Healthcare Industry Stock Pick Research

Part 1

My stock screen consists of the following ratios to select stocks: price to earnings, return on equity, debt to equity, current ratio, and cash per share for the stock screen. I chose each ratio for many reasons.

Starting with Price to earnings (P/E). P/E compares the market value of a stock to the company's earnings. It indicates whether a company is overvalued or undervalued. Investors can also consider paying a higher share price according to the P/E. In addition, companies with high P/E can potentially indicate companies that are growing faster than average.

Return on equity (ROE) measures a company's profitability and how efficiently it can use its capital to profit. ROE is a good indicator of a company’s return to shareholders. In addition, ROE allows investors to compare companies in the same industry. When two companies are in the same sector, they will have similar business conditions. As a result, higher ROE can determine whether a company is producing more profit. ROE can also determine which industry is a better investment option. For instance, some industries require more assets to operate, which causes companies in the industry to have a lower ROE. Shareholders need to be aware of this as this factor may cause the company to have a lower return to shareholders.

Debt to equity (D/E) compares the capital raised by debt to the capital provided by shareholders. A company that uses more debt to finance its growth will have a higher chance of having less or no return to shareholders. For instance, companies that use debt on costly equipment have a higher D/E ratio and must repay the equipment before paying shareholders. It is suitable for investors to note that a High D/E ratio indicates more risk to invest in.

The current ratio (CR) measures a company's ability to pay off short-term liabilities with current assets. It indicates a company's stability. I chose CR over quick ratio because CR includes current assets. This can be useful to determine if a company is flexible enough to recover from short-term liabilities and continue to grow after selling its assets. It can also determine what happens to shareholders' returns when a company goes bankrupt.

cash per share (CPS) indicates the percentage of a company's share price to finance the business. It indicates a company's financial health, which is directly connected to its stability. CPS is a good ratio in investing in companies with a higher chance of success in the future. Companies with low CPS are more stable and have a higher chance of return. High CPS poses an investment risk.

No.	Ticker	Company	Sector	Industry	Country	P/E	Cash/sh	ROE	Curr R	Debt/Eq	Price
1	ABMD	Abiomed, Inc.	Healthcare	Medical Devices	USA	64.93	18.18	17.70%	7.90	0.00	377.79
2	ABNB	Airbnb, Inc.	Consumer Cyclical	Travel Services	USA	42.61	15.42	32.10%	1.90	0.00	102.14
3	ACQR	Independence Holdings Corp.	Financial	Shell Companies	USA	32.04	0.01	4.00%	13.60	0.00	10.03
4	ADTH	AdTheorent Holding Company, Inc.	Communication Services	Advertising Agencies	USA	4.57	0.76	35.20%	6.50	0.00	1.93
5	ADUS	Addus HomeCare Corporation	Healthcare	Medical Care Facilities	USA	40.10	6.60	7.50%	1.90	0.00	110.28
6	AEHR	Aehr Test Systems	Technology	Semiconductor Equipment & Materials	USA	79.97	1.35	19.90%	6.00	0.00	26.07
7	AGX	Argan, Inc.	Industrials	Engineering & Construction	USA	22.15	23.21	8.40%	2.70	0.00	37.95
8	AGYS	Agilysys, Inc.	Technology	Software - Application	USA	204.94	3.82	8.40%	2.20	0.00	66.40
9	AKAM	Akamai Technologies, Inc.	Technology	Software - Infrastructure	USA	30.39	5.51	11.70%	2.30	0.00	94.86
10	ALCC	AltC Acquisition Corp.	Financial	Shell Companies	USA	986.00	0.04	0.10%	3.40	0.00	9.86
11	ALGM	Allegro MicroSystems, Inc.	Technology	Semiconductors	USA	50.14	1.56	16.80%	4.70	0.00	31.14
12	ALGN	Align Technology, Inc.	Healthcare	Medical Devices	USA	30.45	14.32	14.00%	1.40	0.00	196.66
13	AMN	AMN Healthcare Services, Inc.	Healthcare	Medical Care Facilities	USA	11.92	3.52	43.40%	1.40	0.00	123.70
14	AMSWA	American Software, Inc.	Technology	Software - Application	USA	46.72	3.47	9.70%	2.70	0.00	14.81
15	ANET	Arista Networks, Inc.	Technology	Computer Hardware	USA	37.96	9.83	28.20%	4.00	0.00	139.30

