

## ***MONTHLY RESEARCH WEBINAR***

# **HEALTHCARE: ENHANCING QUALITY OF LIFE**

Moderator:

Jim Kelleher, CFA

Director of Research

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## ■ **Healthcare: Enhancing Quality of Life**

- Jim Kelleher, CFA, Director of Research
- John Eade, Argus President
- David Toung, Senior Analyst
- Jasper Hellweg, Security Analyst

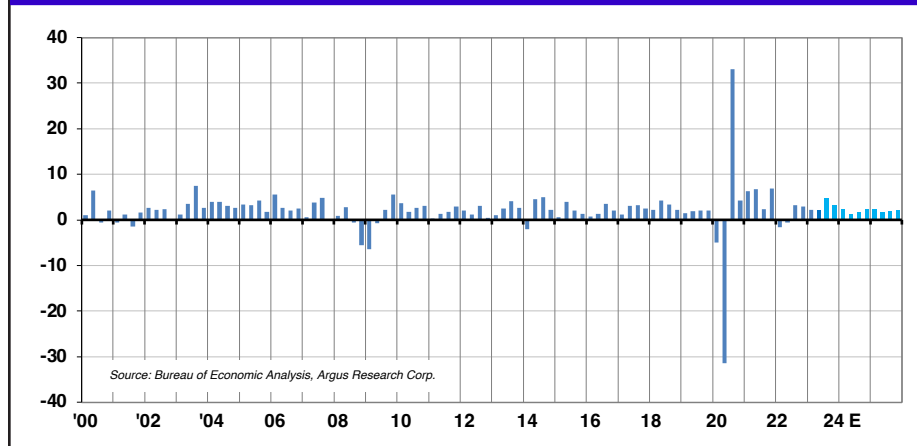
## ■ **Argus Quick Notes**

- Super Bowl Stocks
- Positive Technical Signals
- New Coverage
- Argus Top Picks for 2024
- Find these on the homepage of our website

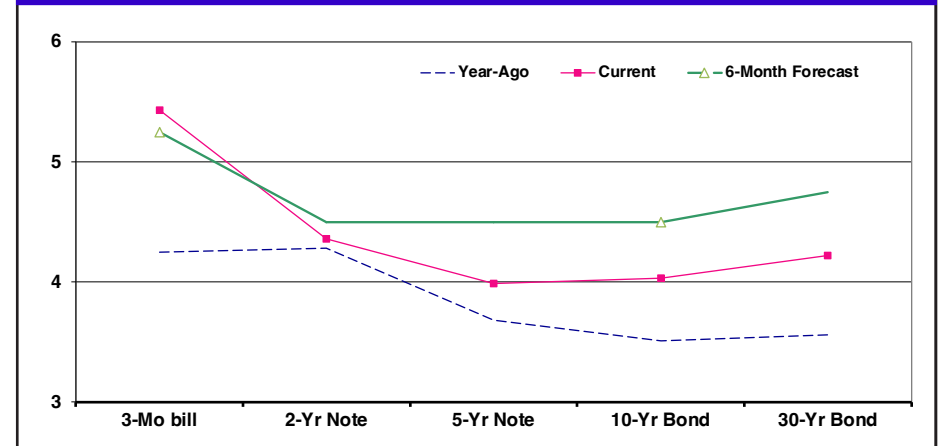
## ■ **Portfolio Update: the Argus Min Vol Model Portfolio**

- During the 2022 bear market, value outperformed growth
- Inflation, high rates, recession risks add to investor concerns
- Concentration (“magnificent seven”) is a further risk
- Min Vol is an all-weather strategy for any market environment
- Find the Argus Min Vol MP on the homepage of our website

