FORSYTH BARR

WEALTH MANAGEMENT RESEARCH

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Global Health Care
Longing for a Connection

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Already a large and complex environment, the healthcare sector appears ripe for change. One obvious change is the lack of connectivity, where patients health records aren't shared between clinics; another is costs rising faster than GDP, with 20% of these costs not spent on generating better health. In this report we reveal our long-term view for investing within the healthcare sector by: 1) outlining our thesis of the thematic trends we believe are set to reshape/disrupt the healthcare sector; 2) providing a brief overview of the healthcare sector; and 3) identifying global companies that we feel are favourably positioned to benefit from these trends. We define these companies as "connected healthcare" companies. These companies are exposed to conditions with higher growth rates, facilitate the interoperability of healthcare data, and/or reduce healthcare systems' inefficiencies. Our current list of connected healthcare companies is not static, we will continue to evaluate both our thesis and our preferred companies as new information surfaces.

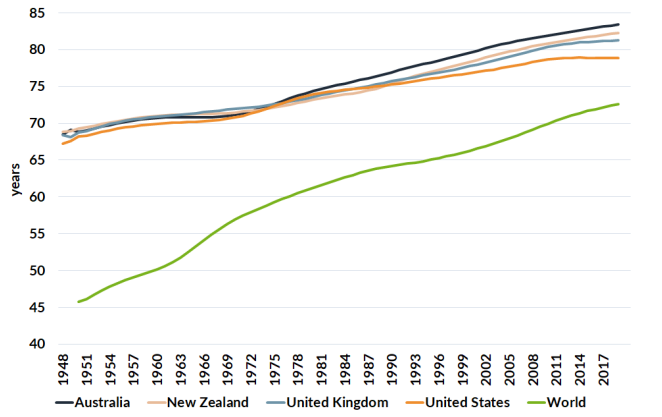
Figure 1. Companies we believe are favourably exposed to a "connected" healthcare system

Company	Ticker	Description
Abbott Laboratories	ABT	ABT is a well-diversified global healthcare company that has proactively shaped itself with the strategic intent to deliver enduring growth in its business units. ABT has a range of market leading products: Freestyle Libre (diabetes monitoring), Alinity (diagnostics) and MitraClip (heart valve repair). ABT also developed the BinaxNOW COVID-19 rapid test.
Boston Scientific	BSX	BSX is a developer, manufacturer and marketer of minimally invasive medical devices. BSX is a leader in devices for heart conditions, and focusses on manufacturing cardiovascular and cardiac rhythm management products. BSX also makes devices used for electrophysiology, endoscopy, pain management (neuromodulation) and urology.
IQVIA Holdings	IQV	IQV is a global contract research organisation and provider of advanced analytic technologies and is a world leader in using data, technology, advanced analytics and expertise to help customers drive healthcare forward. IQV offers services such as project management and clinical monitoring, workflow analytics and patient engagement.
Masimo	MASI	MASI is a medical technology company that designs, develops and licenses a range of industry-leading, non-invasive patient monitoring technologies tools that montor arterial blood-oxygen saturation levels and pulse rates. MASI's Patient SafetyNet system allows patients to be monitored through a personal computer-based monitor or by care providers.
Medtronic	MDT	MDT develops therapeutic and diagnostic medical products. MDT has a range of product lines focused on cardiac rhythm management, cardiovascular, spine, neuromodulation and diabetes. MDT is an active advocate for transformation in health care, through patient-centric solutions, value-based reimbursement and harnessing health care data.
Royal Philips	PHIA	PHIA is a Netherlands-based health technology company that has recently refined its focus towards the healthcare space. The company is a leader in diagnostic imaging, image-guided therapy, patient monitoring and health informatics, as well as in consumer health and home care.
Stryker	SYK	SYK is one of the world's leading medical technology companies. SYK offers innovative products in orthopaedics, medical and surgical, and neurotechnology and spine. SYK has proven to be a consistent performer, despite COVID causing a near-term headwind. Over the long term, with exposure to treatments likely required by ageing populations, we are confident in SYK's ability to return to growth rates towards the top of its peer group.
Thermo Fisher Scientific	TMO	TMO makes and distributes analytical instruments, scientific equipment, consumables, and other laboratory supplies to prepare laboratories for research, analysis, discovery or diagnosis. TMO is the largest dedicated life sciences player in the market by a wide margin.
Veeva Systems	VEEV	VEEV is a leading provider of cloud-based software solutions for the life sciences industry. VEEV offers solutions for a range of requirements within life sciences companies, including multichannel customer relationship management, regulated content and information mangement, master data managment and customer data.

Source: Company websites, Forsyth Barr analysis

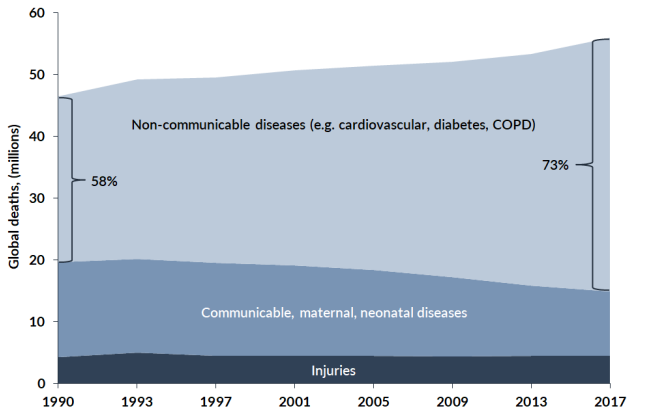
Our thesis in pictures

Figure 2. Life expectancy continues to rise



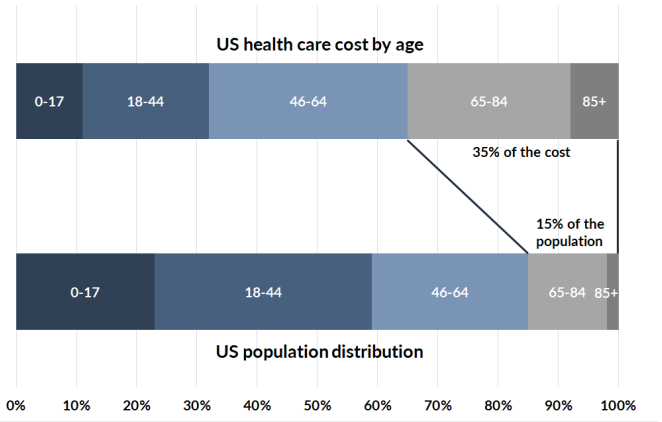
Source: United Nations, Forsyth Barr analysis