Part 2

Value investors tend to look for a company that is undervalued. I use stock screening to screen the highest price-to-earning companies in North America. Companies with a high P/E are undervalued and have high growth potential.

No.	Ticker	Company	Sector	Industry	Country	P/E	Cash/sh	ROE	Curr R	Debt/Eq	Price
1	SWAV	ShockWave Medical, Inc.	Healthcare	Medical Devices	USA	107.78	7.26	30.10%	7.30	0.04	249.98
2	LSCC	Lattice Semiconductor Corporation	Technology	Semiconductors	USA	65.91	0.88	36.40%	3.10	0.34	71.72
3	XPEL	XPEL, Inc.	Consumer Cyclical	Auto Parts	USA	48.24	0.38	39.80%	3.30	0.23	67.86
4	BF-B	Brown-Forman Corporation	Consumer Defensive	Beverages - Wineries & Distilleries	USA	39.19	1.88	32.60%	3.50	0.80	73.78
5	OFLX	Omega Flex, Inc.	Industrials	Specialty Industrial Machinery	USA	38.75	2.99	39.20%	3.60	0.00	97.03

After researching, LSCC is the best stock to invest in as a value investor.

Qualitative

The Lattice Semiconductor Corporation (LSCC) designs programmable devices, including programmable devices, video connecting devices, and millimetre wave devices. It is a company that operates worldwide. In order to fully analyze this company, I will research and determine the effectiveness of this business in each field of their work.

Background Information:

The company is a technology company that focuses on developing new technological devices. Technology companies are known for the most growth in current years, and their price to earning ratio is averaging higher than other industries. Technology companies are good to invest in as they have high demand and low asset usage. In addition, technology companies are not directly tied to commodities, so the company's trend is more predictable.

The company is already established as it has operations worldwide, including Hillsboro, Oregon, Shanghai, Manila, and Singapore. It has over 700 employees and an annual revenue of more than 400 million as of 2019. The business is very straightforward, with much information presented to the public. The company's trend has been increasing steadily throughout the years with no suspicious trends. Investors should look into this company as it is simplistic and established.

LSCC is still relatively small compared to the large successful companies today, with stocks priced over $200 and employees over 500,000. While LSCC's stock price is around $70, it only has a little over 700 employees. It is a good investment for value investors looking for hidden gems. Many opportunities come from smaller companies where fewer investors are looking; when more big institutions discover this company, the value of this company will increase.

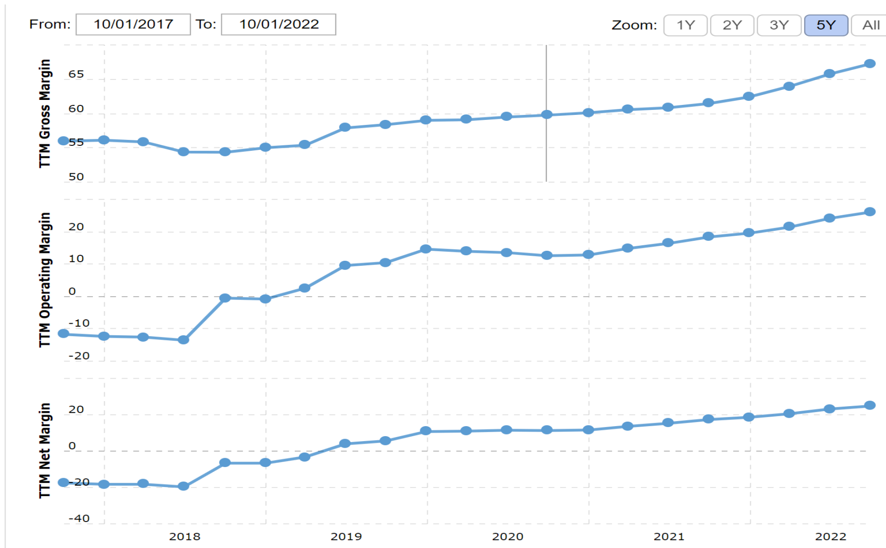
The company targets big technology companies. They sell their product to them for a large price. Its connections are well developed with big companies that are willing to pay them a large sum for their products. Established connections give them a competitive advantage over the other technology companies as they do not have the connection. Furthermore, as technology advance regularly, big companies will have to continue to buy new innovations to keep up to date.