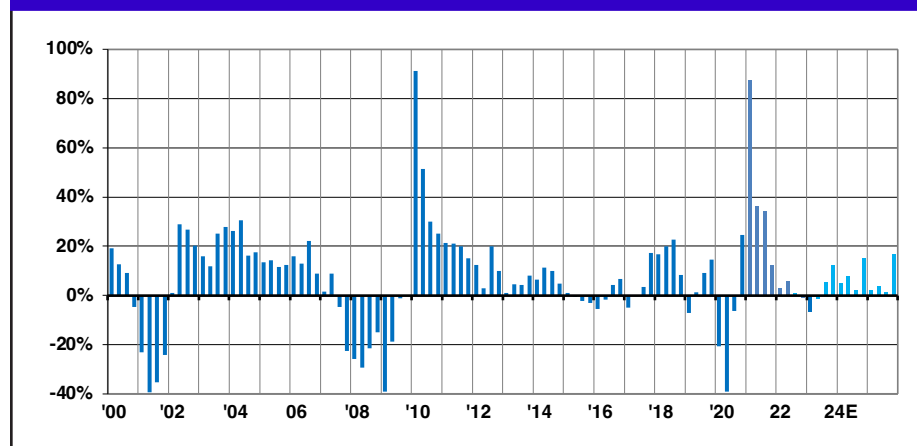
## REAL GDP W/FORECASTS (%)



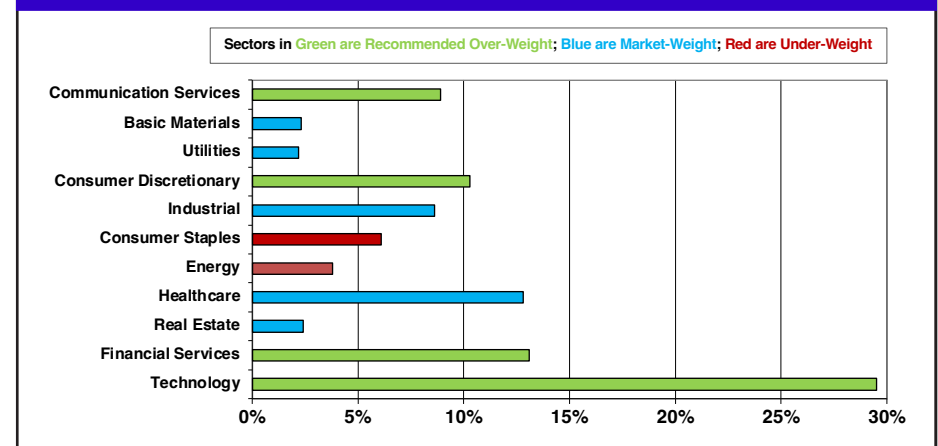
## TREASURY YIELD CURVE (%)