Figure 3. As do deaths from chronic diseases



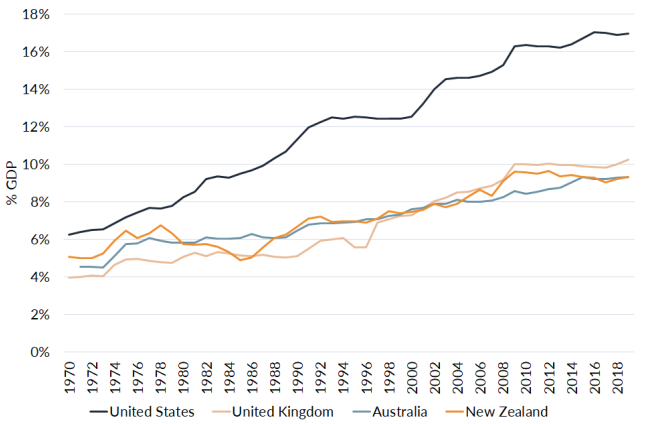
Source: Our World in Data, Forsyth Barr analysis

Figure 4. Putting strain on costs for health care systems



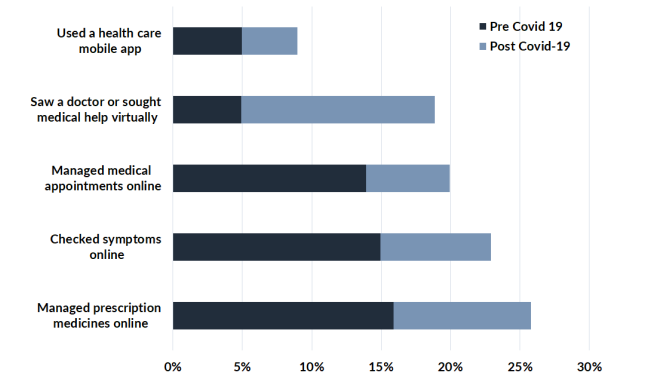
Source: US Census Bureau, Centres for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, Forsyth Barr analysis

Figure 5. Causing health care costs to rise faster than GDP



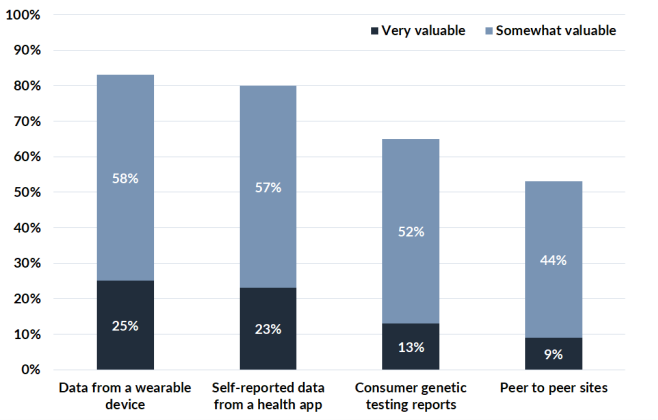
Source: OECD, Forsyth Barr analysis

Figure 6. COVID caused increased adoption of "digital" medicine



Source: Gartner, Forsyth Barr analysis

Figure 7. and physicians are beginning to see value



Source: Stanford Medicine, Forsyth Barr analysis

Figure 8. Companies we believe are favourably exposed to a "connected" healthcare system

Abbott Laboratories	Boston Scientific	IQVIA Holdings
Masimo	Medtronic	Royal Philips
Thermo Fisher Scientific	Stryker	Veeva Systems

Source: Forsyth Barr analysis

Dissecting the opportunity

We begin by outlining our view on the evolution of health care and how long-term trends are set to re-shape/disrupt the sector globally. Overall, we find a sector ripe for change. Demographic trends require a shift from an ambulance-at-the-bottom-of-the-cliff approach towards a preventative, patient-centric and value-based approach. The slow adoption of digital technology has left health care systems data rich but information poor. We believe a shift is occurring towards a more connected health care system. These trends are not "Eureka!" moments with change occurring in a heart beat. It will take time for change to occur and many of these trends have already been well publicised for a number of years.

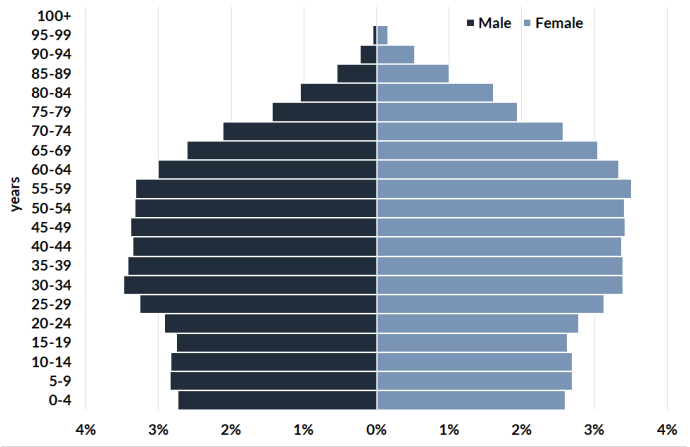
"We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten" - Bill Gates

If our thesis comes to fruition it will require large investments and structural shifts occurring over a number of years. The key trends in our healthcare thesis are: **1) Ageing populations**: driving a higher proportion of high-cost, chronic conditions, **2) Digital transformation**: harnessing healthcare data, unlocking efficiencies and enhancing patient outcomes, **3) A shift in delivery and reimbursement**: a more preventative approach, based on the quality of outcomes and delivered through multiple channels

