

MONTHLY RESEARCH WEBINAR

HEALTHCARE: OPPORTUNITIES AS THE PANDEMIC BECOMES ENDEMIC

Moderator:

Jim Kelleher, CFA

Director of Research

May 4, 2022

■ **Healthcare: Opportunities as the Pandemic Becomes Endemic**

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

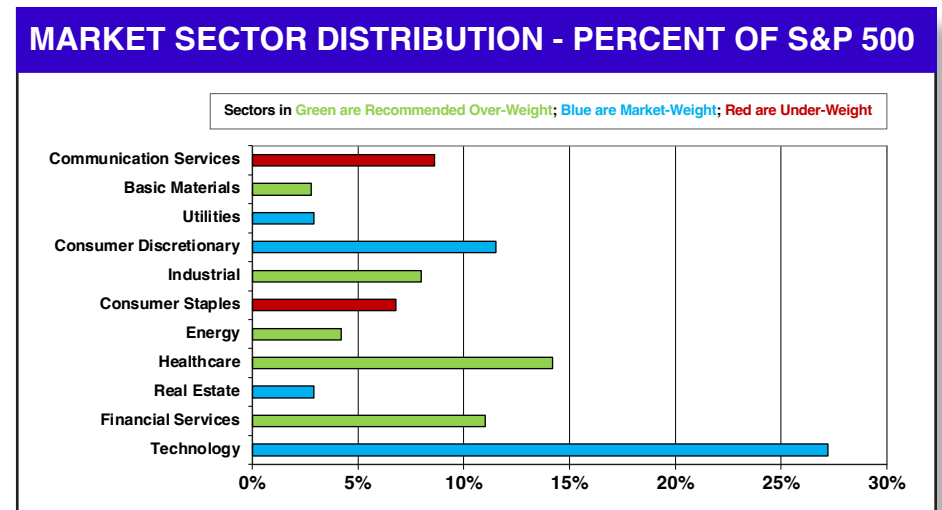
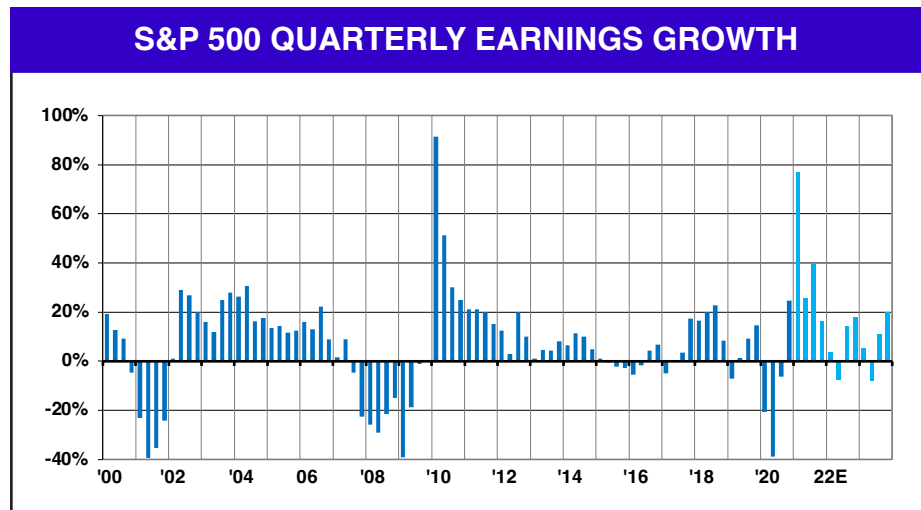
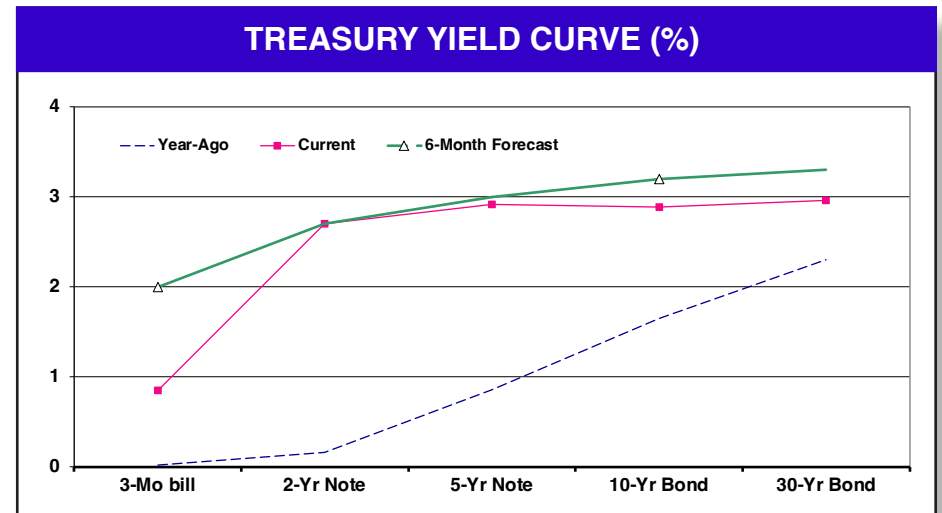
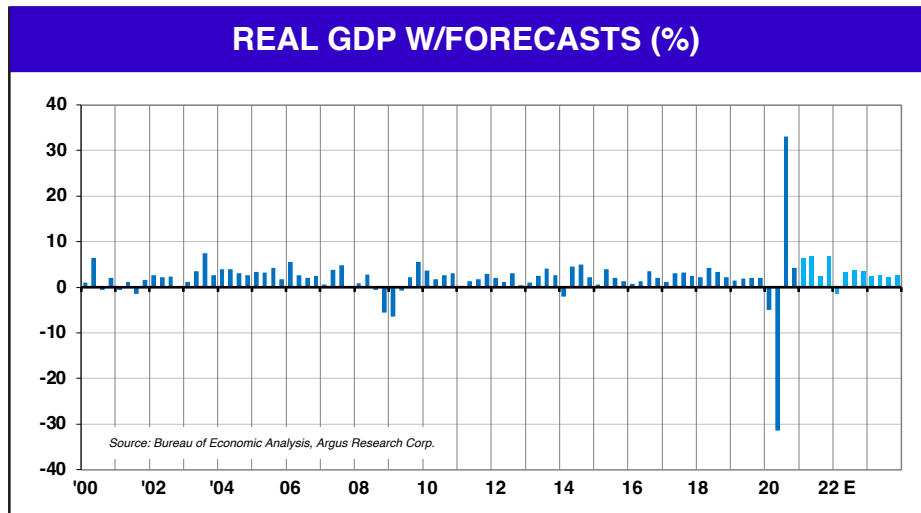
■ **Argus Quick Notes**