## S&P 500 QUARTERLY EARNINGS GROWTH



## MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500

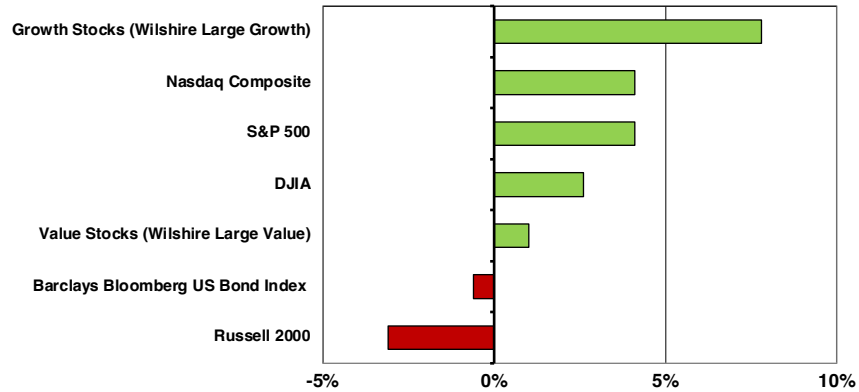


# MARKET PERFORMANCE

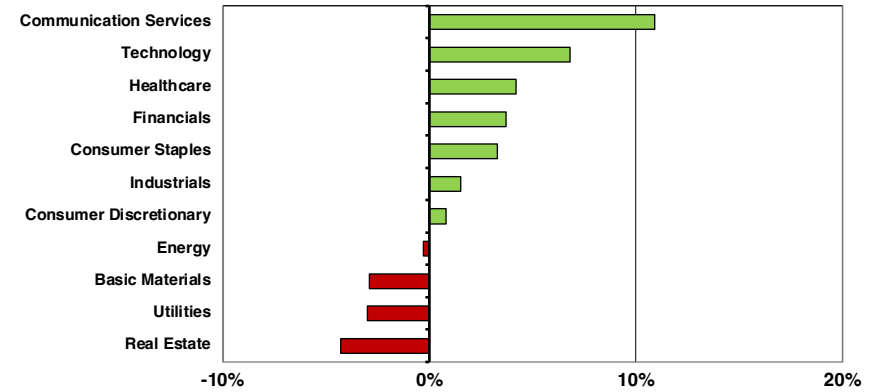
DATA AS OF JANUARY 31, 2024



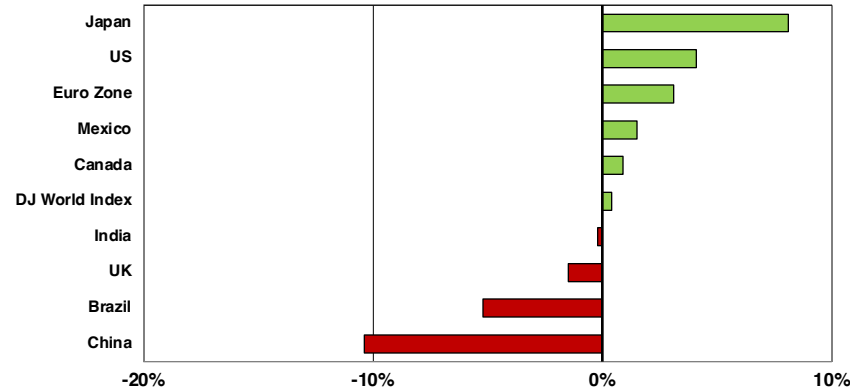
## MAJOR INDEX



## SECTOR



## GLOBAL EQUITY MARKETS



- Healthcare sector represents about 15% of the S&P 500. It includes companies in Biopharma, MedTech, managed-care and other healthcare services.
- HC sector index (XLV) has underperformed the S&P 500 over the past year, 7.6% to 18.2%. Still, we see outperformance within pharma and medtech. Among these stocks are Eli Lilly (LLY) +97.7%; Novo Nordisk (NVO) +71.8%; Stryker (SYK) +21.1%; and Intuitive Surgical (ISRG) +55.0%.
- Argus healthcare analysts will review the drivers for the outperformers and assess the sustainability of these factors.
- One such factor is the demand for GLP-1 weight-loss drugs. LLY and NVO are leading makers of these treatments. Manufacturers are unable to keep up with demand and are adding production capacity. To that end, Novo Holdings, the controlling shareholder in Novo Nordisk, announced this week an agreement to acquire Catalent (CTLT), a contract manufacturer that supplies the injector pens to deliver Ozempic and Wegovy, two of the leading GLP-1 drugs from Novo. The acquisition agreement will include the sale of three fill-finish facilities, currently owned by Catalent, to Novo Nordisk, thus providing NVO greater assurance of supply. Jasper will discuss Novo Nordisk in greater detail in his section.
- In the MedTech segment, elective surgical procedures have recovered post-pandemic as patients reschedule procedures that had been deferred or postponed. These procedures implant medical devices that treat osteoarthritis (for knee or hip replacements) or cardiovascular conditions (to reduce risk of heart attack or stroke).

