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Healthcare Sector Analysis

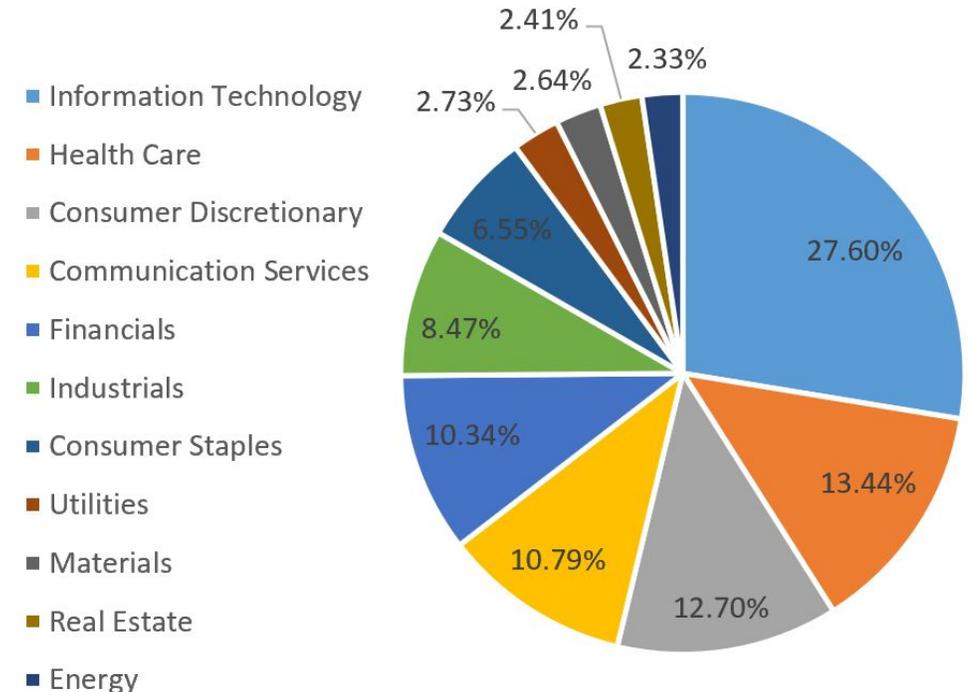
Quarter 1, 2021

Sector Overview

Industries

- Drug Manufacturers
- Healthcare Plans
- Medical Devices
- Diagnostics and Research
- Medical Instruments and Supplies
- Medical Care Facilities
- Biotechnology
- Pharmaceutical Retailers
- Medical Distribution