- Analysts Raising Target Prices
- Innovative Companies
- Our Favorite Healthcare Stocks
- Shooting Stars and Fallen Angels
- Find these on the homepage of our website

■ **Argus Innovation Model Portfolio**

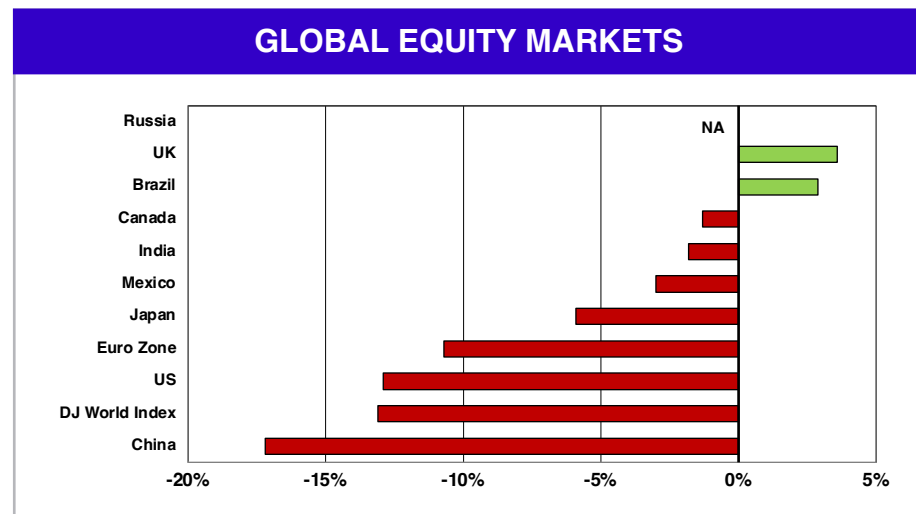
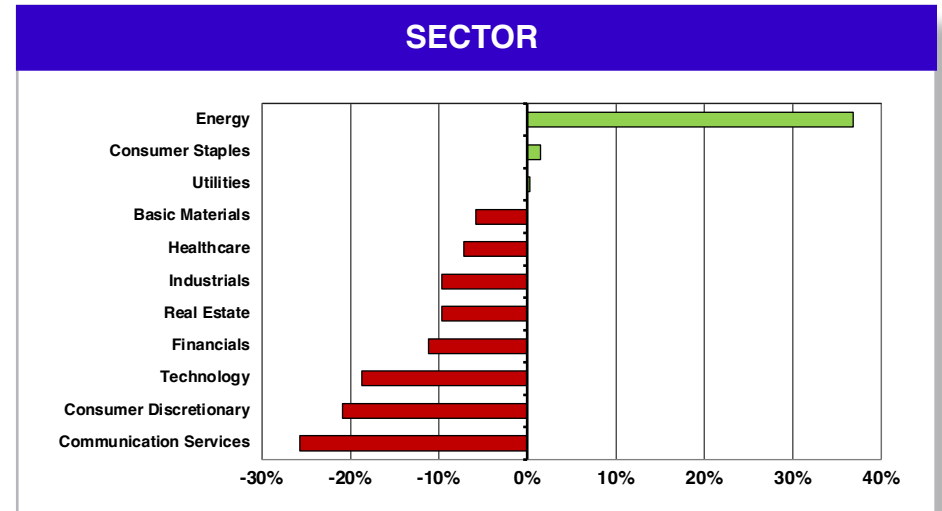
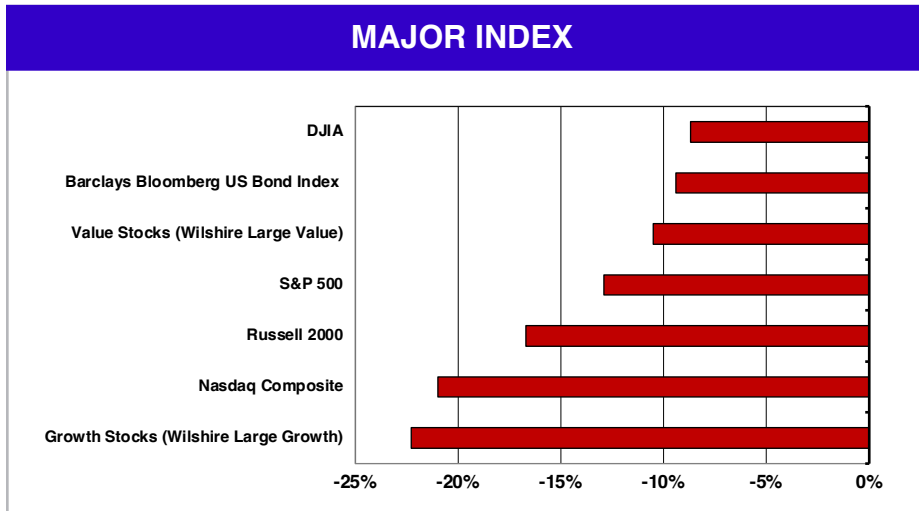
- US companies prioritize innovation to stand out
- Innovation has pushed US GDP to \$24 trillion from \$1 trillion
- First to new markets, disruptors, perfectors, new product specialists
- Find information on the homepage of our website

