BofA IG and HY Healthcare Research

Day 1 Healthcare Conference Takeaways

Industry Overview

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High Grade Credit
United States
Healthcare

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2024 Healthcare Conference highlights

In this report, we summarize key takeaways from the IG and HY presenters at the healthcare conference today.

Investment Grade Healthcare Companies

Amgen (AMGN), Bristol Myers (BMY), Baxter (BAX), Cencora (COR), CVS Health (CVS), Gilead (GILD), Johnson & Johnson (JNJ), Merck (MRK), Novartis (NOVN), Pfizer (PFE), Zoetis (ZTS).

High Yield Healthcare Companies

Avantor, Inc. (AVTR), Bausch + Lomb Corporation (BLCOCN), Catalent, Inc. (CTLT), Fresenius Medical Care AG & Co. KGaA (FMEGR), Jazz Pharmaceuticals plc (JAZZ), Surgery Partners, Inc. (SURCEN), Teva Pharmaceutical Industries Ltd. (TEVA).

Refer to important disclosures on page 13 to 15. 12643168

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IG Healthcare Conference Takeaways

Amgen (AMGN)

- **M&A:** Continues to look for internal and external innovation.
- **Tarlatamab:** PDUFA date on June 12, 2024.
- **Biosimilars:** Next three expected launches: Stelara, Soliris, Eylea.
- **Obesity:** AMG 786 Phase 1 data readout in 1H'2024.
- **Horizon:** 91 days into the close, integration is going well so far.
- **Guidance:** On track to meet or beat long term guidance.

Baxter (BAX)

- **Capital allocation:** First priority for capital deployment is debt pay down.
- **M&A:** Once deleveraging targets are met, the focus will be on tuck-in M&A in front line care and care communications.
- **Pricing:** Previous contracts were not designed to account for the level of inflation seen in 2021 and 2022. New contracts have been structured to incorporate price increases should inflation rise again.
- **Capital environment:** In the U.S., large hospital systems have a stable to slight positive purchasing environment.
- **Kidney care:** Making progress toward target of July 2024 for proposed spinoff.
- **BioPharma Solutions:** $3.7 bn of proceeds were used for debt repayment.
- **Novum IQ:** Cautiously optimistic Novum can launch in 2024.

Bristol Myers (BMY)

- **Ratings:** Committed to strong IG ratings.
- **M&A:** Focused on licensing, partnerships, and bolt-on acquisitions.
  - Has capacity to do additional business development deals.
- **Share repurchase:** Will be opportunistic in executing buybacks.
- **Mid-term guidance:** New product sales guidance of >$10 bn in 2026. Expects sales of $25 bn from 9 new products by 2030.
  - Low to mid single digit revenue CAGR from 2020-2025.
  - Low double digit revenue CAGR ex Revlimid and Pomalyst from 2020-2025.
  - $8-$10 bn growth from in line brands from 2020-2025.
  - Operating margin target of >37% through 2025.
- **Opdivo:** Subcutaneous nivolumab has the potential to address 65%-75% of Opdivo U.S. indications.

Cencora (COR)

- **Branded pricing**: Expects branded inflation to be inline with the last couple years.
- **Generic pricing**: Has seen a moderation of generic deflation over the last several months.
- **GLP-1s**: The drug class contributed 3% to revenue growth in the most recent quarter. GLP-1s are profitable, although not as profitable as other products due to margin and handling costs.
- **Biosimilars**: The sweet spot for COR is when there are two or three manufacturers. There isn't value once there are five or six competitors. Margin earned on biosimilars is between generic and branded.
- **M&A**: Continues to be active in looking for additional M&A.
- **Long-term targets**: Adj diluted EPS of 8-12%, adj operating income of 5%-8%.
- **2023 financial highlights**: $11.99 adj EPS, $262.2 bn sales, $3.1 bn adj FCF, $3.3 bn adj operating income.
- **2024 guidance**: Adj diluted EPS of 9-12%, adj operating income of 8-10% (excluding COVID products).

CVS Health (CVS)

- **MBR:** Could see 2023 MBR exceed 86% given where utilization ended the year.
- **Medicare Advantage:** Expects total MA membership to grow by at least 800k members in 2024 with approximately 1/3 in duals. Growth will be neutral to earnings in 2024 with opportunity for profit growth in 2025.
- **Capital deployment:** Executed an ASR that started in January of $3 bn, with $3.5-$4.0 bn planned in repurchases for the year.
- **2023 guidance:** Reaffirmed sales of upper-half of $351.5-$357.3 bn, adj op income of upper-half of $17.21-$17.57, adj EPS upper-half of $8.50-$8.70, CFO upper-end of $12.5-$13.5 bn, medical benefit ratio of ~86.0%
- **2024 guidance:** Reaffirmed sales of at least $366 bn, adj op income at least $17.2 bn, adj EPS at least $8.50, CFO at least $12.5 bn, medical benefit ratio of ~87.2%
- **Long-term guidance:** Adj EPS growth floor of 6%, growth increasing overtime.

