Investment Grade Healthcare Quarterly

2024 IG Healthcare Year Ahead

Rating Change - Credit

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High Grade Credit
United States
Healthcare

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Sector review

In 2023, healthcare performed in line with the ICE BofA IG index. The sector significantly outperformed in the first half of the year given the defensive nature and general market stress. As macro fears began to abate later in the year the sector began to lag the IG market. We expect the sector to be active to start the year with over $50 bn of issuance already accounted for to begin 2024.

M&A making its return

In 2023, $161 bn of M&A was announced vs $105 bn in 2022 and $141 bn in 2021. Coming off three relatively muted years, we expect M&A to pick up in 2024. While the overhang from increased FTC scrutiny remains, management teams are now more confident in the ability to close transactions. This is evidenced by the $61 bn of M&A that was announced in Q4, along with three of the top six largest transactions of 2023 coming in December. We continue to expect extended review times, however only one deal was blocked in 2023. In addition to pharma, we expect M&A in Medical Devices to increase this year as companies, namely BDX, SYK, and ZBH, have reached their delevering goals and are now back in the market for acquisitions. Commentary out of management teams points to a preference for bolt-on or mid-sized deals (Exhibit 3).

Issuance forecast

The sector priced $125 bn of new supply in 2023 vs. $72 bn in 2022. We forecast $130 bn of total issuance for 2024. Pending M&A transactions awaiting financing include: BMY-Karuna ($12.7 bn), ABBV-ImmunoGen ($10.1 bn), ABBV-Cerevel ($8.7 bn), UNH-Amedysis ($5 bn), BMY-RayzeBio ($3.6 bn), ELV-BCBSLA ($2.5 bn). Spins that are set to be completed in 2024 and are pending financing include: Solventum (3M Health Care), Vantive (BAX kidney care), and MDT patient monitoring and respiratory interventions businesses. $60 bn of bonds mature in 2024.

Utilization returning

In Q2 and continuing into Q3, utilization particularly among the Medicare population, meaningfully picked up. Specifically, there were strong outpatient volumes particularly in hips, knees, and cardio along with behavioral health. As we head into 2024, the focus will be on whether this increased level of utilization will continue since most 2024 plans were priced on the assumption of stabilization. This dynamic could pose a headwind for managed care companies in 2024 depending on the ultimate level of care. In medical devices, while the backlog of procedures that were deferred during covid has started to get worked through, the elevated procedural demand will provide a consistent tailwind well into 2024.

Top picks and Ratings changes

Our top picks for 2024 are AbbVie and CVS Health.
We upgrade Humana to Marketweight from Underweight and lower Bristol Myers to Marketweight from Overweight. See inside for full updated company writeups.

Healthcare Policy Outlook (Andy Bressler) pg. 29

Exhibit 1: IG Healthcare Recommendations
Ratings Overview

	Issuer Rating		Issuer Rating
A	OW	ELV	OW
ABBV	OW	GILD	UW
ABT	OW	HUM	MW
AMGN	MW	LH	UW
BAX	UW	MCK	MW
BDX	OW	MDT	MW
BMY	MW	PFE	MW
BSX	MW	SYK	UW
CAH	UW	TMO	OW
CI	MW	UNH	OW
COR	MW	ZBH	MW
CVS	OW	ZTS	OW
DGX	UW		

Source: BofA Global Research
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Abbreviations

FTC	Federal Trade Commission
BDX	Becton Dickinson
SYK	Stryker
ZBH	Zimmer Biomet
ABBV	AbbVie
BMY	Bristol Myers
UNH	UnitedHealth Group
ELV	Elevance
BCBSLA	Blue Cross and Blue Shield of Louisiana

Timestamp: 02 January 2024 06:30AM EST

Sector outlooks

Pharmaceuticals

On the regulation front, Congress approved a pathway for drug price negotiations. The key pharma provisions in the Inflation Reduction Act (IRA) include: 1) Medicare Drug pricing reforms and Negotiation Authority, 2) Inflationary rebates for Medicare Part B and Part D drugs, 3) Medicare Part D benefit redesign, 4) Delaying the PBM Rebate Rule until 2032, and 5) Capping insulin out-of-pocket costs for Medicare beneficiaries at $35 per month. In September, CMS announced the first ten Part D drugs that will be subject to negotiated prices beginning in 2026. The list came in largely as expected and we do not anticipate a significant impact to earnings.

Exhibit 2: First Ten Medicare Part D Drugs Selected for Negotiation
Negotiated prices will go into effect in 2026.

Product	Manufacturer	June 2022-May 2023 Medicare Spending (Bn)
Eliquis	Bristol-Myers/Pfizer	$16,483
Jardiance	Eli Lilly/ BI	$7,058
Xarelto	Johnson & Johnson	$6,031
Januvia	Merck	$4,087
Farxiga	AstraZeneca	$3,268
Entresto	Novartis	$2,885
Enbrel	Amgen	$2,791
Imbruvica	AbbVie/ Johnson & Johnson	$2,664
Stelara	Johnson & Johnson	$2,639
Novolog	Novo Nordisk	$2,577

Source: CMS

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Throughout 2024, CMS and pharma will negotiate on prices that will go into effect in 2026 with the final maximum fair prices for the first ten drugs published in September. We will also see the outcomes from the various lawsuits that have been filed against the government on both constitutional issues and statutory and regulatory issues.

Coming off three relatively muted years, we expect M&A to pick up in 2024. While the overhang from increased FTC scrutiny remains, management teams are now more confident in the ability to close transactions. This is evidenced by the $61 bn of M&A that was announced in Q4, along with three of the top six largest transactions of 2023 coming in December. We continue to expect extended review times, however only one deal was blocked in 2023. With average gross leverage across pharma sitting at 2.1x, significant capacity remains for M&A. From a recessionary standpoint, given the societal need for medication, we see pharma as one of the more defensive sectors in healthcare. The pricing power the industry commands should allow companies to weather any potential impacts.

As we head into year two of biosimilar competition for Humira, decisions around pricing, formulary access, and rebating will all have an impact on how the biosimilar market will develop as the next wave of biologics come off patent protection out the decade. To date, Humira erosion has been driven primarily by price, with AbbVie maintaining significant volume share.

With average weight loss in the low 20% range, the GLP-1 drug class has quickly become one of the most impactful innovations in healthcare. Although questions around access, coverage, and supply remain, the effects on all segments of healthcare have already become evident. Upcoming outcome studies for tirzepatide and semaglutide are the next catalysts for this drug class to extend beyond diabetes and obesity.

Medical Devices

In Q2 and continuing into Q3, utilization particularly among the Medicare population, meaningfully picked up. Orthopedic and cardiac procedures increased most significantly. While the backlog of procedures that were deferred during covid has started to get worked through, the elevated procedural demand will provide a consistent tailwind well into 2024. We expect M&A in Medical Devices to pick up this year as companies, namely BDX, SYK, and ZBH, have reached their delevering goals and are now back in the market for acquisitions. The strategy of targeting tuck-ins in faster growth markets has been successful for Medtech over the last five years and we expect that trend to continue going forward.

From a GLP-1 impact standpoint, we see the biggest negative impact in the near-term on bariatric surgery volumes (JNJ, MDT). Both doctors and patients will be reluctant to seek a surgical procedure given the efficacy GLP-1s have shown in treating obesity. For companies tied to orthopedic procedures (SYK, ZBH), we see both near and longer term tailwinds to growth from increased GLP-1 usage. In the near term, the funnel for eligible patients will increase as 10%-12% of patients in need of a joint replacement cannot have a procedure performed due to an elevated BMI. Longer term, SYK and ZBH will benefit as patients become more active and longevity increases, leading to a greater chance of needing a joint replacement. For the sector as a whole, future impacts across med devices will be driven in part by upcoming outcome studies for tirzepatide and semaglutide.

In Life Sciences, coming off multiple years of significant growth during the pandemic, the macroeconomic environment has begun to impact capex spending in the pharma segment. In biotech, customers have dramatically scaled back purchases as funding and liquidity challenges drove cash conservation. On a long-term basis, we are constructive on the significant tailwinds for pharma growth, however, near-term uncertainty will limit upside in the segment.

We continue to monitor the hospital capex purchasing environment in 2024 given lingering concern regarding a recession. This higher cost market was depressed in 2009 but quickly rebounded to growth the following year. To date, we have not seen any significant signs that spending has slowed down. Our conversations with management teams point to demand on the purchasing side remaining robust.

Managed Care

Exiting Q1, total utilization still lagged baseline, pre-covid, levels with outpatient above and inpatient below. In Q2 and continuing into Q3, however, utilization, particularly among the Medicare population, began to meaningfully pick up. Specifically, there were strong outpatient volumes particularly in hips, knees, and cardio along with behavioral health. Most companies assumed the elevated level of care would stabilize towards the end of 2023, however, early commentary on Q4 suggests volumes have remained elevated. As we head into 2024, the focus will be on whether this increased level of utilization will continue since most 2024 plans were priced on the assumption of stabilization. This dynamic could pose a headwind for companies in 2024 depending on the ultimate level of care.

There has been renewed interest in horizontal consolidation in managed care with the WSJ reporting that Cigna held talks with Humana regarding an acquisition. While we expect the near-term focus for Cigna to be on tuck-in deals in the Evernorth services platform, we do not rule out the chance of a larger transformative acquisition. Outside of Cigna, we do not see horizontal consolidation as likely given the considerable overlap in other companies. The focus for the rest of managed care will be on smaller plan acquisitions and building out care delivery.

Should we see a Trump/Biden election rematch in 2024, we do not expect to see significant headline risk from a regulatory standpoint. However, spreads could be pressured if a pro Medicare for All candidate is running on the Democratic side. We do not see Medicare for All implementation as likely, but the headline risk alone will impact trading levels.

Distributors

With the majority of opioid settlements completed and the three major distributors paying $6-$7 billion each, the focus has shifted toward the next phase of growth. While the risk is largely behind the companies, we await to see the settlement terms for the remaining states and subdivisions. Generic and brand pricing trends have stabilized in recent quarters. Script volumes are generally back to pre-pandemic levels. We expect the GLP-1 drug class will continue to be a growth driver for sales going forward. The class contributes a lower margin due to the higher costs for cold chain distribution.

Further color on Amazon's plans for healthcare may continue to pressure spreads. While freight costs have come down in recent quarters, they still remain elevated and will pressure margins in 2024. Biosimilars continue to be a significant opportunity for the industry. The economics still need to be worked through but the significant wave of biologics coming off patent will be a tailwind for growth going forward.

Labs

Covid testing volumes have significantly declined from the peaks earlier in 2022. We expect any benefit from covid testing to be minimal going forward. Base testing volumes have generally recovered and are expected to continue that growth in 2024. We expect M&A to pick up this year as balance sheets are in a strong position following two years of outsized growth. Hospitals will be more willing to enter into agreements for outreach labs as they continue to be stressed. The Continuing Resolution delayed PAMA cuts for one more year (until 2025).

M&A comments by company

Exhibit 3: M&A Commentary

The focus for M&A is on small to mid-sized deals.

Ticker	Key Management Comments
ABBV	Not looking at similar sized deals (to Cerevel ($8.7 bn)) in the foreseeable future. Focus will be on smaller sized, early-stage deals. Will look at business development deals as long as there is a clear path to get to 2x net leverage in 2-3 years. Does not need M&A to drive growth from 2024-2029. M&A will focus on commercial assets in the 2030s.
ABT	Continues to be active in looking for additional M&A. Valuations have come down. There is plenty of financial capacity to engage in business development.
BDX	There is no change to M&A strategy. Exploring opportunities for larger tuck-in acquisitions.
BMY	M&A remains the top priority for capital allocation. Not looking to do large transformative deals. Focus is on bolt-on deals.
BSX	Top priority for capital allocation is high quality, tuck-in M&A.
CAH	Continues to explore opportunities for M&A.
CI	Deals must be strategically aligned, financially attractive, and have a high probability of closing. "We will consider bolt-on acquisitions aligned with our strategy, as well as value-enhancing divestitures," CEO stated.
CVS	In the short term, the focus is on share repurchase and organic growth. Overtime will continue to look at accretive M&A.
DGX	Focus is on accretive hospital outreach purchases as well as smaller independent labs.
DHR	Pipeline for M&A remains active. Valuations for some assets have not declined despite raising rates.
GILD	Targeting deals in the $1-$5 bn range. The need for M&A is not significant at this time.
JNJ	Continues to look for new assets to add to the portfolio. There are no deals that are too big. Agnostic to M&A in MedTech or Innovative Medicine.
LH	Pipeline for additional outreach lab deals remains robust.
LLY	Focus is on early-stage bolt-on acquisitions. Not interested in large scale M&A.
MCK	Continues to be active in looking for potential acquisitions.
MDT	Focus is on tuck-in acquisitions. Not looking for larger transactions.
MRK	Business development continues to be a high priority for the company.
MRKGR	Exploring both small and larger scale M&A. Focus areas: semiconductor solutions, innovative assets in Healthcare, and adjacent areas in Life Sciences.
NOVN	Focus remains on bolt-on M&A in core therapeutic areas.
PFE	Completed deals plus Seagen contribute $20.5 bn of 2030 risk adj revenues. $5 bn remains toward goal of $25 bn.
ROSW	Continues to look for deals that are the right strategic fit
SYK	The pipeline for M&A targets is robust. Valuations have come down in certain areas. Expects to increase the pace of deals in 2024. Majority of acquisitions will be smaller in the core business. Not against doing a larger deal.
VTRS	Looking for "innovative, high growth assets that bring durable revenue streams." Looking at opportunities actively right now.
ZBH	M&A remains the number one priority for capital allocation. Focus areas: 1) Segments in recon that are growing faster than ZBH WAMGR (navigation, technology), 2) SET, CMFT, 3) ASC. Looking for deals up to $2 bn in size. Prefers debt financing over equity financing.

Source: Company Management

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GLP-1 comments by company

Exhibit 4: Obesity drug class commentary

While early in the launch, the impact from GLP-1s will have wide ranging impacts to all sectors in healthcare.

Ticker	Key Management Comments
ABBV	On a long-term basis, GLP-1s will provide an opportunity for patients to enter the aesthetics market.
ABT	There is a growing number of Libre users also using GLP-1 medications. Patients on both therapies tend to use more of each product. Patient TAM: Looking out 4 to 5 years, consensus suggests there will be 10-15 million people on GLP-1s. This is a small fraction of the total medical device market. There are ~500 mn people with diabetes and ~500 mn people with cardiovascular disease. Coverage: Drug cost is going to be a significant factor as the class expands given existing inflation in medical expenses. Nutrition: There is an opportunity for ABT to develop a nutritional product to address the side effect of increase loss of muscle mass.
AMGN	Completed enrollment for AMG 133 Phase 2 obesity study. Topline data expected in late 2024. AMG 786: Phase 1 study ongoing. Initial data readout in 1H'24.
AZN	AZN entered into a license agreement with Eccogene for ECC5004, an investigational oral once-daily glucagon-like peptide 1 receptor agonist (GLP-1RA) for the treatment of obesity, type-2 diabetes and other cardiometabolic conditions. Phase 2 is planned for 2024.
BAX	Full FLOW kidney trial results will be out in 1H'24. Existing data shows prevalence of ESKD will continue to rise over the next 15-20 years driven by a 35%+ increase in the prevalence of diabetes by 2040. The number of patients over 65 years old is expected to increase 75% globally between now and 2040.
BSX	Given concerns around cost, convenience, and tolerability, expects to take at least a decade to reach peak penetration of the GLP-1 drug class. Only a minority of patients with obesity will be taking a GLP-1. Expects the impact to U.S. coronary and peripheral procedure volumes will be minor at peak levels.
CAH	GLP-1's were a significant growth driver for sales in the quarter. The drug class is not a meaningful contributor to earnings.
CI	Seeing significant interest for GLP-1s in the EncircleRx program to help with managing affordability on the drug class.
COR	GLP-1's were a significant growth driver for sales in the quarter. The drug class is minimally profitable to operating income due to the higher expenses for distribution (cold chain).
CVS	Utilization of GLP-1s for weight loss is growing 6x the rate for diabetes use. Pharmacy Services: Experienced a positive margin contribution from GLP-1s. Aetna: The impact is determined by whether pricing is capturing utilization. Currently pricing is capturing utilization for diabetes not weight loss. Self-insured customers can choose to cover for weight loss. PCW: Branded products pressure margins so GLP-1s will be a headwind.
DHR	Expects the GLP-1 drug class to continue to contribute to DHR growth.
JNJ	Seeing the impacts to bariatric surgeries in the near term. Does not expect to see an impact to the rest of the MedTech business.
LH	Does not expect to see an increase in metabolic testing as a result of GLP-1s.
LLY	Mounjaro access on October 1st was 78% for patients with type 2 diabetes across commercial and Part D lives. All Q3 prescriptions are considered paid as copay cards expired on June 30th. Continued to experience tight supply in Q3. On track to double capacity y/y by the end of 2023. Persistence on therapy is longer than for Trulicity and Ozempic.
MCK	GLP-1s provided a revenue tailwind in the quarter, but at a lower margin rate due to higher distribution costs in the Pharmaceutical segment. Prescription Technology Solutions: The growth in the class has led to increased demand for access solutions such as prior authorization services. Assumes GLP-1 volumes will remain elevated for 2024 with the consolidated revenue and operating profit growth compared to the prior year slowing in Q4.
MDT	Outside of the impact on bariatric surgery, does not see GLP-1s impacting Medtronic's growth outlook. Expects bariatric surgery will remain the gold standard in addressing obesity. Sees current headwinds stabilizing over the next several quarters and a return to growth by calendar year 2025. In Diabetes, customers are primarily type-1 diabetics with only 10% of installed base in type-2. Does not see any meaningful change in diabetes growth outlook through 2023.
SYK	Does not see a risk to the knee business of SYK from GLP-1s. Expects a positive impact from GLP-1s in the near term by making ineligible people eligible for surgery sooner. In the long term, there will be a greater number of surgeries as people increase their activity levels. Anti-obesity medications cannot reverse knee osteoarthritis. At least 10% of patients cannot have a procedure done today due to elevated BMI.
UNH	The focus currently is on lowering the costs for the GLP-1 drug class. Price is a barrier for greater coverage. 80% of spend is for diabetes and 20% is for weight loss. The vast majority of coverage is in the fee-based business, 30% of book.
ZBH	Sees the GLP-1 drug class as a tailwind for ZBH. Tailwinds: 1) Lowering a patients BMI will allow more patients to become eligible for surgery, 2) more active patients will be at a greater risk for injury, 3) life expectancy will increase. The top three contributing factors to osteoarthritis are age, genetics, and joint injury. Once cartilage is damaged there is no recovery.
ZTS	Has not seen an impact to livestock consumption from increased GLP-1 use.

Source: Company management

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2024 Debt Maturities

Exhibit 5: 2024 Debt Maturities

$60 billion of bonds mature in 2023.

Company	Coupon	Maturity	Amount Outstanding USD
Pfizer Inc	6.450%	2/1/2024	$500
UnitedHealth Group Inc	3.500%	2/15/2024	$750
Boston Scientific Corp	3.450%	3/1/2024	$504
Roche Holding AG	0.450%	3/5/2024	$500
Roche Holding AG	FRN	3/5/2024	$350
Merck & Co Inc	2.900%	3/7/2024	$750
Roche Holding AG	1.882%	3/8/2024	$1,250
Pfizer Inc	2.950%	3/15/2024	$750
Cigna Group	0.613%	3/15/2024	$500
McKesson Corp	3.796%	3/15/2024	$647
Danaher Corp	1.700%	3/30/2024	$1,001
Gilead Sciences Inc	3.700%	4/1/2024	$1,750
Quest Diagnostics Inc	4.250%	4/1/2024	$300
Sanofi SA	0.625%	4/5/2024	$667
Novartis AG	3.400%	5/6/2024	$2,150
AstraZeneca PLC	0.750%	5/12/2024	$1,001
Bristol-Myers Squibb Co	3.625%	5/15/2024	$395
Pfizer Inc	3.400%	5/15/2024	$1,000
UnitedHealth Group Inc	0.550%	5/15/2024	$1,000
Baxter International Inc	0.400%	5/15/2024	$834
Becton Dickinson & Co	3.875%	5/15/2024	$144
Stryker Corp	3.375%	5/15/2024	$600
Cencora Inc	3.400%	5/15/2024	$500
AbbVie Inc	1.375%	5/17/2024	$1,612
Johnson & Johnson	0.650%	5/20/2024	$834
Amgen Inc	3.625%	5/22/2024	$1,400
Eli Lilly & Co	0.150%	5/24/2024	$713
AstraZeneca PLC	0.700%	5/28/2024	$1,600
AbbVie Inc	1.250%	6/1/2024	$778
GSK PLC	3.000%	6/1/2024	$1,000
Becton Dickinson & Co	3.363%	6/6/2024	$998
AbbVie Inc	3.850%	6/15/2024	$1,037
Cigna Group	3.500%	6/15/2024	$1,000
Cardinal Health Inc	3.079%	6/15/2024	$750
Viatris Inc	1.023%	6/23/2024	$834
Bristol-Myers Squibb Co	2.900%	7/26/2024	$2,478
CVS Health Corp	3.375%	8/12/2024	$650
CVS Health Corp	2.625%	8/15/2024	$1,000
Elevance Health Inc	3.500%	8/15/2024	$800
UnitedHealth Group Inc	2.375%	8/15/2024	$750
Laboratory Corp of America	3.250%	9/1/2024	$600
Thermo Fisher Scientific Inc	0.750%	9/12/2024	$1,112
Roche Holding AG	0.100%	9/23/2024	$891
Roche Holding AG	3.350%	9/30/2024	$589
Humana Inc	3.850%	10/1/2024	$600
UnitedHealth Group Inc	5.000%	10/15/2024	$500
Thermo Fisher Scientific Inc	1.215%	10/18/2024	$2,500
Merck & Co Inc	0.500%	11/2/2024	$556
Johnson & Johnson	5.500%	11/6/2024	$640
CVS Health Corp	3.500%	11/15/2024	$750
Danaher Corp	2.200%	11/15/2024	$700
Cardinal Health Inc	3.500%	11/15/2024	$400
GE HealthCare Technologies Inc	5.550%	11/15/2024	$1,000
Stryker Corp	FRN	11/16/2024	$556
Abbott Laboratories	0.100%	11/19/2024	$656
AbbVie Inc	2.600%	11/21/2024	$3,750
Viatris Inc	2.250%	11/22/2024	$1,112
Zimmer Biomet Holdings Inc	1.450%	11/22/2024	$850
Baxter International Inc	1.322%	11/29/2024	$1,400
Baxter International Inc	FRN	11/29/2024	$300
CVS Health Corp	5.000%	12/1/2024	$300
Elevance Health Inc	3.350%	12/1/2024	$850

Exhibit 5: 2024 Debt Maturities

$60 billion of bonds mature in 2023.

Company	Coupon	Maturity	Amount Outstanding USD
Laboratory Corp of America	2.300%	12/1/2024	$400
GSK PLC	1.375%	12/2/2024	$1,112
Stryker Corp	0.250%	12/3/2024	$945
Becton Dickinson & Co	3.734%	12/15/2024	$875
Total			$60,019

Source: Bloomberg, company data, BofA Global Research

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2024-2026 Debt Maturities

Exhibit 6: Upcoming Debt Maturities
Over the next three years, $230 billion of debt matures.