Risk to Invest:
The company's stockholder is The Vangaurd Group, Inc. Vanguard Group Inc, one of the world's biggest investment companies, with a revenue of 6.9 billion in 2020. It has its own analysis team to analyze the risk of investing and the revenue they approximate to get. It is reasonable to follow in investing corporations' footsteps as they have thoroughly analyzed the company.

Furthermore, investors should note that the risk of investing in this company is low. With the backup of a big investment company, LSCC does need to worry about debt. As a result, it is not likely that the company will go bankrupt. It is also not likely that the company will have no returns to shareholders. In addition, the company's current ratio and debt to equity are also in a good state. Companies do not have a large need for capital. They already have the assets and stabilize themselves to generate profit.

Transportation of Goods:
The company is a worldwide company. The product they produce can be easily transported worldwide. The items that they sell are small in size. It can be shipped easily and in bundles. The shipping price is also low because shipping measures price by determining the items' weight and size. In addition, many of their products can be transferred online.

Profit Margin:



The graph is from Macrotrends. The right values are in percentages, and the bottom values are in years.

The graph indicates that within the last five years, all company profit margins have an increasing trend. With a competitive edge in the technology industry, the company's profit margin provides a good estimate that the company will continue to increase in the long term.

Quantitative

Using the Ten Year EPS Test, I will compute the annual rate of return based on the investment at today's price. This will be a quantitative tool for investors to determine whether the stock is a good investment.

The average annual earnings growth rate over the past 10 years of LSCC is 32.09%. The current EPS is $1.11. Start by applying LSCC's historic growth rate to its current EPS. Its EPS in 10 years will be $17.95.

I then apply the lowest P/E ratio of $12.2 to EPS in 10 years ($17.95). The shares should be trading at $218.97.

LSCC has no dividends, so I move on to compute the company's annual compound growth rate.

The current stock price of the company is $68.99. I compute the annual compound growth rate using the current price ($68.99) and conservative estimate ($218.97) and get 12.24%.

Result:
12.4% return is a good return for the risk taken. Compared to other markets in the same industry, the average return is 10%.

Conclusion

In all, LSCC is a very good choice for value investors. It is in a good industry with an investment of big corporations, robust connections, convenient products to transport, and an increasing profit margin. It also has a return higher than average companies. With all the data, the company is a reliable, undervalued company with the potential to develop reasonably until it reaches its full value.

<u>Part 3</u>

Growth investors are looking for companies with fast growth. They look primarily for companies that have the highest sales growth. I use stock screening to screen the highest growth-rate companies in North America, along with the 5 ratios that I chose. It can screen the most reliable companies that have a high growth rate.

