



MONTHLY RESEARCH WEBINAR

HEALTHCARE IN A POST-PANDEMIC WORLD

Moderator:

Jim Kelleher, CFA

Director of Research

September 6, 2023

61 Broadway • NYC, N.Y. 10006
Telephone: (212) 425-7500

■ **Healthcare in a Post-Pandemic World**

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

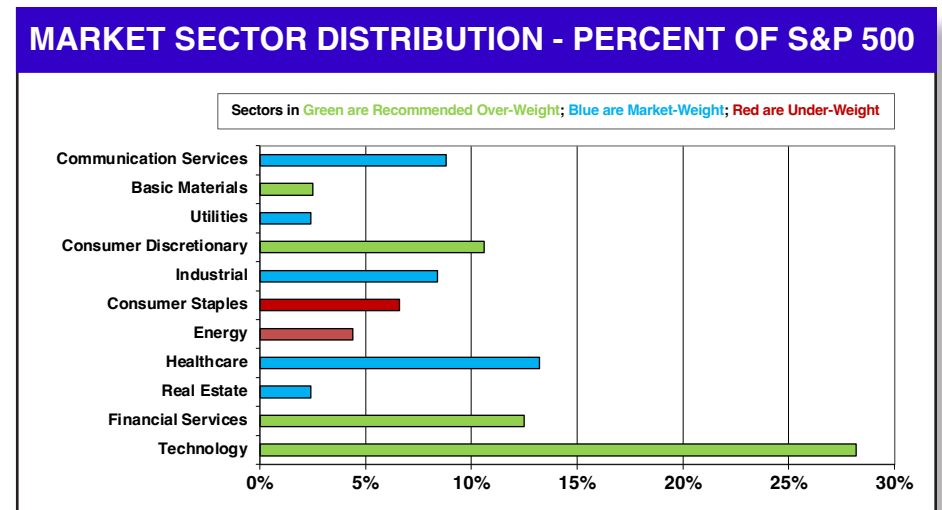
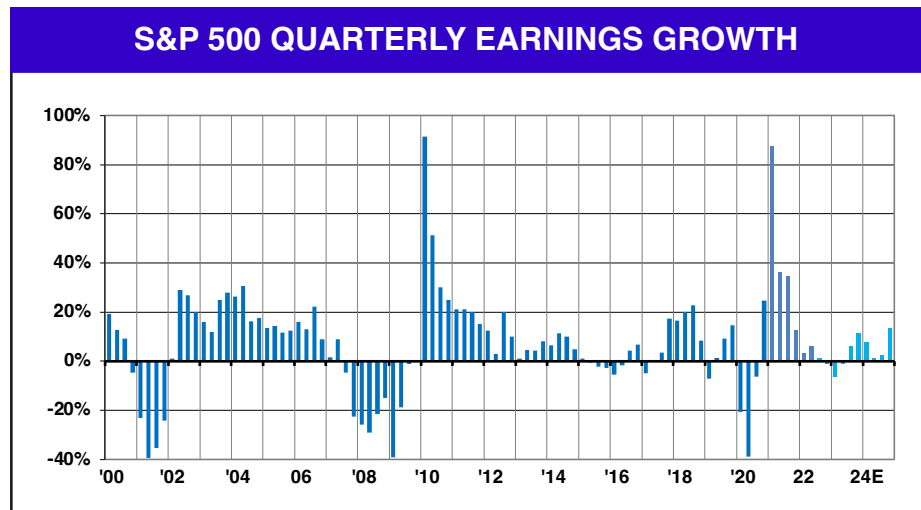
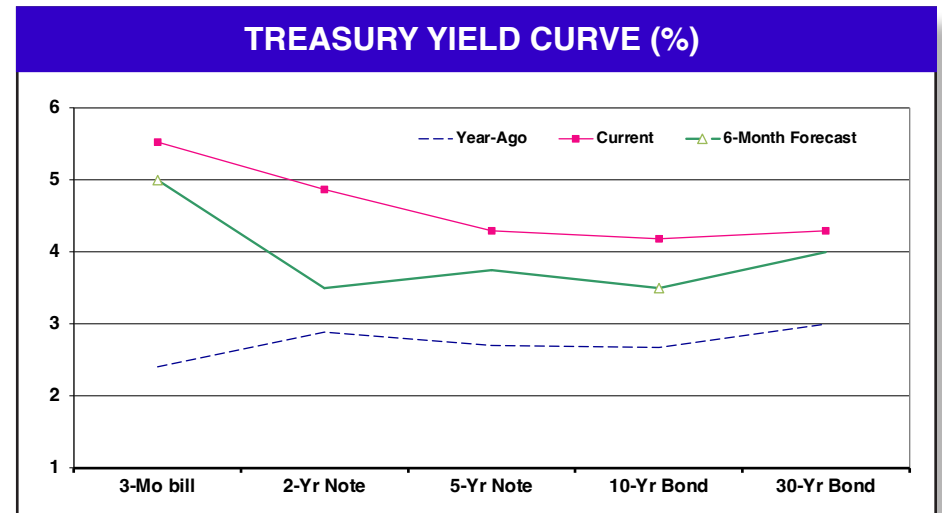
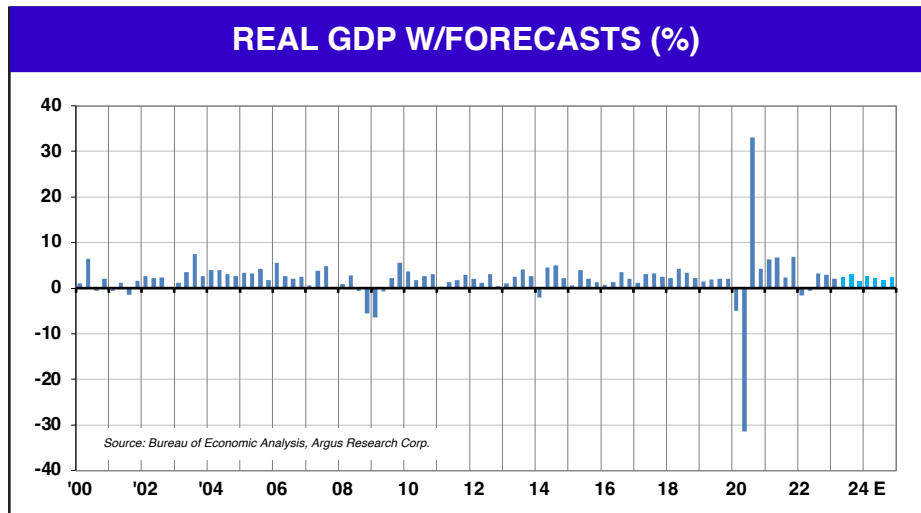
■ **Argus Quick Notes**