Company	2024	2025	2026	Total
Abbott Laboratories	$1,062	$1,500	$2,949	$5,511
AbbVie	$7,143	$8,771	$6,000	$21,913
Agilent		$480	$300	$780
Alcon	$800		$500	$1,300
Amgen	$1,420	$5,520	$6,599	$13,540
AstraZeneca PLC	$2,588	$2,000	$2,450	$7,038
Baxter International	$4,133	$857	$1,918	$6,909
Becton Dickinson	$2,016	$865	$1,355	$4,236
Biogen	$750	$1,750	$750	$3,250
Boston Scientific	$504	$1,596	$255	$2,355
Bristol-Myers Squibb	$2,873	$1,859	$2,006	$6,738
Cardinal Health	$1,150	$500	$124	$1,774
Cencora	$500	$500		$1,000
Cigna	$1,500	$3,100	$3,000	$7,600
CVS Health	$2,700	$3,778	$4,003	$10,482
Danaher Corp	$1,695	$509	$3,781	$5,985
Elevance Health	$1,650	$1,650	$1,800	$5,100
Eli Lilly	$696	$778	$1,572	$3,046
GE Healthcare	$1,000	$3,500		$4,500
Gilead Sciences	$1,750	$1,750	$2,750	$6,250
GSK PLC	$2,096	$1,822	$1,876	$5,793
Humana	$616	$616	$516	$1,748
Icon PLC	$1,053	$55	$630	$1,738
Johnson & Johnson	$1,455	$1,750	$2,000	$5,205
Laboratory Corp of America	$1,000	$1,000	$590	$2,590
McKesson Corp	$647	$1,157	$1,548	$3,352
Medtronic PLC		$2,805		$2,805
Merck	$1,298	$2,500	$2,231	$6,029
Merck KGaA		$2,422	$548	$2,970
Novartis AG	$2,171	$3,330	$657	$6,159
Pfizer	$2,291	$4,215	$6,113	$12,619
Quest Diagnostics	$300	$600	$500	$1,400
Roche Holding AG	$3,560	$3,932	$3,543	$11,035
Royalty Pharma		$1,000		$1,000
Sandoz			$973	$973
Sanofi	$657	$2,849	$3,338	$6,845
Stryker Corp	$2,079	$1,400	$1,000	$4,479
Thermo Fisher Scientific	$3,626	$2,366	$2,946	$8,938
UnitedHealth Group	$6,571	$4,333	$3,016	$13,920
Viatris	$2,017	$1,397	$2,528	$5,942
Zimmer Biomet	$850	$863	$1,667	$3,380
Zoetis		$1,350		$1,350

Source: Company reports

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2023 Debt Issuance

Exhibit 7: 2023 IG Healthcare New Issuance
$125.2 bn of issuance was announced in 2023.

Issue Date	Ticker	Company	Coupon	Maturity	Issue Spread	Amount USD (mm)
1/30/2023	ELV	Elevance Health	4.900	2/8/2026	97	$500
1/30/2023	ELV	Elevance Health	4.750	2/15/2033	122	$1,000
1/30/2023	ELV	Elevance Health	5.125	2/15/2053	147	$1,100
2/6/2023	BDX	Becton Dickinson	3.553	9/13/2029	70	$883
2/6/2023	BDX	Becton Dickinson	4.693	2/13/2028	88	$800
2/13/2023	CVS	CVS Health	5.000	2/20/2026	90	$1,500
2/13/2023	CVS	CVS Health	5.125	2/21/2030	140	$1,500
2/13/2023	CVS	CVS Health	5.625	2/21/2053	185	$1,250
2/13/2023	CVS	CVS Health	5.250	2/21/2033	155	$1,750
2/13/2023	MCK	McKesson	5.250	2/15/2026	110	$500
2/15/2023	AMGN	Amgen	5.250	3/2/2025	65	$2,000
2/15/2023	AMGN	Amgen	5.507	3/2/2026	115	$1,500
2/15/2023	AMGN	Amgen	5.150	3/2/2028	115	$3,750
2/15/2023	AMGN	Amgen	5.250	3/2/2030	135	$2,750
2/15/2023	AMGN	Amgen	5.250	3/2/2033	150	$4,250
2/15/2023	AMGN	Amgen	5.600	3/2/2043	165	$2,750
2/15/2023	AMGN	Amgen	5.650	3/2/2053	185	$4,250
2/15/2023	AMGN	Amgen	5.750	3/2/2063	200	$2,750
2/20/2023	ROSW	Roche	3.204	8/27/2029	-	$828
2/20/2023	ROSW	Roche	3.355	2/27/2035	-	$552
2/23/2023	LLY	Eli Lilly	5.000	2/27/2026	65	$750
2/23/2023	LLY	Eli Lilly	4.700	2/27/2033	85	$1,000
2/23/2023	LLY	Eli Lilly	4.875	2/27/2053	100	$1,250
2/23/2023	LLY	Eli Lilly	4.950	2/27/2063	115	$1,000
2/24/2023	AZN	AstraZeneca	3.625	3/3/2027	-	$828
2/24/2023	AZN	AstraZeneca	3.750	3/3/2032	-	$828
2/27/2023	HUM	Humana	5.700	3/13/2026	120	$500
2/27/2023	HUM	Humana	5.500	3/15/2053	180	$750
2/28/2023	CI	Cigna	5.685	3/15/2026	117	$700
2/28/2023	CI	Cigna	5.400	3/15/2033	150	$800
2/28/2023	AZN	AstraZeneca	4.875	3/3/2028	75	$1,100
2/28/2023	AZN	AstraZeneca	4.900	3/3/2030	90	$650
2/28/2023	AZN	AstraZeneca	4.875	3/3/2033	100	$500
3/23/2023	UNH	UnitedHealth	4.250	1/15/2029	88	$1,250
3/23/2023	UNH	UnitedHealth	4.500	4/15/2033	118	$1,500
3/23/2023	UNH	UnitedHealth	5.050	4/15/2053	143	$2,000
3/23/2023	UNH	UnitedHealth	5.200	4/15/2063	158	$1,750
3/23/2023	MDT	Medtronic	4.250	3/30/2028	87.5	$1,000
3/23/2023	MDT	Medtronic	4.500	3/30/2033	115	$1,000
5/8/2023	MRK	Merck	4.050	5/17/2028	57	$500
5/8/2023	MRK	Merck	4.300	5/17/2030	82	$750
5/8/2023	MRK	Merck	4.500	5/17/2033	100	$1,500
5/8/2023	MRK	Merck	4.900	5/17/2044	102	$750
5/8/2023	MRK	Merck	5.000	5/17/2053	120	$1,500
5/8/2023	MRK	Merck	5.150	5/17/2063	135	$1,000
5/16/2023	PFE	Pfizer	4.650	5/19/2025	60	$3,000
5/16/2023	PFE	Pfizer	4.450	5/19/2026	75	$3,000
5/16/2023	PFE	Pfizer	4.450	5/19/2028	95	$4,000
5/16/2023	PFE	Pfizer	4.650	5/19/2030	115	$3,000
5/16/2023	PFE	Pfizer	4.750	5/19/2033	125	$5,000
5/16/2023	PFE	Pfizer	5.110	5/19/2043	130	$3,000
5/16/2023	PFE	Pfizer	5.300	5/19/2053	145	$6,000
5/16/2023	PFE	Pfizer	5.340	5/19/2063	160	$4,000
5/30/2023	CVS	CVS Health	5.000	1/30/2029	125	$1,000
5/30/2023	CVS	CVS Health	5.250	1/30/2031	155	$750
5/30/2023	CVS	CVS Health	5.300	6/1/2033	165	$1,250
5/30/2023	CVS	CVS Health	5.875	6/1/2053	200	$1,250
5/30/2023	CVS	CVS Health	6.000	6/1/2063	215	$750
6/8/2023	MCK	McKesson	4.900	7/15/2028	102	$400
6/8/2023	MCK	McKesson	5.100	7/15/2033	140	$600
8/7/2023	TMO	Thermo Fisher	4.953	8/10/2026	50	$600
8/7/2023	TMO	Thermo Fisher	4.977	8/10/2030	85	$750

Exhibit 7: 2023 IG Healthcare New Issuance
$125.2 bn of issuance was announced in 2023.

Issue Date	Ticker	Company	Coupon	Maturity	Issue Spread	Amount USD (mm)
8/7/2023	TMO	Thermo Fisher	5.086	8/10/2033	100	$1,000
8/7/2023	TMO	Thermo Fisher	5.404	8/10/2043	98	$600
9/7/2023	GILD	Gilead	5.250	10/15/2033	100	$1,000
9/7/2023	GILD	Gilead	5.550	10/15/2053	120	$1,000
10/26/2023	SDZ	Sandoz	2.125	11/17/2026	-	$468
10/26/2023	SDZ	Sandoz	2.600	11/17/2031	-	$409
10/30/2023	DGX	Quest Diagnostics	6.400	11/30/2033	153	$750
10/30/2023	BMY	Bristol Myers	5.750	2/1/2031	90	$1,000
10/30/2023	BMY	Bristol Myers	5.900	11/15/2033	105	$1,000
10/30/2023	BMY	Bristol Myers	6.250	11/15/2053	122	$1,250
10/30/2023	BMY	Bristol Myers	6.400	11/15/2063	135	$1,250
11/2/2023	HUM	Humana	5.750	12/1/2028	115	$500
11/2/2023	HUM	Humana	5.950	3/15/2034	147	$850
11/6/2023	ROSW	Roche	5.265	11/13/2026	55	$1,100
11/6/2023	ROSW	Roche	FRN	11/13/2026		$300
11/6/2023	ROSW	Roche	5.338	11/13/2028	75	$1,250
11/6/2023	ROSW	Roche	5.489	11/13/2030	85	$1,250
11/6/2023	ROSW	Roche	5.593	11/13/2033	95	$1,600
11/8/2023	SDZ	Sandoz	3.970	4/17/2027		$819
11/8/2023	SDZ	Sandoz	4.220	4/17/2030		$819
11/8/2023	SDZ	Sandoz	4.500	11/17/2033		$702
11/13/2023	ROSW	Roche	1.600	9/15/2028		$164
11/13/2023	ROSW	Roche	1.750	9/15/2033		$222
11/13/2023	ROSW	Roche	1.950	9/15/2038		$269
11/27/2023	ROSW	Roche	3.312	12/4/2027		$662
11/27/2023	ROSW	Roche	3.586	12/4/2036		$993
11/28/2023	TMO	Thermo Fisher	5.000	12/5/2026	52	$1,000
11/28/2023	TMO	Thermo Fisher	5.000	1/31/2029	72	$1,000
11/28/2023	TMO	Thermo Fisher	5.200	1/31/2034	87	$500
11/28/2023	ZBH	Zimmer Biomet	5.350	12/1/2028	103	$500
12/5/2023	SYK	Stryker	4.850	12/8/2028	73	$600
12/6/2023	SYK	Stryker	3.375	12/11/2028		$662
Total						$125,159

Source: Company reports

BofA GLOBAL RESEARCH

Agilent Technologies (A) (Overweight; Baa1/BBB+/BBB+; S/P/S)

Agilent Technologies (A) is a leading provider of laboratory equipment, products, and services used in a wide range of life sciences, diagnostics, and applied chemical markets. We maintain Agilent at Overweight on strong long term end market growth and valuations. The company's customers span six key end markets, representing a $65 billion opportunity growing 3%-5%. With a focus on high growth areas such as cell analysis and oligonucleotide production, management expects 5%-7% core growth over the next three to five years. Agilent plans to continue to be acquisitive looking for assets from small tuck-ins to $2 bn in size. Headwinds from China and macroeconomic impacts to the pharma and biotech segment will affect the company in 2024.

Credit strengths: 1) Consistently strong leverage profile, 2) conservative financial policies, 3) geographic and end market diversity, 4) ample liquidity, and 5) solid credit ratings.

Credit risks: 1) Appetite for M&A, 2) lagging recurring revenue base, and 3) trade tensions with China.

Key drivers

M&A: Agilent has been very active in pursuing M&A as evidenced by the volume of deals during the past few years. Management has been committed to a tuck-in M&A strategy where most transactions are less than $1 billion in total value. Given the low leverage, management has signaled the ability to explore deals multiples the size of BioTek ($1.2 billion) but is not looking to pursue a transformational size deal. Leverage could be taken up to 2.5x-3.0x but remaining IG is a gating factor for the company.

China: Agilent derives 22% of sales from China, compared to 39% from the Americas. Sales were down 31% in the quarter due to the significant deterioration in the funding environment that led to project delays and an increase in order cancellations. Management expects China to be down mid-single digits in 2024. Q1 will be down mid 20s% and the business will improve from there. We continue to positively view the long-term growth prospects in China, but the decline in biotech spending and geopolitical tension will have an outsized impact on Agilent in the near term.

Pharmaceutical and Biotech end market: The pharma and biotech market is the largest end market for Agilent, making up 37% of sales. Coming off multiple years of significant growth during the pandemic, the macroeconomic environment has begun to impact capex spending in the pharma segment. In biotech (10% of the pharma segment), customers have dramatically scaled back purchases as the funding and liquidity challenges drove cash conservation. Agilent expects constrained capital to be in place for the first half of 2024. On a long-term basis, we are constructive on the significant tailwinds for pharma growth, however near-term uncertainty will limit upside in the segment.

AbbVie (ABBV) (Overweight; A3/A-; S/S)

AbbVie is a biopharmaceutical company offering R&D, manufacturing, commercialization and sale of innovative medicines and therapies with products across immunology, hematologic oncology, neuroscience, aesthetics, and eye care. We maintain ABBV bonds at Overweight. The acquisition of Allergan for $84 billion brought a leading medical aesthetics portfolio and significant cash flow generation. ABBV paid down $34 bn of debt over the last three years and reached its leverage target of 1.8x at the end of 2023. Key pipeline assets Imbruvica, Venclexta, Rinvoq, and Skyrizi will provide an offset to the patent loss on Humira, which began in January 2023 in the United States. Following the acquisitions of ImmunoGen ($10.1 bn) and Cerevel Therapeutics ($8.7 bn), we expect the focus for M&A will be on smaller sized, early-stage deals. We expect ABBV to trade 15 bps behind pharma peer AstraZeneca.

Credit strengths: 1) A diverse portfolio, 2) commitment to debt pay down, 3) upward ratings momentum, 4) strong cash flow position, 5) favorable demographic trends, and 6) a strong liquidity position.

Credit risks: 1) Large debt funded acquisitions, 2) more rapid Humira erosion curve then expected, 3) pipeline failures, and 4) drug price reform legislation.

Key drivers

Humira patent cliff: AbbVie first faced biosimilar competition to Humira in Europe in 2018. In markets where multiple competitors launched, ABBV saw a 45% decline in sales in the first year. Humira began facing biosimilar competition in the U.S. with the launch of Amjevita in January 2023. Management expects 2023 erosion to be 35% (prior estimate 45% +/- 10%) off of 2022 sales of $18.6 bn. We expect sales to outperform guidance as the company has historically been successful in maintaining formulary access and growing market share in immunology. 2024 sales are expected to be ~$7 bn with price being the major driver of erosion.

Upward ratings momentum: With recent upgrades from Moody's and S&P to A- and a consistent leverage policy, we still see ABBV benefitting from ratings upgrades overtime as the company drives growth post Humira.

Pipeline: Key pipeline assets Imbruvica (hematologic oncology), Venclexta (hematologic oncology), Rinvoq (immunology), and Skyrizi (immunology) will provide an offset to the patent loss on Humira. 2025 consensus estimates for Imbruvica sales are $1.9 bn, Venclexta sales of $2.7 bn, Rinvoq sales of $7.1 bn, and Skyrizi sales of $12.5 bn.

M&A: The focus for business development is on assets that will allow the company to drive high single digit growth in 2030 and beyond. AbbVie executed on this strategy late in 2023 by acquiring ImmunoGen ($10.1 bn) and Cerevel Therapeutics ($8.7 bn). These transactions bolster the 2030 portfolio in both oncology and neuroscience. In the foreseeable future the focus will be on smaller sized, early-stage deals. Any additional M&A will be viewed in the context of the goal to get back to 2x net leverage in 2-3 years post close.

Leverage commitment: ABBV issued $30 bn to fund the acquisition of Allergan in November of 2020 and paid down $34 billion of debt by the end of 2023 to reach its net leverage target. Following the acquisitions of ImmunoGen and Cerevel, ABBV expects to return to its net leverage target of 2x by the end of 2026.

Abbott (ABT) (Overweight; Aa3/AA-; S/S)

Abbott develops, manufactures and sells broad and diversified pharmaceuticals, diagnostic and nutritional products, and medical devices. It has four reportable segments: established pharmaceuticals (11%), diagnostics (38%), nutritional products (17%), and medical devices (34%). We maintain Abbott at Overweight. ABT is the highest rated medtech company and benefitted from significant growth in both rapid and at home covid testing over the last three years. Since the acquisition of St. Jude in 2017, the company has fully right sized the balance sheet (ended the quarter at 1.5x) and received six ratings upgrades. With $7.0 bn of cash, we expect the company to focus more on M&A than they have in the past, with an emphasis on tuck-ins as the company does not see any significant portfolio gaps. Expanded market penetration of Libre will be a major growth driver for the company given beneficial market demographics.

Credit strengths: 1) Leading position in transcatheter mitral valve repair and CGM with Libre, 2) conservative financial policies, and 3) low leverage following St. Jude delevering.

Credit risks: 1) Supply chain pressures, 2) rapid decline in covid testing, 3) product recalls or litigation, 4) large scale M&A.

Key drivers

Covid testing: We expect covid testing to remain a durable part of the business this year as additional variants arise. Abbott's strength in rapid and at home testing is a competitive advantage against testing peers. ABT expects to generate $1.5 bn of covid testing sales in 2023, up from previous guidance of $1.3 bn.

Ratings recovery: Following the close of St. Jude for $30 billion, both Moody's and S&P downgraded the company by four notches. Since 2017, ABT has taken leverage from 4.5x to 1.5x and has been upgraded six times by both agencies. The clear deleveraging commitment and execution should serve the company well as we do not expect the agencies to be as punitive should ABT restart leveraging M&A.

M&A strategy: Since the close of St. Jude in 2017, the company has executed one acquisition above $100 million (Cardiovascular Systems). Given the significant $7 bn cash balance, we expect the company to start to take a closer look at M&A with a focus on tuck-in to medium sized deals. Management noted on recent earnings calls that interest in deals has increased given depressed valuations.

Libre: ABT commands a leading position (number 1 in both type 1 and 2 diabetes) in the continuous glucose monitoring market with its FreeStyle Libre system. Libre generated $4.3 bn in sales in 2022 representing 10% of total company sales. We see significant growth ahead for Libre as the market remains underpenetrated and the prevalence of diabetes in the U.S. alone is expected to increase by 54% from 2015 to 2030. ABT expects Libre to be a $10 bn franchise by 2028.

Amgen (AMGN) (Marketweight; Baa1/BBB+/BBB; N/N/S)

Amgen is a biotechnology company that discovers, develops, manufactures and delivers innovative human therapeutics for oncology/hematology and inflammation. We maintain AMGN at Marketweight. We are constructive on AMGN's existing portfolio and the potential growth from the biosimilars platform led by Amjevita (biosimilar Humira). The development and launch of key pipeline assets Lumakras (oncology) and Tezspire (asthma and COPD) remains a focus as the company faces another round of patent expirations beginning in 2024. Following the Horizon acquisition, the focus will be on delevering to the 3.2x target by 2025. We do not see significant M&A on the table during the debt paydown phase.

Credit strengths: 1) A diverse portfolio, 2) strong cash flow position, 3) favorable demographic trends, and 4) a strong liquidity position.

Credit risks: 1) Large debt funded acquisitions, 2) pipeline failures, and 3) drug price reform legislation.

Key drivers

Patent Expiries: With its major patent expiries (Epogen, Neulasta, and Enbrel) behind the company, the next upcoming drugs to face competition include Aranesp in 2024, Prolia and Xgeva in 2025, and Kyprolis in 2027. At the time of expiration expected sales of Aranesp are $1.4 bn, Prolia $4.1 bn, Xgeva $2.1 bn, and Kyprolis $1.6 bn.

Biosimilars: AMGN currently has one of the larger biosimilar platforms in the industry generating $2 bn of sales a year. Upcoming Phase 3 data and potential launches for biosimilar Eylea ($6 bn sales), Stelara ($9 bn sales), and Soliris ($4 bn sales) will drive growth in this segment. Through additional approvals and the launch of biosimilar Humira, this division is expected to reach sales of over $4 bn by the end of the decade.

Horizon Therapeutics: AMGN completed the $28 bn acquisition of Horizon in October. The deal was financed with $24 bn of new debt and cash on hand. Amgen expects to pay down greater than $10 bn of debt and reach leverage of 3.2x by the end of 2025. The transaction added Tepezza (thyroid eye disease), Krystexxa (chronic refractory gout), and Uplinzna (neuromyelitis optica spectrum disorder) to the AMGN portfolio.

Baxter (BAX) (Underweight; Baa2/BBB/BBB; S/N/WN)

BAX is a well-diversified medical products company operating in renal care, medication delivery, pharmaceuticals, clinical nutrition, advanced surgery, and acute therapies. We maintain Baxter at Underweight on valuations given elevated leverage post the Hillrom acquisition. At close, net leverage was 4.2x and management has committed to target net leverage of 2.75x by 2024. Depressed surgical volumes and headwinds from supply chain inflation have delayed the delevering plan. We are constructive on the HRC acquisition as it adds opportunities for growth in connected care, however, near term supply chain challenges will pressure integration.

Credit strengths: 1) Leading positions in many product categories, 2) product and geographic diversification, and 3) low exposure to elective procedure market.

Credit risks: 1) Supply chain pressure, 2) HRC integration delays, 3) elevated leverage, and 4) product recalls or litigation.

Key drivers

Hillrom (HRC): Baxter completed the $12.4 billion acquisition of Hillrom on December 13, 2021. HRC brings a suite of products that will enable the expansion into digital and connected care solutions. Both lack of supply of semi-conductors and severely elevated costs to procure them have impacted the performance and ability to manufacture finished product at HRC since close. As a result of ongoing supply chain challenges, Baxter took a $3.5 billion goodwill impairment charge in Q3.

Portfolio review: In January 2022, Baxter announced plans to spin off the company's Renal Care and Acute Therapies global business units into an independent company. These businesses generated sales of $4.4 bn in 2022. The spin is expected to be completed by July 2024 or earlier. Additionally, BAX sold its BioPharma Solutions business ($644 mn sales) for $4.25 bn in May.

Supply chains/Inflation: Across the med device industry, companies are facing challenges in accessing electronic components, resins, and other input materials, along with dealing with elevated freight and shipping costs. While inflation on raw materials has improved year over year, costs still remain higher than historical levels.

Management change: BAX named Joel Grade CFO in October. He most recently served as Sysco's executive vice president, corporate development, and previously held the roles of executive vice president and CFO as well as senior vice president of finance and chief accounting officer, and senior vice president of foodservice operations.

Leverage/Ratings: BAX issued $7.8 bn to fund the purchase of HRC. At close, net leverage was 4.2x. Management committed to paying down debt to reach 2.75x net leverage in 2024. This timeline could be delayed if supply chain and inflationary pressure continue well into 2024. Baxter amended its leverage covenant in March to allow net leverage of 5.5x at the end of 2Q'23 and 3Q'23. Following the strategic review, Moody's and S&P affirmed their ratings and Fitch placed the rating on review for downgrade. Baxter paid down $350 mn of debt in Q3 and $1.7 bn of debt in Q4. Net leverage was 3.9x at the end of Q3.

Becton Dickinson (BDX) (Overweight; Baa2/BBB/BBB; S/S/S)

We maintain Becton Dickinson at Overweight. BDX offers a broad portfolio of products including syringes (over 90% market share), infusion pumps, diagnostic tests, and drug coated balloons, among many others. Management estimates the average person interacts with at least eight BDX products each year. Through the acquisitions of CareFusion and C.R. Bard, BDX has more than doubled its revenue base in just over six years. Under the leadership of CEO Tom Polen, the company is now focused on integration and simplification, prioritizing growth in smart connected care, new care settings, and chronic disease outcomes, while prioritizing a 2.5x net leverage target. We expect BDX to trade 10 back of medical device peer Stryker.

Credit strengths: 1) Diverse portfolio, 2) strong cash flow growth, 3) positive ratings momentum, 4) favorable demographic trends, and 5) a strong liquidity position.

Credit risks: 1) Potential reduction in hospital and research budgets, 2) changes in healthcare reform, and 3) additional debt funded acquisitions.

Key drivers

M&A policy: Following two large transformational acquisitions, there has been a clear change in strategy. We expect the company to remain acquisitive going forward, however, smaller bolt-on deals are likely to be the priority for the company as management has taken every opportunity given to explain that large deals are off the table. BDX has the capacity to execute up to $2 billion of tuck-in M&A per year. BDX could look at deals north of $2 billion but not looking for assets above $3 billion.