Gilead (GILD)

- **M&A:** Continues to focus on the late research/early development phase. Will look at late stage assets but will be more selective there.
- **Oncology:** On track to generate 1/3 of revenue from oncology by the end of 2030. Oncology makes up roughly 12% ($3 bn) of the business today.
- **Trodelvy:** Three approved indications across three tumor types. Three phase 3 readouts in 2024.
- **Yescarta:** Number 1 cell therapy in 2L + LBCL.
- **Biktarvy:** Sales annualizing at ~$12 bn. U.S. market share is over 47%. Projected U.S and EU LOE in 2033.
- **Lenacapavir:** Expecting launch in the U.S. for PrEP as early as 2025.

- **Descovy:** Sees market growth and demand share to be maintained despite generics and new entrants. Still holding over 43% market share.
- **HIV Pricing:** Tailwinds from pricing favorability seen in 2H'22 and 1H'23 due to inflation dynamics post-covid have normalized through 2H'23. Growth will be driven by market and demand trends in treatment and prevention.
- **R&D:** Expects a substantial reduction in R&D expense growth going forward.

Johnson & Johnson (JNJ)

- **M&A:**
    - **Pharma focus areas:** Oncology (both in hematology and solid tumors), immunology, and neuroscience.
    - **Medtech focus areas:** Cardiovascular, surgical robotics, vision, and faster growing segments of orthopedics.
- **Stelara:** Does not expect Stelara biosimilar entry in the U.S. until 2025. Could see European entry in 2H'24.
- **2024 guidance:** 5%-6% adj operational revenue growth, 3% EPS growth.
- **Consensus estimates:**
    - **Carvykti:** Sees street estimates 25% lower than internal estimates.
    - **Taris:** Sees street estimates 50% lower than internal estimates.
    - **Spravato:** Sees street estimates 50% lower than internal estimates.

Merck (MRK)

- **M&A:** Has capacity to pursue additional business development deals.
    - **Size**: \$10-\$15 bn is the outer bound of the focus for the company in terms of size.
- **Sotatercept**: PDUFA date March 26th.
    - Expects multibillion dollar peak revenue opportunity.
- **V116**: Potential to be the first approved PCV protecting against 83% of adult invasive pneumococcal disease.
    - PDUFA date June 17th.
    - Expects multibillion dollar peak revenue opportunity.
- **Long term guidance**:
    - **Oncology**: >\$20 bn sales
    - **Cardiometabolic**: ~\$15 bn sales.
    - **Immunology**: Multibillion sales.

Novartis (NOVNSW)

- **M&A:** Continues to look at deals sub $2 bn to build out the portfolio.
- **Core therapeutic areas:** Cardiovascular-Renal-Metabolic, Immunology, Neuroscience, Oncology.
- **Priority geographies:** U.S., China, Germany, Japan.
- **Marketed portfolio:**
    - **Entresto:** Current sales $5.9 bn. Peak sales $7 bn. Assumes U.S. LoE in 2025.
    - **Cosentyx:** Current sales $5.3 bn. Peak sales $7 bn.
    - **Kesimpta:** Current sales $2.6 bn. Peak sales $4 bn.
    - **Kisqali:** Current sales $2.2 bn. Peak sales $4 bn.
    - **Pluvicto:** Current sales $1.0 bn. Peak sales multi billion.
    - **Leqvio:** Current sales $0.4 bn. Peak sales multi billion.

Pfizer (PFE)

- **Capital allocation priorities:** 1) Growing dividend, 2) delevering over the next 1-2 years, 3) M&A and share repurchase.
- **M&A:** Does not expect any major acquisitions or licensing deals in 2024.
    - Spent $72 bn to acquire ~$20 bn of 2030 revenues.
- **LOE:** Expects LOEs from 2025-2030 to impact sales by $17 bn.
- **Restructuring:** Cost realignment program expected to achieve $4 bn in combined OpEx reductions by the end of 2024.
    - 70% of cost cuts come from R&D.
- **Obesity:** Still focused on developing assets to treat obesity.
- **RSV:** Currently has 35% market share in RSV.