No.	Ticker	Company	Sector	Industry	Country	P/E	Cash/sh	▼Sales past 5Y	ROE	Curr R	Debt/Eq	Price
1	DVAX	Dynavax Technologies Corporation	Healthcare	Biotechnology	USA	6.19	4.53	108.90%	89.50%	3.80	0.44	12.61
2	INMD	InMode Ltd.	Healthcare	Medical Devices	Israel	18.59	5.83	73.00%	39.70%	9.70	0.00	38.32
3	SELB	Selecta Biosciences, Inc.	Healthcare	Biotechnology	USA	3.90	0.94	60.10%	66.00%	6.70	0.31	1.29
4	SIGA	SIGA Technologies, Inc.	Healthcare	Biotechnology	USA	6.51	1.47	54.90%	65.90%	7.20	0.00	9.12
5	DQ	Daqo New Energy Corp.	Technology	Semiconductor Equipment & Materials	China	2.68	40.86	53.60%	49.30%	5.20	0.00	53.02

After using the screen, I can see that all companies with the most sales growth are healthcare companies. In addition to that, they all have high ROE, meaning that healthcare companies can easily convert equity financing into profits.

By doing some research, Dynavax Technologies Corporation (DVAX) is the highest sale growth company and will give the highest return with reliability.

<u>Qualitative</u>

Background:
DVAX is a commercial-stage biopharmaceutical company that is committed to developing and commercializing novel vaccines to help protect the world against infectious diseases. The growth rate of the past 5 years was from the coronavirus vaccine. Government and personal businesses continue to buy their vaccines as COVID-19 is still present today. It will have a sufficient market potential as, according to New York News, COVID-19 will continue to evolve and infect people worldwide. People that got their vaccine shots can still get infected by the virus. As a result, the company plans to continue developing new vaccines that people will buy. Investors can note that the company will continue developing new goods and services to adapt the public needs.

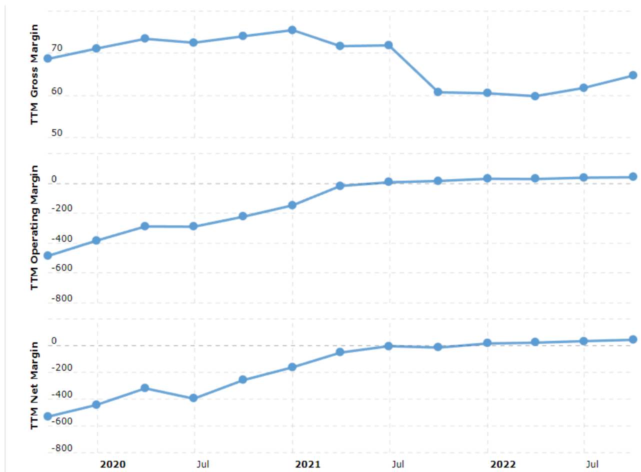
Risk to Invest:
By looking at its statistics at the moment, the company is looking to be the most profitable out of all the other vaccine development companies. This is because they have a better research development group with better efficiency. This can be supported by looking at the ROE; it has the highest and can be assumed that they have a better gain from dollars spent on the company

than other firms with a lower ROE. It will be a lower risk for investors to invest in this company.

DVAX is one of the top vaccine development companies, and it is firmly entrenched in its industry. Its advantage comes from the government's trust and many of its patients from the successful development of the COVID-19 vaccine. The stability reduces the risk of investing.

Furthermore, the company can easily change customer orientation. When a new virus appears, estimated to be every 10 years, the company will start developing a new vaccine to meet its changing customer needs.

Profit Margin:



The graph is from Macrotrends. The right values are in percentages, and the bottom values are in years.

The profit margin of the company is increasing at a steady rate. The average profit margin as of 2022 is 49.84%. Investors can note that the company can fund future growth. In addition, the average profit margin is more than average, which is 33.93%.

Management of Company:

The company is not regulated by the government. Investors can note that the profit will not be significantly reduced by the government. However, it is funded by the government, meaning the company has a lot of money to operate.