Chronic conditions and ageing populations will increase the strain on the sector

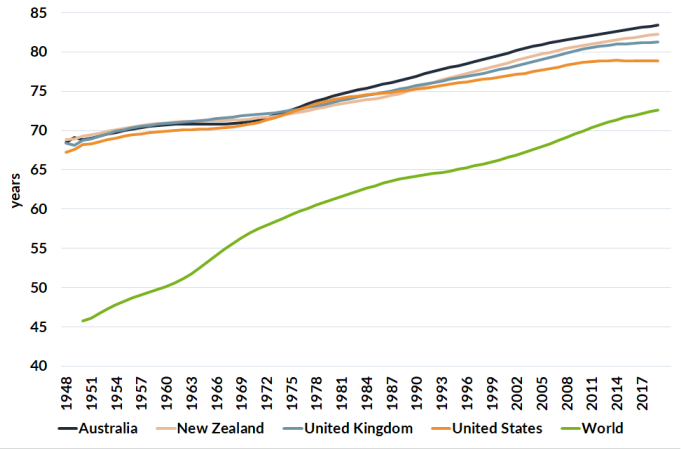
The global average life expectancy has been increasing for a number of years and with it the proportion of the population above 65. By 2035 McKinsey expects there to be more people in the US over the age of 65 than there will be children under 18. What's more, the global average life expectancy increased by 5 years between 2000 and 2016, the fastest increase since the 1960s, according to the World Health Organisation (WHO).

Figure 9. Developed world population "pyramid" is losing its base



Source: United Nations, Forsyth Barr analysis

Figure 10. Life expectancy continues to increase



Source: United Nations, Forsyth Barr analysis

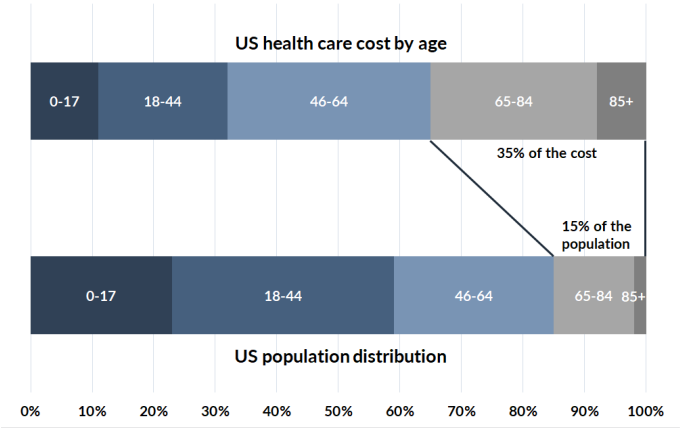
With ageing populations comes an increase in the number of "chronic conditions"

Chronic conditions typically last longer than a year, require on-going care and are more resource intensive and costly — increasing the strain on health care services. **Chronic conditions are already on the rise. Since 1990 the percentage of global deaths caused by non-communicable diseases (predominantly chronic diseases) has increased from 58% to 73%, this is a trend that is expected to continue as populations age. Common examples include: chronic obstructive pulmonary disease (COPD), cancer, stroke and diabetes. Not only does age increase the chance of developing a chronic disease it also increases the likelihood of suffering from multiple chronic conditions.** Despite common belief this is not just an issue in developed countries, as shown in Figure 9 the global average life expectancy is increasing faster than that of the developed world. The repercussions of this is that the life expectancy of developing countries, such as Brazil, China and India, is increasing at a faster rate than that of the developed world and therefore developing countries will have much less time to adjust to the rising demand for health care services in response to ageing populations.

Unhealthy populations also have a higher rate of chronic diseases

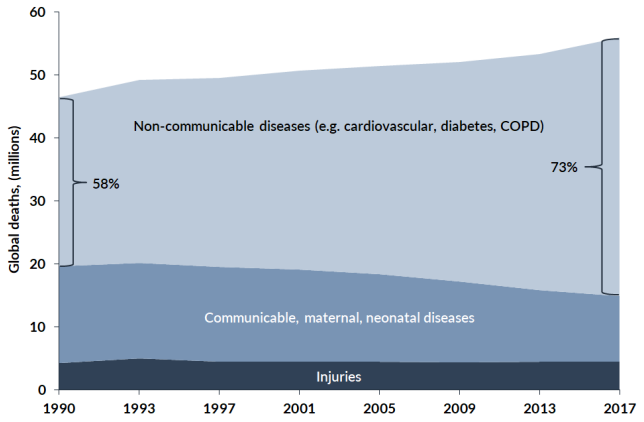
In the US we can see that over 65s (15% of the population) account for 35% of health care costs, a proportion likely to continue increasing as populations age. But age is not the only driver of the increase in chronic conditions. While the elderly are more susceptible to chronic conditions, they commonly occur in those under 65 as a result of unhealthy lifestyles. **The key point being that unhealthy populations will result in an even larger increase in the strain caused by chronic conditions.**

Figure 11. Higher proportion of costs from over 65s



Source: US Census Bureau, Centres for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, Forsyth Barr analysis

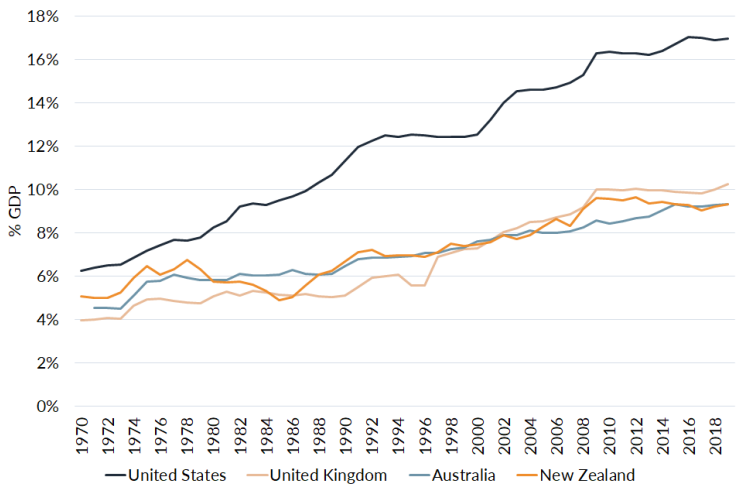
Figure 12. Non-communicable (chronic) diseases rising



Source: Our World in Data, Forsyth Barr analysis

Ageing populations and a higher proportion of chronic diseases are expected to continue driving growth in the demand for care related to chronic conditions such as diabetes and COPD, and other age-related conditions such as joint replacements. **We are faced with a situation where proportionately more people will require a higher level of care, and proportionately fewer people (the smaller working population) will be able to deliver it.** Health care systems will need to either decrease the number of people suffering from chronic disease or develop more cost-effective treatments.