- Large Cap Fallen Angels
- Activist Stocks
- Companies Raising Guidance
- Find these on the homepage of our website

■ **Portfolio Update: the Argus High-Yield Model Portfolio**

- Value outperformed Growth in 2022 (first time since 2016)
- Cyclical factors, rising rates favored value/income
- Value offers Higher-than-market income
- RUS 1000 Value yield is more than double RUS 1000 Growth
- Find the Argus High-Yield MP on the homepage of our website

MACRO FORECASTS

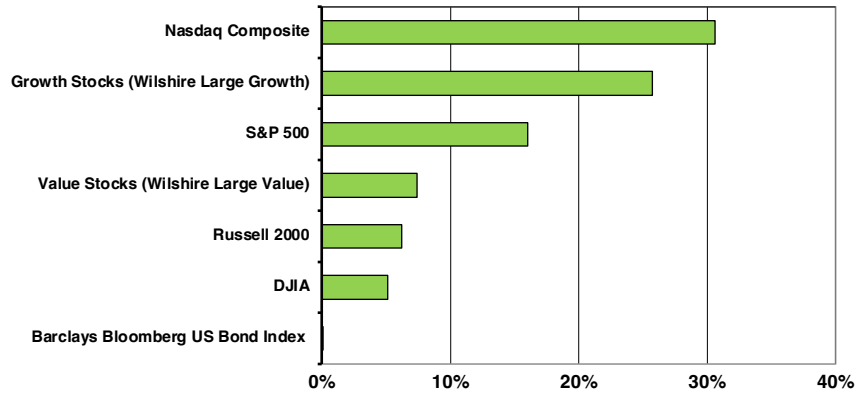


MARKET PERFORMANCE

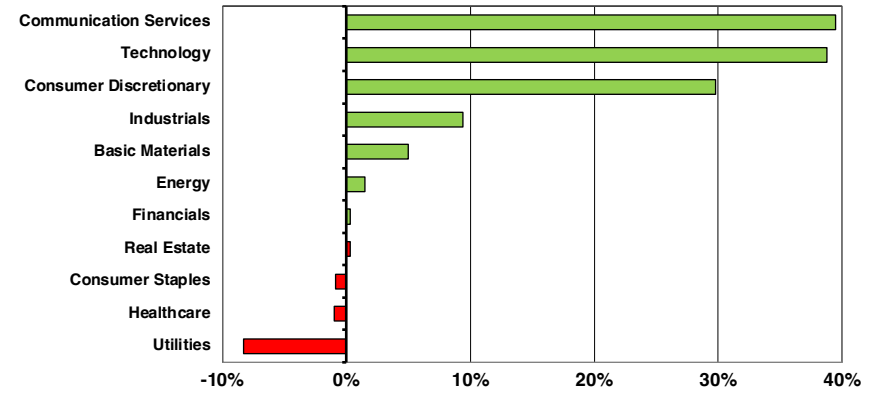
DATA AS OF AUGUST 31, 2023



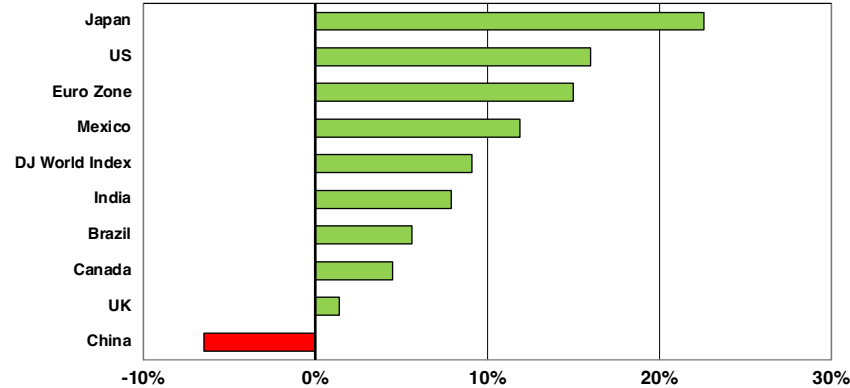
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



■ **Health Care (HC) sector accounts for about 15% of the S&P 500. Our sector recommendation is Market-Weight**

- **Health Care sector (XLV ETF -1.6% YTD) has underperformed the broader market (S&P 500 +18.9%). We see this underperformance as a value opportunity.**
- **Prescription drugs and medical devices viewed as solutions to improve life quality, irrespective of economic cycles. Sector includes pharmaceuticals, medical devices, insurance, HealthTech and distributors.**
- **Post-pandemic, recovery in elective procedural volumes and supply chain improvements will drive revenue growth for MedTech sector in 2023 and 2024.**
- **Argus has launched coverage of GE Healthcare Technologies. GEHC was spun out of GE in January.**
- **Johnson & Johnson completed its separation of Kenvue, its consumer health segment, and raised 2023 guidance.**
- **We present our stock picks in the MedTech, Life Sciences, Distribution, Pharmaceuticals, and Biotechnology subsectors.**

MedTech

■ **Intuitive Surgical (ISRG)**

Price target \$365

- **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. Clinical evidence shows that soft-tissue procedures on the da Vinci systems have better outcomes for patients, including shorter recovery and less pain. Recovery in elective procedural volume will be tailwind for ISRG revenue growth. Double-digit growth in gall bladder, colorectal, hernia repair and gynecological procedures. We see improving new system placements and higher surgeon utilization driving revenue growth and profit margins in 2023. We also forecast strong growth in Europe, Japan, China and Asia-Pacific as da Vinci robotics are underpenetrated in those markets.**

Life Sciences

■ **Catalent Inc. (NYSE: CTLT)**

We upgraded CTLT to BUY with a \$62 target.

