

THE MONTHLY RESEARCH CONFERENCE CALL

HEALTHCARE: SEGMENT THEMES AND STOCK IDEAS



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11:00 a.m. ET

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WHAT'S NEW AT ARGUS

MARCH 2019

■ **New Names Added to the Portfolio Selector - Focus List**

- Palo Alto Networks - applying AI and analytics to address increasing cybersecurity threats
- Boston Scientific - benefiting from rising consumer utilization of surgical procedures
- Marathon Oil - non-core asset dispositions and a focus on U.S. short cycle reserves
- American Water Works - largest US water utility successfully rolling up municipal operations
- Find it on website: Portfolio Strategy tab, Portfolio Selector

■ **New Names Added to Argus Analyst Coverage Universe**

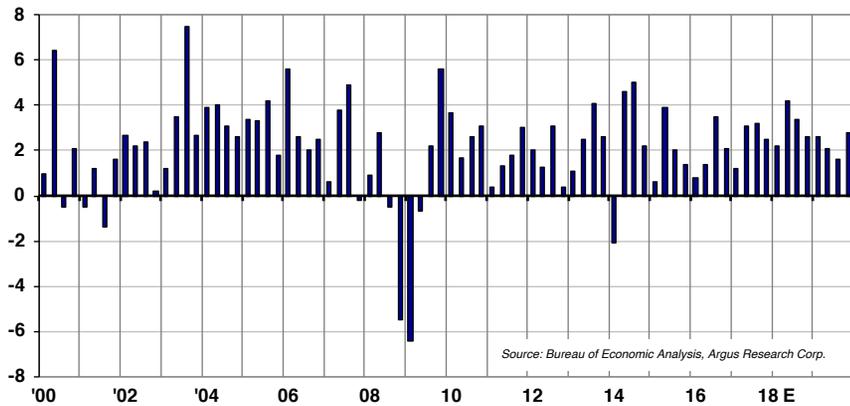
- Wayfair - leading online furniture & housewares co. growing at 30%+
- American Airlines Group - serving 50-plus nations, with over 1,000 aircraft
- United Continental Holdings - worldwide passenger carrier and freight operations
- Nasdaq Inc. - providing trading, clearing, indexes and exchange operations
- CBOE Global Holdings - worldwide exchange operator in options, futures, etc.
- Find it on website: enter ticker at top center of home page.

■ **Argus Performance, 2H18**

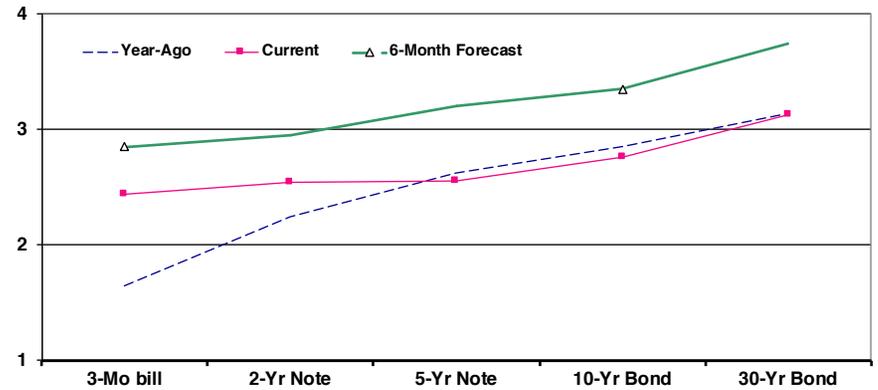
- 2H18: market challenges, but also long term strengths
- Investors Smartindex: Argus BUYs outperform on 3-, 4-, 5-years
- BARR rankings: Argus analysts peer-leading batting averages
- PS-FL stocks beat the index by 120 bps
- Argus Model Ports show strong 3-year performance vs. index
- Find it on website: About Us, Our Research, Quality Processes

MACRO FORECASTS

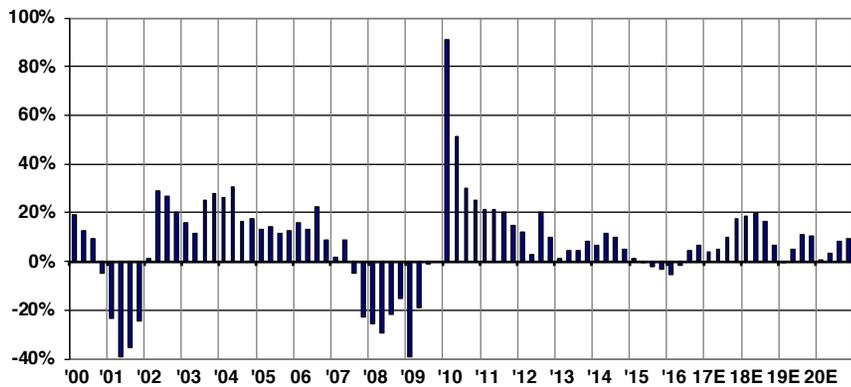
REAL GDP W/FORECASTS (%)