Zoetis (ZTS)

- **Market growth:** Expects a 4%-6% CAGR. Market drivers: Increased medicalization, growing human-animal bond, innovation to treat chronic diseases, expanding global population and animal protein demand, advancing sustainable agriculture.
    - **2022:** $45 bn.
    - **2027:** $55-$65 bn.
    - **2032:** $70-$85 bn.
- **Clinics:** U.S. Vet clinic revenue grew 7.5% over the last 4 years. U.S. Vet clinic visits grew 0.3% over the last 4 years.
- **Pain:** Expects peak annual revenue of $1 bn+ from Librela and Solensia.

  - **Market:** Expects the global OA pain market to be $2.0-$3.0 bn by 2032.
  - **Librela:** Full launch in the U.S. began in October.

HY Healthcare Conference Takeaways

Avantor, Inc. (AVTR)

- **Laboratory Solutions:** Total addressable market of $55 billion and is expected to grow in the low-single digit range.
  - No longer seeing China headwinds affecting laboratory solutions.
- **Bioscience Production:** Comprises one-third of revenue but roughly two-thirds of company profit.
  - Most of the revenue is recurring in nature.
- **Biopharma:** Seeing more new advanced antibodies and a growing pipeline of monoclonal antibodies.
- **Drug Approval:** 2024 viewed as a strong year for drug approvals due to advancements in monoclonals, gene therapies and Crispr.
- **Semiconductors:** Semiconductor headwinds were similar to the overstocking headwinds experienced in life sciences.
- **Cost Savings:** Expect $300 million of annual run rate gross cost savings by FYE26.
  - Expect to realize $75M of savings in FY24 but it is not expected to fully offset inflation.
- **Capital Allocation:** Allocating all free cash flow towards debt paydown. Targeting under 3.0x net leverage.
- **M&A:** Viewed as a meaningful growth driver. Will engage in M&A again once balance sheet is in a better state.
- **1Q24 Margin:** Expected to be sequentially lower than 4Q23.
- **Normalized Outlook:** Anticipate profitability to stabilize as destocking and mix normalize over the next 12 to 24 months.
  - Target Adj EBITDA margins of over 20%.
- **Long-term Financial Targets:** Organic revenue growth in the mid-single digits with Adj EBITDA margin expansion of 50bps to 100bps

Bausch + Lomb Corporation (BLCOCN)

- **Margins:** Margin recovery will not be linear, view FY24 as an investment year and see larger margin improvement in FY25
- **Pharmaceuticals:** Very promotionally sensitive products with only 1.5M patients walking out with prescription compared to 30M patients diagnosed
  - Miebo (Evaporative dry eye treatment) will take ~1-2 years before achieving managed care access through demonstrating demand

- **Xiidra:** Inflammatory dry eye treatment with 97% of Novartis field force now fully integrated and expect growth in FY24
    - Has 70% managed care access
    - Will take 18-24 months to see the full benefit of the acquisition
- **Contact Lenses:** Several exciting programs in development
    - Distribution issue has been fully resolved this quarter
- **Surgical:** Margins compressed due to (1) Covid supply chain disruption, (2) buying high priced componentry continuing into 2024, and (3) launching first premium IOL this year
    - Product launches supplemented with external science/innovation will make the segment competitive
    - Should have a full-price portfolio by FY25
- **OTC Consumer Business:** Believe growth will continue with investment in the team
- **China:** China is 9-10% of the portfolio primarily serving contact lenses; expect minimal impact from VBP and are optimistic in ability to execute in the market with investment in direct to consumer
    - Expect less than originally guided $100M Fx headwind in FY24
- **Supply Chain:** Expect to see real improvements over the next 12-18 months
    - See an impact on free cash flow conversion in FY24 due to manufacturing/supply chain investments before returning to stable levels in FY25
- **Leverage:** Expect to return to 3.5x leverage by the end of FY25
    - Tuck-in acquisitions will continue but no larger deals (in the billions) until leverage target is hit
- **Spin:** Bausch's board is working through legal issues; hope for an outcome in the coming months but do not view the spin not happening as a possibility

Catalent, Inc. (CTLT)

- **Total Addressable Market:** Total Addressable Market is expected to grow from $72 billion in FY23 to over $90 billion in FY26.
- **Outsourcing:** Growth is driven by increased demand for prefilled syringe capacity through GLP-1s.
    - Largest CDMO in late-stage gene therapy; adeno-associated viral market has 65-70% outsourcing.
    - Larger players are expected to continue to win business away from smaller players.
- **Biotech:** Slow biotech funding muted near-term new modality early clinical progression.

