

State of the US Healthcare Industry

Top Macro Factors and Public Policy Affecting Healthcare, and Zacks Top Picks



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Healthcare is one of the few sectors of the economy that is mostly isolated from macroeconomic cycles in production, consumption, interest rates, commodities, and foreign exchange markets.

But it is also one of the most heavily regulated industries.

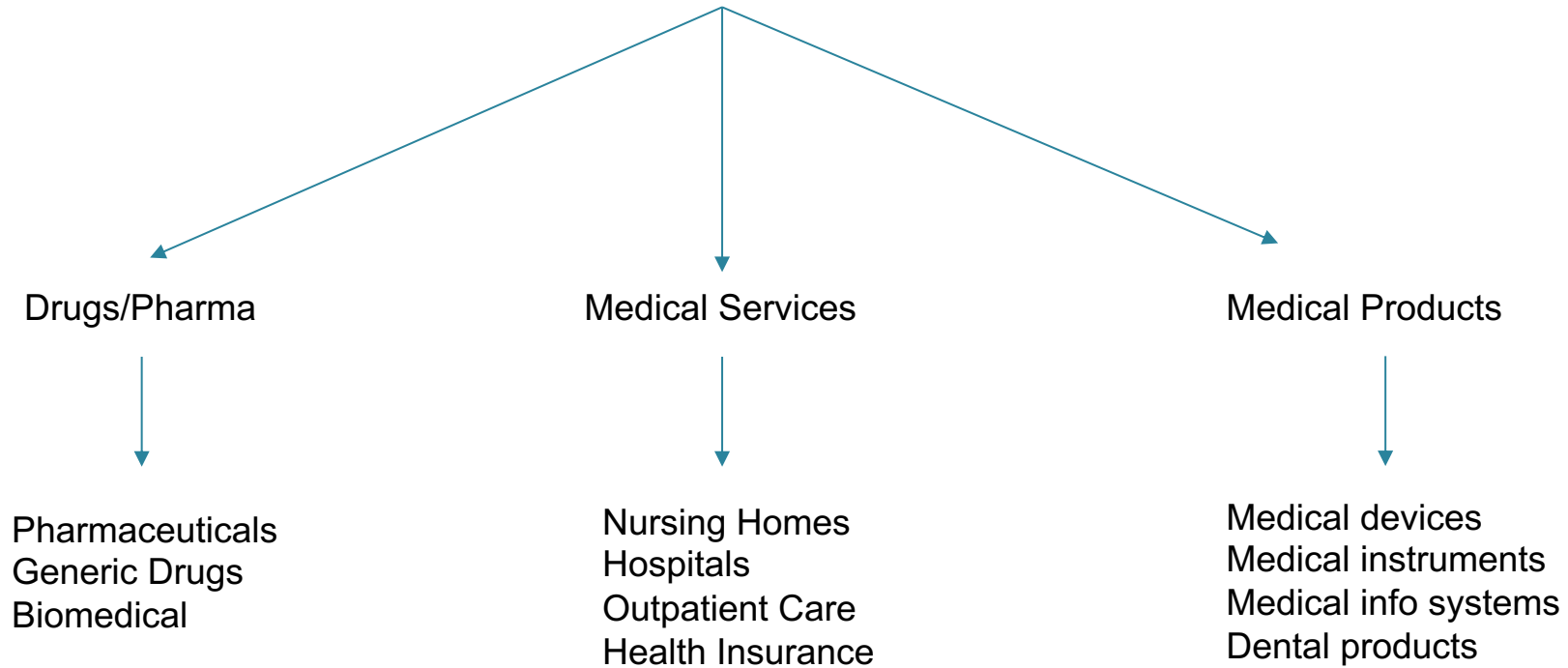


Top Macro Factors Affecting Healthcare



- Interest rates, 10-year Treasury yield (doesn't impact the fundamentals, but impacts valuations)
- Regulatory environment
- Medicare reimbursements for physicians are gradually declining over time, expected to decline -2.9% in 2025 due to budget neutrality requirements
- The US has consistently experienced an aging population, with the median age now at 39.2 years as of 2023 vs 30 years in 1980, rising consistently over multiple decades as boomers age while birth rates decline. The need for healthcare is therefore continuously rising.

