



Health Care Sector Report

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Investment Management Program 2021 Fall Semester



Size and Composition of the Sector:

- The Market Cap of the Health Care Sector as of September 17, 2021 is \$8.36 trillion, including six industries; Biotechnology (\$1.63T), Health Care Equipment & Supplies (\$1.85T), Health Care Providers & Services (\$1.25T), Health Care Technology (\$185.11B), Life Sciences Tools & Services (\$741.41B), and Pharmaceuticals (\$2.71T).
- Some of the largest companies in this sector are Johnson & Johnson, UnitedHealth Group Inc., Pfizer Inc., Abbott Laboratories, Thermo Fisher Scientific, AbbVie Inc., Danaher Corp., Eli Lilly & Co., Merck & Co. Inc., and Medtronic plc. We own shares of both Johnson & Johnson and UnitedHealth Group Inc.
- The one-year percent change for the health care sector is +25.49%, as of September 17, 2021.
- The YTD performance and QTD performance of the health care sector are +16.75% and +5.23%, respectively. Only one of the six industries (Health Care Technology) did not exhibit a positive YTD performance.
- As of August 31, 2021, the S&P 500 has the Health Care sector weighted at 13.42%. The Wiseman fund has the sector weighted at 10.9% as of the same date. Currently, Health Care is underweighted in the IMP portfolio.

Business Analysis:

- According to Fidelity's third quarter update, the United States has fully shifted into the mid-cycle phase of the business cycle. This can be attributed to broadening expansion due to the economy reopening. The major global economies are on different trajectories in the business cycle, which is largely dependent on their vaccine access and ability to reopen their economies. While the United States, China, Eurozone, Australia, and Canada have entered the mid-cycle, Brazil, India, and Mexico are still in the early-cycle phase.
- The Health Care sector tends to underperform the market in the early-cycle phase, perform on par with the market during the mid-cycle phase, and outperform the market slightly in the late-cycle and recession phases.
- External factors usually do not have a substantial impact on demand in this sector because health care services and products are always needed. Even during the COVID-19 pandemic, the health care sector did not experience as much volatility as other sectors.
- The Health Care sector is very difficult to enter because of the strict regulations and licensing requirements companies must adhere to. There are many high standards for products, services, and healthcare providers. Because the market is difficult to enter, the large companies that do have a foothold in the sector have a lot of market power. There is a lack of substantial competition in health care driving prices down. Instead, we see a lack of substitutes and competition allowing the industry giants to raise prices.

Economic Analysis:

- While the Health Care sector occasionally underperforms in the early-cycle phase of the business cycle, overall, the sector is considered defensive, meaning that regardless of the overall state of the stock market, the sector as a whole provides fairly stable dividends and earnings.
- The health care sector is low risk and offers substantial long-term gains. While this low volatility is beneficial in an economic downturn, the sector also does not capitalize on the gains of a bullish market.
- Because the health care sector cannot rely on a bullish market for growth, its growth is derived by other factors. Some factors contributing to this growth are an aging population, technological advances, and treatment advances.
- The four stocks we own in the Health Care sector mainly cover three industries: Pharmaceuticals, Health Care Providers & Services, and Biotechnology.

Financial Analysis:

- As of September 17, 2021, the average EPS for the health care sector is \$5.88, revenue growth is +276.63%, ROE is -0.74%, ROI is 7.54%, and the dividend yield is 2.08%.
- As of September 17, 2021, the average EPS for the Pharmaceuticals Industry is \$2.89, revenue growth is +26.06%, ROE is 18.14%, ROI is 21.42%, and the dividend yield is 2.78%. This industry is underperforming the overall sector in terms of revenue growth.
 - Johnson & Johnson operates in this industry and has an EPS of \$6.65, revenue growth is 10.79%, ROE is 26.81%, ROI is 18.25%, and the dividend yield is 2.57%. Bristol-Myers Squibb also operates in this industry and has an EPS of -\$2.27, revenue growth is 27.31%, ROE is -11.83, ROI is -4.73, and the dividend yield is 3.20%. According to these metrics, Johnson & Johnson is performing well in the industry and sector as a whole, however, Bristol-Myers Squibb appears to be underperforming in this industry in several measures, therefore, it may be beneficial to explore other stock options.
- As of September 17, 2021, the average EPS for the Health Care Providers & Services Industry is \$10.28, revenue growth is +18.70%, ROE is -131.57%, ROI is 6.27%, and the dividend yield is 1.40%. This industry is underperforming the sector in all of the mentioned valuations, except for EPS.
 - UnitedHealth Group operates in this industry and has an EPS of \$15.15, revenue growth is +9.80%, ROE is 21.88%, ROI is 13.89%, and the dividend yield is 1.38%. According to these metrics, UnitedHealth Group appears to perform very well in this industry, as well as the sector as a whole.
- As of September 17, 2021, the average EPS for the Biotechnology Industry is \$5.01, revenue growth is +1,355.15%, ROE is 33.43%, ROI is 9.26%, and the dividend yield is 4.06%. This industry is overperforming the sector in all of the mentioned valuations.
 - Amgen operates in this industry and has an EPS of \$9.84, revenue growth is +4.87%, ROE is 60.78%, ROI is 15.82%, and the dividend yield is 3.21%. While Amgen appears to be performing fairly well, it may be beneficial to look into other stocks in this industry to capitalize on its large revenue growth.