TREASURY YIELD CURVE (%)

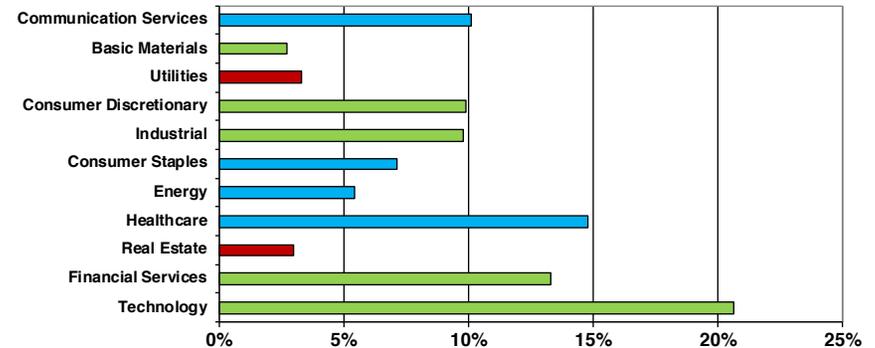


S&P 500 QUARTERLY EARNINGS GROWTH



MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500

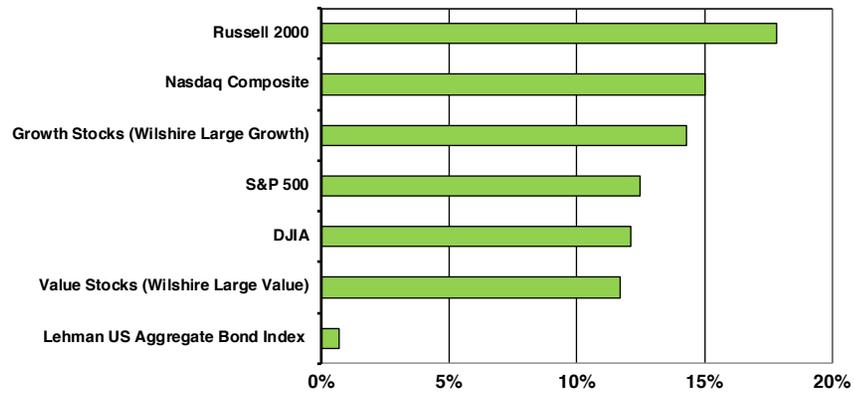
Sectors in Green are Recommended Overweight; Blue are Marketweight; Red are Underweight



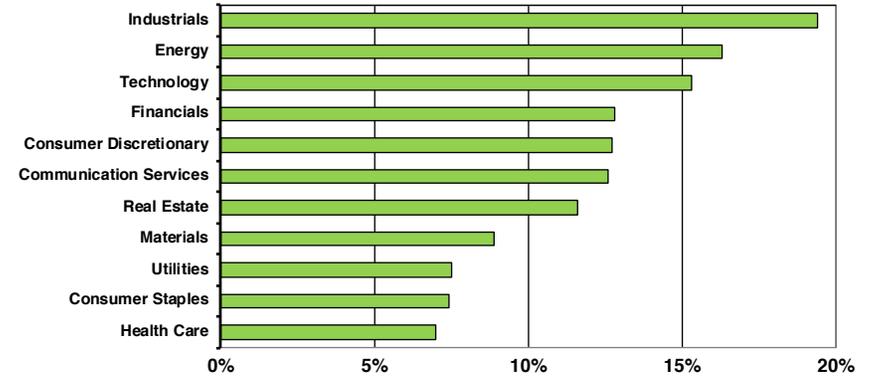
MARKET PERFORMANCE

DATA AS FEBRUARY 28, 2019

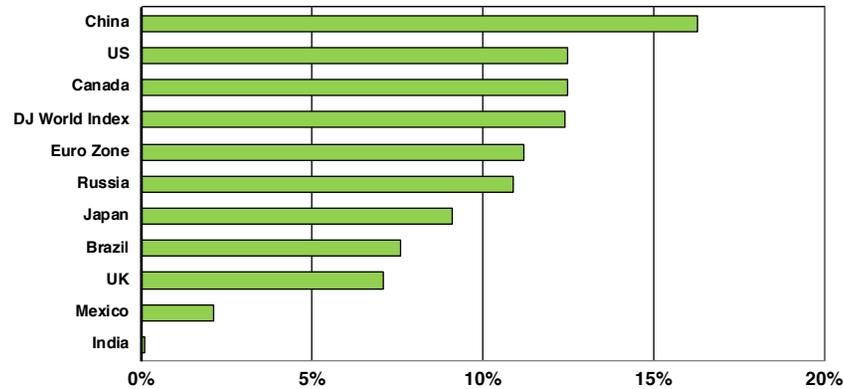
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