Healthcare



Health care represents 18% of US GDP



American Hospital Association estimates the cost of non-clinical compliance for the healthcare services industry is \$39 billion annually, which diverts clinicians from patient care to administrative activities for compliance.



Title	High	Low	Median	Current	Start Date	End Date
Medical Products Market (ZI17M) P/E F12M	31.64	11.16	19.66	23.89	04-30-2007	03-18-2025
Medical Care Market (ZI16M) P/E F12M	19.23	9.76	15.15	14.86	10-31-2009	03-18-2025
Drugs Market (ZI15M) P/E F12M	27.20	15.01	19.06	22.00	06-30-2016	03-18-2025



Medical services historically trades at a large discount to both pharma and medical products, as they are subject to significant regulation.

However, top medical services companies are also often the most stable of the overall sector.



Top Zacks rated stocks in health care

Healthcare





Abbvie (ABBV)

Top play in immunology (Humira, Skyrizi and Rinvoq, 60% of revenue), neuroscience, and oncology, with strategic acquisitions and a promising pipeline to advance deeper in neuroscience and immunology. Strong execution has prompted strong positive EPS estimate revisions from analysts. Momentum remains strong.

Gilead Sciences (GILD)

Top play in virology, oncology, inflammatory diseases. Built a strong reputation on its HIV business with the blockbuster Biktarvy HIV treatment, which delivered \$13 billion in sales in 2024, +13% YoY. Stable and predictable revenue and profit stream with additional growth catalysts with 7 more indications in HIV coming over the next 10 years, which will guarantee the company's dominant position in HIV.

Vertex Pharmaceuticals (VRTX)

Top play in cystic fibrosis with a very strong pipeline spanning multiple therapeutic areas. Vertex is one of the fastest growing companies in largecap pharma. Trikafta is their #1 drug, generating \$2.7 billion in just Q4 2024 alone, good for +17% growth YoY. The company is working on expanding indications, geographic expansion to add up to 10,000 new eligible patients, and a total addressable market of 94,000 patients suffering from cystic fibrosis. The growth runway is very long and Vertex holds a dominant lead.



Cencora (COR)

Largest drug wholesaler & distributor in the United States, which is an oligopoly industry between three players (including Cardinal Health) supplying 90% of all prescription drugs in the US. The company enjoys a dominant position with over 50 distribution centers, 50,000 managed products, service to 100,000+ locations (retail & hospital pharmacies), 16 million deliveries annually. The scale creates a wide moat and a stable and predictable revenue stream.

Universal Health Services (UHS)

One of the largest healthcare providers in the US, operating 27 inpatient acute care hospitals, 333 behavioral health facilities, 40 outpatient care facilities, insurance and physician networks. The diversified and vertically integrated business model has unlocked value, and resulted in strong & predictable growth. Shares trade at just 10x P/E while analysts have significantly revised up the EPS outlook for 2025 and 2026.



Boston Scientific (BSX)

Top play in medical technology in two primary segments: cardiology (aortic valves, electrophysiology, atrial appendage closure devices) and MedSurg, which includes surgical technology in endoscopy, urology, and neuroscience. The company has proven an ability to pivot to high growth areas and has successfully created significantly more shareholder value than competitors Becton Dickinson and Medtronic.

Insulet Corporation (PODD)

Key innovator of insulin delivery for diabetics with their wearable, tubeless insulin pump technology which continuously supplies insulin when needed completely autonomously, greatly expanding convenience and increased efficacy.

Patients have overwhelmingly adopted Insulet's solution as a result, with product sales surpassing \$2 billion in 2024, or +22% YoY, with an attractive "razor blade" recurring revenue business model where patients have to continuously purchase replacement pods, which net attractive 65-70% gross margins. The company's Omnipod 5 is the first and only automated insulin delivery system approved for both Type I and Type II diabetes.



Overall, healthcare remains a top area for investment as a recession-resistant industry that will continue to see long-term secular growth as populations age...

...but must remain selective to generate strong returns as investors, as regulatory burden and declining reimbursements remain a top headwind for most companies.



Strategy to follow for picking healthcare stocks:

- 1) Strong Zacks Indicator Rank
- 2) Strong growth prospects
- 3) ROIC
- 4) Forward P/E

Thank You for Attending!



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