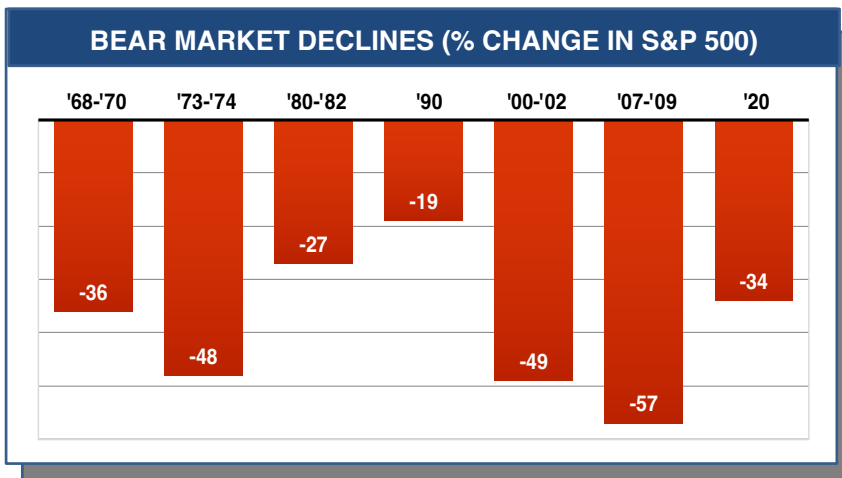
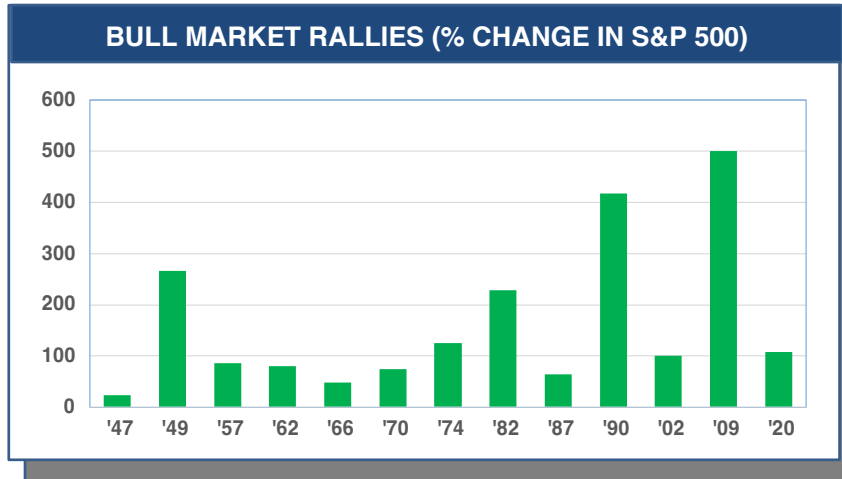
MACRO FORECASTS



MARKET PERFORMANCE

DATA AS APRIL 29, 2022





■ BULLS & BEARS

- **Average Bull Market**
 - » 13 since WWII
 - » 163% gain
 - » 57 month duration

- **Current Bull Market**
 - » Up 108% in early January
 - » 24 month duration
 - » Defies recent bull trends

- **Average Bear Market**
 - » 7 since 1960s
 - » Down 38%
 - » 16 Month duration

- **If this is start of a Bear Market**
 - » Down 12.8%
 - » < 4 Months

■ Cautious Consumer

PEP, KO, CL, STZ, COST, WMT, EL, HSY, HRL, K, KR, MKC, PG, TSN, PFE, ABBV, AMGN, MCK, CVS

■ Infrastructure/Supply Chain

VZ, T, ODFL, JBHT, UNP, NSC, CSX, URI, CAT, DE, VMC, ECL, ROP, AWK, NEE, SPGI, MCO

■ High Yield

ENB, T, NRZ, BCE, PPL, CVX, PRU, GSK, IBM, ABBV, STX, CFG, KEY, SO, NFG, PFE, VZ, AVB, TFC, RIO

■ Dividend Growth

AAP, HD, TJX, COST, EL, ENB, CBOE, DHR, UNH, CTAS, FAST, PH, AMT, ADP, INTU, MA, MSFT, TXN, NEE

■ ESG

DOW, GOOGL, AMZN, ADM, DVN, JPM, SCHW, TFC, CVS, ANTM, JCI, CMI, MSFT, AAPL, TXN, ADP, NEE

■ Innovation

GOOGL, AMZN, NVDA, MSFT, AAPL, V, ODFL, LHX, LLY, DHR, CTLT, SPGI, BLK, CVX, COST

■ Min-Vol

VZ, MCD, CHD, WMT, UL, PG, PEP, KO, RHHBY, MRK, PFE, JNJ, ABT, WM, UPS, ROP, LMT, TXN, AEE, AEP

■ **The Healthcare (HC) sector accounts for about 15% of the S&P 500. Our recommendation is Over-Weight**