S&P 500 Sector Weightings



Sector Overview

Life Cycle Classification: **Mature**

Business Cycle Sensitivity: **Defensive**

Valuation

Price/Earnings 25.97

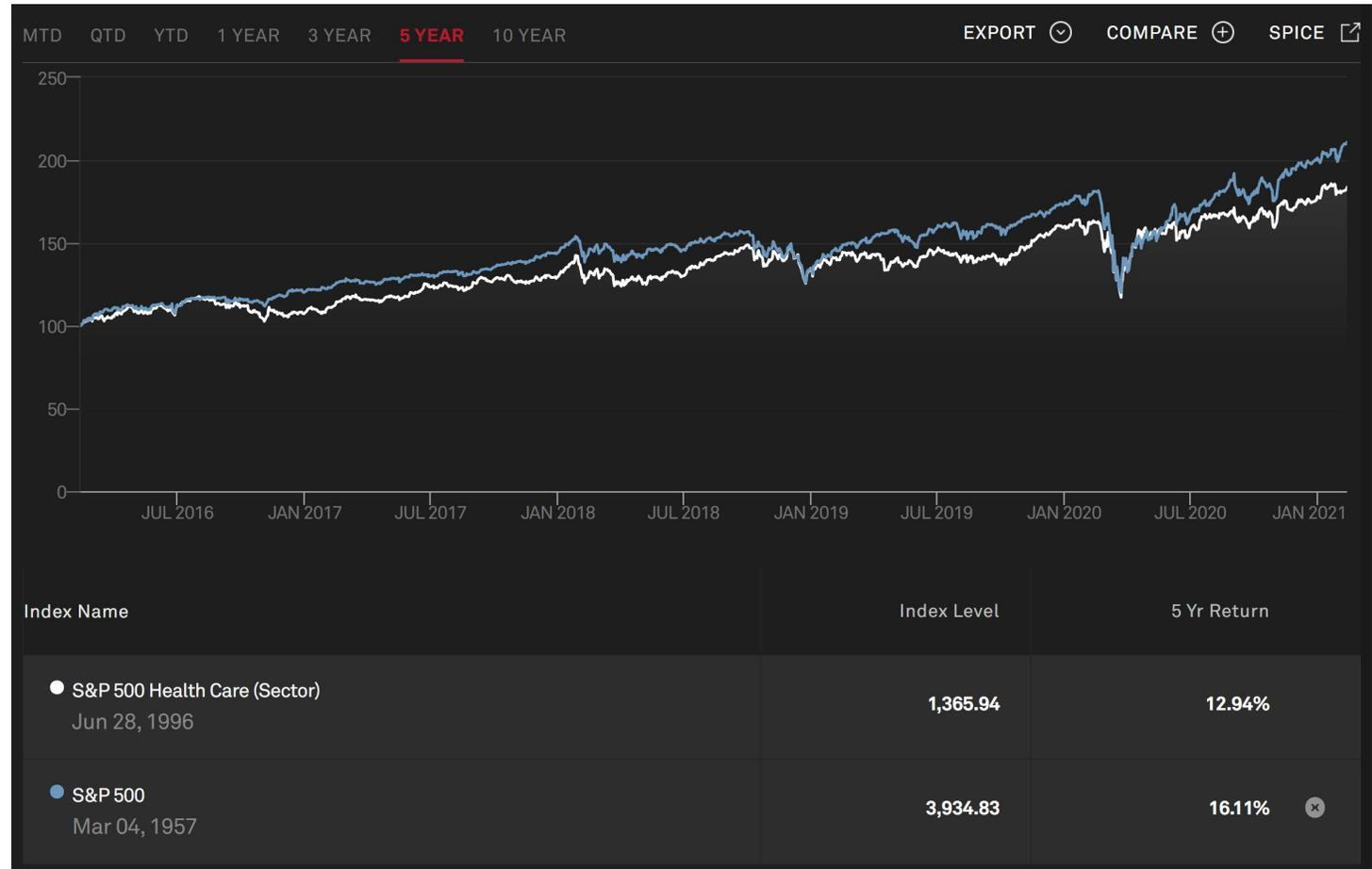
Price/Book 4.66

Price/Sales 1.94

Price/Cash Flow 15.95

Dividend Yield 1.69

The healthcare portion of the S&P 500 has underperformed the S&P 500 over a 3-5 year time horizon



Business Model Analysis

- **Principal business activity:** providing medically related goods/services to patients.
- **Product/services:** medical equipment, drugs, insurance, medical services, and other products/services that ease the provision of healthcare.
- **Demand:** non-cyclical, slow growth in demand. Demand is inelastic as customers willing to pay high prices to increase the quality of their lives.
- **Raw material/Supplier analysis:** Supply can be slowed by regulatory and supply chain restrictions. Selecting high quality raw materials is vitally important in this sector.
- **Profitability analysis:** Low profitability across most industries due to relatively high operating costs that may include high research and development or labor costs.

Sector Outlook

- Health care spending expected to rise 5% over 2019-23, up from 2.7% in 2014 - 2018
- Over the past five years, the Healthcare sector of the S&P 500 has had a 12.54% return
- COVID Impact
 - Margins have overall decreased as a result of the stay at home order, the long term impact of this remains unclear
 - Telemedicine and technology trends are becoming a more important future focus
- Other trends
 - Consumer push for price transparency and the No Surprises Act
 - Cybersecurity breaches continue to rise

Big Players

Top 10 firms by Market Cap

- Johnson & Johnson (JNJ) \$437.71B
- UnitedHealth Group (UNH) \$312.76B
- Roche Holding AG (ROG) \$302.76B
- Novan Inc (NOVN) \$226.37B
- Abbott Laboratories (ABT) \$221.81B
- Pfizer Inc. (PFE) \$194.38B
- Thermo Fisher Scientific (TMO) \$193.93B
- Eli Lilly and Co. (LLY) \$192.95B
- Merck & Co., Inc (MRK) \$189.85B
- AbbVie Inc (ABBV) \$186.08B

Johnson & Johnson



ThermoFisher
SCIENTIFIC



Lilly

NOVAN



abbvie

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Industry Competition Analysis