## ■ INTUITIVE SURGICAL (ISRG)

- **ISRG is the industry leader in minimally-invasive robotics-assisted surgery. The da Vinci robotics system has head-start advantage and technical innovations, resulting in large installed base of systems in U.S. and overseas markets. Rebound in elective procedure volume will be tailwind for ISRG revenue growth.**
- **Clinical evidence shows that soft-tissue procedures on Intuitive's da Vinci robotic systems have better outcomes for patients, including shorter recovery and less pain. We expect double-digit growth in gall bladder, colorectal, hernia repair and gynecological procedures.**
- **We see growth in new system placements and higher surgeon utilization driving revenue growth and profit margins in 2024. We also forecast strong growth in Europe, Japan, China and Asia-Pacific as da Vinci robotics are underpenetrated in those markets.**

## ■ STRYKER (SYK)

- Stryker is industry leader in robotics system that support implants of orthopedic hips and knees. Robotics and software provide precise alignment of the implant, making for shorter recovery time and less pain.
- Other surgical advancements from Stryker include cameras and image-guidance for cranial procedures.
- Mako robotics and image-guidance technology drive share gains for Stryker's implants. The company expects growth to be driven by the launch of new products, M&A and expansion in overseas markets.
- Stryker is guiding to 7.5%-9.0% organic revenue growth in 2024. We project that Stryker will gain share and outpace the growth of the MedTech sector. CEO Kevin Lobo says company will go on offense in M&A in 2024.

## ■ UNITEDHEALTH GROUP (UNH)

- **As the largest managed-care company in the U.S., UNH provides health insurance in commercial markets, for seniors in Medicare Advantage, and for the underserved in Medicaid.**
- **UNH has diversified beyond insurance through its Optum businesses. Optum Health delivers care through value-based arrangements. Optum Insights provides technology offerings in revenue cycle management, advanced data analytics and management consulting. OptumRx offers pharmacy management services.**
- **Optum generates higher revenue growth and higher profit margins than the insurance segment.**
- **Despite recent stock price underperformance, we think UNH is well-positioned in the fast-growth seniors market served by Medicare Advantage. Demographics of an aging population is tailwind for Medicare Advantage.**



## ■ NOVO NORDISK (NVO)

- Novo Nordisk, based in Denmark, is a diversified mega-cap pharmaceutical company with fast-growing GLP-1 treatments for diabetes, for which it is a market leader, and obesity.
- Growth is being driven largely by the company's GLP-1 diabetes and obesity treatments: semaglutide (marketed as Ozempic for the treatment of diabetes and as Wegovy for weight loss), and Rybelus.
- The company has a robust new product pipeline, including Phase 3 candidates such as new formulations of its blockbuster GLP-1 treatment, semaglutide.
- In 2024, the company projects constant-currency sales growth of 18%-26% and operating profit growth of 21%-29%.
- The company's Board has proposed an increase to the company's dividend that, if approved, would represent a 52% increase over its previous dividend payout.

## ■ GSK PLC (GSK)

- **GSK has seen multiple regulatory approvals in recent months for drugs targeting myelofibrosis, eosinophilic asthma, endometrial cancer, and HIV.**
- **Regulatory authorities are also considering expanding the indication for its RSV vaccine, Arexvy, which helped lead the strong performance of its Vaccines business in 4Q23.**
- **With an eye on the future, management has raised its long-term outlook for the company's performance through 2026, noting that it now expects sales to grow more than 7% and adjusted operating profit to increase more than 11%, each on a CAGR basis compared to its 2021 results.**
- **We see value in GSK shares, which are trading at below-industry-average P/E multiples. GSK also carries an attractive dividend with a yield of about 3.5%.**

## ■ **MERCK & CO., INC. (MRK)**

- **Merck continues to receive approvals for new indications for its highest revenue-generating product, Keytruda, which saw sales grow 22% in 4Q23.**
- **Meanwhile, new science continues to come out suggesting its use in a wide range of other cancers, while Merck has also partnered with Moderna to develop a combination therapy pairing Keytruda with individualized neoantigen therapy for targeted cancer treatment.**
- **The company has invested heavily in its M&A activity, announcing several acquisitions and noting that it is looking into acquiring other organizations for up to \$15 billion.**
- **Looking ahead, management expects to generate adjusted EPS of \$8.44-\$8.59 in 2024, a steep rise from its earnings of \$1.51 per share in 2023.**

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