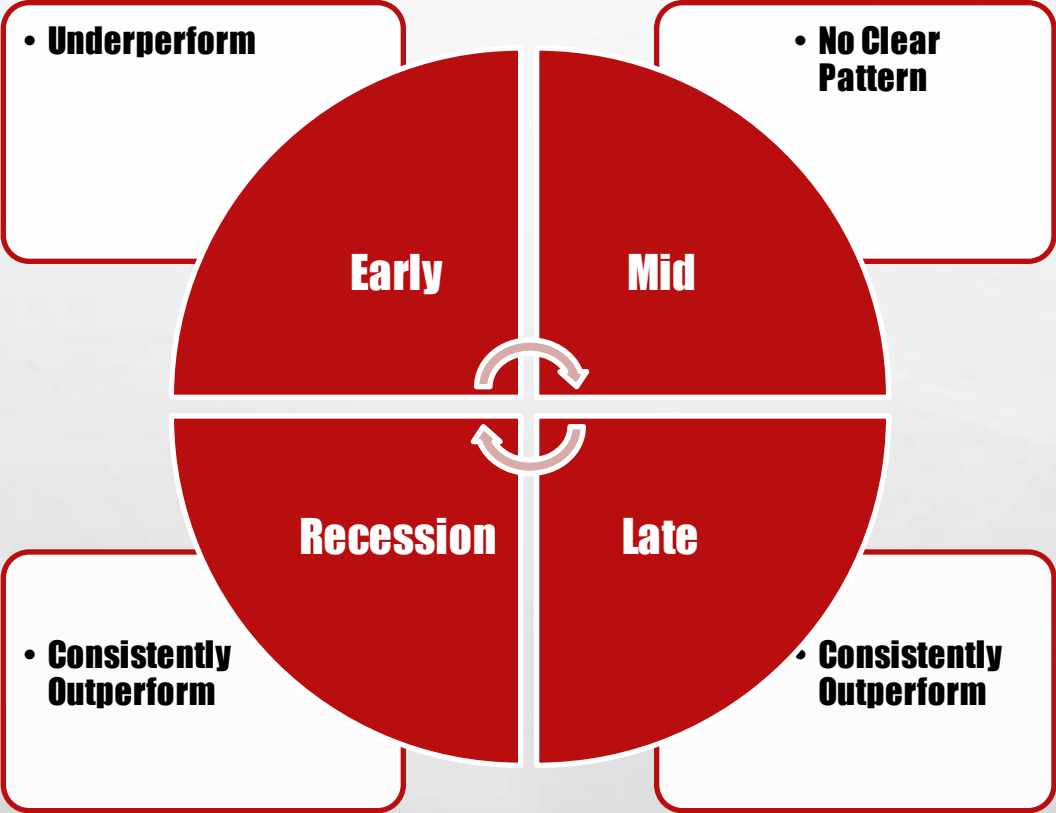
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BUSINESS CYCLE



DEMAND & SUPPLY

Demand



- **Increase**

Supply



- **Increase**

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Porter's five forces:

- New drugs come out: high power
- patent expires: low power

- Time consuming and expensive R&D
- Strict Federal and States guidelines
- Existing large players

Power of Suppliers:
Depend

Power of Buyers:
Low ↓

Competition:
High ↑

Entry Barriers:
High ↑

Level of Substitutes:
Low ↓

- Defensive industry & inelastic demand
- Aging population
- Pharma/Biotech: pharmacies, retailers
- M&A increase: more power

- Pressure from the expiration of the patents

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Porter's five forces: High Competition

High competition in generic drugs
(huge demand, inflated price)

Low competition in patented drug
(High profit margins, extend lifecycles, and differentiate)

More frequent M&A activities
(Decrease competition, avoid uncertain R&D, and increase bargaining power)

Difficult for small companies and startups to enter

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ECONOMIC ANALYSIS

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ECONOMY BACKGROUND

Economic Outlook

- Late Part of Business Cycle
- Low Interest Rates
- Low Inflation
- Slow U.S. Economic Growth
- Strong U.S. Dollar
- Slowing Growth in China
- Recession Fears in Europe

U.S. Trends

- Aging Population
- Defensive Industry
- Consolidation
- Demand Inelasticity

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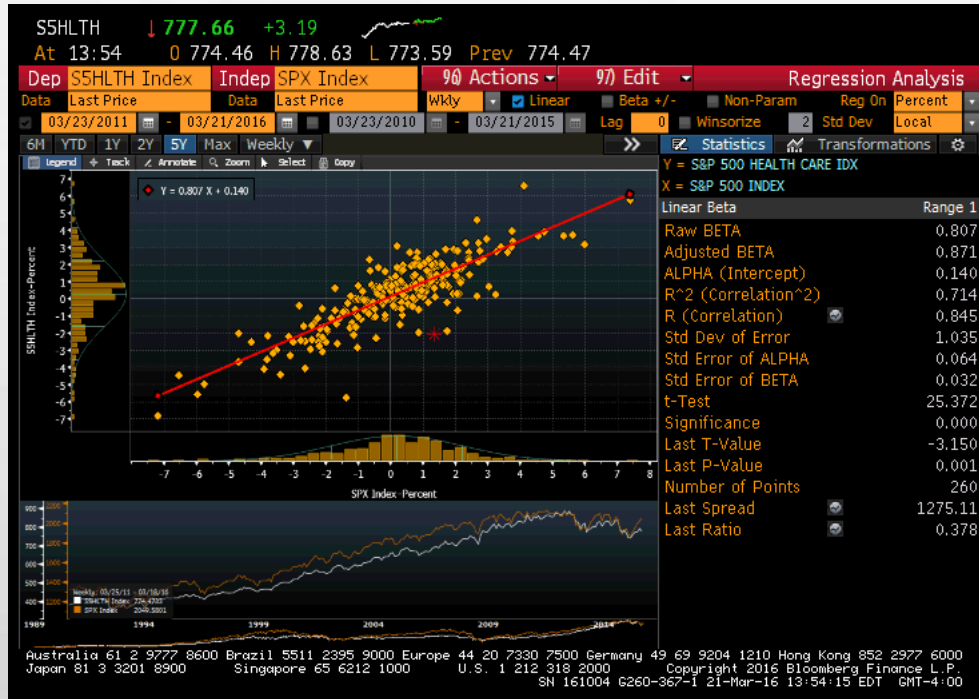
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REGRESSION ANALYSIS