Figure 13. Health care costs cannot continue to grow faster than GDP



Source: OECD, Forsyth Barr analysis

The rising requirements of more costly treatments is not the only reason health care expenditures are growing faster than GDP. Rising costs are most pronounced in the US (currently ~17% of GDP, nearly tripling since 1970), while global costs per GDP have also risen. Already 12% of hospitals in Germany are in financial distress and since 2009 the number of NHS trusts in deficit has risen from 8% to 46%, with a big contributor being inefficiency. **Unnecessary practices, duplication and other inefficiencies mean that around 20% of health care expenditure in OECD countries (US$1.3tn) is not being applied to generate better health, and sometimes even harms health. The increasing demand for care further exacerbates this issue.** Reducing inefficiencies is paramount to the sustainability of health care systems. **There are a number of different approaches to solving this issue but broadly speaking we find two key areas: 1) digitalisation and connectivity, and 2) altering the delivery model.**

The healthcare sector has been extremely slow to implement digitalisation strategies

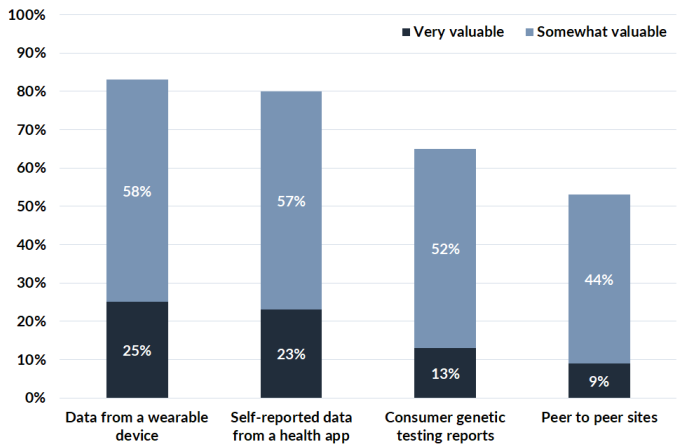
The creation of a connected and digital health care ecosystem has the potential to not only reduce the cost pressures faced by health care systems but also to improve patient outcomes. **It is estimated that the healthcare sector produces as much as 30% of all the world's stored data, yet the majority of this data is manually collected and stored in isolation.** The failure to extract and use this information is a significant missed opportunity. A connected and digital system would allow patient data from multiple clinics to be collated, providing clinicians with a better understanding of the patient and enabling more personalised care. Among the many benefits this is likely to reduce the estimated 10% of people unnecessarily harmed during care — both reducing care costs and improving patient outcomes.

Many healthcare systems around the globe are in the process of digitalising their health care services via the introduction of electronic health care records. This is a step in the right direction, however, in a number of these countries the records are not part of an integrated network (making them not much better than their paper-based predecessors), leaving healthcare systems data rich but information poor. **The answer is not more data, but smarter data. A connected system with seamless data interoperability is required to achieve this.**

Watch and learn, 83% of physicians believe wearables can provide clinical value

The healthcare system is also not the only place where health-relevant data is collected and stored. It's not news that diet, exercise habits, and socioeconomic status have an impact on health — yet integrating this into patient care is difficult. **Wearables present an opportunity to collect personalised data at a meaningful scale — whether to be used for individual care or anonymously for large-scale analysis. This is an area where tech companies such as Google and Apple are beginning to encroach on established healthcare systems.** This, partnered with physicians recognition of clinical value, could encourage further innovation in this space. Of course, similar to electronic health records, the usefulness of this data is limited by the degree of connectivity within healthcare systems. **Modular devices and agnostic software, allowing multiple products to interact, will further enhance connectivity.**

Figure 14. "If a patient provided you with the following sources of information, how much clinical value do you believe it would provide?



Source: Stanford Medicine, Forsyth Barr analysis

There are still considerable challenges to overcome for healthcare digitalisation to take place

Although the healthcare sector presents one of the greatest opportunities for digitalisation, challenges unique to the sector are responsible for the inertia to change. **The healthcare system itself was forged well before the digital age. Ingrained consumer and clinician behaviours, the fragmented nature of the market, and complex regulatory frameworks have and may continue to slow the adoption of tech-enabled solutions.** Specific to healthcare data, it is extremely privacy-sensitive and patients could, rightly, be concerned about what it may be used for. Data standardisation is also critical, without this, different data sets effectively speak different languages — making it difficult to pool together for analysis. In some countries work is already underway to develop standards, but to be most effective countries would need to agree on set standards for data that should be shared across borders. **Companies with the ability to 1) collect, store, cleanse and analyse data; 2) offer cybersecurity; 3) efficiently scale IT infrastructures and/or; 4) interact with various hardware/softwares, will be at the forefront of this shift.**

A shift in the delivery of health care is also underway

Accessibility of treatment is being enhanced via telehealth offerings while increases in the interoperability of medical devices is facilitating more at home care, and there also is growing interest in linking reimbursement for health care services to outcomes rather than volume of care delivered. When first established, western health care systems were developed to care for acute injuries and trauma — a much more transactional interaction. This traditional model is more akin to "sick care" only treating patients after they become ill — one which emphasises treatment volume rather than treatment effectiveness. It is now becoming more widely accepted that this traditional model is unsustainable. **A preventative approach, similar to the warning lights in a car, can flag potential issues earlier when the diseases are easier to treat.**