- **CTLT is on track for stronger non-COVID revenue growth in FY24 as it transitions from COVID vaccines to focus on developing and commercializing advanced biologics and gene therapies. We see operational initiatives pointing to higher margins in FY24 and stronger EPS growth.**
- **We point out Catalent's opportunities as manufacturer of GLP-1 weight-loss drugs and of breakthrough gene therapies, such as Sarepta Therapeutics' therapy to treat Duchenne Muscular Dystrophy, and others.**
- **Catalent is the manufacturing partner with Sarepta in the commercialization of its gene therapy biologic to treat DMD. Catalent produced the dose for the first human dosing of this therapy to a five-year old boy one day before he turned six and would have aged out of eligibility.**

Pharmaceutical Distribution

■ **McKesson (NYSE: MCK)**

Price target \$450

- **McKesson is one of the largest pharmaceutical distributors in U.S.**
- **Consumer demand for GLP-1 weight-loss drugs is boosting distribution volumes.**
- **Solid execution in operations leads to margin gains and stronger EPS growth.**
- **Prescription Technology Solutions is contributing faster growth than pharma distribution segment with higher margins. It serves as platform to add services and technology to customers.**

Biotechnology

■ **Biogen Inc. (NGS: BIIB)**

Price target \$330

- Biogen is a biotech company that develops, manufactures, and sells therapies for treating neurological and neurodegenerative diseases.
- The company has been at the forefront of the development of treatments for Alzheimer's disease, most recently gaining traditional FDA approval for its drug Leqembi. While the FDA had previously granted accelerated approval for Leqembi, its full approval spurred the Centers for Medicare & Medicaid Services (CMS) to expand Medicare coverage for the Alzheimer's treatment, allowing broader access for eligible patients.
- Outside of its Alzheimer's programs, the FDA recently approved Zurzuvae as the first and only oral treatment for postpartum depression in adult women.
- The company also recently entered a definitive agreement to acquire Reata Pharmaceuticals, a company that developed the first and only approved treatment for Friedreich's ataxia (FA) in the U.S.
- Given Biogen's strong balance sheet, recently approved products, and continued research on treatments for Alzheimer's disease, we see value in the BIIB shares.

Pharmaceuticals

■ **Eli Lilly & Co. (NYSE: LLY)**

Price target \$620

- Lilly is one of the largest pharmaceutical companies in the world, with a market cap of more than \$500 billion.
- The company has experienced strong demand for its Growth Products launched prior to 2022, while its New Products launched since then have created new avenues revenue and earnings generation.
- Outside of its current portfolio of products, it has developed a potential treatment for Alzheimer's disease, donanemab, which it hopes to soon bring to market.
- The company has also developed a number of potential weight-management drugs that have performed well under clinical study, including one drug that has previously been approved for the treatment of type 2 diabetes.
- Lilly has also completed several acquisitions in recent months that we believe will help to drive growth in the future.
- Management recently updated the company's 2023 guidance, raising its outlook for its revenue, margins, and earnings.

Pharmaceuticals

■ **Merck & Co., Inc. (NYSE: MRK)**

Price target \$125

- Merck is a leading pharmaceutical company with a number of successful products on the market targeting various cancers and diabetes, as well as animal health products and vaccines for a range of diseases.
- The company's largest revenue-generating product, Keytruda, continues to be approved for additional indications and for its use in combination with other drugs, which will likely extend the already robust double-digit growth that the product has delivered in recent quarters.
- Among its other products, Merck has seen positive regulatory developments for products targeting certain cancers, ebolavirus, chronic cough, and cytomegalovirus (CMV) disease in high-risk adult kidney transplant recipients.
- Merck has also made use of strategic acquisitions that we believe will help to drive growth and offset the impact of patent expirations in the future.
- While the company recently lowered its guidance for 2023, this was largely due to a one-time R&D expense related to acquisitions and milestone payments and signaled a strengthening of returns in the second half of the 2023 year.

DISCLAIMER



The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. Investing in any security or investment strategy discussed in this presentation may not be suitable for you and it is recommended that you consult an independent investment advisor. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus officers, employees, agents and/or affiliates may have positions in funds or stocks discussed in this presentation. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. Argus shall accept no liability for any loss arising from the use of this presentation or the materials contained in this presentation.