- Rivalry Among Competitors: **High**
 - High switching costs
 - Intense rivalry exists between few large competitors in each industry
- Bargaining Power of Buyers: **Low**
 - Weak buyer bargaining power as demand is highly inelastic
- Bargaining Power of Suppliers: **High**
 - High bargaining power - sector is dependant on goods/services suppliers provide
 - Few suppliers for any given good or service
- Substitutes to Existing Products: **Moderate**
 - Customers prefer cheaper medications/services when available and effective
 - Typically few alternatives for many product in the sector
- Threat of New Entrants: **Low**
 - High barriers to entry - few dominant competitors in each industry

Factors Affecting Pricing Power

- Barriers to entry
 - Certificate-of-Need (CON) laws in 35+ states
 - Government regulation
 - Governments adopting universal health coverage and pricing controls on pharmaceuticals and medical technology devices
 - Capital, team and resources
- Price Competition
 - Value-based payment models
 - Increased focus on pricing and price transparency

Industry Concentration Trends

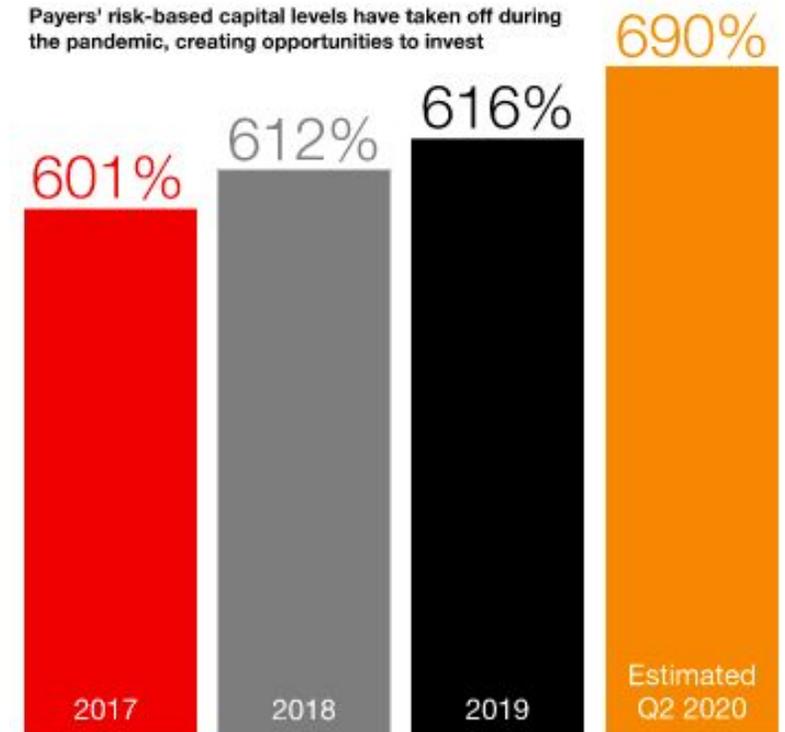
- Highly concentrated healthcare markets
 - Most Americans live in areas with concentrated health care markets
- Physician practices are consolidating and aligning with hospitals
- Key stakeholders
 - Hospitals
 - Specialist physicians
 - Insurers
 - Primary care physicians

Industry Capacity

- Widespread demand for increased capacity due to COVID-19
 - Solutions
 - Postponing elective care to create additional capacity for COVID positive patients
 - New facilities in use to provide vaccinations
 - Plan to manage PPE during times of shortage
 - Cross-training and newly implemented contingency models to increase support for frontline workers

Market Stability

- Stable outlook for 2021
 - Threat of profitability in recessionary environment
 - Opportunity to diversify investments with new medical innovations
- Key Insights
 - Deferred care leaves health plans flush with capital
 - Some providers may struggle to survive while others can invest and evolve
 - Pharmaceutical sector sees flash of investment in vaccines with sustained interest in pre-pandemic growth areas



External Factors

- Macroeconomic
 - Spending increased 4.6% making up 17.7% of GDP
- Technological
 - Increase in telehealth and virtual health delivery
- Demographic
 - Aging population means increased number of covid vaccines requested
- Governmental
 - Increased governmental regulations to make patient data more accessible
- Social
 - Social distancing
 - Mental health crisis