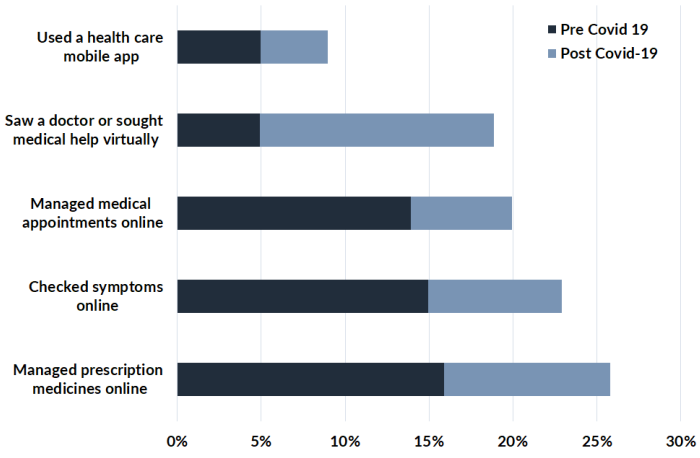
Care is the intermediate good; better health is the ultimate goal

For health systems to remain sustainable the system needs to be rewarded for a healthier population. While still in its infancy, value-based care models — where reimbursement is tied to the quality of patient outcomes — are gaining popularity. **The goal of a value-based care model is to improve patient outcomes per dollar spent in the healthcare system. So not only are positive patient outcomes rewarded, but so too is efficiency.** Under this model providers who are able to produce better outcomes, per episode of care, stand to benefit. One of the inhibitors for the adoption of value-based care has been capturing the data required to prove that a patient has received a better outcome. As health care systems increase their digital capabilities this hurdle should diminish.

Patients are no longer passive participants in their health care

Further to the digital adoption within health care providers systems is the shift towards a digital healthcare offering. As opposed to the digitalisation of hospitals systems, this offering is directly used by patients. **With new standards of experiences set by big tech, patients are beginning to take more control of their own health — demanding transparency, convenience, access, and personalised products and services from health care providers. Offerings such as telehealth consultations and remote patient monitoring are beginning to provide patients with these experiences.** While we have avoided talking about the impact of COVID-19 so far, in this particular area the pandemic forced many to make use of these technologies. Perhaps most prominent was the change in the proportion of people who were seeing a "virtual" doctor (in the US it shifted from 5% to 19%). **Because of COVID-19, Medicare and many private payers in the US began reimbursing a much wider range of telehealth consultations (where it was previously very limited). Although these changes may not prove permanent, we expect further adoption and investment in this area after many patients and doctors expressed their surprise towards the ease of these solutions.**

Figure 15. United States, consumers who have used digital services in the past 6 months, May 2020



Source: Gartner, Forsyth Barr analysis

Rather than individual trends, we view the shift in the healthcare system as a collective evolution

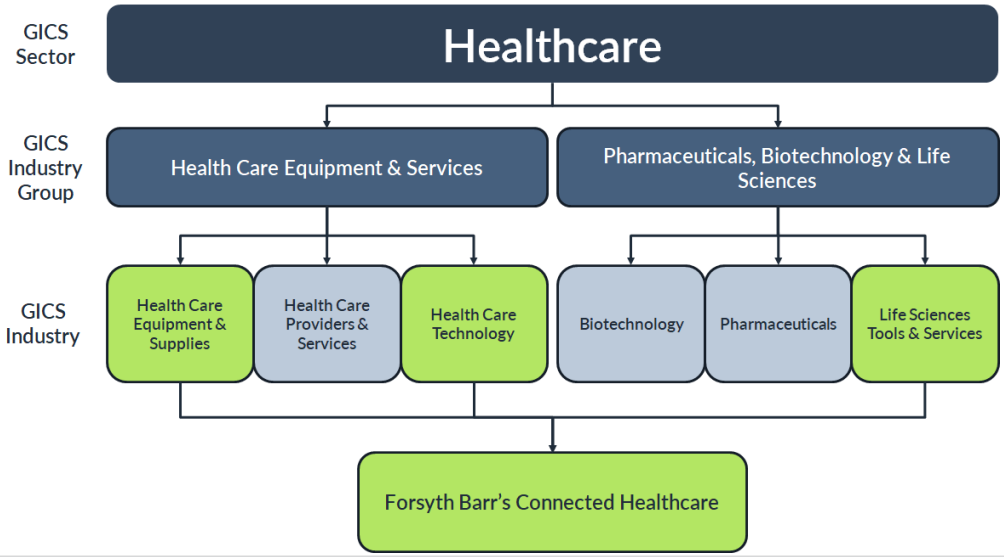
We believe the best opportunities to invest within the healthcare sector can be found in companies who are driving a more connected ecosystem. Those with exposure to chronic diseases, enabling enhanced efficiencies, and/or interoperable and agnostic software/ devices will be well placed to capture the benefits of a shift towards this connected ecosystem.

A brief intro to the healthcare sector

We firmly believe that investors should not only have a sound understanding of the businesses they choose to invest in, but also the sector within which it operates. Whilst not a comprehensive guide, we provide some considerations that should be made when investing in the healthcare sector:

- Which industry does a company operate in?
- What products is the company developing and how impactful might they be?
- Is the company growing organically or through acquisition?