- **COVID-19 cases and hospitalizations have sharply declined overall in U.S. since January peaks, but BA.2 variant driving regional rises.**
- **Need for 4th dose of mRNA vaccine appears very likely in order to maintain long-term protection against COVID-19 and variants. We may have to live with COVID-19 for years.**
- **Why is COVID resurging in China while in decline in U.S.? We think the country's zero-tolerance policy, reliance on less-effective domestic vaccines, and failure to approve mRNA vaccines from the outside have resulted in lower community and clinical immunity than in U.S. and other countries.**
- **HC sector (XLV -8.1% YTD) is outperforming the S&P 500 (-12%) as investors seek safe havens and move away from risk. Still, big pharma has balance sheet heft to acquire biotech assets at lower valuations to add to pipeline.**
- **With COVID-related revenue (testing and vaccines) declining in 2022, we are looking at companies' redeployment of cash flow for M&A and development of new products.**
- **Looking for recovery in 2Q and 2H22 in elective surgery cases in U.S., which benefit medical device companies. January spike in Omicron cases delayed recovery. Elective procedures were deferred in 2021 and in early 2022 as hospitals focused ICU capacity and staffing on COVID patients.**

■ **Johnson & Johnson (JNJ)**

Pharmaceutical and MedTech businesses delivered strong 1Q22 results. Planned divestiture of Consumer Health business will enable focus of capital on Pharmaceuticals and MedTech segments to accelerate development of new drugs and enhance digital technology. 2H22 procedural volume recovery will be tailwind for MedTech segment. JNJ seen as safe-haven investment during turbulent environment when investors are risk-averse.

■ **Danaher (DHR)**

Strong 1Q22 results show robust demand from biotech customers that focus on developing products in non-COVID modalities, including monoclonal antibodies, cell and gene therapies, and mRNA-based medicines. Omicron-driven impacts on facilities in China are expected to be temporary and Danaher's business activity in the country are expected to normalize in the second-half of 2022. DHR provides instruments, reagents and solutions to the biotech industry to develop and manufacture new drugs.

■ **Intuitive Surgical (ISRG)**

ISRG is industry leader in minimally-invasive robotics-assist surgery. The da Vinci robotics system has years' head-start advantage and technical innovations, resulting in large installed base of systems in U.S. and overseas markets. Clinical evidence shows that soft-tissue procedures on the da Vinci systems have better outcomes for patients, including shorter recovery and less pain. 2H22 recovery in elective procedural volume will be tailwind for ISRG revenue.

■ **GlaxoSmithKline PLC (GSK)**

Upcoming separation of biopharma business and consumer health business will increase cohesion, allowing the two companies to better focus on their strengths. Within the company's biopharma business, GSK has had a number of recent portfolio developments that we believe can drive significant growth. The consumer health business also continues to perform well, posting double-digit growth.

■ **Vertex Pharmaceuticals (VRTX)**

A leader in the cystic fibrosis market, Vertex continues to expand the reach of its CF treatments, both in terms of product approvals and reimbursement coverage. The company also has a significant pipeline, with promising product candidates under development in the fields of pain management, kidney disease, and more, as well as a strong balance sheet with minimal debt.

■ **Zoetis Inc. (ZTS)**

The largest pure-play animal health and vaccine company, Zoetis is a consistent outperformer, beating revenue and earnings consensus estimates in each of the past 20 quarters. It has a relatively short R&D and launch cycle and was recently named as one of the most innovative companies in the world. While the stock has fallen since the start of 2022, we expect the company to benefit from rising trends in pet ownership and its launch of new products and services.

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