HEALTHCARE: CURRENT DEVELOPMENTS

■ Pharma and Biotech Sectors

- Democratic control of U.S. House changes political debate on drug pricing and Medicare expansion.
- Though passing of legislation on drug price controls or Medicare expansion (called Medicare For All by supporters) is highly unlikely given GOP control of U.S. Senate and the Presidency, news headlines do put pressure on equity prices of large pharma and managed-care stocks.
- We are monitoring competition from biosimilars to J&J's Remicade in U.S. and to Humira in Europe. Uptake of biosimilars appears to hurt pricing on brand-name biologics. Approvals and acceptance of biosimilars seen as check to high prices of biologics.
- On the micro level, we see good value in health care stocks that have advanced technology in medical devices or have strong market positions in sectors of the HC industry.
- 2019 appears to be a more robust year for M&A than 2018. Bristol Meyers opened the year by agreeing to acquire Celgene for \$74 billion. Lilly completed acquisition of Loxo Oncology for \$8 billion. Biogen has deal to acquire Nightstar, a gene-therapy company developing treatments in ophthalmology. We are likely to see more deals in rest of 2019.
- For potential M&A, large-cap pharma and biotechs have ample cash, thanks to repatriation and favorable tax rates from 2017 corporate tax law.

HEALTHCARE: CURRENT DEVELOPMENTS

■ Med-Tech Sector

- **Med-Tech sector has large addressable markets as aging populations in the U.S., Europe and Asia seek to preserve quality of lives. Devices such as orthopedic implants for large joints and the spine and cardiovascular implants improve quality of life and mobility.**
- **Medical Device companies are advancing capabilities in robotics and data analysis to improve patient outcomes. Outcomes data can demonstrating value of procedures that utilize devices and assist in securing reimbursement coverage of such procedures.**
- **Examples of advancing technologies: Medtronic launched mobile phone app that can link real-time heart data to enable doctors to remotely monitor conditions of patients with pace-makers. Johnson & Johnson acquired Auris Health, a robotics company that is developing a robotics-assist system for lung diagnostic and therapeutic procedures. Auris was founded and led by Frederic Moll, M.D., who was founder of Intuitive Surgical, a pioneering and now major company in robotics-assisted surgery.**

HEALTHCARE: STOCK PICKS

■ UnitedHealth Group (UNH)

- We see good value in UNH as stock has sold off this year amid concern that Democratic leaders' political rhetoric about "Medicare For All" would replace employer-sponsored health insurance. To the contrary, we see expansion of Medicare (and of Medicaid) as enlarging addressable markets for insurers such as UNH. Expansion of those plans would likely open management opportunities for private insurers.
- UNH price decline also overlooks the growth and profitability of the Optum businesses, which provides services, consulting and technology to broad array of institutions and employers. Optum grew revenue 11.1% on 70 bps gain in margin in 2018.
- Demographics of U.S. and other developed countries favor companies that can manage and control health care costs. UnitedHealth has reduced hospitalization of its members for each of past eight years.

HEALTHCARE: STOCK PICKS

■ Stryker (SYK)

- Stryker is leading orthopedics company and makes replacement joints for hips and knees. Differentiator for the company is its robotics-assist system (called Mako) that enables more accurate cuts and alignment of knee implants.
- SYK also has solid portfolios in products to treat neurovascular conditions, such as stroke, and in surgical suite equipment, including cameras and navigation equipment.
- Stryker grew over past 10 years through bolt-on acquisitions that add products and technology and lessen integration risk. Two examples of acquisition – Mako and Physio-Control.

HEALTHCARE: STOCK PICKS

■ Hologic (HOLX)

- Company is a leading company in diagnostics and breast health for women. It has leveraged its market-leader position in digital mammography to increase share in instruments for surgeries and biopsies.
- HOLX is expanding positions in RNA-based diagnostics to overseas markets.

HEALTHCARE: STOCK PICKS

■ **Boston Scientific Corp. (BSX)**

- **Leading developer of medical devices for a range of specialty procedures.**
- **Strong pipeline has driven new launches, positive clinical studies, and accelerated plans.**

HEALTHCARE: STOCK PICKS

■ **Anthem Inc. (ANTM)**

- **One of the largest health insurance companies in the U.S, and an independent licensee of the Blue Cross and Blue Shield Association.**
- **Accelerated plans to launch an in-house pharmacy benefit manager, which could generate \$4 billion in annual gross pharmacy savings.**

HEALTHCARE: STOCK PICKS

■ IQVIA Inc. (IQV)

- Contract research organization IQVIA continues to post record bookings.
- Near-term growth boosted by Orchestrated Customer Engagement (OCE) platform.
- Upcoming catalyst in Orchestrated Clinical Trials (OCT) platform.

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