Figure 16. The first step is to recognise that there are a number of different industries within the healthcare sector



Source: Global Industry Classification Standards (GICS), Forsyth Barr analysis

Figure 17. Industry descriptions

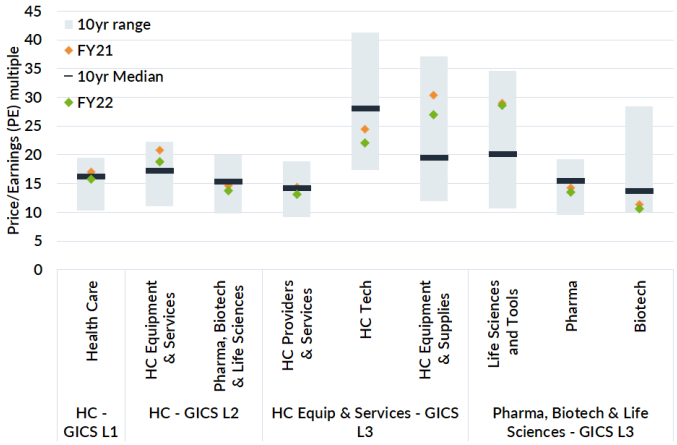
Industry	Description	Example Companies
Health Care Equipment & Supplies	Comprised of the manufacturers of health care equipment, devices and supplies.	Abbott, Fisher & Paykel Healthcare
Health Care Providers & Services	Owners and operators of health care facilities and owners and operators of Health Maintenance Organisations (HMOs) and other managed plans. Providers of patient health care services not classified elsewhere. Distributors and wholesalers of health care products not classified elsewhere.	EBOS, United Health Group
Health Care Technology	Companies providing information technology services primarily to health care providers. Includes companies providing application, systems and/or data processing software, internet-based tools, and IT consulting services to doctors, hospitals or businesses operating primarily in the Healthcare sector.	Veeva Systems, Teladoc
Biotechnology	Companies primarily engaged in the research, development, manufacturing and/or marketing of products based on genetic analysis and genetic engineering.	CSL, AbbVie, Gilead
Pharmaceuticals	Companies engaged in the research, development or production of pharmaceuticals. Includes veterinary drugs.	Takeda, Roche
Life Sciences Tools & Services	Companies enabling the drug discovery, development and production. Includes firms primarily servicing the pharmaceutical and biotechnology industries.	Thermo Fisher, IQVIA

Source: GICS, Forsyth Barr analysis

Forward Price/Earnings (PE) multiples at different levels within the healthcare sector can illustrate the differences

We use the health care companies listed on the S&P 500 and include the PE rating based on forecast earnings for FY21 and FY22 to illustrate the growth implied by earnings forecasts.

Figure 18. As a sector, healthcare trades near its 10-year median but large variations exist between industries

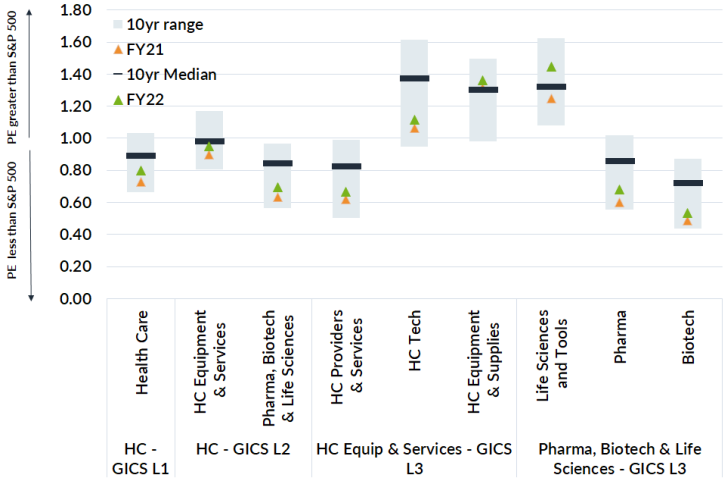


Source: Thomson Reuters, Forsyth Barr analysis

If the growth rate is positive the orange diamond (FY21) will be higher than the green diamond (if the earnings grow then Price/Earnings is a lower number when price is held constant). The gap between these two points reflects the growth rate — the larger the gap, the larger the growth rate. From Figure 17 we draw the following conclusions:

- Overall, the healthcare sector is trading slightly above historical valuations and doesn't appear cheap versus history (Figure 12 offers a different perspective)
- While the sector as a whole looks near fair value (versus history), this appears to be predominantly driven by high multiples for HC Equipment & Supplies and Life Sciences and Tools companies
- As we drill down to industry levels the forward Price/Earnings (PE) multiples of the industries diverge. The industries with the highest growth forecasts are HC Equipment & Supplies and HC Tech, respectively
- Pharma and Biotech tend to trade at lower valuation multiples, likely reflecting their increased exposure to regulatory and patent-cliff risk

Figure 19. When compared to the S&P 500, healthcare is trading near lows



Source: Thomson Reuters, Forsyth Barr analysis

In Figure 18 we compare the PE ratios within the healthcare sector to that of the S&P 500 Index. A ratio below 1 implies that the PE ratio is less than the PE ratio of the S&P 500. Similar to Figure 17, the gap between the markers is determined by the forecast growth rates, however, in this case it is the growth rate relative to that of the S&P 500. If the green marker is below the orange, the forecast growth rate of the industry is greater than that of the S&P 500. This is not the case for any of the healthcare industries, however, the Health Care Equipment & Supplies industry has a growth rate near comparable with the S&P 500. With the Support of Figure 17 we draw the following conclusions from Figure 18:

- When compared to the S&P 500 health care companies are trading below historical medians
- On an absolute basis, health care companies are trading near highs, this implies that the S&P 500 PE has increased more than healthcare — we attribute this to the increased perception of regulatory risk within healthcare and the increase in the weight of high PE stocks in the S&P 500 (e.g. Apple and Amazon)

We use these charts to highlight some of the differences between industries

Our intention is to illustrate the differences between industries within the healthcare sector, and in comparison to other sectors. We believe there will likely be investment opportunities across all areas, but recognition that the broader healthcare sector and its specific industries may react differently to events can aid an investor's decision where to invest within the healthcare sector.