Positive ratings momentum: Following successful deleveraging and solid execution throughout the pandemic, BDX received upgrades from both Moody's and Fitch. Ratings are now mid triple B across all three agencies, and we see further upward momentum as the company continues to pursue its revamped strategy under Tom Polen.

Portfolio review: Another key part of the strategy has been the divestiture of lower growth businesses. BDX spun off its diabetes unit (Embecta) in 2021 and received $1.44 bn of proceeds, and sold its Surgical Instrumentation platform for $540 mn. Proceeds from the divestitures were used toward paying down debt and financing higher growth tuck-in acquisitions. We expect to see further pruning as management focuses on simplifying the portfolio as part of its BD 2025 strategy.

Alaris: BDX received 510(k) clearance for its Alaris Infusion System in July. The company expects sales of $200 million in 2024 and overtime sales will recover to $400 million.

Boston Scientific (BSX) (Marketweight; Baa1/BBB+/BBB+; S/S/S)

Boston Scientific develops, manufactures and markets medical devices used in a range of interventional medical specialties with two reportable segments: MedSurg and Cardiovascular. We maintain Boston Scientific at Marketweight on valuations to peers BDX and SYK. Following a significant level of M&A over the last few years, management has maintained a steadfast commitment to both high BBB credit ratings and gross leverage in the 2.25x-2.5x range. These acquisitions have brought in products and capabilities across specialties that will enable continued growth. While we expect the company to remain acquisitive, additional M&A will be executed with the intent of maintaining current ratings. Headwinds from supply chain inflation will pressure margins in 2024.

Credit strengths: 1) Leading position in left atrial appendage closure market with Watchman, 2) conservative financial policies, and 3) steadily declining leverage from the beginning of the pandemic despite multiple acquisitions.

Credit risks: 1) Further delays in surgical procedures from labor shortages, 2) supply chain pressures, and 3) product recalls or litigation.

Key drivers

M&A strategy: Tuck-in M&A remains the top priority for capital allocation. BSX does not see a need for transformational M&A. Management estimates $7.5-$8 bn is the limit for an all cash/debt deal to have no impact on ratings. Cash flow plus debt capacity to get to 2.5x gives BSX $3bn+ of capacity for M&A per year.

Leverage policy: Target for gross leverage is 2.25x-2.5x. Following significant delevering throughout the last two years, BSX reached its target and ended the quarter at 2.3x. Management would consider going above the target range but only with a clear path back to 2.25x-2.5x in 18-24 months.

Ratings commitment: Management targets high BBB ratings at all three agencies. Following upgrades from S&P and Fitch in December 2022, BSX has achieved its target and is now focused on maintaining. We would expect BSX to issue equity to defend ratings for any larger M&A.

Product Integration: Over the last four years, BSX has acquired eight companies, the largest of which was Baylis for $1.75 billion. These acquisitions range from products for safer left atrial access, thrombectomy devices, to lasers for urology procedures. Due to the smaller size of these acquisitions, we do not see significant execution risk.

Bristol-Myers Squibb (BMY) (Marketweight; A2/A; WN/S)

Bristol Myers is engaged in the discovery, development, manufacturing, and global sale of biopharmaceutical products for oncology, hematology, immunology, cardiovascular, fibrotic diseases, and neurology. We lower BMY and bonds issued at Celgene to Marketweight from Overweight as we see limited catalysts for spread compression in the near term with BMY trading 5/10 bps behind peer Pfizer. With significant upcoming LoEs and Medicare drug price negotiation beginning in 2026, BMY has turned to M&A to drive growth later in the decade. While we do not expect to see a large transformational deal in the near term, we do expect Bristol to remain acquisitive with a focus on bolt-ons. On the positive side, the company developed a portfolio of near term launches through the acquisition of Celgene, which are expected to provide $25 bn of non-risk adjusted sales by 2030. Management does not hold a leverage target, instead, focuses on maintaining strong investment grade ratings.

Credit strengths: 1) Strong cash flow generation, 2) favorable demographic trends, and 3) leading position in high growth oncology market.

Credit risks: 1) Large debt funded acquisitions, 2) negative patent rulings, 3) drug price reform legislation, and 4) pipeline failures leading to increased concentration risk from Opdivo and Eliquis.

Key drivers

M&A: In 2023, BMY announced the acquisitions of Mirati Therapeutics for $4.8 bn (funded with $4.5 bn of new debt), Karuna Therapeutics for $12.7 bn (1H'24 close), and RayzeBio for $3.6 bn (1H'24 close). We expect BMY to issue ~$15 bn of debt in early 2024 to fund the purchases. Following the Karuna Therapeutics and RayzeBio acquisition announcements Moody's placed its ratings on review for downgrade and S&P downgraded BMY to A from A+. We expect Bristol to remain acquisitive in the near term with a focus on bolt-ons.

Growth pipeline: BMY estimates that the combined near-term new product launches will contribute $25+ bn of non-risk adjusted revenue in 2030. Sotyktu (psoriasis), Reblozyl (beta-thal and MDS), Camzyos (Hypertrophic cardiomyopathy), and Opdualag (melanoma) are all expected to generate at least $4 bn of peak sales. Zeposia (multiple sclerosis) and Breyanzi (LBCL) are expected to generate at least $3 bn of peak sales. Onureg (AML maintenance) and Abecma (multiple myeloma) are estimated to generate $1 bn in peak sales. Any delays or trial failures could place a greater emphasis on M&A.

Patent expirations: BMY has numerous upcoming patent expirations which began with Revlimid in 2022 and extending to 2026, Pomalyst and Yervoy in 2025, Eliquis in 2026, and Opdivo in 2028 in the U.S. and 2031 in the EU. Revlimid is expected to generate $4.0 bn of sales in 2024 and step down $2.0 bn in 2025. At the time of patent expiry, BMY will be generating $13.2 bn from Eliquis, $7.0 bn and $5.4 bn in the U.S. and EU respectively from Opdivo, $3.2 bn from Pomalyst, and $2.4 bn from Yervoy.

Share repurchase: BMY executed a $4 bn ASR in August 2023. $2 billion remains on share repurchase authorization.

Cardinal Health (CAH) (Underweight; Baa2/BBB/BBB; S/P/P)

CAH is a distributor of pharmaceuticals in the U.S., a global manufacturer and distributor of medical and laboratory products, and a provider of supply-chain and data solutions for health care facilities. We maintain CAH at Underweight as we see continued pressure on the medical business from cost inflation and supply chain constraints. From a distribution perspective, any news regarding Amazon's entrance into the prescription market will negatively impact spreads. Opioid risk remains as we wait to see settlement terms for remaining cases. Cardinal's long-term contract with CVS will provide customer stability and generic sourcing benefits.

Credit strengths: 1) Generic sourcing agreement with CVS, 2) limited competition as CAH is one of three drug distributors in the U.S., and 3) favorable demographic trends.

Credit risks: 1) Negative settlement terms on remaining opioid cases, 2) worsening generic deflation, 3) failure to renew existing distribution contracts, 4) supply chain costs on the medical segment, and 5) risk of Amazon entering the wholesale distribution business.

Key drivers:

Opioid settlement: 46 of 49 eligible states, as well as the District of Columbia and all eligible territories, have agreed to join the opioid settlement. CAH will pay $6.0 bn over 18 years. Separately, CAH has settled with the state of Washington and Oklahoma and now has outstanding cases with Alabama. While the risk is largely behind the company, we await to see the settlement terms for the remaining state and subdivisions.

Contracts: CAH's largest customer, CVS, makes up 25% of revenue and the contract agreement extends until June 2029. The contract with OptumRx, CAH's second largest customer, represents 16% of revenue and expires in June 2024.

Management changes: In conjunction with Q4 2022 earnings, Jason Hollar was named CEO. Since Hollar assumed the new role, the company initiated a medical segment improvement plan targeting $650 mn in segment profit by 2025. Aaron Alt was named CFO. He previously served as CFO of Sysco Corporation.

Supply chains: The medical segment continues to be impacted by disruptions in the global supply chain. There has been a dramatic reduction in international freight costs, while commodity costs have remained elevated. For 2023, inflation had a net $300 mn negative impact ($475 mn of inflation and global supply chain constraints and $175 mn of mitigation initiatives).

Cencora (COR) (Marketweight; Baa2/BBB+/A-; S/S/S)

COR is a pharmaceutical sourcing and distribution services company that offers brand-name and generic drugs, home healthcare equipment, and related supply chain services to healthcare providers in the U.S. and select global markets. We maintain COR at Marketweight due to the continued stabilization of both branded and generic pricing and a return to more normal prescription volumes as we exit the pandemic. We see limited catalysts for spread compression in the near term with COR trading 15 bps behind peer MCK. Any news regarding Amazon's entrance into the prescription market will negatively impact spreads. Opioid risk remains as we wait to see settlement terms for remaining cases. We are constructive on ABC's long-term contract with WBA and deleveraging plan post the acquisition of Alliance Healthcare.

Credit strengths: 1) Generic sourcing agreement with Walgreens, 2) limited competition as ABC is one of three drug distributors in the U.S., 3) favorable demographic trends, and 4) a strong liquidity position.

Credit risks: 1) Negative settlement terms on remaining opioid cases, 2) worsening generic deflation, 3) failure to renew existing distribution contracts, 4) significant share repurchases from WBA's stake in ABC, and 5) threat of Amazon entering the wholesale distribution business.

Key drivers:

Opioid settlement: 46 of 49 eligible states, as well as the District of Columbia and all eligible territories, have agreed to join the opioid settlement. ABC will pay $6.1 bn over 18 years. Separately, ABC has settled with the state of Washington and Oklahoma and now has outstanding cases with Alabama. While the risk is largely behind the company, we await to see the settlement terms for the remaining state and subdivisions.

Contracts: ABC's largest customer, Walgreens, makes up 26% of revenue and the contract agreement extends until 2029. The contract with ESRX, ABC's second largest customer, represents 14% of revenue and expires in September 2026. There are no significant contracts set to expire in the next 12 months.

Drug pricing: On the branded side, 95% of contracts are now fee for service and do not include an inflationary component. Over the last few years due to the pharma industry self-policing, branded inflation has stayed in the mid-single digit range. Generic deflation has stayed consistent in the mid-to-high single digits.

Leverage: Following the acquisition of Alliance Healthcare for $6.5 bn (funded with $2.525 bn of new debt), ABC paid down $1.1 billion of debt in 2022 and paid down the remaining $675 million of debt to reach its pay down target in March. ABC announced the acquisition of PharmaLex in September for €1.28 billion in cash.

Cigna (CI) (Marketweight; Baa1/A-/BBB+; S/S/S)

Cigna is a managed care and pharmacy benefit manager in the U.S. that provides pharmacy solutions, benefits management solutions, care delivery and care management solutions. The company also offers U.S. commercial services, individual health insurance plans, Medicare Advantage, Medicare Supplement and Medicare Part D. We maintain CI at Marketweight. While we expect acquisitions in 2024 to remain smaller in nature due to the antitrust environment in the U.S., the company has expressed interest in larger scale M&A should the environment improve. Cigna's focus on lower growth commercial markets and under penetration in Medicare Advantage puts it at a disadvantage vs. peers, given the integration of ESRX has been completed. On the positive side, CI continues to generate strong cash flow and is committed to a long term 40% leverage target.

Credit Strengths: 1) Scale as the third largest health insurer, 2) unregulated cash flow source from Evernorth, 3) positive market demographics, and 4) strong and stable cash flows.

Credit Risks: 1) Negative regulatory changes, 2) employer market pressure, and 3) lack of market share in Medicare Advantage.

Key Drivers

M&A: Late in 2023, WSJ reported that Cigna was in talks to acquire Humana. As a deal did not come to fruition, Cigna announced a $10 bn increase to its buyback authorization and a focus on bolt-on M&A. Separately, Bloomberg reported that Cigna is in the process of divesting its Medicare Advantage business. While we expect the near-term focus to be on tuck-in deals in the Evernorth services platform, we do not rule out the chance of a larger transformative acquisition as we head into an election year. Cigna has expressed willingness to take leverage to 50% debt/cap and take a one notch downgrade. CI expects to generate CFO of $50 bn from 2022-2026, of which ~70% will be used for share repurchases and M&A.

Utilization: Towards the end of Q2 and into Q3, utilization, particularly among the Medicare population, began to meaningfully pick up. The stronger volumes were primarily focused on outpatient surgeries. The backlog of procedures that were deferred during covid is beginning to get worked through. In Q3, Cigna saw Medicare and individual exchange business utilization in line with expectations, with commercial driving the favorability in MCR. Cigna priced 2023 with the assumption that utilization would return to normal levels.

Evernorth: Cigna owns the second largest PBM in the industry through the purchase of ESRX. Integration is now complete and we expect CI to look to expand into higher growth markets in health services. Evernorth provides an unregulated source of cash flow to deploy towards growth assets.

CVS Health (CVS) (Overweight; Baa2/BBB; S/S)

CVS is a diversified health solutions company with retail, medical clinics, a pharmacy benefits manager, and consumer-directed health insurance products, including Medicare Advantage and Medicare Part D prescription drug plans. We maintain CVS and bonds issued at Aetna Inc. at Overweight. Following the acquisition of Aetna, along with Signify and Oak Street, we see potential for outperformance as the company continues to benefit from its vertically integrated healthcare model. CVS now offers a full suite of healthcare offerings to better compete against the diversified offerings of the other managed care companies. 2024 headwinds (Star ratings and CNC contract loss) will constrain flexibility in the near term, but we believe cash generation and the strength of the balance sheet will allow the company to execute on its strategy. CVS is strongly committed to IG ratings with mid-BBB as the floor and a long-term target range of low 3x. We expect CVS to trade 5-10 bps behind MCO peer Cigna.

Credit Strengths: 1) Positive market demographics, 2) fully integrated health insurer, 3) strong and stable cash flows, and 4) largest U.S. pharmacy chain.

Credit Risks: 1) Amazon entering the healthcare industry, 2) negative regulatory changes, 3) debt funded M&A or buybacks, and 4) pharmacy reimbursement pressure.

Key Drivers

M&A: CVS completed the acquisition of Signify (home health) in March, funding the transaction with $6 bn of new debt. In May, CVS closed the acquisition of Oak Street Health (primary care) for $10.6 bn, funding with $5 bn of new debt. We expect the company to remain acquisitive going forward, however, with a focus on smaller sized deals.

2024 headwinds: Going into 2024, CVS faces four key headwinds: loss of 4 star position, the CNC PBM contract loss, changes to the 340B program, and a more rapid decline in the covid contribution. While previously pointing to buybacks to offset these headwinds, CVS has laid out a new plan to mitigate the headwinds. The components include G&A savings ($400-$500 mn), Oak Street and Signify growth (adding 10-15 cents to earnings), biosimilars, and the expanded exchange business.

Primary care/home health strategy: At its investor day in 2021, CVS highlighted primary care as a key growth pillar for the company going forward. CVS is looking to build out a network of physician-led primary care centers with integrated virtual and home health assets. The acquisition of Signify Health satisfies both home health and provider enablement. The OSH acquisition will provide an initial Primary Care network. We see this as a positive strategic focus due to the continued success of Optum's OptumCare unit.

Quest Diagnostics (DGX) (Underweight; Baa2/BBB+/BBB; P/S/P)

DGX is a provider of diagnostic information services with clinical and pathology testing through a nationwide network of laboratories and IT solutions. We maintain DGX at Underweight as we see limited catalysts for spread compression in the near term. Coming off two years of significant benefit from covid testing, we see leverage trending back up to historical levels. While we do see covid testing remaining durable, it will be at a much lower level than what we have seen recently. Bolt-on M&A should pick up this year as cash balances remain at peak levels and Medicare reimbursement cuts are set to resume next year. The total U.S. lab market is about $85 billion and DGX owns 9% market share. DGX owns 24% of the $28 billion independent lab market.

Credit strengths: 1) Solid demographic tailwinds, 2) significant scale owning 24% of the $28 bn independent lab market, and 3) low leverage.

Credit risks: 1) Slower recovery of base business testing, 2) reimbursement risk, and 3) disruption in clinical trial market.

Key drivers:

M&A: Coming off strong cash flow generation years from the pandemic, we expect the company to look at further opportunities for M&A this year. The focus will be on Regional independent labs (Labtech diagnostics), hospital outreach (New York Presbyterian), and capability building assets (Blueprint Genetics). If business development deals do not meet the ROIC threshold, cash will be used to buy back shares.

Leverage: DGX ended the quarter at 2.7x gross leverage. On a long-term basis, DGX maintains a leverage target of 2.5x.

Management changes: James Davis and Sam Samad were named CEO and CFO as the company enters its next phase coming out of covid. Davis has been with DGX since 2013 and previously oversaw the general diagnostics business. Sam Samad was formerly the CFO of Illumina. We do not anticipate material changes to the company's strategy.

Elevance (ELV) (Overweight; Baa2/A/BBB; S/S/S)

ELV is a managed care organization with offerings to individual, group, Medicaid, and Medicare markets. It also operates as an independent licensee of the Blue Cross and Blue Shield Association in 14 states. It has four reportable segments: Health Benefits, CarelonRx, Carelon Services, and Corporate & Other. We maintain Elevance at Overweight as we see a low likelihood of large-scale M&A and expect ELV to trade 10 bps inside of CI and 20 bps wide of UNH. We are constructive on the company's creation of their PBM and non-insurance business, Carelon, but still see time before ELV can realize the full benefit of integration.

Credit Strengths: 1) Scale as second largest health insurer, 2) in house PBM through the launch of CarelonRx, 3) positive market demographics, and 4) strong and stable cash flows.

Credit Risks: 1) Negative regulatory changes, 2) quicker than expected rebound in utilization, and 3) employer market pressure.

Key Drivers

Medicare rate cut: CMS finalized a 1.1% cut to Medicare Advantage rates for 2024. While the rate was lower than the 5% increase last year, the final notice came in better than the initial proposal of a 2.3% cut. The rate increase last year was a clear signal of the bipartisan support for MA. Medicare Advantage makes up approximately 30% of ELV membership.

Utilization: Towards the end of Q2 and into Q3, utilization, particularly among the Medicare population, began to meaningfully pick up. The stronger volumes were primarily focused on outpatient surgeries. The backlog of procedures that were deferred during covid is beginning to get worked through. Full year MLR will be at the high end of the range as utilization trends continue to normalize.

Carelon growth: ELV's non-insurance business, Carelon, is made up of Analytics and Insights, Behavioral health, Care delivery and Enablement, and Pharmacy (CarelonRx). By 2027, management expects Carelon to make up 30% of operating earnings. This new strategy, which brought its PBM business in house in 2019, allows ELV to better compete with the rest of the managed care space that has established PBMs. Carelon will provide an unregulated source of cash flow to deploy towards growth assets.

Gilead (GILD) (Underweight; A3/BBB+; S/P)

Gilead is a biopharmaceutical company that discovers, develops, and commercializes therapies for life-threatening diseases including HIV/AIDS, covid, liver diseases, hematology/oncology/cell therapy, virology, and inflammation. We maintain GILD at Underweight on valuation vs peers at current levels. While GILD maintains the dominant position in HIV, we see M&A becoming a bigger part of the story if the oncology platform does not come to fruition. Gilead does not maintain a leverage target but remains strongly committed to IG ratings.

Credit strengths: 1) Strong EBITDA margins, 2) track record of delevering post M&A, and 3) leading position in HIV.

Credit risks: 1) Pipeline failures, 2) large debt funded acquisitions, 3) negative patent rulings, and 4) drug price reform legislation.

Key drivers

Pipeline: The acquisition of Immunomedics for $21 bn brought in Trodelvy, an antibody-drug conjugate designed to treat various types of cancers. The drug is currently approved to treat breast cancer and bladder cancer. There are several phase 3 trials for additional indications ongoing. Trodelvy sales are expected to reach $3.5 bn in 2028. Yescarta (cell therapy) is another significant long-term driver for the company. Currently approved to treat large B-cell lymphoma with multiple trials for indications across phase 2-3, sales are estimated to reach ~$2.6 bn by 2028.

Patent Expiries: In September, GILD entered into agreements with generic manufacturers to grant a non-exclusive license in the U.S. to the company's patents on Descovy and Vemlidy beginning on October 31, 2031, and to Odefsey beginning on January 31, 2032.

HIV franchise: Gilead owns approximately 75%-80% of the U.S. HIV market. The company's leading product, Biktarvy, is a once-daily pill and generates $12 bn of yearly sales (40% of total sales). This franchise currently makes up ~60% of GILD sales and has concentration risk compared to peers.

M&A: Management has stated they do not expect to execute deals with the size or pace of the last few years, however, if the pipeline is delayed, we could see M&A being used as a growth contributor to achieve the company's goal of having its heme/onc assets make up 1/3 of total sales by 2030.

Humana (HUM) (Marketweight; Baa2/BBB+/BBB; S/S/S)

Humana is a managed care organization in the U.S. offering medical and specialty insurance through its two reportable segments: Insurance and CenterWell. It derives a majority of its revenues from contracts with the federal government as it participates in Medicare, Medicare Advantage, Medicare Part D, and Medicaid. We upgrade Humana to Marketweight from Underweight as we see HUM trading at fair value 15 bps back of CI. The company is one of the strongest players in the high growth Medicare Advantage market. Most recently, the Wall Street Journal reported that Cigna was in talks to acquire Humana. While we do not expect M&A activity in the near term, Humana could benefit from takeout potential as more clarity develops from a regulatory standpoint.

Credit Strengths: 1) Strong presence in high growth MA market, 2) positive market demographics, and 3) strong and stable cash flows.

Credit Risks: 1) Negative regulatory changes, 2) debt funded M&A or buybacks, and 3) increased competition on Medicare advantage segment.

Key Drivers

M&A: Given the increased DoJ scrutiny of late, we expect M&A to focus on smaller bolt-ons, not on large scale M&A. The focus for HUM is on home health and primary care assets. In late 2023, WSJ reported that Cigna was in talks and ultimately ended the process to acquire Humana. As we get more clarity from an election and DoJ standpoint we could see these talks resume again given the value proposition Humana provides with its Medicare Advantage population.

Medicare rate cut: CMS finalized a 1.1% cut to Medicare Advantage rates for 2024. While the rate was lower than the 5% increase last year, the final notice came in better than the initial proposal of a 2.3% cut. The rate increase last year was a clear signal of the bipartisan support for MA. Medicare Advantage makes up approximately 45% of HUM membership.

Kindred: HUM completed the $5.7 bn acquisition of Kindred at Home on August 17th. KAH brought 43,000 caregivers providing home health and community care services to over 550,000 patients annually. HUM divested a 60% stake in KAH Hospice in exchange for $2.8 bn in cash. The majority of proceeds were used to pay down debt.

Utilization: In Q2, utilization, particularly among the Medicare population meaningfully picked up. HUM experienced higher than expected outpatient surgeries as well as stronger inpatient volumes. HUM previously expected this elevated level of care to stabilize in Q3, however, volume levels continued into Q3 and are now expected to remain elevated into 2024. Q3 MBR was 40 bps higher than expectations. Should this level of care continue well into 2024, HUM will experience a headwind as 2024 pricing assumed a stabilization of utilization.

Laboratory Corp of America (LH) (Underweight; Baa2/BBB; S/S)

LH is a clinical laboratory company providing a comprehensive menu of core and specialty tests through an integrated network of primary and specialty laboratories across the U.S. We remain Underweight on LH as we see limited catalysts for spread compression in the near term. Coming off two years of significant benefit from covid testing, we see leverage trending back up to historical levels. Bolt-on M&A should pick up this year as cash balances remain at peak levels and Medicare reimbursement cuts are set to resume next year.

Credit strengths: 1) Solid demographic tailwinds, 2) significant scale owning 22% of the $28 bn independent lab market, 3) low leverage, and 4) customer and geographic diversification.

Credit risks: 1) Slower recovery of base business testing, 2) reimbursement risk, and 3) disruption in clinical trial market.