  - Expect funding to return in 2H24 as cost of capital comes down and inflection points in markets/IPOs materialize.

- **PCH:** Cyclical depending on products phasing in vs phasing out. FY23 was lower than expected but FY24 is expected to grow above mid-single digits.

  - Will see growth in Consumer business due to share gain.

- **Biologics:** Margins suffered due to the COVID cliff/correction. The company built infrastructure and expects margins to normalize by the end of the year.

  - Signed with a large gene therapy customer contract on a 6-month rolling forecast; near-term is set in terms of guidance but the long-term depends on label expansion.

- **GLP-1:** Expected to grow from less than $100 million in 2024 to over $500 million in 2030.

  - Management believes the TAM for GLP-1 will grow to ~$100 billion in 2030 from ~$6 billion in 2023.

  - Management is devoting resources to bringing facilities online across the globe. The company expects almost all of prefilled syringes will eventually be GLP-1.

- **Gene Therapy:** Pipeline is growing and will reach an inflection point in the next couple of years. The share of late-stage programs is increasing, where the revenue per program is far greater than early-stage.

- **Brussels/Bloomington:** Brussels is better than the company expected. The Bloomington facility situation was more complex but management expects normalization by the end of the fiscal year.

- **Leverage:** The company is focused on: (1) increasing utilization; (2) returning to historical margins; (3) generating positive free cash flow; and (4) achieving a target leverage of 3.0x.

- **Outlook:** Management is focused on execution in manufacturing and generating FCF.

  - Concentrating production in the Midwest is expected to boost margins and improve productivity.

  - The company expects to at least hold current market share.

Fresenius Medical Care AG & Co. KGaA (FMEGR)

- **Overview:** The largest dialysis services network globally, treating over 50% of US home hemodialysis patients.

- **Dialysis Patient Population:** See growing incidents due to an ageing global population and hypertension.

  - Expect to return to pre-COVID population growth rate of 2%-3% by 2025.

  - 46% of patients “crash” into dialysis.

- **Pricing/Contracting:** Confident on getting better rates going forward and not afraid to walk away from unprofitable contracts.

    - Historically not a price taker, instead placing focus on volumes.

- **Labor:** US labor and wage inflation has mostly stabilized. There are still a few pockets in the US where staffing is challenged.

- **GLP-1 Effectiveness:** Proven to help control Type 2 diabetes and to be a positive for improving cardiovascular health.

    - Slows the progression of kidney disease and allows chronic kidney disease patients survive to end stage renal disease

- **GLP-1 Accessibility:** Price of GLP-1s has been slowing uptake and side effects will affect patient choice

    - Only 8% of patients have been prescribed a SGLT-2 in pre-chronic kidney disease

- **GLP-1 Impact:** Pricing is slowing GLP-1 uptake and side effects will affect patient choice

    - Not expecting any near-term impact. Think it will take at least a decade to see any impacts

- **CONVICE study:** 3-year trial performed across 61 dialysis centers in 8 European countries. It showed that high-volume hemodiafiltration had a 23% mortality rate reduction vs high-flux hemodialysis

    - The technology is not yet available in the US

- **Capital Allocation:** Continuing to focus on deleveraging

- **Ratings:** Committed to maintaining an investment grade rating.

Jazz Pharmaceuticals plc (JAZZ)

- **Xywav:** Currently the only approved treatment for the full condition of Idiopathic Hypersomnia (including sleep inertia).

    - Reduced sodium continues to resonate with patients and providers.

    - A survey conducted by the company indicates that 70% of sleep specialists anticipate increasing the prescribing of Xywav for Idiopathic Hypersomnia.

- **Zanidatamab:** The company has rapidly progressed its indications and data readouts since acquiring it.

    - Initiated a rolling biologics license application for Zanidatamb for HER2 biliary tract cancer (BTC).

        - Management believes that coming to market in BTC will allow for a fast “come to market” strategy for other indications.

        - The biologics license application is expected to be completed in 1H24.

    - Management sees opportunities in BTC, gastric and early-stage diseases.

        - The potential in early-stage diseases is driven by patient ability to tolerate the toxicity.

