AGENDA

- Healthcare Sector Overview
- Business and Economic Analysis
- Financial Analysis
- Valuation Analysis
- Recommendation
S&P 500 Sector Weights

Healthcare $84.8 Trillion

- Information Technology: 20%
- Financials: 16%
- Healthcare: 13%
- Consumer Discretionary: 13%
- Consumer Staples: 10%
- Industrials: 10%
- Energy: 7%
- Utilities: 3%
- Materials: 3%
- Telecommunication Services: 3%
INDUSTRIES WITHIN HEALTHCARE SECTOR

• Biotechnology
• Pharmaceuticals
• Health Care Providers and Services
• Health Care Equipment & Supplies
• Health Care Technology
• Life Sciences Tools & Service
LARGEST COMPANIES

- Johnson & Johnson: $319 Billion Market Cap
- Pfizer: $210 Billion Market Cap
- Novo Nordisk: $135 Billion Market Cap
- Medtronic: $152 Billion Market Cap
- Novartis: $189 Billion Market Cap
LARGEST COMPANIES CONTINUED

Bristol-Myers Squibb, $119 Billion Market Cap

AMGEN, $112 Billion Market Cap

UnitedHealth Group, $131 Billion Market Cap

MERCK, $155 Billion Market Cap

GILEAD, $109 Billion Market Cap
SECTOR PERFORMANCE

- YTD – 2.49%
- Quarter to date: +3.65%
- 5 Year annual return +14.71% (slightly above 12.42% performance of S&P 500)
• Most of the product consumption is non-discretionary, so the demand is inelastic which is a positive.
• Looking forward, the population of aging people will continue to expand, increasing overall consumption of various health care services.
• Negative pressure on Margins based on the political environment (e.g. Gilead’s hepatitis C drug therapy has received lots of negative press and comments from the politicians)
• Large addressable market outside of the US (currently pricing is much lower due to per capital GDP outside of the US, and patent protections not as strong. As the rest of the world continues to develop, there will be an opportunity for increased pricing and intellectual property protections.)
ECONOMIC ANALYSIS

The Healthcare industry can be greatly influenced by the following:

• Aging population and the baby boomers
• Obesity and diabetes epidemics
• Technological advances
• People living longer with chronic disease
AGING POPULATION
Difference in Emergency Room Costs for Patients Presenting With Chest Pains Compared with a Normal-Weight Patient

- Overweight: 22% Higher
- Obese: 28% Higher
- Severely Obese: 41% Higher

Five Year ROI on $10 Per Person Community-Based Investment

- Medicare $5 Million
- Other Insurance $9.1 Million
- Medicaid $1.9 Million
## Financial Analysis

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Margin</td>
<td>33.85%</td>
<td>33.90%</td>
<td>33.53%</td>
<td>32.92%</td>
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<tr>
<td>Operating Margin</td>
<td>11.74%</td>
<td>10.62%</td>
<td>10.68%</td>
<td>10.29%</td>
</tr>
<tr>
<td>Net Margin</td>
<td>7.60%</td>
<td>8.33%</td>
<td>7.88%</td>
<td>7.31%</td>
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<tr>
<td>ROE</td>
<td>15.68</td>
<td>17.57</td>
<td>17.28</td>
<td>16.55</td>
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<tr>
<td>R&amp;D as Percent</td>
<td>4.86%</td>
<td>4.89%</td>
<td>4.76%</td>
<td>4.39%</td>
</tr>
</tbody>
</table>
Over the past 12 months Free Cash Flow has grown to **29.75 %**, a new Sector high.
## Valuation Analysis

<table>
<thead>
<tr>
<th>Healthcare Sector</th>
<th>High</th>
<th>Low</th>
<th>Median</th>
<th>Current</th>
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</thead>
<tbody>
<tr>
<td>P/E</td>
<td>24.4</td>
<td>9.9</td>
<td>15.5</td>
<td>20.4</td>
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<tr>
<td>P/B</td>
<td>4.0</td>
<td>1.9</td>
<td>3.0</td>
<td>3.4</td>
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<tr>
<td>P/S</td>
<td>2.0</td>
<td>1.0</td>
<td>1.5</td>
<td>1.7</td>
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<tr>
<td>P/EBITDA</td>
<td>14.4</td>
<td>6.5</td>
<td>9.6</td>
<td>12.2</td>
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</table>

<table>
<thead>
<tr>
<th>Relative to S&amp;P 500</th>
<th>High</th>
<th>Low</th>
<th>Median</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E</td>
<td>1.34</td>
<td>0.4946</td>
<td>0.99</td>
<td>1.08</td>
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<tr>
<td>P/B</td>
<td>1.59</td>
<td>1.06</td>
<td>1.31</td>
<td>1.34</td>
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<tr>
<td>P/S</td>
<td>0.89</td>
<td>0.87</td>
<td>1.06</td>
<td>0.89</td>
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<tr>
<td>P/EBITDA</td>
<td>1.75</td>
<td>0.94</td>
<td>1.34</td>
<td>1.15</td>
</tr>
</tbody>
</table>
OBSERVATIONS

- Revenues are Increasing
- Uses Free Cash Flow
- Shrinking Margins
- Stay higher for the long term
**Recommendation**

- The SIM portfolio should be slightly overweight.
- Major positives include the long-term trend of healthcare becoming a growing share of overall GDP.
- Overweight Biotech and underweight providers and services.