Key drivers:

Drug Development spin: LH completed the spin-off of its Drug Development business, Fortrea, in July. The segment generated $5.7 bn of sales in 2022. Labcorp received a cash distribution of ~$1.6 bn in connection with the spin-off. LH used these proceeds toward a $1.0 bn accelerated share repurchase program and paying down $300 mn of debt maturing in 2023, with the remaining funds to be returned to shareholders through additional future share repurchases and/or cash dividends.

M&A: Coming off two strong cash flow generation years from the pandemic, we expect the company to look at further opportunities for M&A. The focus will be on smaller acquisitions of hospital or regional labs.

Leverage: LH ended the quarter at 2.7x gross leverage. On a long-term basis, LH maintains a target leverage range of 2.5x-3.0x.

McKesson (MCK) (Marketweight; Baa1/BBB+/A-; P/S/S)

McKesson is a pharmaceutical drug distributor that provides supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information solutions. We maintain MCK at Marketweight due to superior cash generation compared to peers in the distribution space. The divestiture of the European business will enable the company to focus on the core business and allocate capital towards bolt-on M&A. Despite the strength of the balance sheet, we do see risks from a spread perspective on any news regarding Amazon's entrance into the prescription market.

Credit strengths: 1) Generic sourcing agreement with WMT, 2) limited competition as MCK is the largest of the three drug distributors in the U.S., 3) strong cash flow generation, and 4) favorable demographic trends.

Credit risks: 1) Negative settlement terms on remaining opioid cases, 2) worsening generic deflation, 3) failure to renew existing distribution contracts, and 4) prospect of Amazon entering the wholesale distribution business.

Key drivers:

Opioid settlement: 46 of 49 eligible states, as well as the District of Columbia and all eligible territories, have agreed to join the opioid settlement. MCK will pay $7.4 bn over 18 years. Separately, MCK announced settlements with Alabama, Washington State, and Oklahoma. While the risk is largely behind the company, we await to see the settlement terms for the remaining subdivisions.

Contracts: MCK's largest customer, CVS, makes up 27% of revenue and the contract agreement was recently extended until June 2027. Sales to the ten largest customers make up 68% of sales.

Drug pricing: On the branded side, 95% of contracts are now fee for service and do not include an inflationary component. Over the last few years due to the pharma industry self-policing, branded inflation has stayed in the mid-single digit range. Generic deflation has stayed consistent in the mid-to-high single digits.

Divestitures: MCK currently has agreements in place to exit 11 of 12 countries in Europe and remains on track to divest Norway. These portfolio changes will allow the company to focus on more profitable segments of the business. Proceeds from the sale will be used for share repurchase and bolt-on M&A.

Medtronic (MDT) (Marketweight; A3/A; S/S)

Medtronic is a medical technology, services, and solutions company that primarily develops, manufactures, and sells device-based medical therapies and services. It has four reportable segments: cardiovascular, medical surgical, neuroscience, and diabetes. We maintain MDT bonds at Marketweight on continued supply chain pressure, specifically semi-conductor procurement, and await to hear results from the ongoing portfolio review. Since the Covidien acquisition in 2014, management has taken a conservative stance when looking at M&A and focused primarily on tuck-in deals. With a robust pipeline of assets, we see the focus on execution and development rather than transformational M&A. The ongoing portfolio review could provide opportunities for the company to prune underperforming segments and focus more on higher growth areas of the business.

Credit strengths: 1) Leading position in cardiology, 2) conservative financial policies, 3) low leverage, and 4) strong cash balance.

Credit risks: 1) Supply chain pressures, 2) further delays in surgical procedures from staffing shortages, and 3) product recalls or litigation.

Key drivers

Portfolio review: MDT continues to evaluate all segments to determine their value and fit within the company. While it remains unclear whether any changes will be significant or limited in scale, we do expect to see changes in the near future to improve the overall company growth rate. As a beginning step, MDT announced the separation of the company's Patient Monitoring and Respiratory Interventions businesses. Both businesses generated a combined $2.2 bn of sales in 2022.

GLP-1 utilization: The impact from increased GLP-1 utilization on Medtronic will be seen in both bariatric surgeries and diabetes. We expect bariatric surgeries to see the biggest negative impact as both doctors and patients will be reluctant to seek a surgical procedure given the efficacy GLP-1s have shown in treating obesity. MDT management expects to see a return to volume growth in calendar year 2025. There will be a less significant impact to the diabetes segment as the majority of customers are type-1 diabetics with only 10% of the installed base in type -2.

Supply chains/Inflation: Across the med device industry, companies are facing challenges in accessing electronic components, resins, and other input materials along with dealing with elevated freight and shipping costs. While inflation on raw materials has improved year over year, costs still remain higher than historical levels.

M&A strategy: Since 2014, the company has executed $6 bn of M&A, with the largest deal being Mazor for $1.2 bn. While we expect the focus to remain on tuck-in deals, we do think there is greater urgency and desire to pursue acquisitions. CEO Geoff Martha noted that the pipeline for deals remains robust. From a size standpoint, the company is targeting mid-single digit billion dollar and below acquisitions.

Pfizer (PFE) (Marketweight; A2/A/A; S/S/S)

Pfizer develops, manufactures, and markets biopharmaceutical products worldwide. Its key therapeutic areas are vaccines, oncology, internal medicine, hospital, inflammation & immunology and rare disease. We maintain PFE at Marketweight. Following the unprecedented growth the company has experienced from covid vaccine and treatment development, Pfizer now must shift the focus toward ex-covid growth and pipeline development. PFE utilized its strong balance sheet to spend approximately $60 billion on acquisitions over the last three years. We expect the company to remain acquisitive as it continues towards its goal to add $25 billion of revenue by 2030. In the near term, we expect Pfizer to trade 20-25 back of Merck as the long-term strategy continues to develop.

Credit strengths: 1) Significant cash generation, 2) covid vaccine, booster, and treatment sales, 3) low leverage, and 4) limited patent expiries from 2023-2025.

Credit risks: 1) Pipeline failures, 2) large debt funded acquisitions, 3) negative patent rulings, and 4) drug price reform legislation.

Key drivers

M&A strategy: Management's goal is to generate $25 bn of additional revenue by 2030 through business development. Deals that have already been announced achieve $20.5 bn of that goal. Most recently, PFE closed the acquisition of Seagen for $43 bn (funded with $31 bn of new debt). Focus areas for M&A include internal medicine, rare diseases, vaccines, oncology, and inflammation & immunology. With a gap of ~$5 bn of additional revenue, we expect PFE to remain acquisitive with a focus on small to medium sized deals.

Covid franchise: For 2024, Pfizer expects combined Comirnaty (Covid vaccine) and Paxlovid (Covid therapy) sales of $8 bn, down from $12.5 bn in 2023. While we expect demand to diminish, we do see a smaller durable covid franchise should an annual booster be recommended and additional variants arise.

Patent Expiries: PFE upcoming patent expirations include Xeljanz (U.S.) in 2025, Eliquis and Vyndaqel (ex-U.S.) in 2026, Ibrance (U.S.) and Xtandi in 2027. At the time of patent expiry, Xeljanz will be generating $1.5 bn, Vyndaqel $4.4 bn, Ibrance $4.5 bn, and Xtandi $1.4 bn.

Stryker (SYK) (Underweight; Baa1/BBB+; S/S)

Stryker is a global medical technology company with two reportable segments: MedSurg & Neurotechnology and Orthopedics & Spine. Its products include implants used in joint replacements and trauma surgeries, surgical equipment, emergency medical equipment, intensive care disposable products, and neurosurgical and neurovascular devices. We maintain Stryker at Underweight on tight valuations. Through a successful bolt-on M&A strategy, SYK has achieved category leadership in every market it competes in. That strategy is centered around levering up for larger acquisitions and not executing M&A until leverage targets are hit. As utilization is continuing to improve, SYK is benefitting from the backlog work through, however, supply challenges remain the limiting factor. Compared to ZBH, Stryker's 50% exposure to elective procedures is much lower, which will provide offsets should additional covid variants arise. We are constructive on the company's growth prospects and market trends, however, tight trading levels will limit upside in our view.

Credit strengths: 1) Leading position in orthopedics and medsurg, 2) consistent M&A playbook, and 3) strong cash flow generation.

Credit risks: 1) Supply chain pressures, 2) any delays in surgical procedures from staffing shortages, and 3) product recalls or litigation.

Key drivers

M&A strategy: Since 2014, the company has executed $15 bn of M&A, with the largest deal being Wright Medical for $5 bn in 2019. Over that time, SYK has followed a similar strategy of levering up for larger deals ($2-$5 bn) and waiting until leverage targets are hit before executing the next deal. As SYK reached its leverage target at the end of 2023, following the acquisition of Vocera ($3.09 bn), we expect 2024 will be a return to larger M&A for the company.

Utilization: In Q2, utilization, particularly among the Medicare population, meaningfully picked up and continued into Q3. Orthopedic and cardiac procedures increased most significantly. While the backlog of procedures that were deferred during covid has started to get worked through, SYK expects elevated orthopedic procedural demand to persist well into 2024.

GLP-1 utilization: For companies tied to orthopedic procedures we see both near and longer term tailwinds to growth from increased GLP-1 usage. In the near term, the funnel for eligible patients will increase as 10%-12% of patients in need of a joint replacement cannot have a procedure performed due to an elevated BMI. Longer term, SYK will benefit as patients become more active and longevity increases, leading to a greater chance of needing a joint replacement.

Mako: The current installed base of Mako robots is over 1,500 and 60% of knee procedures were done using Mako. On the hip side, 30% of procedures use Mako. Despite competition from ZBH and JNJ, we see Mako continuing to drive growth for SYK as surgeon education continues and the market outside of the U.S expands.

Thermo Fisher Scientific (TMO) (Overweight; A3/A-/A-; S/S/S)

TMO is a diversified life sciences company that offers a portfolio of products, instruments, software and services used in biological and medical research. We maintain TMO at Overweight on strong fundamentals and positive long term growth dynamics in major end markets. We are constructive on the PPD (CRO) acquisition as it further expands TMO's already significant presence in biopharma and expands its customer base. The company will remain active buyers, however, management has a strong commitment to target leverage of 2.75x which the company has consistently met after levering up for larger acquisitions. The recent ratings upgrades are evidence that the agencies are now more comfortable with the company's long-term M&A strategy. Headwinds from China and macroeconomic impacts to the pharma and biotech segment will affect the company in 2024.

Credit strengths: 1) Leading position in life sciences, 2) strong cash flow generation, 3) high level of recurring revenue, and 4) consistent track record of delevering post acquisitions.

Investment risks: 1) Supply chain pressures, 2) deal integration, 3) leveraging M&A, and 4) macroeconomic pressure in China.

Key drivers

China: TMO derives 8% of sales from China, compared to 53% from the United States. Sales were down high single digits in the quarter. Economic activity significantly slowed in 2023 and TMO expects current conditions to be in place for at least the first half of 2024. We continue to positively view the growth prospects in China, but the decline in biotech spending and geopolitical tension will have an outsized impact on TMO in the near term compared to its peers.

Pharmaceutical and Biotech end market: The pharma and biotech market is the largest end market for Thermo Fisher making up 50% of sales. Coming off multiple years of significant growth during the pandemic, the macroeconomic environment has begun to impact capex spending in the pharma segment. Sales declined 1% in the quarter due to the covid runoff and customer spending caution. On a long-term basis, we are constructive on the significant tailwinds for pharma growth, however, near term uncertainty will limit outsized growth in the segment.

M&A strategy: TMO is one of the most acquisitive companies in the sector. Since 2014, the company has executed $40 bn of M&A with the largest deals including PPD ($20 bn), Patheon ($7 bn), and FEI ($4 bn). Going forward, we expect TMO to remain acquisitive, looking at deals of all sizes as the life science industry remains heavily fragmented and the pipeline for deals remains strong.

Supply chains/Inflation: Across the med device industry, companies are facing challenges in accessing electronic components, resins, and other input materials along with dealing with elevated freight and shipping costs. Through a series of pricing actions, TMO has been able to achieve no net impact from inflation.

UnitedHealth Group (UNH) (Overweight; A2/A+/A; S/S/S)

UNH is a managed care organization offering a full range of healthcare benefits and services. including Medicare and Medicaid. It has four reportable segments: Optum Health, Optum Insight, Optum Rx and UnitedHealthcare. We maintain UNH at Overweight. The company is the clear bellwether in the space and benefits from its fully integrated healthcare model. We see Optum continuing to be the growth driver for the business as the buildout of the physician and home health network is still underway.

Credit Strengths: 1) Clear leader in managed care, 2) industry best PBM business, 3) strong presence in high growth MA market, 4) positive market demographics, and 5) strong and stable cash flows.

Credit Risks: 1) Negative regulatory changes, 2) employer market pressure, and 3) leveraging M&A.

Key Drivers

M&A: Following the recent acquisitions of Change Healthcare ($9 bn of new debt) and LHC Group ($6.5 bn of new debt), we see UNH remaining acquisitive with the focus on tuck-ins for Optum. In June, UNH announced the acquisition of Amedisys for $3.4 bn. We expect UNH to issue $5 bn to fund Amedisys. UNH noted there is no change in their ability to execute M&A, but closing times have increased. The pipeline for deals is larger than the company has seen historically, management noted.

Medicare rate cut: CMS finalized a 1.1% cut to Medicare Advantage rates for 2024. While the rate was lower than the 5% increase last year, the final notice came in better than the initial proposal of a 2.3% cut. The rate increase last year was a clear signal of the bipartisan support for MA. Medicare Advantage makes up approximately 13% of UNH membership.

Utilization: Care patterns remained stable from the second quarter, still led by outpatient activity for seniors in orthopedic and cardiac procedure categories. The backlog of procedures that were deferred during covid are beginning to get worked through. There were no significant changes to acuity levels. UNH expects full year 2024 MCR to be 84% +/- 50 bps.

Optum: UNH has built Optum into a $73 bn business growing in the mid-teens annually. Growth is led by OptumHealth which provides local primary, in-home, specialty, surgical and urgent care to over 103 million customers. The segment employs over 130,000 physicians and advanced practice clinicians. We expect Optum growth to remain consistent as integration between Optum and UnitedHealthcare remains a top priority for management.

Zimmer Biomet (ZBH) (Marketweight; Baa2/BBB/BBB; S/S/S)

Zimmer Biomet manufactures and markets orthopedic reconstructive products, sports medicine, biologics, extremities and trauma products, and related surgical products. We maintain Zimmer at Marketweight as we see limited catalysts for spread compression in the near term. With over 80% of revenues tied to elective surgeries, ZBH lags peer Stryker in diversification. As utilization is continuing to improve, ZBH is benefitting from the backlog work through, however, supply challenges remain the limiting factor. Following significant debt paydown throughout the pandemic, ZBH brought leverage down to five year lows and ended the quarter at 2.3x. We see ZBH returning to the M&A market this year as new CEO Ivan Tornos has expressed further urgency to explore business development deals.

Credit strengths: 1) Leading position in both hip and knee replacements, 2) conservative financial policies, and 3) commitment to debt pay down.

Credit risks: 1) Supply chain pressures, 2) any delays in surgical procedures from staffing shortages, 3) exposure to China VBP, 4) exposure to elective procedures, and 5) product recalls or litigation.

Key drivers

CEO change: ZBH named Ivan Tornos CEO in August following the departure of Bryan Hanson. Previously, Mr. Tornos served as COO of Zimmer since 2021. We are not expecting to see a significant change in strategy, however there may be a greater focus on business development deals in the near term.

Utilization: In Q2, utilization, particularly among the Medicare population, meaningfully picked up and continued into Q3. Orthopedic and cardiac procedures increased most significantly. While the backlog of procedures that were deferred during covid has started to get worked through, the tailwind to growth will persist into 2024.

M&A: Following significant delevering, ZBH has begun to take a more focused look at M&A. In the near term, management is mainly targeting smaller to mid-sized deals (up to $2 billion). The focus areas for M&A in order of priority are orthopedics, high growth areas of SET and CMFT, and alternate sites of care.

GLP-1 utilization: For companies tied to orthopedic procedures we see both near and longer term tailwinds to growth from increased GLP-1 usage. In the near term, the funnel for eligible patients will increase as 10%-12% of patients in need of a joint replacement cannot have a procedure performed due to an elevated BMI. Longer term, ZBH will benefit as patients become more active and longevity increases, leading to a greater chance of needing a joint replacement.

Leverage: ZBH drove leverage down during the pandemic, paying down $900 mn of debt in 2021 and $1.1 bn in 2022. The company was upgraded to Baa2 from Baa3 by Moody's in May of 2023.

Zoetis (ZTS) (Overweight; Baa1/BBB; S/S)

ZTS is the largest and most diversified company in the animal health industry. We maintain Zoetis at Overweight. The company markets and sells a vast portfolio of drugs and vaccines to both the Companion Animal (dogs, cats, and horses) and Livestock (cattle, swine, poultry, and fish) segments. The animal health industry, which grows 4%-6% per year, benefits from human population growth, a growing middle class, and increases in disposable income.

Credit strengths: 1) Diverse business model, 2) stable leverage profile, 3) lack of a strong generic market, 4) ample liquidity, 5) solid credit ratings, and 6) minimal drug price regulation risk.

Credit risks: 1) Infectious disease outbreaks (African Swine Fever, avian flu), 2) a growing plant-based protein market, and 3) a more robust pet insurance market.

Key drivers

M&A: While we expect Zoetis to remain acquisitive, we do not foresee the company pursuing a large transformational deal for a number of reasons. First, the size of the company would make it challenging from an antitrust perspective to execute a consolidating transaction with one of its larger competitors. Additionally, following the Abaxis deal, management noted that they do not see the need for a large deal as they have very few capability gaps.

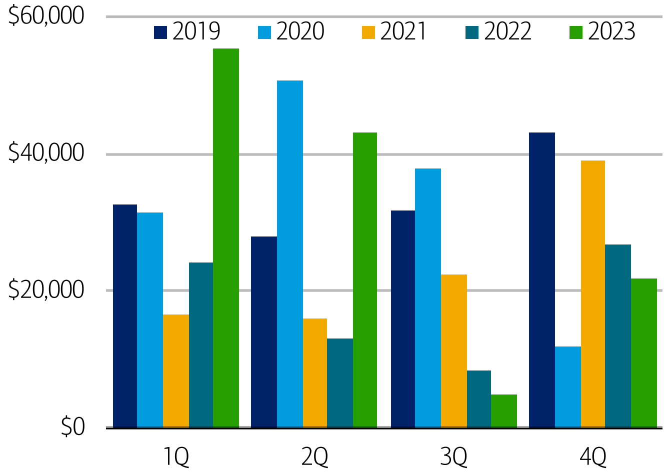
Companion animal growth: Pet ownership in the U.S. has seen strong growth as a result of the pandemic. As of 2021, 67% of American households owned a dog or cat, this is up from 56.8% in 2016. While the number of vet clinic visits has come down in recent quarters, the total number is still above pre-pandemic levels. Spend per vet visit has continued to increase. We expect new product launches in pain and Simparica Trio to continue to drive growth in companion animal.

Pain category: The current market for pain is ~$400 mn for dogs and ~$100 mn for cats. Through the development and launch of Solensia and Librela, ZTS expects to be able to grow both markets to $900 mn and $200 mn. Librela is currently the number one osteoarthritis pain product in Europe and 40% of dogs using the product are new to the category. The U.S. FDA approved Librela in May, with full launch in November.

2024 supply forecast: $130 billion

We forecast 2024 IG healthcare bond supply of $130 billion. In 2023, the sector priced $125 billion of issuance. Our supply calculation for 2024 takes into account the expected funding for M&A and spins that have been announced but are pending financing at this writing, funding for $60 billion of bonds maturing in 2024, and funding for GCP.

Exhibit 8: IG Healthcare supply 2019-2023
$125 bn of new issue supply was priced in 2023.



Source: Company reports, Bloomberg

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Exhibit 9: IG Healthcare Supply 2012-2023
$125 bn of debt was issued in 2023 vs. $72 bn in 2022.

	1Q	2Q	3Q	4Q	Total
2012	$5,725	$13,250	$24,135	$27,150	**$70,260**
2013	$18,258	$20,023	$8,100	$11,440	**$57,821**
2014	$16,613	$21,500	$10,200	$47,597	**$95,910**
2015	$57,011	$34,700	$43,383	$15,060	**$150,154**
2016	$24,931	$49,507	$54,293	$34,838	**$163,568**
2017	$26,950	$31,292	$15,569	$21,450	**$95,261**
2018	$63,192	$15,911	$41,337	$22,239	**$142,679**
2019	$32,734	$27,830	$31,668	$43,113	**$135,345**
2020	$31,368	$50,764	$37,999	$11,750	**$131,880**
2021	$16,487	$15,883	$22,485	$39,136	**$93,991**
2022	$24,227	$12,956	$8,299	$26,827	**$72,309**
2023	$55,318	$43,000	$4,950	$21,890	**$125,159**

Source: Company reports, Bloomberg

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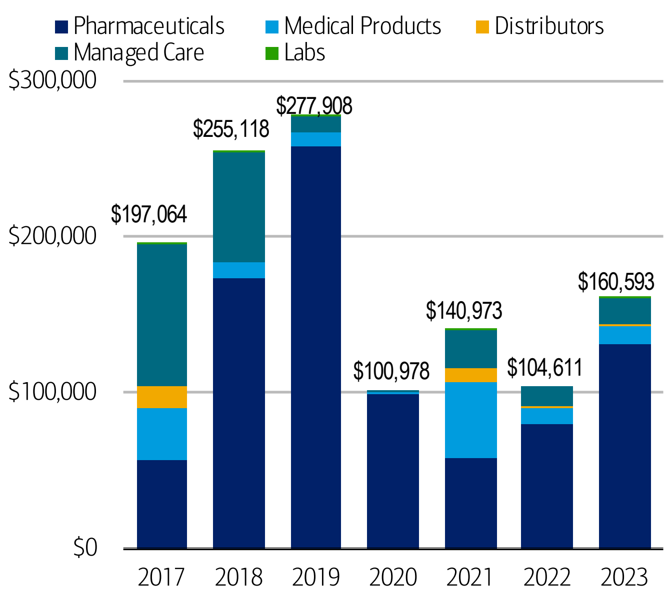
Return of Healthcare M&A in 2024

In 2023 the sector announced $161 billion of M&A, versus $105 billion in 2022 and $141 billion in 2021. Coming off three relatively muted years, we expect M&A to pick up in 2024. While the overhang from increased FTC scrutiny remains, management teams are now more confident in the ability to close transactions.

Exhibit 10: Announced M&A Transactions by Year
$161 billion of M&A was announced in 2023.



Source: BofA Global Research

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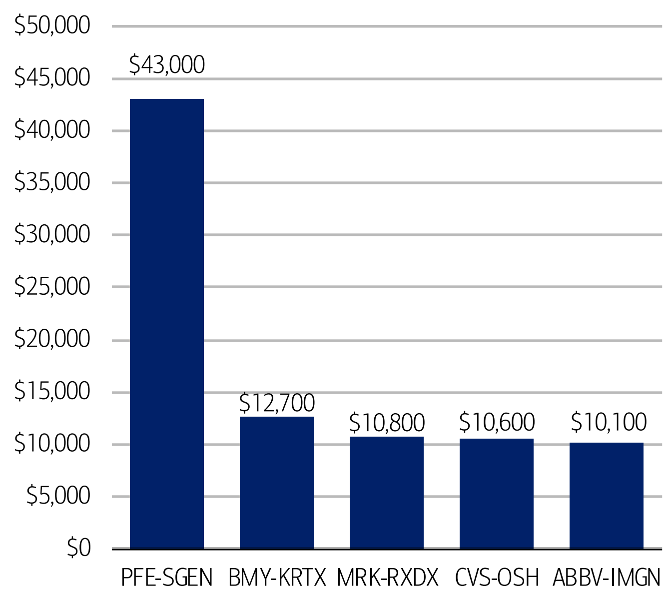
Exhibit 11: 2023 Largest Announced M&A Transactions
The largest M&A transaction in 2023 was PFE acquiring SGEN for $43 bn.