Major Company Business Analysis

- Johnson & Johnson
 - P/E 30.24
 - Dividend Yield 2.39
- United Healthcare
 - P/E 20.48
 - Div Yield 1.47
- Roche Holding AG (ROG)
 - P/E 18.95
 - Div. Yield 2.87
- Abbott Laboratories (ABT)
 - P/E Ratio 51.22
 - Dividend 1.4
- Pfizer Inc. (PFE)
 - P/E 27.99
 - Div. 4.49
- Thermo Fisher Scientific (TMO)
 - P/E 31.78
 - Div. Yield .17
- Eli Lilly and Co. (LLY)
 - P/E 30.54
 - Div. Yield 1.64
- Merck & Co., Inc (MRK)
 - P/E 26.97
 - Div. Yield 3.47
- AbbVie Inc (ABBV)
 - P/E 22.84
 - Div Yield 4.98

Business Analysis

Johnson & Johnson

- Size, scale, and amount of intellectual property makes it the largest healthcare provider in the world
- Continuously raised dividend prices for decades
- Geographically diverse with a large business model

Roche Holding AG

- Leader in biotechnology and oncology R&D
- Commitment to innovation

Pfizer

- Multinational company leading the pharmaceutical industry
- Leading market share in consumer healthcare and vaccines

Business Analysis cont.

Merck & Co. Inc.

- World leader in pharmaceuticals
- Increase in 2020 revenue while industry average decreased
- Innovating strategy focused on r&d to provide new product and services

Abbvie Inc.

- Large cash flows allow Abbvie to spend more on r&d
- 2020 quarter 3 revenues increased by over 50% year to year
- Increasing dividend over the past five years

Holding Company Business Analysis

United Healthcare (UNH)

- P/E Ratio of 20.48
- Div. Yield of 1.52%
- 2020 income of 15.4 billion
- Last quarterly dividend of \$1.25 per share
- Service oriented rather than just product oriented
- Rapid innovation from r&d investments keep UNH ahead

Market Summary > UnitedHealth Group Inc

NYSE: UNH

+ Follow

328.24 USD -4.71 (1.41%) ↓

Closed: Feb 12, 5:40 PM EST · Disclaimer
 After hours 328.24 0.00 (0.00%)

1 day

5 days

1 month

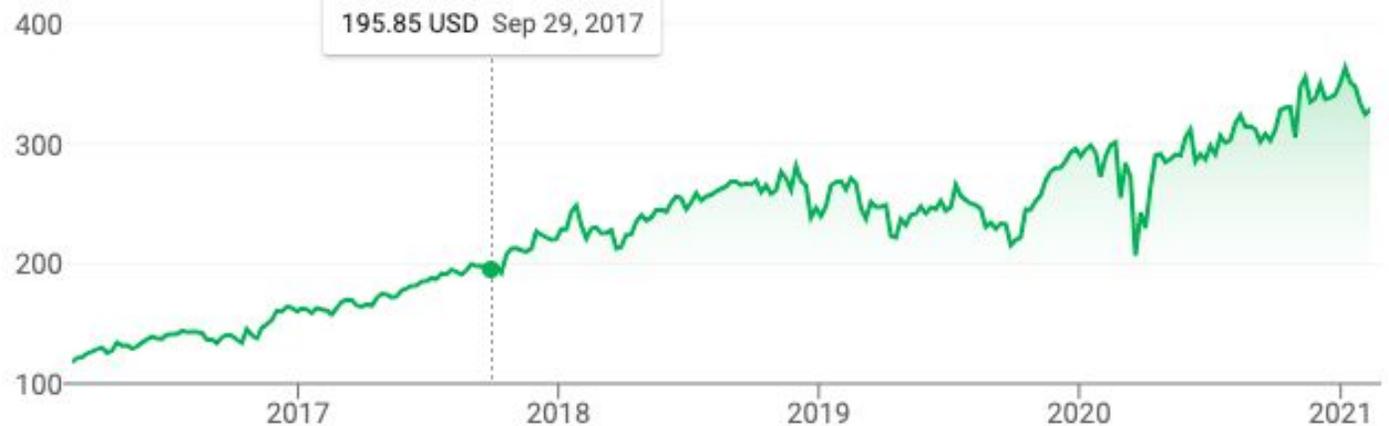
6 months

YTD

1 year

5 years

Max



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