Valuation Analysis:

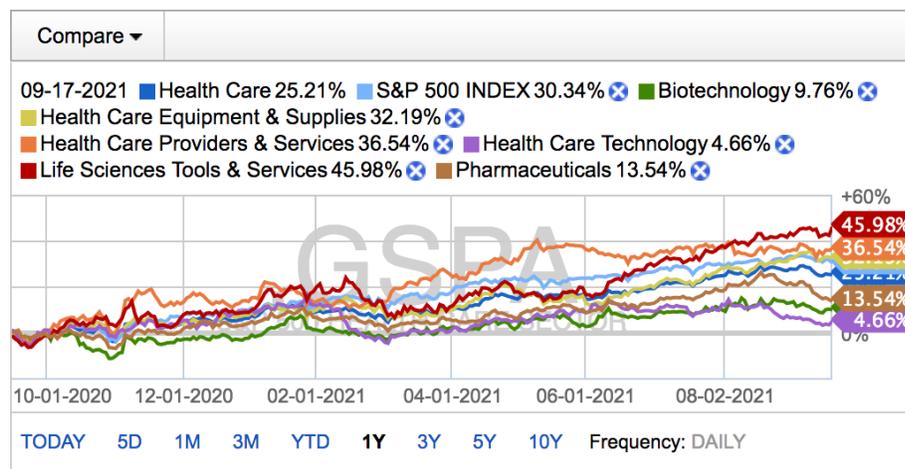
- As of August 31, 2021, the trailing P/E ratio and projected P/E ratio of the Health Care sector are 29.63 and 17.8, respectively. Comparatively, the trailing P/E ratio and projected P/E ratio for the S&P 500 are 30.99 and 22.12, respectively. The trailing P/E ratio of the Health Care sector is on par with the S&P 500, while the projected ratio is slightly less, however, the P/E ratio for both Health Care and the S&P 500 are expected to fall slightly.
- The P/S ratio of the Health Care sector is 1.88, compared to the S&P 500's 2.85. This suggests that investors in the health care sector are receiving more value for their investment.
- The P/B ratio of the Health Care sector is 4.81, compared to the S&P 500's 4.29. This valuation is on par with the market and can be partially attributed to high EPS growth.
- The P/CF ratio of the Health Care sector is 19.38, compared to the S&P 500's 27.95. This suggests better cash flows for the health care sector when compared to the S&P 500.
- The dividend yield of the Health Care sector is 1.48%, compared to the S&P 500's 1.33%. This higher dividend yield for health care is a positive attribute for the sector.
- For the companies we own in this sector, all of them have a P/E ratio below that of the sector as a whole. All but one of the P/S values are above the sector value. All but one of the P/B values is above the sector value. All of the P/CF values are below the sector value. Overall, many of the individual company values are fairly close to the sector valuations.
- I expect these valuations to stay fairly stable moving into the future. The Health Care sector has generally low volatility, making a sudden shift in these valuations unlikely. Historic performance shows that the health care sector moves in a very similar trend to the S&P 500.

Recommendations:

- I recommend that we weight the Health Care sector of the IMP portfolio to match the weight in the S&P 500. The Health Care sector is weighted in the portfolio at 10.9% (the target weight is 11.25%) and the S&P 500 has health care weighted at 13.42%. I believe we should try to bring the weight closer to that 13.42%.
- Underweighting the sector before was appropriate for that stage in the economy, as health care tends to underperform the market in the early stage of the business cycle, however, now that we are in the mid-cycle the health care sector will likely perform on par with the market. As we move into later stages, the health care sector will likely outperform the market.
- I would recommend market weight instead of overweight because while the sector will eventually outperform the market, it is not very volatile and is not likely to have extremely significant gains. I would rather overweight another sector that has potential for significant increases.
- In achieving this weight increase, I believe it would be beneficial to look into the Life Sciences Tools & Services industry, which has seen the most significant performance over the last five years. I also believe it would be beneficial to look into selling one of our current health care holdings for a stock that shows more growth potential.