Source: BofA Global Research

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Healthcare Policy & Regulatory Outlook

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FY2024 Government Funding

As we begin 2024, Congress still needs to address FY2024 government funding to avoid a potential a government shutdown, as we approach the next deadline of January 19, 2024. From a healthcare perspective, the good news is that Medicare and Medicaid payments are not impacted by a government shutdown. However, other agencies, including NIH, FDA, CDC and others would be impacted if Congress is unable to reach agreement by January 19 (or February 2, the next looming deadline). Congress was able to avoid a government shutdown on November 17 with a Continuing Resolution (CR) to fund the government through January 19 (and February 2). The bill also provided funding for Community Health Centers and delayed pending Medicaid Disproportionate Share (DSH) payment cuts to hospitals, but, only until January 19. When Congress returns in early January, it will need to find an agreement on government funding quickly, either through another short-term CR, or potentially look at a year-long Continuing Resolution to fund the government through the remainder of FY2024.

Implementation of IRA Drug Pricing Reforms

CMS continues to move forward with implementation of the Inflation Reduction Act (IRA), and its Medicare drug price negotiation process. In August, CMS announced the selection of the first 10 Medicare Part D drugs for negotiation. In total, CMS notes that the 10 selected Medicare Part D drugs accounted for more than $50 billion in gross Medicare Part D drug spending from June 2022 through May 2023. These 10 drugs represent roughly 20% of gross Medicare spend. CMS estimates that “over 8 million” Medicare beneficiaries used the 10 selected drugs, with 3.5 million beneficiaries taking Eliquis, and 1.3 million taking Jardiance and 1.3 million taking Xarelto. CMS also notes that out-of-pocket spending for these 10 drugs ranged from $261 per enrollee for NovoLog to a high of $6,497 per enrollee for Imbruvica.

With the selection of the first 10 Medicare Part D drugs for negotiation, drug manufacturers signed agreements to participate in the negotiation program and submit information on the drugs in October. CMS held public listening sessions for each drug in October and November. CMS will send its initial drug pricing proposal to manufacturers, along with justification for its price by February 1, 2024, and companies will then have 30 days to respond. Additional negotiation meetings will then take place in the spring and summer 2024, with the negotiation period ending on August 1, 2024. CMS will then release the final payment amounts for each drug by September 1, 2024.

Exhibit 12: CMS 10 Medicare Part D Drugs Selected for Inflation Reduction Act Drug Price Negotiation, for Price Applicability Year 2026
These 10 drugs represent roughly 20% of Medicare Part D drug spending

Brand Name	Generic Name	Drug Manufacturer	Conditions	2020 Medicare Part D Gross Drug Spending ($Billion)	2021 Medicare Part D Gross Drug Spending ($Billion)	Medicare Part D Gross Drug Spending from June 2022-May 2023 ($Billion)	Number of Medicare Part D Enrollees Using the Drug
Eliquis	Apixaban	BMS	Prevention and treatment of blood clots	$9.9	$12.6	$16.5	3,706,000
Jardiance	Empagliflozin	Boehringer Ingelheim	Diabetes; Heart failure	$2.4	$3.7	$7.1	1,573,000
Xarelto	Rivaroxaban	Janssen Pharma.	Prevention and treatment of blood clots	$4.7	$5.2	$6.0	1,337,000
Januvia	Sitagliptin phosphate	Merck Sharp & D	Diabetes	$3.9	$4.1	$4.1	869,000
Farxiga	Dapagliflozin Propanediol	Astrazeneca	Diabetes; Heart failure; chronic kidney disease	$0.7	$1.4	$3.3	799,000
Entresto	Sacubitril/Valsartan	Novartis	Heart failure	$1.2	$1.7	$2.9	587,000
Enbrel	Etanercept	Amgen	Rheumatoid arthritis; Psoriasis	$2.2	$2.4	$2.8	48,000
Imbruvica	Ibrutinib	Pharmacyclics	Blood Cancers	$3.0	$3.2	$2.7	20,000
Stelara	Ustekinumab	Janssen Biotech	Psoriasis; Psoriatic arthritis; Crohn's disease; Ulcerative colitis	$1.1	$1.6	$2.6	22,000

Exhibit 12: CMS 10 Medicare Part D Drugs Selected for Inflation Reduction Act Drug Price Negotiation, for Price Applicability Year 2026
These 10 drugs represent roughly 20% of Medicare Part D drug spending

Brand Name	Generic Name	Drug Manufacturer	Conditions	2020 Medicare Part D Gross Drug Spending ($Billion)	2021 Medicare Part D Gross Drug Spending ($Billion)	Medicare Part D Gross Drug Spending from June 2022-May 2023 ($Billion)	Number of Medicare Part D Enrollees Using the Drug
Fiasp; Fiasp FlexTouch; Fiasp PenFill; NovoLog; NovoLog FlexPen; NovoLog PenFill	Insulin Aspart (Niacinamide)	Novo Nordisk	Diabetes	$2.5	$2.4	$2.6	777,000
Total				$31.5	$38.2	$50.5	9,738,000

Source: CMS, BofA Global Research

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Continued Legal Challenges to IRA Drug Price Negotiations - Manufacturers of the ten selected drugs have filed lawsuits challenging the drug price negotiation provisions of the IRA. Drug manufacturers highlight several Constitutional and administrative challenges to the law, including first amendment (free speech); fifth amendment (due process and uncompensated takings); eighth amendment (excessive fines); and Administrative Procedures Act issues. In AstraZeneca's case (filed in Delaware), the Judge has laid out a timeline that includes filings through early January, with oral argument targeted for January 31, and potential decision in March 2024. The other legal challenges may take longer to play out over the course of 2024.

Inflationary rebates for Medicare Part B and Part D – New inflationary caps took effect for Part D, for the 12-month period beginning October 1, 2022, with HHS notifying manufacturers of required rebates no later than 9 months after the end of this period (i.e., July 1, 2024). For Part B drugs, the inflationary caps took effect for each quarter beginning January 1, 2023, with HHS notifying manufacturers of the required rebate no later than 6 months after the end of each calendar quarter. However, HHS has noted that it can delay the reporting of Part B rebates for 2023 and 2024 until September 2025; and for the first two years of Part D rebates until December 2025.

HHS reports that for 2023, a total of 47 drugs had adjusted coinsurance rates based on inflation-adjusted payment amounts.

On December 14, CMS released revised guidance on the Medicare Part B and Part D drug rebate programs. The guidance provides additional detail on the calculation of rebates owed to Medicare for Medicare Part B and Part D drugs that exceed inflationary drug price increases. The revised guidance focuses on the determination of rebate reduction amounts for drugs in drug shortages, severe supply chain disruption, or likely to be in shortage, and reporting the 340B modifier for the Part B inflation rebates. CMS also released an updated list of 48 Medicare Part B drugs that triggered inflation rebates and will result in lower cost-sharing for beneficiaries in the 1st quarter of 2024. This is an increase from 34 Medicare B drugs subject to the inflationary rebates as calculated in in the previous quarter.

Exhibit 13: Medicare Part B Drugs with Adjusted Coinsurance Based on Inflationary Rebates
Number of Part B Drugs subject to Inflationary Rebates has Increased to 48

Drug Name	Medical Condition	Q2-2023 (18 Drugs)	Q3-2023 (38 Drugs)	Q4-2023 (34 Drugs)	Q1-2024 (48 Drugs)
Abelcet	Fungal Infection	Yes	Yes		Yes
Adcetris	Cancer		Yes	Yes	Yes
Aggrastat	Heart Attack		Yes	Yes	
Akynzeo	Chemotherapy Induced Nausea	Yes	Yes	Yes	Yes
Argatroban (Auromedics)	Thrombocytopenia				Yes
Atgam	Kidney Transplant	Yes	Yes	Yes	Yes
Aveed	Low Testosterone	Yes	Yes		Yes
Bicillin CR	Infection	Yes	Yes	Yes	Yes

Exhibit 13: Medicare Part B Drugs with Adjusted Coinsurance Based on Inflationary Rebates
Number of Part B Drugs subject to Inflationary Rebates has Increased to 48

Drug Name	Medical Condition	Q2-2023	Q3-2023	Q4-2023	Q1-2024
Bicillin L-A	Infection	Yes	Yes	Yes	Yes
Blincyto	Cancer		Yes	Yes	Yes
Bortezomib (Dr. Reddy's)	Cancer				Yes
Bortezomib (Fresenius Kabi)	Cancer				Yes
Cefepime (B. Braun)	Infection				Yes
Cefepime (Baxter)	Infection				Yes
Chirhostim	Pancreatic Dysfunction			Yes	Yes
Cresemba	Fungal Infection			Yes	
Crysvita	Bone Disorder		Yes	Yes	Yes
Cuvitru	Autoimmune Disorders		Yes		
Cytogam	Organ Transplant	Yes	Yes		Yes
Enjaymo	Blood Disorder		Yes		
Envarsus XR	Organ Transplant				Yes
Folotyn	Cancer		Yes		
Fosaprepitant (Teva)	Chemotherapy Induced Nausea				Yes
Fragmin	Blood Clots	Yes	Yes	Yes	Yes
Fulvestrant (Fresenius Kabi)	Cancer				Yes
Gamastan (1 cc)	Hepatitis A				Yes
Gamastan (over 10 cc)	Hepatitis A				Yes
Gemcitabine (Accord)	Cancer				Yes
Humira	Autoimmune Disorders	Yes	Yes	Yes	
Hypertet	Tetanus			Yes	Yes
Imlygic	Cancer		Yes	Yes	Yes
Infugem	Cancer		Yes	Yes	
Imogam Rabies-HT	Rabbies				Yes
Kyprolis	Cancer		Yes		
Kymriah	Cancer				Yes
Leukine	Low White Blood Cell Count	Yes	Yes	Yes	Yes
Lupron Depot	Hormone Conditions		Yes	Yes	Yes
Meropenem (B. Braun)	Infection				Yes
Minocin	Infection	Yes	Yes	Yes	Yes
Mircera	Chronic Kidney Disease	Yes			
Nipent	Cancer	Yes	Yes	Yes	
Nplate	Bleeding Disorder		Yes	Yes	
Oncaspar	Cancer		Yes	Yes	Yes
Padcev	Cancer	Yes	Yes	Yes	Yes
Panhematin	Porphyria		Yes	Yes	Yes
Pemetrexed	Cancer			Yes	Yes
Prolia	Osteoporosis		Yes		Yes
Romidespsin	Cancer			Yes	Yes
Rybrevant	Cancer	Yes	Yes	Yes	
Signifor LAR	Hormone Conditions	Yes	Yes	Yes	Yes
Sotalol	Irregular Heartbeat			Yes	Yes
Sylvant	Lymph Node Disease	Yes		Yes	Yes
Synibo	Cancer		Yes	Yes	Yes
Tezspire	Asthma		Yes		
Thrombate III	Thromboembolism				Yes
Tigan	Nausea				Yes
Trogarzo	HIV		Yes		
Vabomere	Infection		Yes	Yes	Yes
Vancomycin (Xellia)	Infection				Yes
Varizig	Chickenpox/Shingles		Yes		Yes
Vectibix	Cancer		Yes	Yes	Yes
Vivitrol	Alcohol Use Disorder/Opiod Use		Yes		
Xiaflex	Dupuytren's Contracture/Peyronie's Disease	Yes	Yes	Yes	Yes
Zemdri	Infection			Yes	Yes

Source: CMS, BofA Global Research

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Potential Revisions to the Drug Price Negotiations in the Inflation Reduction Act

While we do not expect any significant changes to the Inflation Reduction Act's drug price negotiation provisions in 2024, as Senate Democrats and the Biden Administration have both made it clear that they will not negotiate over any significant revisions to the law, there may be opportunity for future modifications to the law in 2025 and beyond, depending on the outcome of the 2024 elections, and how smoothly the implementation of the negotiations proceed in 2024 and 2025.

We also note that Congressional Democrats and President Biden have proposed increasing the number of drugs that would be eligible for drug price negotiation under the Inflation Reduction Act, however, we do not see this effort gaining traction in a Republican House and have not seen any movement.

Drug manufacturers have also discussed a few potential areas for revisions in the law, including:

- **Equalizing the difference in treatment between small molecules and biologics.** The selection of drugs for negotiation begins 7 years after FDA approval (implementation after 9 years) for small molecules and begins 11 years after FDA approval (implementation after 13 years) for biologics. There have been proposals to equalize these timelines at the longer 11 years (13 years), however, those efforts have not yet gained traction in Congress. This distinction between 9 years vs. 13 years may lead to limitations in R&D for certain therapeutic areas, including cardiovascular disease or certain cancer treatments that target small molecule drugs.

- **Orphan drug exemption.** The IRA excludes orphan drugs from drug price negotiations, however, only for drugs with a single approved indication. The concern has been that drug manufacturers may be less likely to pursue additional indications for orphan drugs, and may impact research and development for certain rare diseases. Bipartisan legislation introduced in September would exempt all orphan drugs with multiple approved uses from drug price negotiation process.

- **Collection of Part B and Part D inflationary rebates.** Senate Finance Committee Chairman Wyden has called on CMS to speed up its collection of Medicare Part B and Part D inflationary rebates. Under current law, CMS has begun calculating Part B inflationary rebates since January 2023, and Part D rebates since October 2022. However, CMS has not made it clear when it will collect those rebates from drug manufacturers, noting that the law allows CMS to delay collections until 2025.

Healthcare Legislative Proposals

Heading into January, Congress continues to work on a range of key healthcare legislative proposals that include expanded transparency for several healthcare providers, including hospitals (that already are required to provide price transparency), ASCs, clinical labs, imaging, and health plans. Proposals also call for providers to disclose their ownership structures and vertical integration. Along with these efforts, there are several proposals targeting Pharmacy Benefit Managers (PBMs). The most common provisions that target PBMs call for increased disclosures and transparency by PBMs to their employer and managed care clients. Other common proposals call for a prohibition on Medicaid spread pricing contracts. Other proposals would further limit PBM activities, including “de-linking” PBM compensation from the cost of medications, allowing only administrative fees in Medicare Part D, or limiting rebates and other fees, but these efforts may be less likely.

On December 11, the House passed the Lower Costs, More Transparency Act, including a range of healthcare provisions. The package includes healthcare transparency provisions for hospitals, clinical labs, diagnostic imaging, ambulatory surgery centers (ASCs), and health plans. The bill also includes PBM transparency and semi-annual reporting requirements to include data on prescription drug spending, acquisition cost of drugs, total out-of-pocket spending, formulary placement rationale, and aggregate rebate information. Another provision would prohibit Medicaid spread pricing contracts for

PBMs, and another provision would require Medicare Advantage plans to report any common ownership between health plans, PBMs and pharmacies. The bill also includes a modest site-neutral payment reform for hospitals, reducing Medicare payments to hospitals for physician-administered drug services. CBO estimates this site-neutral provision would reduce hospital Medicare payments by $3.7 billion over 10 years. The package also provides funding for community health centers for 2 years (at $4.4 billion per year), and delays Medicaid Disproportionate Share (DSH) hospital payment cuts for 2 years ($8 billion per year). Hospital groups including the American Hospital Association are supportive of much of the package but are opposed to the site-neutral payment provisions. With the House passing this package, it provides momentum for including a healthcare package as part of an upcoming Continuing Resolution, or Appropriations bill that must be passed by January 19 to avoid a partial government shutdown. We also note that the House and Senate continue to work on additional healthcare proposals to be part of the package, including 2024 Medicare physician payment relief, Medicare DME payment relief, PBM reforms, along with other Medicare cost-sharing, coverage, telehealth, and drug provisions.

In addition, other healthcare providers will look to attach Medicare and Medicaid extender provisions and provider payment relief provisions to any appropriations or Continuing Resolution legislation in January or February. Providers seeking Medicare payment relief for 2024 include physician payments (facing 1.25% Medicare cuts in 2024), extension of Medicare physician work geographic index floor, extension of Medicare Advanced Payment Model (APM) incentive payments, Durable Medical Equipment (DME) suppliers (facing the expiration of the 75/25 Medicare payment mix for non-rural, non-competitive bid markets), telehealth provisions, extension of healthcare nursing and workforce programs, and mental health/substance abuse programs and extensions. Other proposals would call for revisions to the Medicare coverage determination process, as well as provide for expanded coverage for breakthrough medical devices.

We note that, as part of its CR legislation passed in November, Congress delayed Medicare Clinical Lab payment reductions that were due to take effect in 2024 for an additional year, as well as delay additional reporting requirements for clinical labs for an additional year.

Other drug-related proposals to increase generic and biosimilar utilization, as well as reduce Medicare part D cost-sharing for drugs has also been discussed as part of a potential healthcare package in January.

Additional Drug Pricing Legislation - We also highlight the continued focus on drug prices in Congress and by the Administration. Senate HELP Committee Chairman Bernie Sanders (I-VT) announced that a hearing on drug pricing issues, "Why Does the United States Pay, By Far, The Highest Prices In The World For Prescription Drugs?" and invited CEOs from invited CEOs from Johnson & Johnson, Merck, and Bristol Myers Squibb to testify. The hearing is expected to focus on the differential between drug prices in the US vs. prices in other countries for leading drugs. Senator Sanders has stated he plans to introduce legislation that would limit drug manufacturers from charging more in the United States than they do in certain other countries. Senator Sanders highlighted this potential approach to limiting drugs at hearing on diabetes and obesity. This proposal is similar to an earlier proposal from President Trump that would have limited Medicare Part B drug prices to an International Pricing Index (IPI). While we do not expect Congress to move forward on Senator Sanders proposal in 2024, it does remain a potent political issue.

Patent Reform and Generic Drug Legislative Efforts – We also highlight several patent reform and generic drug legislative proposals that have bipartisan support in Congress, and have passed in Committee, but, have not yet come to floor votes. These include efforts to limit "pay-for-delay" agreements by manufacturers, limits on "product hopping" and other tactics to limit generic introduction, limitations on use of citizen's petitions, and additional efforts to increase introduction of generics and biosimilars.

Medicare Coverage for Obesity Drugs

With the continued growth in utilization and development of GLP-1drugs, there continues to be significant attention on when/if Congress or CMS will revise Medicare policy to cover these drugs. Legislation that would allow for Medicare coverage of these drugs has been introduced in Congress over the last several years. Under current law, Medicare is prohibited from covering drugs if used solely for weight loss, (GLP-1 agonists are covered for the treatment of diabetes but not for the treatment of obesity.)

While there is bipartisan support for legislation to allow Medicare to cover these drugs, the Treat and Reduce Obesity Act (TROA) has not moved forward due to the potentially large cost to the government of providing coverage for these drugs in Medicare.

In October, the Congressional Budget Office (CBO) issued a request for additional research on the potential costs and savings related to Anti-Obesity Medications (AOMs). CBO highlighted recent trends in utilization of AOMs, noting, net U.S. sales of semaglutide (including Ozempic, Rybelsus, and Wegovy) in the second quarter of 2023 were $3.4 billion. Net sales of all GLP-1 agonists, which include other drugs known to reduce obesity, totaled $5.9 billion during that same period. CBO expects that the providing coverage for AOMs would result in significant net cost increases to the Medicare program over the next 10 years. CBO also stated that it expects semaglutide will be selected for drug price negotiation by HHS in the next few years, which would lower its price. CBO is still trying to better understand how increased use of AOMs by people with obesity (and who are not diabetic) could improve their health, and therefore reduce the utilization of healthcare services and lower federal spending for other types of health care over time. CBO stated that it would like to see new research on factors affecting their use, such as take-up rates, patients' adherence to drugs currently on the market, and expectations about the prices and effectiveness of AOMs that are being developed, and the near- and long-term clinical impacts of AOMs (including health benefits or complications associated with them) and their effects on patients' use of, and spending on, other medical services would also be of particular interest.

However, until CBO develops an estimate of the overall costs and benefits of providing Medicare coverage for AOMs, the legislation will be difficult to move through Congress.

Some members of Congress, including Senator Bill Cassidy (R-LA), ranking member of the Senate HELP Committee, have discussed other approaches to providing Medicare coverage for GLP-1s, including a hybrid long-term treatment of obesity starting with one year of coverage of GLP-1 drugs followed by dietary therapy and other options. Senator Cassidy has called on NIH to study this hybrid approach to coverage, which could be an alternative to keeping patients on the drugs for the remainder of their lives. Obesity advocates have endorsed similar approaches to help patients lose weight, and then use lower cost interventions to help maintain weight loss.

However, we also note payers and employers have also cited the potential long-term side-effects of GLP-1 drugs as a concern, and have also endorsed nutrition counseling as an alternative, or in conjunction with AOMs.

Another approach to providing coverage for GLP-1 drugs in Medicare would be for CMS to revise its coverage policy to interpret obesity as a chronic disease. If CMS were to revise its coverage policy, so that obesity treatment is not solely for weight loss then CMS could provide Part D coverage for AOMs as a treatment targeting obesity as a disease rather than just a weight loss therapy.

Overall, we continue to expect that Medicare coverage for GLP-1s will remain an issue for Congress and CMS over the next year, and ultimately, we do expect some movement towards providing coverage for these drugs in the next several years, particularly as utilization of GLP-1s continues to grow.

340B Drug Discount Program

The 340B Drug Discount program continues to grow in utilization, and has become a key issue for both participating entities (hospitals, clinics, and pharmacies), as well as for drug manufacturers who have seen the discount program grow from $38 billion in 2020 to $54 billion in 2022.

Congress created the 340B Program in 1992 for health care providers that serve low-income and uninsured patients to purchase drugs at lower costs. The 340B discount program is administer by the Health Resources and Services Administration (HRSA), but its regulatory authority over the program is limited. HRSA estimates that 340B sales represent 7.2% of the overall U.S. drug market and reports that in 2022, total program sales reached $54 billion, 22% increase over 2021. Drug manufacturers that participate in the Medicaid Program are required to offer outpatient drugs to “covered entities” at discounted prices. HRSA estimates that at least $470 million of the $53.7 billion total was comprised of purchases above the upper limit of discounted pricing, which represents discounts lost by providers due to restrictions imposed by drug manufacturers.

Exhibit 14: 340B Covered Entity Purchases in 2022
340B Covered Entity Purchases reached $54 billion in 2022

340B Drug Discount Program Entity Type	2022 Total Purchases ($Billion)
Disproportionate Share Hospitals	41.8
Health Center Programs	2.8
Children's Hospitals	1.7
Rural Referral Centers	1.3
Ryan White HIV/AIDS Program Part A	1.4
Sexually Transmitted Disease Clinics	1.2
Critical Access Hospitals	0.7
Ryan White HIV/AIDS Program Part C	0.6
Sole Community Hospitals	0.5
Free-standing Cancer Centers	0.4
Total	$53.7

Source: HRSA, BofA Global Research

BofA GLOBAL RESEARCH

Over the last several years, drug manufacturers have challenged the expansion of the 340B drug discount program through litigation, as manufacturers imposed restrictions on covered entities that purchase 340B medications through contract pharmacies. Efforts by HRSA to clarify or regulate the program by issuing violation letters to manufacturers have been challenged in court, and those cases continue to make their way through appeals courts. We expect that these cases will continue to make their way through the courts in 2024.

In Congress there has been growing interest in the 340B drug discount program. In June, a bipartisan group of Senate Finance Committee members issued a request for information on the 340B drug discount program seeking additional information in the following areas:

- HRSA’s oversight of the 340B program.
- Policies to address contract pharmacy arrangements for covered entities.
- Efforts to ensure 340B program benefits patients they serve, not other parties?
- Efforts to ensure duplicate discounts do not occur.
- How best to improve the accountability of the 340B program?

In September, Senate HELP Committee Ranking Member Bill Cassidy (R-LA) opened an investigation into 340B drug discount program, with a particular focus on two not-for-profit hospital systems, Bon Secours, and the Cleveland Clinic. The Senator is reviewing "how certain hospital systems may spend revenue generated from the 340B Drug Pricing Program." Senator Cassidy also notes that his investigation "follows multiple reports of certain 340B recipients announcing record-setting profits with no transparency on if and how much of that profit benefits patients."