Recognise the size of addressable markets and the process before a product can be sold

With the exception of Health Care Providers & Services companies, competition is predominantly on product. Bio/pharma companies seek the next best drug and medical device companies the latest device. **To understand the areas a company is looking to innovate within, we need to assess the company's product pipeline.** Product pipelines are all the products a company is currently developing, providing a view of the areas a company is looking to compete in. **When assessing a company's pipeline it is important to consider: 1) the products total addressable market (TAM); and 2) the ability of a company to successfully navigate the development process.**

The TAM is the universe of people that this new product may serve — often measured as product price multiplied by addressable customers. A larger TAM increases the revenue opportunity for the new product. By assessing management's track record we are able to gain an understanding of the development of previous products; were they delivered on time and on budget? How successful was management at capturing their desired portion of TAM? **Understanding the size of the TAM and management's historical ability to bring products successfully to market helps quantify the true potential value of a company's pipeline.** Drawing comparisons to competitors' pipelines is also important. Successful product releases will typically cause a shift in market share, which may be lasting or revert back upon the release of a competitor's new product.

Having an understanding of a company's existing product portfolio can highlight the risk of areas where a company may lose market share. For bio/pharma companies if a drug patent expires (known in the industry as a "patent cliff") a generic alternative will likely come to market, eroding that company's market share. In the US a typical drug patent lasts 20 years. Medical devices, again, are slightly different, typically having a shorter life cycle with incremental improvements. Although the typical life cycle is on average 8 years, there's growing demand for faster iterations in this space.

The biggest hurdle for new product development is (arguably) regulatory approval

This process alone could be the subject of an entire note. **In short, there are differences in the approval process between medications (bio/pharma products) and medical devices. The approval process for medical devices is often less stringent than that for medications.** Approval is required for each country that the product will be sold in (and the process is not necessarily the same between countries). This process takes time and can soak up a number of resources. From an investment perspective it is useful to understand the typical timeline for approval (which is dependent on each product) to understand if management's expectations on product delivery are realistic.

In or out for growth?

When it comes to growth, companies are faced with two main options: **1) grow internally (known as organic growth) or, 2) grow externally through mergers and/or acquisitions. Both strategies can successfully achieve long-term growth, however, it is important to recognise that both can go wrong.**

Those choosing an organic growth pathway will typically have a higher proportion of R&D costs to revenue. R&D expenses don't always translate to success. For this to be effective the company needs to succeed in their development and translate that investment into growth. **Looking for companies that have consistently delivered organic growth is a good sign of execution.**

Those focussing on M&A will look for companies they believe will add synergies to their business (where the combination of two entities is worth more than the individual parts) through cost reductions and/or a strengthened product offering. It is important that acquired companies are successfully integrated, or the acquirer can be faced with flat, or worse, declining free cash flow. Investors can again focus on organic growth rates to measure success. This removes the acquisitions from the most recent year. If previous acquisitions have been successful the company should demonstrate positive organic growth. **This isn't a binary choice either, many companies look to develop their own products and combine with entities. Understanding this can help to identify if a company is investing heavily in R&D to no avail, or masking a declining business through acquisition.**

Connecting the dots

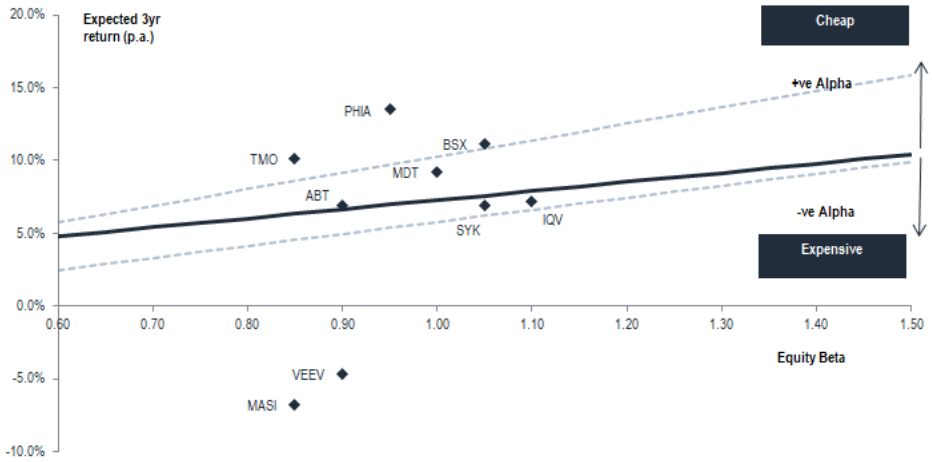
Not all health care companies will be beneficiaries of a shift towards a connected healthcare system, at the same time not all companies with favourable exposures will be able to capture the benefits. For this reason we favour a diversified, portfolio approach towards investing in this area. The table below contains the companies we believe are well positioned to capture the benefits of a connected healthcare system. While we don't believe all these companies are attractive at current valuations we will await volatility in the market to present entry opportunities. For further information on the companies please contact your financial adviser.