Charts and Graphs:

Industry ▲	Last % Change 05:25 PM ET 09/17/2021	% CHANGE			
		YTD	1 - Year	3 - Year	5 - Year
Health Care	+0.07%	+16.75%	+25.49%	+43.27%	+85.25%
Biotechnology	-0.27%	+11.10%	+10.55%	+21.96%	+35.63%
Health Care Equipment & Supplies	-0.45%	+21.64%	+32.85%	+69.15%	+148.70%
Health Care Providers & Services	+0.63%	+18.67%	+35.71%	+39.84%	+115.08%
Health Care Technology	+1.38%	-4.38%	+3.62%	+15.55%	+20.99%
Life Sciences Tools & Services	+2.64%	+33.03%	+48.14%	+112.62%	+252.74%
Pharmaceuticals	-0.62%	+8.49%	+13.42%	+21.96%	+39.80%
S&P 500 ® Index	-0.91%	+18.02%	+30.94%	+52.60%	+107.23%



Equity Sector Weights		
Sector	IMP	S&P 500
Communication Services	6.50%	11.24%
Consumer Discretionary	14.13%	12.05%
Consumer Staples	6.29%	5.85%
Energy	2.45%	2.55%
Financials	12.94%	10.95%
Health Care	10.90%	13.42%
Real Estate	2.21%	2.63%
Industrials	6.22%	8.41%
Information Technology	31.89%	27.82%
Materials	4.55%	2.59%
Utilities	1.92%	2.48%
Total	100.00%	100.00%

ECONOMIC GROWTH	EARLY: Rebounds	MID: Peaks	LATE: Moderates	RECESSION: Contracts
OUTPERFORM THE U.S. EQUITY MARKET	<ul style="list-style-type: none"> CONSUMER DISCRETIONARY FINANCIALS INDUSTRIALS INFORMATION TECHNOLOGY MATERIALS REAL ESTATE 	<ul style="list-style-type: none"> COMMUNICATION SERVICES INFORMATION TECHNOLOGY 	<ul style="list-style-type: none"> CONSUMER STAPLES ENERGY HEALTH CARE MATERIALS UTILITIES 	<ul style="list-style-type: none"> CONSUMER STAPLES HEALTH CARE UTILITIES
UNDERPERFORM THE U.S. EQUITY MARKET	<ul style="list-style-type: none"> ENERGY HEALTH CARE UTILITIES 	<ul style="list-style-type: none"> CONSUMER DISCRETIONARY MATERIALS UTILITIES 	<ul style="list-style-type: none"> CONSUMER DISCRETIONARY INFORMATION TECHNOLOGY 	<ul style="list-style-type: none"> COMMUNICATION SERVICES INDUSTRIALS INFORMATION TECHNOLOGY REAL ESTATE

In a Growing Economy

Consider **information technology**.

It has had the highest volatility relative to all sectors over the past 20 years, which could boost portfolio performance.

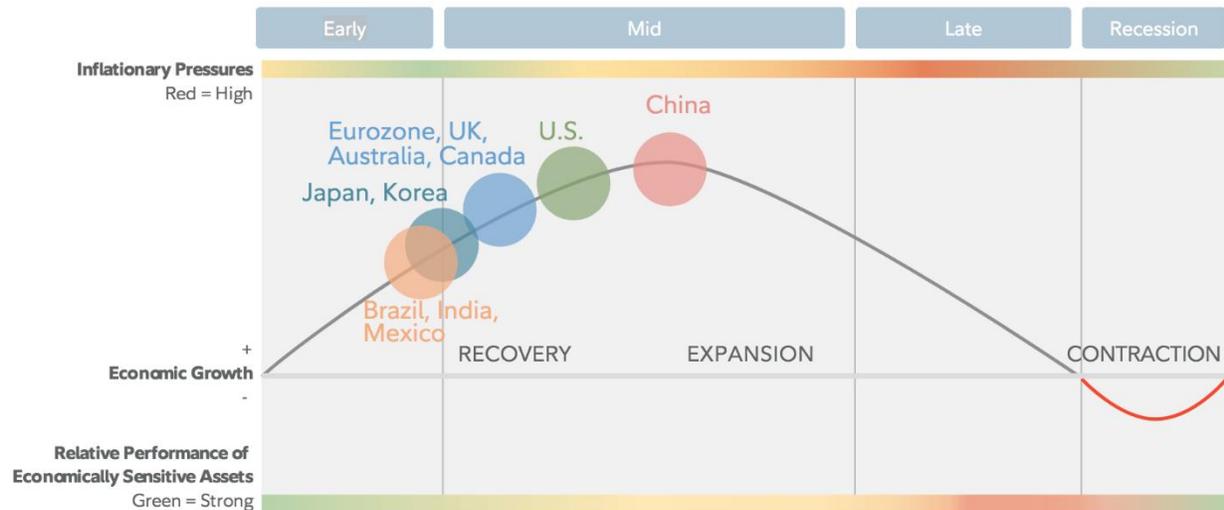
It has often outperformed during the early and mid phases of the business cycle when the economy is growing.¹