"The 340B Program is regularly reviewed by the Government Accountability Office (GAO) and HHS's Office of Inspector General (OIG), both of which have highlighted issues with the program," continued Dr. Cassidy. "GAO has identified the troubling recent pattern of 340B covered entities increasingly serving wealthier communities with higher rates of insurance, which is far afield from the program's intent. Additionally, GAO has found that covered entities often do not share 340B discounts directly with their patients."

In March 2023, Drug manufacturers, as well as some patient groups and health clinics created a new coalition proposing reforms to the 340B discount program, with PhRMA seeking more transparency in how 340B discounts are being used by hospitals, and efforts to ensure that patients benefit from the discounts provided. The coalition outlined 10 principles for reform in the 340B drug discount program. We expect more discussion of 340B reforms in 2024, but do not expect any major legislative action in 2024.

Medicare Part B Drug Remedy Payments to 340B Hospitals

In November, CMS announced its final remedy to reverse 340B hospital Medicare Part B drug payment cuts that were in effect from 2018 through the third quarter of 2022. As a reminder, CMS implemented payment reductions to 340B hospital Medicare Part B drug payments by 28.5% (from ASP+6% down to ASP-22.5%). However, 340B hospitals, and the American Hospital Association successfully challenged the payment reductions in court, and in June 2022 the Supreme Court ruled in favor of the hospitals. CMS now plans to issue $9 billion in remedy payments to almost 1,700 340B hospitals in early 2024. In addition, CMS announced that it will offset the additional payments with a 0.5% budget neutrality adjustment for all hospital outpatient payments for non-drug items and services beginning in CY2026 and remaining in place for an estimated 16 years. The implementation date of 2026 is one year later than the proposed start date of 2025.

Overall, hospitals support CMS' plan to repay a lump-sum payment of $9 billion to 340B hospitals as a remedy. However, hospitals remain disappointed with the application of future budget neutrality reductions, noting that CMS' recoupment of $6.2 billion in payments is a "grievous mistake" and "illegal and unwise." The AHA also suggests that it continues to review the regulation and will consider "all available options going forward," which may include additional legal challenges to the 0.5% across the board reduction that is slated to begin in 2026 now.

Regulatory Issues for 2024

CMS and FDA continue to focus on a range of regulatory and payment issues. We highlight several of the key regulatory efforts that will continue to be developed and may be finalized in 2024:

- **Drug pricing – March-In Rights -** On December 7, the Administration released its draft guidance implementing a new framework to use March-In Rights for drugs. The Request for Information (RFI) on the new guidance would assist agencies on policy considerations when considering using march-in authority for patents that were developed from government or NIH research. The Administration will accept comments through February 6, and will address stakeholder comments before finalizing the guidance. The use of March-in Rights for drug pricing remains controversial, and we would expect that the Biden Administration will remain cautious in finalizing this guidance and implementing any new authority in 2024.

- **FTC-DOJ Merger Guidelines** – On December 18, the FTC and DOJ issued its 2023 Merger Guidelines, which describe factors and frameworks the agencies utilize when reviewing mergers and acquisitions. The revised merger guidelines "emphasize the dynamic and complex nature of competition ranging from price competition to competition for the terms and conditions of employment, to platform competition." The agencies expect to include a continued focus on healthcare mergers and acquisitions, and the new guidelines note "excessive market consolidation across industries and overwhelmingly urged the agencies to strengthen their approach to merger enforcement." We expect that healthcare services, and pharmaceuticals will remain a focus for FTC merger reviews into 2024.

- **FTC Orange Book Enforcement on Drug Patents –** In November, the FTC announced that it was following through on its recent policy statement to address improper or inaccurately listed patents on FDA's Orange Book list, and specifically announced that it was challenging 100 patents listed in FDA's Orange Book. The FTC also sent letters to 10 drug manufacturers citing specific patents that they claim were improperly listed for specific asthma and other inhaler devices, Restasis multidose bottles, and epinephrine autoinjectors, also commonly known as EpiPens. Manufacturers then had 30 days to withdraw or amend the patent listings, or certify under penalty of perjury that the listings comply with applicable statutory and regulatory requirements. FDA Commissioner Califf stated that he supports FTC effort to protect consumers from improperly listed patents in the Orange Book.

- **Biosimilar Interchangeability –** In September, FDA issued draft guidance to remove labeling distinctions between interchangeable and biosimilar products. The new guidance could help spur additional utilization of biosimilars, and help patients and providers understand that biosimilars are safe and may be interchangeable with reference biologics. Specifically, the new guidance notes that biosimilar labels do not have to include clinical data to establish biosimilarity, and no need for an interchangeability statement.

- **Laboratory Developed Tests (LDT) Regulations** – On September 29, FDA released proposed regulations for laboratory developed tests (LDT). The regulation would revise the definition of "in vitro diagnostic products" to include them under the Food and Drug Act even when they are developed in a laboratory. FDA proposes to phase in the regulations for LDTs and eventually will be regulated the same as other IVDs. The proposal calls for comments on whether to allow more flexibility for Academic Medical Centers, and a potential phase-in. However, several industry groups and attorneys suggest that the FDA does not have the authority to implement new regulations over LDTs and note that there may be litigation opposing the regulations. Members of Congress also suggest that legislation (the VALID Act) is still needed to provide for appropriate statutory framework for LDT regulation. We expect FDA may look to finalize the regulation by the 2nd Quarter 2024.

- **Nursing Home and Long-Term Care Facility Staffing Regulation** - On September 1, CMS released its proposed regulation calling for mandatory minimum staffing levels for long-term care facilities, as well as increased reporting requirements. The proposed rule calls for three new staffing requirements, including: 1) Minimum nurse staffing standards of 0.55 hours per resident day (HPRD) for Registered Nurses (RNs) and 2.45 HPRD for Nurse Aides (NAs); 2) Requirement to have an RN onsite 24 hours a day, seven days a week; and 3) Enhanced facility assessment requirements and reporting. CMS notes staffing in LTC has been "a persistent concern, especially among low-performing facilities that are at most risk for providing unsafe care."

CMS seeks comments on potential alternative minimum staffing requirements, including potentially, a total nurse staffing standard of 3.48 HPRD, which would still require 0.55 RN HPRD and 2.45 NA HPRD minimums. CMS is also seeking comments on the feasibility of requiring an RN to be on staff 24/7 at long-term care facilities. CMS also asks for comments on their assumption that real wage rates for RNs will increase at annual rate of 2.3% and how the available supply of RNs and potential changes in supply and demand across geographies may influence estimated costs for LTC facilities and other health care providers competing for nursing staff.

CMS proposes to phase-in the new staffing requirements over three years (from when the regulations are finalized) for non-rural facilities, and over five years for rural facilities. Specifically, Phase-1 requires facilities to comply with the new assessment requirements 60 days after final regulation (for both urban and rural facilities); Phase-2 requires facilities to maintain an on-site RN 24 hours 7 days a week effective in 2 years for urban facilities (3 years for rural); and Phase-3 would require facilities to comply with minimum staffing requirements for RNs and NAs, in 3 years of the final rule for urban facilities (5 years for rural facilities).

CMS estimates annual costs to comply with the staffing requirements will ramp to $5.7 billion per year (by year 10) and will cost more than $40 billion over 10 years. The proposed rule does not include any increases in Medicare, Medicaid or other payments to providers to meet any of the expected costs of the new requirements, and the proposals have been strongly opposed by the long-term care industry, as facilities have had difficulty maintaining current staffing levels during the current labor shortage. We expect that CMS may look to finalize the long-term care staffing regulations in 2024.

- **Medicaid Home and Community Based Care (HCBS)** – In April, CMS released proposed regulations including reforms for Medicaid access to care and quality of care, and Medicaid managed care reforms that would impose new requirements on providers of home and community-based services (HCBS) to Medicaid beneficiaries. The regulations would establish access standards through Medicaid managed care plans, as well as transparency for Medicaid payment rates to providers, hourly rates and compensation for certain home care and other direct care workers. CMS calls for new oversight, monitoring, improvements for HCBS programs, including a requirement that at least 80% of Medicaid payments for personal care, homemaker, and home health services would be dedicated for payments to direct care workers. The regulation would become effective 4 years after final regulation is released, and therefore might not become effective until at least 2028 or 2029. We note that the industry strongly opposes the regulation and may challenge the regulation in court if/when it is finalized by CMS. We expect CMS to issue a final regulation in the 1st or 2nd Quarter of 2024.

- **Proposed Regulations for Transitional Medicare Coverage for Emerging Technologies** – In June, CMS released a proposed notice outlining a new Medicare coverage pathway for new medical technologies. The TCET coverage attempts to: 1) facilitate early, predictable, and safe beneficiary access to new technologies; 2) reduce manufacturers' uncertainty on coverage; and 3) encourage evidence development if evidence gaps exist. Coverage under the TCET would continue for as long as needed to facilitate evidence that can inform patient and clinician decision making. CMS will coordinate with manufacturers and FDA, and issue transitional national coverage decisions within six months. We note that the medical technology industry is seeking broader coverage for new breakthrough technologies, and there is legislation in Congress to address this issue.

2024 Elections Impact on Health Policy

As we head into an election year in 2024, we expected that healthcare will once again play significant role. We expect that President Biden will look to highlight healthcare and his achievements as part of his campaign, including the following key issues:

- **Inflation Reduction Act –Drug Pricing Reforms –** We expect that President Biden will campaign on the Inflation Reduction Act, and with the first 10 drug price negotiation final results being announced in August/September, this will certainly be a highlight for the President heading into the fall campaign.

- **Proposals to Expand number of Medicare Drugs to be negotiated –** President Biden has also proposed increasing the number of drugs subject to drug price negotiations. While this may be a talking point for the campaign and some Democrats in Congress, we do not see much likelihood of this happening in the next several years.

- **Extend savings to Commercial Drugs –** President Biden has also highlighted proposals to extend drug pricing reforms beyond Medicare drugs to commercial and extend out-of-pocket caps on insulin products to commercial plans as well. While there is bipartisan support in Congress for extending the insulin out-of-pocket cap, we do not expect much traction on these proposal in Congress this year.

- **Recent Proposals on "March-In Rights"** on drugs developed with NIH Research ♣ FTC Efforts and Focus on Consolidation and Competition

- **Orange Book Challenges to listed drug patents** – We expect that FTC will continue to pursue these Orange Book challenges into 2024.

- **Increased scrutiny on healthcare mergers and consolidation / New Interagency Counsel on Health Care Competition**

- **Extend ACA Enhanced Premium Subsidies Beyond 2025 –** Under current law, the enhanced premium subsidies for health insurance exchange plans will expire at the end of 2025. We expect that Democrats will look to extend or make permanent these enhanced subsidies. However, we expect opposition from Republicans in Congress, setting up negotiations on the subsidies in 2025, pending the outcome of the elections.

- **Provide Coverage for Individuals in Medicaid Coverage Gap** – President Biden has noted that he would like to make additional progress on providing coverage for individuals in the Medicaid coverage gap in 10 states. While there may be some regulatory actions President Biden can take, we do not expect any additional legislative efforts on providing additional incentives for states to expand Medicaid. We note that North Carolina became the latest state to expand Medicaid on December 1 (600K individuals).

Medicare 2024 Provider Payment Regulations

Final FY2024 and CY2024 Medicare payment update regulations include:

- **Hospital Inpatient payments:** FY2024 Medicare Hospital Inpatient Payment update of +3.1% (however, below labor cost inflation increases for most hospitals of 5%+). CMS also included lower than expected uncompensated care payments for hospitals, resulting in almost a $1 billion reduction Medicare DSH and Uncompensated care payments for FY2024.

- **Skilled Nursing Facility Payments:** FY2024 Medicare Skilled Nursing Facility update of +4.0%.

- **Inpatient Rehab Facility Payments:** FY2024 Medicare Inpatient Rehab Facility update of +4.0%.

- **Hospice Payments:** FY2024 Medicare Hospice payment update of +3.1%.

- **Home Health Payments:** CY2024 Medicare Home Health payment update, update of +0.8%, an improvement over the proposed -2.2% update as CMS is phasing in the remaining behavioral adjustment for home health payments.

- **Hospital Outpatient Payments:** CY2024 Medicare Hospital Outpatient Payment update, of +3.3%.

- **Ambulatory Surgery Center Payments:** CY2024 Medicare Ambulatory Surgical Centers Payment update of +3.1%.

- **Dialysis Facility Payments:** CY2024 Medicare Dialysis Payment update of+2.1% update.

- **Physician Payments:** CY2024 Medicare Physician Payment update of -1.25%, which is mandated by statute as Congress is phasing down a previous add-on payment. In addition, physician payments for some specialties will see even larger payment reductions as CMS is implementing additional Evaluation and Management (E&M) coding changes that will boost payments for primary care and office-based physicians but will also result in an additional 2% budget neutrality adjustment for all physicians.

- **Durable Medical Equipment**: CY2024 Medicare DME payments will be updated by 2.9% for DME products in Competitive Bidding Areas (CBA), and by 2.6% for DMEPOS fee schedule amounts that aren't linked to the Competitive Bidding Program. We note, however, that beginning January 1, 2024, DME payments for products in non-rural contiguous non-competitive bidding areas (CBAs) will be based on 100% of the adjusted fee schedule amounts (based on competitive bid rates), rather than the 75% competitive bid rates/25% fee schedule blended rate that was previously in place. DME payments for rural areas will remain at the 50% competitive bid rates/50% fee schedule blended rates.

- **Ambulance Payments:** CY2024 Medicare Ambulance payments (including ground and air ambulance payments) will be updated by 2.6%. This update is based on 3.0% CPI (from June 2023), less a 0.4% productivity factor reduction.

Exhibit 15: Proposed and Final FY2023 and FY2024 Medicare Provider Payment Updates
Even with improved final market basket updates, increases remain below labor cost and inflation

	Final FY2023 Payment Update	Proposed FY2024 Payment Update	Final FY2024 Payment Update
Inpatient Hospital Operating Payments (FY)	2.6%	2.8%	3.1%
Long-Term Acute Care Hospitals (FY)	2.4%	-2.5%	-0.2%
Skilled Nursing Facilities (FY)	2.7%	3.7%	4.0%
Inpatient Rehab Facilities (FY)	3.2%	3.7%	4.0%
Inpatient Psych Facilities (FY)	2.5%	1.9%	2.3%
Hospice (FY)	3.8%	2.8%	3.1%
Home Health (CY)	0.7%	-2.2%	0.8%
Hospital Outpatient Payments (CY)	4.7%	3.0%	3.3%
Ambulatory Surgical Centers (CY)	3.8%	2.8%	3.1%
Physician Payments (CY)	-0.5%*	-1.25%*	-1.25%
Dialysis (CY)	3.1%	1.6%	2.1%
DME (CY)	8.7%/6.4%	NA	2.6%/2.9%
Ambulance (CY)	8.7%	NA	2.6%

Source: CMS, BofA Global Research
* Does not include budget neutrality adjustment, for 2024, CMS finalized a 2.2% budget neutrality adjustment for physicians
BofA GLOBAL RESEARCH

Medicaid Redetermination Process Continues into 2024

The Medicaid redetermination process which has been under way since May of this year, as states have begun Medicaid disenrollment process across all 50 states. Medicaid managed care, hospitals and other Medicaid providers are impacted by the large number of Medicaid enrollees shifting off Medicaid and onto other forms of health coverage or may become uninsured. States were able to begin the disenrollment process April 1 for Medicaid beneficiaries.

As of December 20, 13.4 million individuals have been disenrolled across all 50 states, according to the Kaiser Family Foundation (KFF). Overall, 34% of people with a completed renewal were disenrolled 23.9 million (66%), had their coverage renewed.

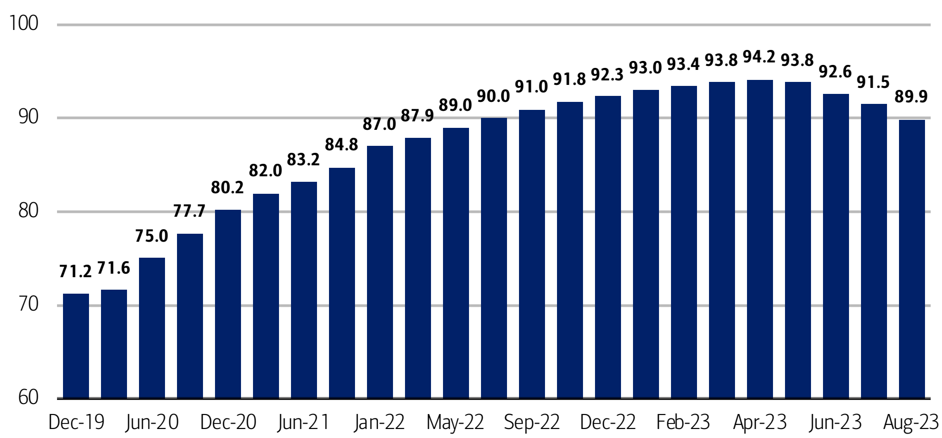
The disenrollments are led by Texas with 1.7 million disenrollments, Florida with 1.1 million, California with 930,000 New York with 785,000, Ohio with 562,000 and Massachusetts with 456,000. We note that Medicaid enrollment increased from 72 million in March 2020 to 94 million in April 2023, an increase of 22 million (30% increase in Medicaid enrollment). Total Medicaid enrollment declined to 89 million by August 2023 (latest data available).

We expect that the Medicaid disenrollment process will continue to play out in the states over the next 6-9 months.

Separately, on December 1, North Carolina became the 40th state to expand Medicaid coverage. North Carolina's governor had sought to expand Medicaid earlier this year, but the effective date was delayed until December 1. CMS estimates approximately 600,000 individuals will be eligible for newly expanded Medicaid coverage in the state. We note that the Medicaid expansion is a positive for both hospital providers and Medicaid managed care. North Carolina becomes the 40th state to expand Medicaid, leaving just 10 states that have yet to expand (AL, FL, GA, KS, MS, SC, TN, TX, WI, WY).

Exhibit 16: Medicaid/CHIP Enrollment, 2019-2023

Medicaid/CHIP Enrollment peaked at 94 million in April 2023, and is now declining as States continue with the Redetermination Process into 2024



Source: CMS

BofA GLOBAL RESEARCH

ACA Exchange Enrollment for 2024

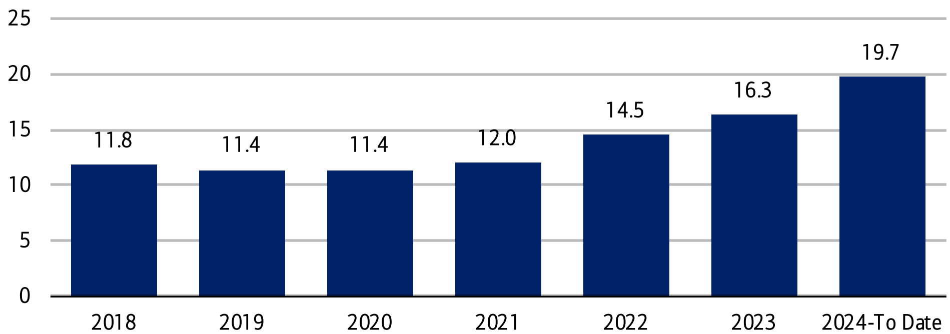
On December 20, CMS announced that ACA healthcare federal exchange enrollment increased to 15 million through December 15th. Including state-based exchanges, the total estimated HC Exchange enrollment is roughly 19.7 million for 2024. After accounting for states that moved from the federal exchange to state based exchanges, the 2024 enrollment is an increase of 42% over 2023 enrollment at the same point in time.

The increased enrollment in 2024 is likely driven by individuals that have lost Medicaid coverage due to the redetermination process that began in May and will continue into 2024. In addition, expanded Marketplace premium subsidies that were included in the American Rescue Plan Act continue through 2025, and have also contributed to growth in exchange enrollment, as premiums for individuals between 100-150% of federal poverty level pay no premiums for exchange coverage, and individuals between 150-200% of poverty pay no more than 2% of income for premiums. The Biden Administration has also increased outreach and marketing efforts for exchange enrollment, and enrollment brokers and groups have grown significantly.

Healthcare exchange open enrollment will continue through January 16 for states on the federal exchange, while some other state-based exchanges will continue with open enrollment through January 31.

Exhibit 17: ACA Healthcare Marketplace Enrollment, 2018-2024 (to date)

Healthcare exchange enrollment on pace to exceed 21 million in 2024



Source: CMS, CBO, BofA Global Research

BofA GLOBAL RESEARCH

Surprise Billing implementation

Surprise billing implementation remains a contentious issue as CMS has faced several legal challenges to its surprise billing regulations. Legal challenges brought by the Texas Medical Association (TMA) have generally favored providers. On August 3, US District Court Judge Jeremy Kernodle issued his ruling in the Texas Medical Association (TMA IV) challenge of CMS' increased administrative fees for the No Surprises Act Independent Dispute Resolution (IDR) arbitration. Judge Kernodle ruled that CMS did not adhere to the Administrative Procedures Act (APA) when it implemented the fee increases that took effect in January 2023. While the Judge reversed the fee increase from $350 back down to $50, he did not make the change retroactive - meaning that providers that paid the higher fees since January will not recoup any higher fees paid. Any new disputes will now only pay the lower $50 fee. In addition, the Judge also ruled against CMS' regulations establishing how providers can batch claims together as part of the arbitration process. After the Judge's ruling, CMS announced that they were pausing processing of any new disputes initiated after August 3.

In August, Judge Kernodle issued its ruling in the Texas Medical Association v. HHS (TMA III) case. The judge found that provisions of the No Surprises Act (NSA) regulations on the methodology for calculating the Qualifying Payment Amount (QPA), conflicted with the statute. Specifically, the Judge ruled that certain contracted "ghost" rates that are often "not provided by a provider" should not be included in the calculation of the QPA, as they may be artificially low. The court also ruled that CMS' regulations "improperly allows insurers to include in the QPA calculation rates of providers in different specialties." Providers contend that the out-of-specialty rates are lower than the in-specialty rates used to calculate the QPA. Third, the Judge ruled that CMS' regulations should not be excluded from the QPA rates any risk-sharing, bonus, penalty, or other incentive-based payment adjustments. Finally, the Judge ruled that the methodology used for self-insured plans or "plan sponsors" to choose rates from their own plans or rates from all plans administered by third-party administrators to calculate QPAs also violated the statute. The Judge also ruled in favor of air ambulances that challenged regulations that allowed insurers to extend the deadline for insurers to make a payment decision, as well as provisions that excluded single-case or case-specific rates from the calculation of QPA. Overall, the court vacated the offending provisions and remanded for "further consideration in light of this opinion."

CMS reported in April, that there were 335,000 disputes filed for arbitration between April 15, 2022 through March 31, 2023. Of these disputed claims, 123,000 were challenged by payers. This volume of claims and disputed claims greatly exceeding HHS' estimates. CMS also reported that 40,000 disputes were found to be ineligible for the IDR Process, and that only 42,000 cases reached a final decision by an arbitrator (with initiating parties/providers winning 71% of cases). Overall, IDR entities closed 106,615 disputes as of March 31, 2023.

On September 20, CMS released a proposed rule that would implement new higher administrative fees as part of the Surprise Billing arbitration process. After the US District Court in Texas struck down (in TMA IV litigation) the increased administrative fees for the IDR process, HHS now proposes to set the administrative fees at $150 per disputing party effective January 1, 2024 (or after the rule is finalized, whichever is later). Originally, CMS set the fee at $50, but increased it to $350 effective January 2023, before it was struck down on August 3. CMS also proposed revising the fees paid to the IDR entities as well, with single determination IDR fees ranging from $200 to $840. CMS also estimates that there will be 225,000 IDR disputes in 2024.

On October 6, CMS issued new guidance for providers and insurers on implementation of Surprise Billing regulations. CMS re-opened the portal for providers and insurers for disputed single and bundled claims effective October 6 (although batched and air ambulance claims remain suspended), after CMS suspended submission of new disputed claims since August when Texas Federal District Court Judge Kernodle struck down several No Surprises Act regulations, including the methodology for insurers to calculate the qualifying payment amount (QPA). CMS stated that it would use enforcement discretion and not penalize insurers until May 2024 at the earliest, noting, "plans and issuers are expected to calculate QPAs using a good faith, reasonable interpretation of the applicable statutes and regulations that remain in effect after the Texas Medical Association III decision." CMS also noted that the DOJ and HHS disagree with the Court's decision and plan to appeal. Given CMS's new guidance and limited enforcement on insurers, we could see additional litigation from providers.