Figure 20. Companies and exposures

Industry	Company	Ticker	Description	Ageing populations/ Chronic diseases	Digitalising health care	Patient-driven health care
Health Care Equipment & Supplies	Abbott Laboratories	ABT	ABT is a well-diversified global healthcare company that has proactively shaped itself with the strategic intent to deliver enduring growth in its business units. ABT has a range of market leading products: Freestyle Libre (diabetes monitoring), Alinity (diagnostics) and MitraClip (heart valve repair). ABT also developed the BinaxNOW COVID-19 rapid test.	✔	✔	
	Boston Scientific	BSX	BSX is a developer, manufacturer and marketer of minimally invasive medical devices. BSX is a leader in devices for heart conditions, and focusses on manufacturing cardiovascular and cardiac rhythm management products. BSX also makes devices used for electrophysiology, endoscopy, pain management (neuromodulation) and urology.	✔		✔
	Masimo	MASI	MASI is a medical technology company that designs, develops and licenses a range of industry-leading, non-invasive patient monitoring technologies tools that montor arterial blood-oxygen saturation levels and pulse rates. MASI's Patient SafetyNet system allows patients to be monitored through a personal computer-based monitor or by care providers.	✔	✔	
	Medtronic	MDT	MDT develops therapeutic and diagnostic medical products. MDT has a range of product lines focussed on cardiac rhythm management, cardiovascular, spine, neuromodulation and diabetes. MDT is an active advocate for transformation in healthcare, through patient-centric solutions, value-based reimbursement and harnessing health care data.	✔		✔
	Philips	PHIA	PHIA is a Netherlands-based health technology company that has recently refined its focus towards the healthcare space. The company is a leader in diagnostic imaging, image-guided therapy, patient monitoring and health informatics, as well as in consumer health and home care.		✔	✔
	Stryker	SYK	SYK is one of the world's leading medical technology companies. SYK offers innovative products in orthopaedics, medical and surgical, and neurotechnology and spine. SYK has proven to be a consistent performer, despite COVID causing a near-term headwind. Over the long term, with exposure to treatments likely required by ageing populations, we are confident in SYK's ability to return to growth rates towards the top of its peer group.	✔		
Health Care Technology	Veeva	VEEV	VEEV is a leading provider of cloud-based software solutions for the life sciences industry. VEEV offers solutions for a range of requirements within life sciences companies, including multichannel customer relationship management, regulated content and information mangement, master data managment and customer data.		✔	✔
Life Sciences Tools & Services	IQVIA	IQV	IQV is a global contract research organisation and provider of advanced analytic technologies and is a world leader in using data, technology, advanced analytics and expertise to help customers drive healthcare forward. IQV offers services such as project management and clinical monitoring, workflow analytics and patient engagement.		✔	✔
	Themofisher	TMO	TMO makes and distributes analytical instruments, scientific equipment, consumables, and other laboratory supplies to prepare laboratories for research, analysis, discovery or diagnosis. TMO is the largest dedicated life sciences player in the market by a wide margin.	✔	✔	

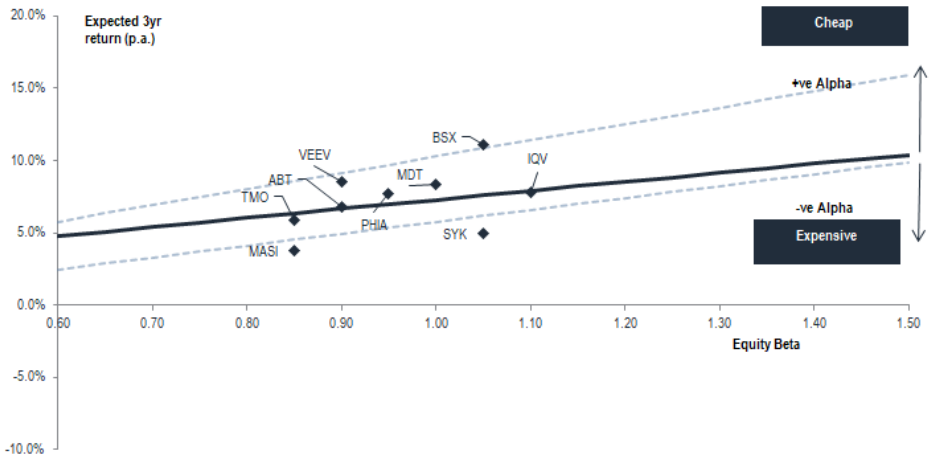
Source: Company websites, Forsyth Barr analysis. Note: This represents the major exposure(s). A company may have small exposure to a theme despite not being marked "✔"

Figure 21. Forecast returns based on Dynamic PE framework



Source: Thomson Reuters, Forsyth Barr analysis

Figure 22. Forecast returns based on Analyst target price framework



Source: Thomson Reuters, Forsyth Barr analysis

Figure 23. Summary table

			A	B	C	D	X	E		F	G	Z	(X+Z)/2
	Ticker	Equity Beta	Price (local)	Target price	Cost of Equity	Div yld	Analyst TP 3yr return p.a.	EPS 3yr CAGR p.a.	Dynamic PE	3Yr Dyn PE	PE Expn/ Cont	Dyn PE 3yr return p.a.	Ave of Dyn PE and TP return
Abbott Laboratories	ABT	0.90	112.15	118.41	6.7%	1.4%	+6.8%	+12.9%	27.0x	24.5x	-0.5%	+6.9%	+6.8%
Boston Scientific	BSX	1.05	36.06	42.68	7.6%	0.0%	+11.1%	+14.2%	28.0x	20.5x	-2.2%	+11.1%	+11.1%
IQVIA Holdings	IQV	1.10	189.36	198.11	9.3%	0.3%	+7.8%	+18.4%	22.0x	20.5x	-4.4%	+7.2%	+7.5%
Masimo	MASI	0.85	276.27	267.29	7.5%	0.0%	+3.8%	+13.4%	50.0x	40.0x	-17.2%	-6.8%	-1.5%
Medtronic	MDT	1.00	118.72	128.84	7.3%	2.0%	+8.3%	+19.0%	22.0x	20.0x	-2.8%	+9.2%	+8.8%
Royal Philips	PHIA	0.95	44.40	47.51	7.0%	2.1%	+7.7%	+10.6%	25.0x	22.5x	+2.3%	+13.5%	+10.6%
Stryker	SYK	1.05	243.20	240.32	7.6%	1.0%	+4.9%	+16.4%	24.5x	24.0x	-1.9%	+6.9%	+5.9%
Thermo Fisher	TMO	0.85	501.71	525.19	6.3%	0.2%	+5.9%	+7.4%	30.0x	27.0x	+3.8%	+10.2%	+8.0%
Veeva Systems	VEEV	0.90	282.00	309.96	7.9%	0.0%	+8.6%	+16.3%	70.0x	50.0x	-17.6%	-4.6%	+2.0%

Source: Thomson Reuters, Forsyth Barr analysis

Dynamic PE three-year return methodology: ((1+D)*(1+E)*(1+G))-1 = Z

Analyst Target Price three-year return methodology: (((((B/A)+D)*((1+C)^2))^(1/3))-1) = X

Average of Dynamic PE framework and Analyst Target Price framework = (X+Z)/2

We must emphasise that this list is not static. There are a number of companies establishing themselves in the healthcare space. Overtime, and as trends in the healthcare sector unfold, we will continue to review our thesis and the companies that present favourable opportunities to invest in.

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