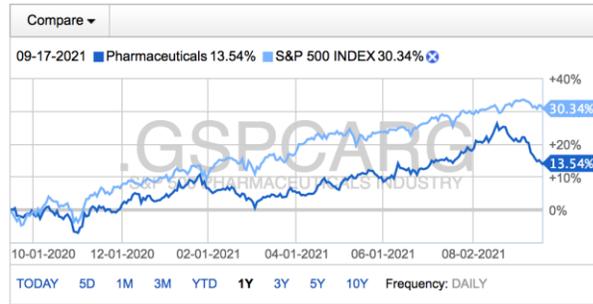
As the Economy Slows Down

Consider **consumer staples, health care, and utilities** sectors.

They usually outperformed during the late and recession phases of the business cycle when the economy is slowing or shrinking.¹

They have had the lowest volatility relative to all sectors over the past 20 years, which may lower portfolio risk.





Sector Fundamentals AS OF 09/17/2021

P/E (Last Year GAAP Actual)	57.53
P/E (This Year's Estimate)	35.06
Enterprise Value	\$155.88B
EPS (TTM)	\$5.88
EPS Growth (TTM vs. Prior TTM)	19.63%
Revenue Growth (TTM vs. Prior TTM)	276.63%
Return on Equity (TTM)	-0.75%
Return on Investment (TTM)	7.54%
Total Debt/Equity (TTM)	122.82
Dividend Yield	2.08%

Industry Fundamentals AS OF 09/17/2021

P/E (Last Year GAAP Actual)	53.08
P/E (This Year's Estimate)	23.19
Enterprise Value	\$233.36B
EPS (TTM)	\$2.89
EPS Growth (TTM vs. Prior TTM)	-127.65%
Revenue Growth (TTM vs. Prior TTM)	24.59%
Return on Equity (TTM)	18.17%
Return on Investment (TTM)	21.43%
Total Debt/Equity (TTM)	278.10
Dividend Yield	2.78%



Industry Fundamentals AS OF 09/17/2021

P/E (Last Year GAAP Actual)	27.84
P/E (This Year's Estimate)	20.52
Enterprise Value	\$182.74B
EPS (TTM)	\$10.28
EPS Growth (TTM vs. Prior TTM)	51.91%
Revenue Growth (TTM vs. Prior TTM)	18.70%
Return on Equity (TTM)	-131.61%
Return on Investment (TTM)	6.27%
Total Debt/Equity (TTM)	-65.17
Dividend Yield	1.40%

Industry Fundamentals AS OF 09/17/2021

P/E (Last Year GAAP Actual)	--
P/E (This Year's Estimate)	114.46
Enterprise Value	\$83.16B
EPS (TTM)	\$5.01
EPS Growth (TTM vs. Prior TTM)	-6.35%
Revenue Growth (TTM vs. Prior TTM)	1,355.15%
Return on Equity (TTM)	33.43%
Return on Investment (TTM)	9.26%
Total Debt/Equity (TTM)	127.60
Dividend Yield	4.06%

S&P 500

Fundamentals

P/E (TRAILING)	P/E (PROJECTED)	P/B	INDICATED DIV YIELD	P/SALES	P/CASH FLOW
30.99	22.12	4.29	1.33%	2.85	27.95

P/E (Projected) and Dividend Yield are as of August 31, 2021; P/E (Trailing), P/B, P/Sales, and P/Cash Flow are as of March 31, 2021. Fundamentals are updated on approximately the fifth business day of each month.

Health Care

Fundamentals

P/E (TRAILING)	P/E (PROJECTED)	P/B	INDICATED DIV YIELD	P/SALES	P/CASH FLOW
29.63	17.8	4.81	1.48%	1.88	19.38

P/E (Projected) and Dividend Yield are as of August 31, 2021; P/E (Trailing), P/B, P/Sales, and P/Cash Flow are as of March 31, 2021. Fundamentals are updated on approximately the fifth business day of each month.

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