On October 27, HHS released revised Surprise Billing regulations, including revisions to the disclosure of information that health plans and insurers must include with the initial payment or notice of denial of payment for services subject to surprise billing protections. Regulation also includes revisions to the open negotiation period preceding the Federal IDR process, the initiation of the Federal IDR process, the Federal IDR dispute eligibility review, and the payment and collection of administrative fees and certified IDR entity fees, as well as revisions to bundled payments, requirements for batched claims, and other revisions. These proposed regulations follow Federal District Court Judge Kernodle's ruling in favor of providers on IDR process and batched claims requirements. HHS will accept comments on the proposal for 60 days.

On December 12, the GAO released a report on the difficult implementation of Surprise Billing Independent Dispute Resolution process. GAO found that as of June 2023, over 490,000 disputes were submitted, much larger than the 22,000 anticipated, and 61% of the disputes were unresolved. The report found HHS did not respond to complaints regarding the program's implementation and had limited enforcement due to budget constraints. HHS noted that it continues to issue revised guidance and regulations.

Valuation & risk

Abbott Lab. (ABT)

Abbott develops, manufactures and sells broad and diversified pharmaceuticals, diagnostic and nutritional products, and medical devices. It has four reportable segments: established pharmaceuticals (11%), diagnostics (38%), nutritional products (17%), and medical devices (34%). We maintain Abbott at Overweight. ABT is the highest rated medtech company and benefitted from significant growth in both rapid and at home covid testing over the last three years. Since the acquisition of St. Jude in 2017, the company has fully right sized the balance sheet (ended the quarter at 1.5x) and received six ratings upgrades. With $7.0 bn of cash, we expect the company to focus more on M&A than they have in the past, with an emphasis on tuck-ins as the company does not see any significant portfolio gaps. Expanded market penetration of Libre will be a major growth driver for the company given beneficial market demographics.
Credit strengths: 1) Leading position in transcatheter mitral valve repair and CGM with Libre, 2) conservative financial policies, and 3) low leverage following St. Jude delevering.
Credit risks: 1) Supply chain pressures, 2) rapid decline in covid testing, 3) product recalls or litigation, 4) large scale M&A.

AbbVie Inc. (ABBV)

AbbVie is a biopharmaceutical company offering R&D, manufacturing, commercialization and sale of innovative medicines and therapies with products across immunology, hematologic oncology, neuroscience, aesthetics, and eye care. We maintain ABBV bonds at Overweight. The acquisition of Allergan for $84 billion brought a leading medical aesthetics portfolio and significant cash flow generation. ABBV paid down $34 bn of debt over the last three years and reached its leverage target of 1.8x at the end of 2023. Key pipeline assets Imbruvica, Venclexta, Rinvoq, and Skyrizi will provide an offset to the patent loss on Humira, which began in January 2023 in the United States. Following the acquisitions of ImmunoGen ($10.1 bn) and Cerevel Therapeutics ($8.7 bn), we expect the focus for M&A will be on smaller sized, early-stage deals. We expect ABBV to trade 15 bps behind pharma peer AstraZeneca.
Credit strengths: 1) A diverse portfolio, 2) commitment to debt pay down, 3) upward ratings momentum, 4) strong cash flow position, 5) favorable demographic trends, and 6) a strong liquidity position.
Credit risks: 1) Large debt funded acquisitions, 2) more rapid Humira erosion curve then expected, 3) pipeline failures, and 4) drug price reform legislation.

Aetna Inc. (AET)

CVS is a diversified health solutions company with retail, medical clinics, a pharmacy benefits manager, and consumer-directed health insurance products, including Medicare Advantage and Medicare Part D prescription drug plans. We maintain CVS and bonds issued at Aetna Inc. at Overweight. Following the acquisition of Aetna, along with Signify and Oak Street, we see potential for outperformance as the company continues to benefit from its vertically integrated healthcare model. CVS now offers a full suite of healthcare offerings to better compete against the diversified offerings of the other managed care companies. 2024 headwinds (Star ratings and CNC contract loss) will constrain flexibility in the near term, but we believe cash generation and the strength of the balance sheet will allow the company to execute on its strategy. CVS is strongly committed to IG ratings with mid-BBB as the floor and a long-term target range of low 3x. We expect CVS to trade 5-10 bps behind MCO peer Cigna.
Credit Strengths: 1) Positive market demographics, 2) fully integrated health insurer, 3) strong and stable cash flows, and 4) largest U.S. pharmacy chain.
Credit Risks: 1) Amazon entering the healthcare industry, 2) negative regulatory changes, 3) debt funded M&A or buybacks, and
4) pharmacy reimbursement pressure.

Agilent (A)

Agilent Technologies (A) is a leading provider of laboratory equipment, products, and services used in a wide range of life sciences, diagnostics, and applied chemical markets. We maintain Agilent at Overweight on strong long term end market growth and valuations. The company's customers span six key end markets, representing a $65 billion opportunity growing 3%-5%. With a focus on high growth areas such as cell analysis and oligonucleotide production, management expects 5%-7% core growth over the next three to five years. Agilent plans to continue to be acquisitive looking for assets from small tuck-ins to $2 bn in size. Headwinds from China and macroeconomic impacts to the pharma and biotech segment will affect the company in 2024.
Credit strengths: 1) Consistently strong leverage profile, 2) conservative financial policies, 3) geographic and end market diversity, 4) ample liquidity, and 5) solid credit ratings.
Credit risks: 1) Appetite for M&A, 2) lagging recurring revenue base, and 3) trade tensions with China.

Allergan (AGN)

AbbVie is a biopharmaceutical company offering R&D, manufacturing, commercialization and sale of innovative medicines and therapies with products across immunology, hematologic oncology, neuroscience, aesthetics, and eye care. We maintain ABBV bonds at Overweight. The acquisition of Allergan for $84 billion brought a leading medical aesthetics portfolio and significant cash flow generation. ABBV paid down $34 bn of debt over the last three years and reached its leverage target of 1.8x at the end of 2023. Key pipeline assets Imbruvica, Venclexta, Rinvoq, and Skyrizi will provide an offset to the patent loss on Humira, which began in January 2023 in the United States. Following the acquisitions of ImmunoGen ($10.1 bn) and Cerevel Therapeutics ($8.7 bn), we expect the focus for M&A will be on smaller sized, early-stage deals. We expect ABBV to trade 15 bps behind pharma peer AstraZeneca.
Credit strengths: 1) A diverse portfolio, 2) commitment to debt pay down, 3) upward ratings momentum, 4) strong cash flow position, 5) favorable demographic trends, and 6) a strong liquidity position.
Credit risks: 1) Large debt funded acquisitions, 2) more rapid Humira erosion curve then expected, 3) pipeline failures, and 4) drug price reform legislation.

Amgen Inc. (AMGN)

Amgen is a biotechnology company that discovers, develops, manufactures and delivers innovative human therapeutics for oncology/ hematology and inflammation. We maintain AMGN at Marketweight. We are constructive on AMGN's existing portfolio and the potential growth from the biosimilars platform led by Amjevita (biosimilar Humira). The development and launch of key pipeline assets Lumakras (oncology) and Tezspire (asthma and COPD) remains a focus as the company faces another round of patent expirations beginning in 2024. Following the Horizon acquisition, the focus will be on delevering to the 3.2x target by 2025. We do not see significant M&A on the table during the debt paydown phase.
Credit strengths: 1) A diverse portfolio, 2) strong cash flow position, 3) favorable demographic trends, and 4) a strong liquidity position.
Credit risks: 1) Large debt funded acquisitions, 2) pipeline failures, and 3) drug price reform legislation.

Baxter Intl Inc (BAX)

BAX is a well-diversified medical products company operating in renal care, medication delivery, pharmaceuticals, clinical nutrition, advanced surgery, and acute therapies. We maintain Baxter at Underweight on valuations given elevated leverage post the Hillrom acquisition. At close, net leverage was 4.2x and management has committed to target net leverage of 2.75x by 2024. Depressed surgical volumes and headwinds from supply chain inflation have delayed the delevering plan. We are constructive on the HRC acquisition as it adds opportunities for growth in connected care, however, near term

supply chain challenges will pressure integration.
Credit strengths: 1) Leading positions in many product categories, 2) product and geographic diversification, and 3) low exposure to elective procedure market.
Credit risks: 1) Supply chain pressure, 2) HRC integration delays, 3) elevated leverage, and 4) product recalls or litigation.

Becton Dickinson (BDX)
We maintain Becton Dickinson at Overweight. BDX offers a broad portfolio of products including syringes (over 90% market share), infusion pumps, diagnostic tests, and drug coated balloons, among many others. Management estimates the average person interacts with at least eight BDX products each year. Through the acquisitions of CareFusion and C.R. Bard, BDX has more than doubled its revenue base in just over six years. Under the leadership of CEO Tom Polen, the company is now focused on integration and simplification, prioritizing growth in smart connected care, new care settings, and chronic disease outcomes, while prioritizing a 2.5x net leverage target. We expect BDX to trade 10 back of medical device peer Stryker.
Credit strengths: 1) Diverse portfolio, 2) strong cash flow growth, 3) positive ratings momentum, 4) favorable demographic trends, and 5) a strong liquidity position.
Credit risks: 1) Potential reduction in hospital and research budgets, 2) changes in healthcare reform, and 3) additional debt funded acquisitions.

Boston Scientific (BSX)
Boston Scientific develops, manufactures and markets medical devices used in a range of interventional medical specialties with two reportable segments: MedSurg and Cardiovascular. We maintain Boston Scientific at Marketweight on valuations to peers BDX and SYK. Following a significant level of M&A over the last few years, management has maintained a steadfast commitment to both high BBB credit ratings and gross leverage in the 2.25x-2.5x range. These acquisitions have brought in products and capabilities across specialties that will enable continued growth. While we expect the company to remain acquisitive, additional M&A will be executed with the intent of maintaining current ratings. Headwinds from supply chain inflation will pressure margins in 2024.
Credit strengths: 1) Leading position in left atrial appendage closure market with Watchman, 2) conservative financial policies, and 3) steadily declining leverage from the beginning of the pandemic despite multiple acquisitions.
Credit risks: 1) Further delays in surgical procedures from labor shortages, 2) supply chain pressures, and 3) product recalls or litigation.

Bristol-Myers Squibb (BMY)
Bristol Myers is engaged in the discovery, development, manufacturing, and global sale of biopharmaceutical products for oncology, hematology, immunology, cardiovascular, fibrotic diseases, and neurology. We lower BMY and bonds issued at Celgene to Marketweight from Overweight as we see limited catalysts for spread compression in the near term with BMY trading 5/10 bps behind peer Pfizer. With significant upcoming LoEs and Medicare drug price negotiation beginning in 2026, BMY has turned to M&A to drive growth later in the decade. While we do not expect to see a large transformational deal in the near term, we do expect Bristol to remain acquisitive with a focus on bolt-ons. On the positive side, the company developed a portfolio of near term launches through the acquisition of Celgene, which are expected to provide $25 bn of non-risk adjusted sales by 2030. Management does not hold a leverage target, instead, focuses on maintaining strong investment grade ratings.
Credit strengths: 1) Strong cash flow generation, 2) favorable demographic trends, and 3) leading position in high growth oncology market.
Credit risks: 1) Large debt funded acquisitions, 2) negative patent rulings, 3) drug price reform legislation, and 4) pipeline failures leading to increased concentration risk from Opdivo and Eliquis.

Cardinal Health (CAH)

CAH is a distributor of pharmaceuticals in the U.S., a global manufacturer and distributor of medical and laboratory products, and a provider of supply-chain and data solutions for health care facilities. We maintain CAH at Underweight as we see continued pressure on the medical business from cost inflation and supply chain constraints. From a distribution perspective, any news regarding Amazon's entrance into the prescription market will negatively impact spreads. Opioid risk remains as we wait to see settlement terms for remaining cases. Cardinal's long-term contract with CVS will provide customer stability and generic sourcing benefits.

Credit strengths: 1) Generic sourcing agreement with CVS, 2) limited competition as CAH is one of three drug distributors in the U.S., and 3) favorable demographic trends.

Credit risks: 1) Negative settlement terms on remaining opioid cases, 2) worsening generic deflation, 3) failure to renew existing distribution contracts, 4) supply chain costs on the medical segment, and 5) risk of Amazon entering the wholesale distribution business.

Celgene Corp (CELG)

Bristol Myers is engaged in the discovery, development, manufacturing, and global sale of biopharmaceutical products for oncology, hematology, immunology, cardiovascular, fibrotic diseases, and neurology. We lower BMY and bonds issued at Celgene to Marketweight from Overweight as we see limited catalysts for spread compression in the near term with BMY trading 5/10 bps behind peer Pfizer. With significant upcoming LoEs and Medicare drug price negotiation beginning in 2026, BMY has turned to M&A to drive growth later in the decade. While we do not expect to see a large transformational deal in the near term, we do expect Bristol to remain acquisitive with a focus on bolt-ons. On the positive side, the company developed a portfolio of near term launches through the acquisition of Celgene, which are expected to provide $25 bn of non-risk adjusted sales by 2030. Management does not hold a leverage target, instead, focuses on maintaining strong investment grade ratings.

Credit strengths: 1) Strong cash flow generation, 2) favorable demographic trends, and 3) leading position in high growth oncology market.

Credit risks: 1) Large debt funded acquisitions, 2) negative patent rulings, 3) drug price reform legislation, and 4) pipeline failures leading to increased concentration risk from Opdivo and Eliquis.

Cencora Inc (COR)

COR is a pharmaceutical sourcing and distribution services company that offers brand-name and generic drugs, home healthcare equipment, and related supply chain services to healthcare providers in the U.S. and select global markets. We maintain COR at Marketweight due to the continued stabilization of both branded and generic pricing and a return to more normal prescription volumes as we exit the pandemic. We see limited catalysts for spread compression in the near term with COR trading 15 bps behind peer MCK. Any news regarding Amazon's entrance into the prescription market will negatively impact spreads. Opioid risk remains as we wait to see settlement terms for remaining cases. We are constructive on ABC's long-term contract with WBA and deleveraging plan post the acquisition of Alliance Healthcare.

Credit strengths: 1) Generic sourcing agreement with Walgreens, 2) limited competition as ABC is one of three drug distributors in the U.S., 3) favorable demographic trends, and 4) a strong liquidity position.

Credit risks: 1) Negative settlement terms on remaining opioid cases, 2) worsening generic deflation, 3) failure to renew existing distribution contracts, 4) significant share repurchases from WBA's stake in ABC, and 5) threat of Amazon entering the wholesale distribution business.

Cigna Holding (CI)
Cigna is a managed care and pharmacy benefit manager in the U.S. that provides pharmacy solutions, benefits management solutions, care delivery and care management solutions. The company also offers U.S. commercial services, individual health insurance plans, Medicare Advantage, Medicare Supplement and Medicare Part D. We maintain CI at Marketweight. While we expect acquisitions in 2024 to remain smaller in nature due to the antitrust environment in the U.S., the company has expressed interest in larger scale M&A should the environment improve. Cigna's focus on lower growth commercial markets and under penetration in Medicare Advantage puts it at a disadvantage vs. peers, given the integration of ESRX has been completed. On the positive side, CI continues to generate strong cash flow and is committed to a long term 40% leverage target.
Credit Strengths: 1) Scale as the third largest health insurer, 2) unregulated cash flow source from Evernorth, 3) positive market demographics, and 4) strong and stable cash flows.
Credit Risks: 1) Negative regulatory changes, 2) employer market pressure, and 3) lack of market share in Medicare Advantage.

Express Scripts (CI)
Cigna is a managed care and pharmacy benefit manager in the U.S. that provides pharmacy solutions, benefits management solutions, care delivery and care management solutions. The company also offers U.S. commercial services, individual health insurance plans, Medicare Advantage, Medicare Supplement and Medicare Part D. We maintain CI at Marketweight. While we expect acquisitions in 2024 to remain smaller in nature due to the antitrust environment in the U.S., the company has expressed interest in larger scale M&A should the environment improve. Cigna's focus on lower growth commercial markets and under penetration in Medicare Advantage puts it at a disadvantage vs. peers, given the integration of ESRX has been completed. On the positive side, CI continues to generate strong cash flow and is committed to a long term 40% leverage target.
Credit Strengths: 1) Scale as the third largest health insurer, 2) unregulated cash flow source from Evernorth, 3) positive market demographics, and 4) strong and stable cash flows.
Credit Risks: 1) Negative regulatory changes, 2) employer market pressure, and 3) lack of market share in Medicare Advantage.

CVS Health (CVS)
CVS is a diversified health solutions company with retail, medical clinics, a pharmacy benefits manager, and consumer-directed health insurance products, including Medicare Advantage and Medicare Part D prescription drug plans. We maintain CVS and bonds issued at Aetna Inc. at Overweight. Following the acquisition of Aetna, along with Signify and Oak Street, we see potential for outperformance as the company continues to benefit from its vertically integrated healthcare model. CVS now offers a full suite of healthcare offerings to better compete against the diversified offerings of the other managed care companies. 2024 headwinds (Star ratings and CNC contract loss) will constrain flexibility in the near term, but we believe cash generation and the strength of the balance sheet will allow the company to execute on its strategy. CVS is strongly committed to IG ratings with mid-BBB as the floor and a long-term target range of low 3x. We expect CVS to trade 5-10 bps behind MCO peer Cigna.
Credit Strengths: 1) Positive market demographics, 2) fully integrated health insurer, 3) strong and stable cash flows, and 4) largest U.S. pharmacy chain.
Credit Risks: 1) Amazon entering the healthcare industry, 2) negative regulatory changes, 3) debt funded M&A or buybacks, and
4) pharmacy reimbursement pressure.

Elevance Health Inc (ELV)

ELV is a managed care organization with offerings to individual, group, Medicaid, and Medicare markets. It also operates as an independent licensee of the Blue Cross and Blue Shield Association in 14 states. It has four reportable segments: Health Benefits, CarelonRx, Carelon Services, and Corporate & Other. We maintain Elevance at Overweight as we see a low likelihood of large-scale M&A and expect ELV to trade 10 bps inside of CI and 20 bps wide of UNH. We are constructive on the company's creation of their PBM and non-insurance business, Carelon, but still see time before ELV can realize the full benefit of integration.
Credit Strengths: 1) Scale as second largest health insurer, 2) in house PBM through the launch of CarelonRx, 3) positive market demographics, and 4) strong and stable cash flows.
Credit Risks: 1) Negative regulatory changes, 2) quicker than expected rebound in utilization, and 3) employer market pressure.

Gilead Sciences (GILD)

Gilead is a biopharmaceutical company that discovers, develops, and commercializes therapies for life-threatening diseases including HIV/AIDS, covid, liver diseases, hematology/oncology/cell therapy, virology, and inflammation. We maintain GILD at Underweight on valuation vs peers at current levels. While GILD maintains the dominant position in HIV, we see M&A becoming a bigger part of the story if the oncology platform does not come to fruition. Gilead does not maintain a leverage target but remains strongly committed to IG ratings.
Credit strengths: 1) Strong EBITDA margins, 2) track record of delevering post M&A, and 3) leading position in HIV.
Credit risks: 1) Pipeline failures, 2) large debt funded acquisitions, 3) negative patent rulings, and 4) drug price reform legislation.

Humana Inc. (HUM)

Humana is a managed care organization in the U.S. offering medical and specialty insurance through its two reportable segments: Insurance and CenterWell. It derives a majority of its revenues from contracts with the federal government as it participates in Medicare, Medicare Advantage, Medicare Part D, and Medicaid. We upgrade Humana to Marketweight from Underweight as we see HUM trading at fair value 15 bps back of CI. The company is one of the strongest players in the high growth Medicare Advantage market. Most recently, the Wall Street Journal reported that Cigna was in talks to acquire Humana. While we do not expect M&A activity in the near term, Humana could benefit from takeout potential as more clarity develops from a regulatory standpoint.
Credit Strengths: 1) Strong presence in high growth MA market, 2) positive market demographics, and 3) strong and stable cash flows.
Credit Risks: 1) Negative regulatory changes, 2) debt funded M&A or buybacks, and 3) increased competition on Medicare advantage segment.

Laboratory Corp. of (LH)

LH is a clinical laboratory company providing a comprehensive menu of core and specialty tests through an integrated network of primary and specialty laboratories across the U.S. We remain Underweight on LH as we see limited catalysts for spread compression in the near term. Coming off two years of significant benefit from covid testing, we see leverage trending back up to historical levels. Bolt-on M&A should pick up this year as cash balances remain at peak levels and Medicare reimbursement cuts are set to resume next year.
Credit strengths: 1) Solid demographic tailwinds, 2) significant scale owning 22% of the $28 bn independent lab market, 3) low leverage, and 4) customer and geographic diversification.
Credit risks: 1) Slower recovery of base business testing, 2) reimbursement risk, and 3) disruption in clinical trial market.

McKesson Corp. (MCK)

McKesson is a pharmaceutical drug distributor that provides supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information solutions. We maintain MCK at Marketweight due to superior cash generation compared to peers in the distribution space. The divestiture of the European business will enable the company to focus on the core business and allocate capital towards bolt-on M&A. Despite the strength of the balance sheet, we do see risks from a spread perspective on any news regarding Amazon's entrance into the prescription market.
Credit strengths: 1) Generic sourcing agreement with WMT, 2) limited competition as MCK is the largest of the three drug distributors in the U.S., 3) strong cash flow generation, and 4) favorable demographic trends.
Credit risks: 1) Negative settlement terms on remaining opioid cases, 2) worsening generic deflation, 3) failure to renew existing distribution contracts, and 4) prospect of Amazon entering the wholesale distribution business.

Medtronic (MDT)

Medtronic is a medical technology, services, and solutions company that primarily develops, manufactures, and sells device-based medical therapies and services. It has four reportable segments: cardiovascular, medical surgical, neuroscience, and diabetes. We maintain MDT bonds at Marketweight on continued supply chain pressure, specifically semi-conductor procurement, and await to hear results from the ongoing portfolio review. Since the Covidien acquisition in 2014, management has taken a conservative stance when looking at M&A and focused primarily on tuck-in deals. With a robust pipeline of assets, we see the focus on execution and development rather than transformational M&A. The ongoing portfolio review could provide opportunities for the company to prune underperforming segments and focus more on higher growth areas of the business.
Credit strengths: 1) Leading position in cardiology, 2) conservative financial policies, 3) low leverage, and 4) strong cash balance.
Credit risks: 1) Supply chain pressures, 2) further delays in surgical procedures from staffing shortages, and 3) product recalls or litigation.

Pfizer, Inc. (PFE)

Pfizer develops, manufactures, and markets biopharmaceutical products worldwide. Its key therapeutic areas are vaccines, oncology, internal medicine, hospital, inflammation & immunology and rare disease. We maintain PFE at Marketweight. Following the unprecedented growth the company has experienced from covid vaccine and treatment development, Pfizer now must shift the focus toward ex-covid growth and pipeline development. PFE utilized its strong balance sheet to spend approximately $60 billion on acquisitions over the last three years. We expect the company to remain acquisitive as it continues towards its goal to add $25 billion of revenue by 2030. In the near term, we expect Pfizer to trade 20-25 back of Merck as the long-term strategy continues to develop.
Credit strengths: 1) Significant cash generation, 2) covid vaccine, booster, and treatment sales, 3) low leverage, and 4) limited patent expiries from 2023-2025.
Credit risks: 1) Pipeline failures, 2) large debt funded acquisitions, 3) negative patent rulings, and 4) drug price reform legislation.

Quest Diagnostics (DGX)

DGX is a provider of diagnostic information services with clinical and pathology testing through a nationwide network of laboratories and IT solutions. We maintain DGX at Underweight as we see limited catalysts for spread compression in the near term. Coming off two years of significant benefit from covid testing, we see leverage trending back up to historical levels. While we do see covid testing remaining durable, it will be at a much lower level than what we have seen recently. Bolt-on M&A should pick up this year as cash balances remain at peak levels and Medicare reimbursement cuts are set to

resume next year. The total U.S. lab market is about $85 billion and DGX owns 9% market share. DGX owns 24% of the $28 billion independent lab market.
Credit strengths: 1) Solid demographic tailwinds, 2) significant scale owning 24% of the $28 bn independent lab market, and 3) low leverage.
Credit risks: 1) Slower recovery of base business testing, 2) reimbursement risk, and 3) disruption in clinical trial market.