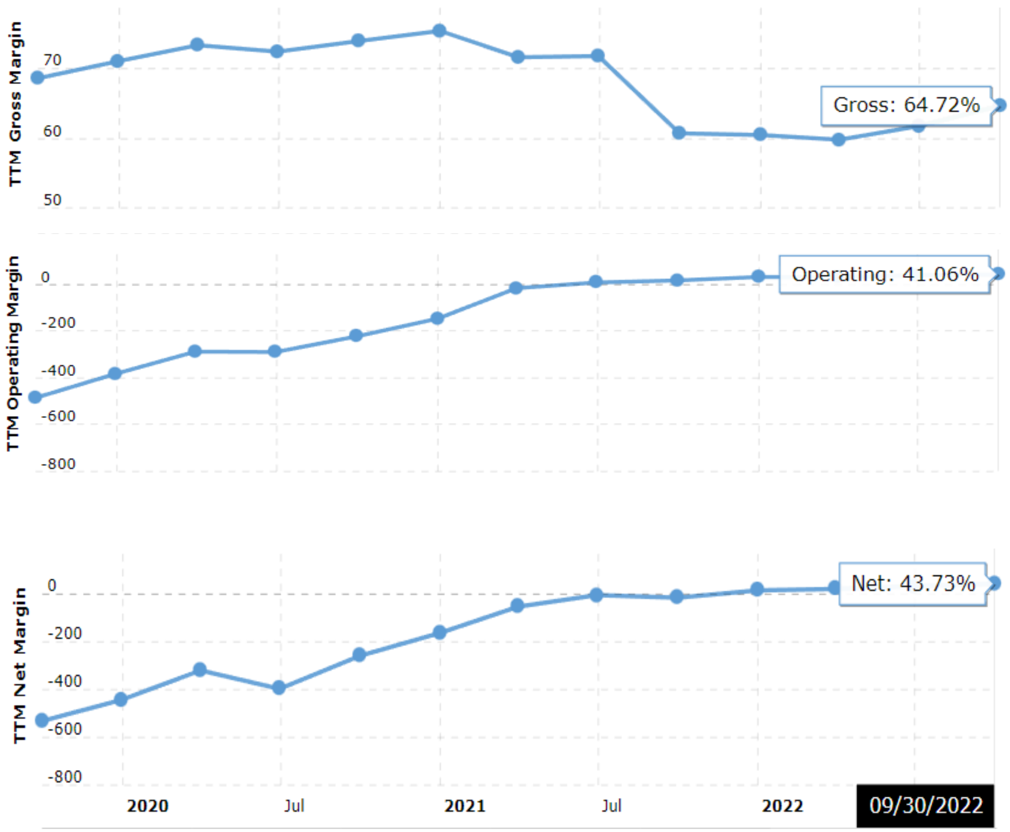
On the website Glassdoor, I can see that most reviews of employees are positive, and there are no reviews lower than 3 stars out of 5 stars. The reviews are anonymous, so there is a higher chance that they are real reviews. The ratings are fairly positive, with 1 to no negative feedback about the company. This is a sign that the company's management is relatively good compared to other companies.

Furthermore, more people are looking to join the company, and fewer people are leaving the company. The company went from 2018 with 249 to 2021 with 311 employees, with over 90%

of employees staying each year. This indicates that the working conditions are good for each employee. From this information, the investor can note that the company's management is in a good state.

Quantitative

I will examine operating ratios indicative of a company's growth for quantitative analysis.



From the graph provided by Macrotrends. It indicates that the company is in good shape for a growth investor to invest. The company's gross profit margin is 67.72%, which is greater than 40% (a profitable value). The net profit margin is 43.73%, well over 10% (a profitable value). Although the operating profit margin is above 10-25% (a profitable value), it is 41.06%, meaning that it is still well managed and has less risk than companies with lower operating margins.

Furthermore, profitable ratios for growth investors are current ratios over 2 and quick ratios over 1.5. DVAX has stats higher than all of the required profitable ratios. It has a current ratio of 3.80 and a quick ratio of 3.40. Account receivable turnover is not important in this case, as the company is a research company that sells its vaccines to the government.

Conclusion

In all, DVAX is a very good choice for growth investors. It is in a profitable industry with an investment from the government, strong demand, stable research development, good management and an increasing profit margin. It also has a return higher than average companies in its industry. With all the data, the company is reliable and has high growth potential.

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