- **Raw Beta .807**
- **Adj. Beta .871**
- **R(Correlation) .845**

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FINANCIAL ANALYSIS

Healthcare Sector vs. S&P 500



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FINANCIAL ANALYSIS

Healthcare Sector Financial Performance

For the Period Ending	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CQ1 2016
Total Revenue Growth %	12.67%	(1.00%)	5.55%	11.18%	11.48%	10.16%
Margin Analysis						
Gross Margin %	33.96%	34.80%	33.98%	34.02%	33.02%	33.01%
Operating Margin %	12.14%	12.54%	11.95%	12.28%	11.97%	11.92%
Net Income Margin %	7.14%	7.67%	8.18%	7.80%	7.40%	7.35%
Profitability						
Return on Equity %	15.66%	14.85%	14.95%	16.26%	15.38%	15.25%
Return on Common Equity %	15.42%	14.89%	15.03%	16.36%	15.43%	15.30%
Short Term Liquidity						
Current Ratio	1.72x	1.67x	1.73x	1.72x	1.50x	1.50x
Quick Ratio	1.24x	1.19x	1.21x	1.25x	1.09x	1.09x
Payout Ratio	34.49%	37.21%	35.56%	36.74%	39.31%	39.49%
Levered Free Cash Flow	8.87%	9.61%	8.27%	9.97%	10.30%	10.26%

Low

Stable

Stable

Decrease, more recent M&A?

Increase

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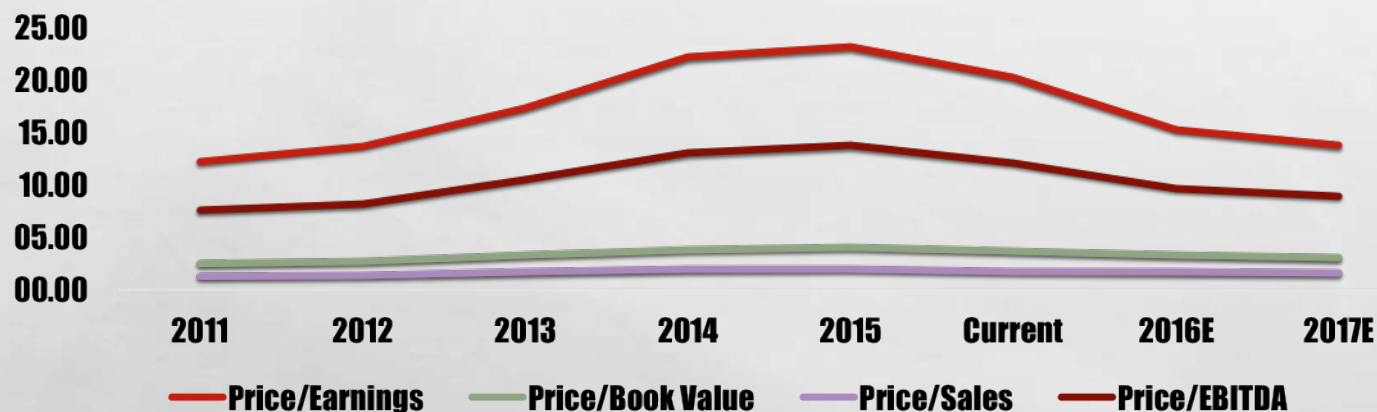
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VALUATION ANALYSIS

Multiples	Entity	2011	2012	2013	2014	2015	Current	2016E	2017E
Price/Earnings	Healthcare	12.12	13.63	17.20	22.04	23.02	20.11	15.19	13.64
	S&P500	14.44	14.39	16.15	17.60	18.37	18.54	16.69	15.04
Price/Book Value	Healthcare	2.42	2.65	3.23	3.76	4.00	3.61	3.21	2.94
	S&P500	2.07	2.14	2.41	2.65	2.80	2.78	2.60	2.47
Price/Sales	Healthcare	1.20	1.29	1.59	1.85	1.92	1.68	1.59	1.50
	S&P500	1.28	1.34	1.52	1.73	1.82	1.83	1.79	1.68
Price/EBITDA	Healthcare	7.50	8.09	10.46	12.94	13.65	12.04	9.61	8.87
	S&P500	6.93	7.33	8.52	9.03	10.15	10.66	8.87	8.13



- **Both the Healthcare Sector and the S&P500 Index are experiencing decreasing multiples.**

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Benefits



Consistently out performs in the Late & Recessionary parts of the Business Cycle

Many mature businesses with long track records of performance

Frequent M&A activity

Risks



Government regulation

Strong dollar

Margin pressure



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WEIGHTING RECOMMENDATIONS

Healthcare 14.70% of S&P500

- **3rd largest holding in S&P500**

Healthcare 13.06% of SIM fund

- **4th largest holding in SIM fund**

Healthcare 15% of SIM fund

- **2nd largest holding in SIM fund**

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Q & A



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