Stryker (SYK)
Stryker is a global medical technology company with two reportable segments: MedSurg & Neurotechnology and Orthopedics & Spine. Its products include implants used in joint replacements and trauma surgeries, surgical equipment, emergency medical equipment, intensive care disposable products, and neurosurgical and neurovascular devices. We maintain Stryker at Underweight on tight valuations. Through a successful bolt-on M&A strategy, SYK has achieved category leadership in every market it competes in. That strategy is centered around levering up for larger acquisitions and not executing M&A until leverage targets are hit. As utilization is continuing to improve, SYK is benefitting from the backlog work through, however, supply challenges remain the limiting factor. Compared to ZBH, Stryker's 50% exposure to elective procedures is much lower, which will provide offsets should additional covid variants arise. We are constructive on the company's growth prospects and market trends, however, tight trading levels will limit upside in our view.
Credit strengths: 1) Leading position in orthopedics and medsurg, 2) consistent M&A playbook, and 3) strong cash flow generation.
Credit risks: 1) Supply chain pressures, 2) any delays in surgical procedures from staffing shortages, and 3) product recalls or litigation.

Thermo Fisher (TMO)
TMO is a diversified life sciences company that offers a portfolio of products, instruments, software and services used in biological and medical research. We maintain TMO at Overweight on strong fundamentals and positive long term growth dynamics in major end markets. We are constructive on the PPD (CRO) acquisition as it further expands TMO's already significant presence in biopharma and expands its customer base. The company will remain active buyers, however, management has a strong commitment to target leverage of 2.75x which the company has consistently met after levering up for larger acquisitions. The recent ratings upgrades are evidence that the agencies are now more comfortable with the company's long-term M&A strategy. Headwinds from China and macroeconomic impacts to the pharma and biotech segment will affect the company in 2024.
Credit strengths: 1) Leading position in life sciences, 2) strong cash flow generation, 3) high level of recurring revenue, and 4) consistent track record of delevering post acquisitions.
Investment risks: 1) Supply chain pressures, 2) deal integration, 3) leveraging M&A, and 4) macroeconomic pressure in China.

UnitedHealth Group (UNH)
UNH is a managed care organization offering a full range of healthcare benefits and services. including Medicare and Medicaid. It has four reportable segments: Optum Health, Optum Insight, Optum Rx and UnitedHealthcare. We maintain UNH at Overweight. The company is the clear bellwether in the space and benefits from its fully integrated healthcare model. We see Optum continuing to be the growth driver for the business as the buildout of the physician and home health network is still underway.
Credit Strengths: 1) Clear leader in managed care, 2) industry best PBM business, 3) strong presence in high growth MA market, 4) positive market demographics, and 5) strong and stable cash flows.
Credit Risks: 1) Negative regulatory changes, 2) employer market pressure, and 3) leveraging M&A.

Zimmer Biomet H. (ZBH)

Zimmer Biomet manufactures and markets orthopedic reconstructive products, sports medicine, biologics, extremities and trauma products, and related surgical products. We maintain Zimmer at Marketweight as we see limited catalysts for spread compression in the near term. With over 80% of revenues tied to elective surgeries, ZBH lags peer Stryker in diversification. As utilization is continuing to improve, ZBH is benefitting from the backlog work through, however, supply challenges remain the limiting factor. Following significant debt paydown throughout the pandemic, ZBH brought leverage down to five year lows and ended the quarter at 2.3x. We see ZBH returning to the M&A market this year as new CEO Ivan Tornos has expressed further urgency to explore business development deals.

Credit strengths: 1) Leading position in both hip and knee replacements, 2) conservative financial policies, and 3) commitment to debt pay down.

Credit risks: 1) Supply chain pressures, 2) any delays in surgical procedures from staffing shortages, 3) exposure to China VBP, 4) exposure to elective procedures, and 5) product recalls or litigation.

Zoetis Inc (ZTS)

ZTS is the largest and most diversified company in the animal health industry. We maintain Zoetis at Overweight. The company markets and sells a vast portfolio of drugs and vaccines to both the Companion Animal (dogs, cats, and horses) and Livestock (cattle, swine, poultry, and fish) segments. The animal health industry, which grows 4%-6% per year, benefits from human population growth, a growing middle class, and increases in disposable income.

Credit strengths: 1) Diverse business model, 2) stable leverage profile, 3) lack of a strong generic market, 4) ample liquidity, 5) solid credit ratings, and 6) minimal drug price regulation risk.

Credit risks: 1) Infectious disease outbreaks (African Swine Fever, avian flu), 2) a growing plant-based protein market, and 3) a more robust pet insurance market.

Analyst Certification

I, Andrew Kaplan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

BofA Securities is currently acting as financial advisor to Bristol-Myers Squibb Co. in connection with its proposed acquisition of RayzeBio, Inc., which was announced on December 26, 2023.

Security/Loan pricing

Abbott Laboratories / ABT

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
2.95, Senior, USD, 2025:B	1,000	15-MAR-2025	Aa3/AA-/WD	97.94	31-Dec-2023	4.73	7
3.75, Senior, USD, 2026:B	1,700	30-NOV-2026	Aa3/AA-/WD	98.52	31-Dec-2023	4.29	21
4.75, Senior, USD, 2036:B	1,650	30-NOV-2036	Aa3/AA-/WD	102.43	31-Dec-2023	4.49	55
4.9, Senior, USD, 2046:B	3,250	30-NOV-2046	Aa3/AA-/WD	102.18	31-Dec-2023	4.74	50
3.875, Senior, USD, 2025:B	491	15-SEP-2025	Aa3/AA-/WD	98.97	31-Dec-2023	4.51	10
4.75, Senior, USD, 2043:B	639	15-APR-2043	Aa3/AA-/WD	101.64	31-Dec-2023	4.62	45

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

AbbVie Inc. / ABBV

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.4, Senior, USD, 2042:B	2,600	06-NOV-2042	A3/A-/NR	92.84	29-Dec-2023	4.98	80
3.2, Senior, USD, 2026:B	2,000	14-May-2026	A3/A-/NR	96.92	31-Dec-2023	4.59	39
3.2, Senior, USD, 2029:B	5,437	21-NOV-2029	A3/A-/NR	93.48	31-Dec-2023	4.47	60
4.25, Senior, USD, 2049:B	5,750	21-NOV-2049	A3/A-/NR	89.66	29-Dec-2023	4.96	91

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Aetna Inc. / AET

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.625, Senior, USD, 2036	771	15-JUN-2036	Baa2/BBB/WD	111.96	31-Dec-2023	5.30	136
6.75, Senior, USD, 2037	533	15-DEC-2037	Baa2/BBB/WD	112.18	31-Dec-2023	5.49	150
4.5, Senior, USD, 2042:B	500	15-MAY-2042	Baa2/BBB/WD	87.60	31-Dec-2023	5.59	143
4.125, Senior, USD, 2042:B	500	15-NOV-2042	Baa2/BBB/WD	82.90	31-Dec-2023	5.61	143
5-Year CDS					30-Dec-2023		33

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Agilent Technologies Inc / A

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.05, Senior, USD, 2026:B	300	22-SEP-2026	Baa1/BBB+/BBB+	95.53	31-Dec-2023	4.82	70
2.75, Senior, USD, 2029:B	500	15-SEP-2029	Baa1/BBB+/BBB+	91.41	31-Dec-2023	4.47	59
2.1, Senior, USD, 2030:B	500	04-JUN-2030	Baa1/BBB+/BBB+	86.13	31-Dec-2023	4.62	75

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Allergan / AGN

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.625, Senior, USD, 2042:B	457	01-OCT-2042	WR/NR/WD	95.91	29-Dec-2023	4.96	77

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Amgen Inc. / AMGN

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.375, Senior, USD, 2037:B	552	01-JUN-2037	Baa1/BBB+/BBB	110.64	31-Dec-2023	5.26	129
6.9, Senior, USD, 2038:B	291	01-JUN-2038	Baa1/BBB+/BBB	114.74	31-Dec-2023	5.41	140
6.4, Senior, USD, 2039:B	466	01-FEB-2039	Baa1/BBB+/BBB	111.51	31-Dec-2023	5.28	125
5.75, Senior, USD, 2040:B	412	15-MAR-2040	Baa1/BBB+/BBB	103.36	31-Dec-2023	5.44	136
4.95, Senior, USD, 2041:B	600	01-OCT-2041	Baa1/BBB+/BBB	95.47	31-Dec-2023	5.35	121
4, Senior, GBP, 2029:B	700	13-SEP-2029	Baa1/BBB+/BBB	98.38	31-Dec-2023	4.32	87

Amgen Inc. / AMGN

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.65, Senior, USD, 2042:B	487	15-JUN-2042	Baa1/BBB+/BBB	103.60	31-Dec-2023	5.34	119
5.15, Senior, USD, 2041:B	974	15-NOV-2041	Baa1/BBB+/BBB	97.76	31-Dec-2023	5.35	121
5.5, Senior, GBP, 2026:B	475	07-DEC-2026	Baa1/BBB+/BBB	102.95	31-Dec-2023	4.40	78
5.375, Senior, USD, 2043:B	261	15-MAY-2043	Baa1/BBB+/BBB	98.70	29-Dec-2023	5.48	129
Senior Unsecured, USD, Y5:CDS					30-Dec-2023		46
2.45, Senior, USD, 2030:B	1,250	21-FEB-2030	Baa1/BBB+/BBB	88.68	31-Dec-2023	4.59	71
3.375, Senior, USD, 2050:B	2,250	21-FEB-2050	Baa1/BBB+/BBB	74.44	31-Dec-2023	5.17	98
2.3, Senior, USD, 2031:B	1,250	25-FEB-2031	Baa1/BBB+/BBB	85.54	31-Dec-2023	4.71	84

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Baxter International Inc / BAX

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.5, Senior, USD, 2043:B	257	15-JUN-2043	Baa2/BBB/BBB	83.34	31-Dec-2023	5.96	177
2.6, Senior, USD, 2026:B	750	15-AUG-2026	Baa2/BBB/BBB	94.27	31-Dec-2023	4.96	81
3.5, Senior, USD, 2046:B	450	15-AUG-2046	Baa2/BBB/BBB	72.95	31-Dec-2023	5.63	139

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Becton Dickinson and Co / BDX

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.363, Senior, USD, 2024:B	1,750	06-JUN-2024	Baa2/BBB/BBB	99.03	31-Dec-2023	5.64	45
3.7, Senior, USD, 2027:B	1,725	06-JUN-2027	Baa2/BBB/BBB	96.90	31-Dec-2023	4.69	68
4.669, Senior, USD, 2047:B	1,500	06-JUN-2047	Baa2/BBB/BBB	93.38	31-Dec-2023	5.16	92
2.823, Senior, USD, 2030:B	750	20-MAY-2030	Baa2/BBB/BBB	89.38	31-Dec-2023	4.77	90
3.794, Senior, USD, 2050:B	750	20-MAY-2050	Baa2/BBB/BBB	81.47	31-Dec-2023	5.08	90

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Boston Scientific Corp / BSX

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4, Senior, USD, 2028:B	434	01-MAR-2028	Baa1/BBB+/BBB+	97.72	31-Dec-2023	4.61	66
4.55, Senior, USD, 2039:B	750	01-MAR-2039	Baa1/BBB+/BBB+	95.20	31-Dec-2023	5.01	97
4.7, Senior, USD, 2049:B	1,000	01-MAR-2049	Baa1/BBB+/BBB+	96.10	31-Dec-2023	4.97	76
3.45, Senior, USD, 2024:B	850	01-MAR-2024	Baa1/BBB+/BBB+	99.58	31-Dec-2023	5.91	54
3.75, Senior, USD, 2026:B	850	01-MAR-2026	Baa1/BBB+/BBB+	97.43	31-Dec-2023	5.01	76
4, Senior, USD, 2029:B	850	01-MAR-2029	Baa1/BBB+/BBB+	95.46	31-Dec-2023	5.01	111

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Bristol-Myers Squibb Co / BMY

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.2, Senior, USD, 2026:B	2,250	15-JUN-2026	A2/A/WD	97.25	28-Dec-2023	4.34	37
3.4, Senior, USD, 2029:B	4,000	26-JUL-2029	A2/A/WD	94.59	28-Dec-2023	4.50	66
4.25, Senior, USD, 2049:B	3,750	26-OCT-2049	A2/A/WD	87.34	28-Dec-2023	5.14	113
4.125, Senior, USD, 2039:B	2,000	15-JUN-2039	A2/A/WD	90.61	28-Dec-2023	5.00	86
1.45, Senior, USD, 2030:B	1,250	13-NOV-2030	A2/A/WD	82.12	31-Dec-2023	4.51	64
2.55, Senior, USD, 2050:B	1,500	13-NOV-2050	A2/A/WD	63.39	31-Dec-2023	5.06	101

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Cardinal Health, Inc. / CAH

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.6, Senior, USD, 2043:B	350	15-MAR-2043	Baa2/BBB/BBB	89.27	31-Dec-2023	5.51	133
5-Year CDS:CDS					30-Dec-2023		41
4.5, Senior, USD, 2044:B	350	15-Nov-2044	Baa2/BBB/BBB	87.21	31-Dec-2023	5.54	132

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Celgene Corp / CELG

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.7, Senior, USD, 2040:B	250	15-OCT-2040	WR/A/WD	106.42	28-Dec-2023	5.21	106
5.25, Senior, USD, 2043:B	400	15-AUG-2043	WR/A/WD	96.95	28-Dec-2023	5.51	136

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Cencora Inc / COR

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.25, Senior, USD, 2025:B	500	01-Mar-2025	Baa2/BBB+/A-	97.89	31-Dec-2023	5.13	45
4.25, Senior, USD, 2045:B	500	01-Mar-2045	Baa2/BBB+/A-	87.75	31-Dec-2023	5.21	98
5-Year CDS:CDS			Baa2/BBB+/A-		29-Dec-2023		91

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Cigna Holding / CI

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
7.875, Senior, USD, 2027:B	259	15-MAY-2027	Baa1/A-/BBB+	110.00	29-Dec-2023	4.63	76
5.375, Senior, USD, 2042:B	317	15-FEB-2042	Baa1/A-/BBB+	100.95	29-Dec-2023	5.29	110
5-Year CDS:CDS					30-Dec-2023		47

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

CVS Health / CVS

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.3, Senior, USD, 2028:B	9,000	25-Mar-2028	Baa2/BBB/NR	98.30	31-Dec-2023	4.75	81
4.78, Senior, USD, 2038:B	5,000	25-Mar-2038	Baa2/BBB/NR	94.74	31-Dec-2023	5.31	131
5.05, Senior, USD, 2048:B	8,000	25-Mar-2048	Baa2/BBB/NR	93.53	31-Dec-2023	5.54	131
1.75, Senior, USD, 2030:B	1,250	21-AUG-2030	Baa2/BBB/NR	82.61	31-Dec-2023	4.85	98
4.25, Senior, USD, 2050:B	750	01-APR-2050	Baa2/BBB/NR	83.52	31-Dec-2023	5.44	125
1.875, Senior, USD, 2031:B	1,250	28-FEB-2031	Baa2/BBB/NR	82.30	31-Dec-2023	4.83	96
5.3, Senior, USD, 2033:B	1,250	01-JUN-2033	Baa2/BBB/NR	102.62	31-Dec-2023	4.94	106
5.875, Senior, USD, 2053:B	1,250	01-JUN-2053	Baa2/BBB/NR	105.18	31-Dec-2023	5.51	146

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Elevance Health Inc / ELV

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.85, Senior, USD, 2036:B	399	15-JAN-2036	Baa2/A/BBB	106.80	31-Dec-2023	5.09	116
6.375, Senior, USD, 2037:B	370	15-JUN-2037	Baa2/A/BBB	110.83	31-Dec-2023	5.24	127
4.65, Senior, USD, 2043:B	1,000	15-JAN-2043	Baa2/A/BBB	92.64	31-Dec-2023	5.27	109
5.95, Senior, USD, 2034:B	337	15-DEC-2034	Baa2/A/BBB	107.12	31-Dec-2023	5.09	119
4.625, Senior, USD, 2042:B	900	15-MAY-2042	Baa2/A/BBB	92.80	31-Dec-2023	5.24	108
5.1, Senior, USD, 2044:B	600	15-JAN-2044	Baa2/A/BBB	97.89	31-Dec-2023	5.27	107
Senior Unsecured, USD, Y5, CDS			Baa2/A/BBB		29-Dec-2023		59

Elevance Health Inc / ELV

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Express Scripts / CI

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.125, Senior, USD, 2041:B	449	15-NOV-2041	-/A-/BBB+	110.95	29-Dec-2023	5.17	99

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Gilead Sciences / GILD

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.65, Senior, USD, 2041:B	1,000	01-DEC-2041	A3/BBB+/NR	106.74	31-Dec-2023	5.06	94
1.65, Senior, USD, 2030:B	1,000	01-OCT-2030	A3/BBB+/NR	83.79	31-Dec-2023	4.46	59
2.8, Senior, USD, 2050:B	1,500	01-OCT-2050	A3/BBB+/NR	69.02	31-Dec-2023	4.89	72

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Humana Inc. / HUM

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
8.15, Senior, USD, 2038B:B	250	15-JUN-2038	Baa2/BBB+/BBB	122.19	31-Dec-2023	5.85	184
5-Year CDSCDS:CDS					30-Dec-2023		57
4.625, Senior, USD, 2042:B	400	01-DEC-2042	Baa2/BBB+/BBB	91.13	31-Dec-2023	5.38	120

For pricing information refer to "Other Important Disclosures" below.
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Laboratory Corp. of America Hlds. / LH

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5-Year CDS:CDS					30-Dec-2023		68
4.7, Senior, USD, 2045:B	900	01-Feb-2045	Baa2/BBB/NR	92.15	31-Dec-2023	5.32	110
2.95, Senior, USD, 2029:B	650	01-DEC-2029	Baa2/BBB/NR	89.93	31-Dec-2023	4.93	106

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

McKesson Corp. / MCK

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.883, Senior, USD, 2044:B	411	15-MAR-2044	Baa1/BBB+/A-	90.23	31-Dec-2023	5.70	149
6, Senior, USD, 2041:B	286	01-MAR-2041	Baa1/BBB+/A-	105.70	29-Dec-2023	5.47	128
3.796, Senior, USD, 2024:B	1,100	15-MAR-2024	WR/BBB+/A-	99.63	31-Dec-2023	5.55	16
7.65, Senior, USD, 2027:B	175	01-MAR-2027	Baa1/BBB+/A-	108.91	29-Dec-2023	4.58	71
5-Year CDS:CDS					30-Dec-2023		40

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Medtronic Inc / MDT

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4, Senior, USD, 2043:B	305	01-APR-2043	A3/A/NR	87.88	31-Dec-2023	4.99	80
4.375, Senior, USD, 2035:B	1,932	15-MAR-2035	A3/A/NR	97.59	31-Dec-2023	4.65	74
4.625, Senior, USD, 2045:B	1,813	15-MAR-2045	A3/A/NR	97.17	31-Dec-2023	4.84	61

For pricing information refer to "Other Important Disclosures" below.

Medtronic Inc / MDT

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Pfizer, Inc. / PFE

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.6, Senior, USD, 2028:B	659	01-DEC-2028	A2/A/Au	109.19	29-Dec-2023	4.49	62
7.2, Senior, USD, 2039:B	2,500	15-MAR-2039	A2/A/Au	124.23	31-Dec-2023	4.92	88
5-Year CDS:CDS					30-Dec-2023		41
1.7, Senior, USD, 2030:B	1,000	28-MAY-2030	A2/A/Au	85.15	31-Dec-2023	4.38	51
2.7, Senior, USD, 2050:B	1,250	28-MAY-2050	A2/A/Au	69.63	31-Dec-2023	4.73	55

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Quest Diagnostics Inc. / DGX

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.95, Senior, USD, 2037:B	176	01-JUL-2037	Baa2/BBB+/BBB	111.44	29-Dec-2023	5.72	184
5.75, Senior, USD, 2040:B	249	30-JAN-2040	Baa2/BBB+/BBB	99.25	29-Dec-2023	5.82	163
5-Year CDS:CDS					30-Dec-2023		27

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Stryker Corp / SYK

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.5, Senior, USD, 2026:B	1,000	15-MAR-2026	Baa1/BBB+/NR	97.55	31-Dec-2023	4.68	43
4.625, Senior, USD, 2046:B	1,000	15-MAR-2046	Baa1/BBB+/NR	95.68	31-Dec-2023	4.95	71
3.65, Senior, USD, 2028:B	600	07-MAR-2028	Baa1/BBB+/NR	96.71	31-Dec-2023	4.52	58

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Thermo Fisher Scientific International / TMO

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.3, Senior, USD, 2044:B	400	01-FEB-2044	A3/A-/A-	103.96	31-Dec-2023	4.98	79

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

UnitedHealth Group / UNH

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
5.8, Senior, USD, 2036:B	850	15-MAR-2036	A2/A+/A	109.25	31-Dec-2023	4.79	85
6.625, Senior, USD, 2037:B	650	15-NOV-2037	A2/A+/A	117.27	31-Dec-2023	4.90	91
6.875, Senior, USD, 2038:B	1,100	15-FEB-2038	A2/A+/A	120.76	31-Dec-2023	4.83	83
3.95, Senior, USD, 2042:B	625	15-OCT-2042	A2/A+/A	87.50	31-Dec-2023	4.98	81
4.25, Senior, USD, 2043:B	750	15-MAR-2043	A2/A+/A	92.54	31-Dec-2023	4.85	67
5.7, Senior, USD, 2040:B	300	15-OCT-2040	A2/A+/A	107.32	31-Dec-2023	5.04	95
5.95, Senior, USD, 2041:B	350	15-FEB-2041	A2/A+/A	109.23	31-Dec-2023	5.12	103
4.625, Senior, USD, 2041:B	600	15-NOV-2041	A2/A+/A	95.61	31-Dec-2023	5.00	86
4.375, Senior, USD, 2042:B	502	15-MAR-2042	A2/A+/A	92.20	31-Dec-2023	5.03	88
5-Year CDS:CDS					30-Dec-2023		37

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Zimmer Biomet Holdings / ZBH

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.55, Senior, USD, 2025:B	2,000	01-APR-2025	Baa2/BBB/BBB	97.86	31-Dec-2023	5.34	71
4.25, Senior, USD, 2035:B	253	15-AUG-2035	Baa2/BBB/BBB	90.31	31-Dec-2023	5.38	146
4.45, Senior, USD, 2045:B	395	15-AUG-2045	Baa2/BBB/BBB	87.89	31-Dec-2023	5.41	117

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Zoetis Inc / ZTS

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.7, Senior, USD, 2043:B	1,150	01-FEB-2043	Baa1/BBB/NR	95.64	31-Dec-2023	5.06	88
4.5, Senior, USD, 2025:B	750	13-NOV-2025	Baa1/BBB/NR	99.42	31-Dec-2023	4.82	48
3, Senior, USD, 2027:B	750	12-SEP-2027	Baa1/BBB/NR	94.85	31-Dec-2023	4.53	55
3.95, Senior, USD, 2047:B	500	12-SEP-2047	Baa1/BBB/NR	84.94	31-Dec-2023	5.05	81
3.9, Senior, USD, 2028:B	500	20-AUG-2028	Baa1/BBB/NR	97.85	31-Dec-2023	4.42	50
4.45, Senior, USD, 2048:B	400	20-AUG-2048	Baa1/BBB/NR	90.89	31-Dec-2023	5.10	88

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

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Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only corporate credit issuer recommendations. A corporate credit issuer rated Overweight is included as a Buy, a corporate credit issuer rated Marketweight is included as a Hold, and a corporate credit issuer rated Underweight is included as a Sell.

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