- **Epidiolex:** Providers are seeing beyond-seizure benefits based off data from the BECOME study.
- **Rylaze:** Seeing some first line use from prescribers because it can be used in the short-term.
    - Began a European launch in 2023 and will continue to launch on a rolling basis going forward.
- **Zepzelca:** Viewed as the second line lung cancer treatment of choice. Management is focused on moving from a smaller second line population to a larger first line population.
- **Suvecaltamide:** Expect top-line data from the Phase 2b essential tremor trial in late 1H24.
    - Essential tremor has a high unmet need as there has been no newly approved essential tremor pharmacotherapy in over 50 years.
- **Vision 2025:** Targeting $5 billion of revenue in 2025.
    - $2 billion of the Vision 2025 target revenue is expected to come from sleep franchise.
- **Corporate development:** Targeting opportunities in 2024-2025 to drive top line revenue growth and diversification.
    - The company will also layer in R&D assets to further build out its pipeline.
- **Oncology Outlook:** Oncology expected to be a $1 billion portfolio in FY23 excluding Zanidatamab.
- **Oxybate Outlook:** Expect high-sodium AG royalty revenue to exceed $200 million in 2024.

Surgery Partners, Inc. (SURCEN)

- **Overview:** Independent pure play surgery operator, separate from a health system and health plan
- **Total Addressable Market:** Current $90 billion addressable market with over $60 billion of incremental market size entering in the coming years.
- **Industry Tailwinds:** Management sees growth opportunities through the aging population and the move to high value and higher quality settings of care.
- **Ophthalmology:** Since 2019 the specialty has been the lowest of the company's core growth specialties (3.7% case growth per year).
- **Cardiology:** Expansion in cardiology has two main headwinds: (1) most cardiologists are locked into three-year employment agreements and (2) 20 states have not followed CMS in making PCIs and higher acuity ASC procedures available (due to certificate of need laws).
    - Expect cardiology to be a leading growth engine over time and greater than its orthopedic opportunity
- **De-novos:** Have 17 de-novos in the pipeline and expect to double-digit de novos per year for the foreseeable future.

  - Pipeline includes catheterization lab-based ASCs and opportunities for catheterization lab additions to ASCs.
  - Takes about 18 months for a de novo to be syndicated.
  - It takes roughly three months to get licensed and three to six months to get it to breakeven.
- **4Q23 Performance:** The company noted that it saw no unusual events during the quarter.
- **Labor:** Recruit 600 new physicians a year to their facilities.
- **Interest Expense:** The company's prior hedges that it had on its previous term loan remain in effect and fix the rate for another year and a half.
- **Leverage:** Target credit agreement leverage of 3.5x by 2025. Management noted that it has no concern in refinancing its 2025 Senior Notes and is looking opportunistically to refinance its 2027 Senior Notes.
- **Long-Term Revenue Growth:** Target 4%-6% topline growth (2%-3% case growth and 2%-3% volume growth).
  - Historically outpaced the 4%-6% due to acuity. The 4%-6% reflect a more normalized environment.
- **Long-Term Adj EBITDA Growth:** Target 11%-17% (mid-teens% at midpoint) Adj EBITDA growth. The company expects to increase its capital deployment towards this goal as free cash flow grows.

Teva Pharmaceutical Industries Ltd. (TEVA)

- **Austedo:** Confident on ability to achieve $2.5 billion of revenue. Reallocated resources in the business to better focus on Austedo.
- **Uzedy:** 2023 was focused on expanding reach by getting set up in the market via Medicaid and hospital formulary approvals.
  - Product profile has created traction with the physician for its ability to be administered quickly in the case of a relapse.
- **TL1A:** Had one of the first TL1As on the market, but the company didn't invest in it.
  - Now placing on emphasis on being first to market in the third and fourth indications.
  - Phase 2 data will come out in 1H25 at the earliest.
- **Humira:** Humira biosimilars mostly came into the market during the middle of the year when PBMs were already locked in a rebate/contract for the full year with Humira.
  - 2024 is expected to reflect a more normalized competitive environment and the impact Humira biosimilars have
- **Biosimilar:** Want to grow the pipeline via partnerships.
  - Have 5 biosimilars expected to launch by 2027.
  - Expanded Alvotech partnership to further expand biosimilar pipeline.

- **Olanzapine:** Completed Phase 3 recruitment and now waiting for data read out.
    - Phase 3 has progressed quickly due to overarching eagerness to get Olanzapine on the market.
- **ICS/SABA:** The need for a combination product is high. It is viewed as a $2.5 billion market. This assumes if only 30% of the total addressable patient population is being treated.
- **Generics:** Saw that only 60% of covered loss of exclusivities were profitable.
- **Teva API:** Business has been constrained due to its historical focus on serving the generics business.
    - Business is high margin and operates in an $85 billion market.
- **Operating expenses:** Operating expenses are expected to increase, but the company will remain disciplined on maintaining it as a % of revenue.

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