Thematic Equity Research

Reiterate Healthcare OW, High Conviction Franchise and Innovation Stocks

With geopolitical and macro risks elevated, **we see Healthcare as one of the few equity segments offering earnings stability and capital return at a still favorable valuation**. We entered this year with an overweight on Healthcare and maintain this view given the sector continues to offer a rare combination of Quality, Low Vol, Growth and Value. This report is a joint effort between Equity Macro Strategy and Healthcare Research teams, and includes investment theses for all major Healthcare sub-sectors along with two baskets based on JPM stock analysts' views: (1) **JPM Healthcare Franchise** (JPAMHFRA) is a higher Quality basket expected to outperform S&P 500 Healthcare sector; and (2) **JPM Healthcare Innovation** (JPAMHINO) is a higher Growth basket with attractive long-term risk/reward especially given its recent sharp underperformance.

We see Healthcare as a safe-haven in a world with elevated geopolitical risks, high inflation, and decelerating global growth. It offers defensive growth (inelastic demand / secular growth even through periods of uncertainty), high margins and pricing power (offset inflation), and attractive shareholder yield (3.1% vs. 10yr rate of 2.5%) at a reasonable valuation (~16x vs. ~20x S&P 500). After an average -54% drawdown for Russell 3000 Healthcare constituents with ~24% of stocks down more than 80% over the past year, we see Healthcare investor sentiment as poor and washed out. These declines have been far worse than the average drawdown of -25% across markets due to Healthcare's higher exposure to early-stage stocks (~23% of Russell 3000 Healthcare have little or no trailing revenues vs. ~1% for Russell 3000 ex-Healthcare). In our view, the aggressive Fed Pivot in recent months (from 2 rate hikes to 8) has been a key catalyst for the boom and bust of growth names within the sector. Equity capital market activity for Healthcare, specifically for higher-beta sub-sectors, have come to a relative standstill (~$18B annualized pace) compared to recent years (2020: ~$77B, 2021: ~$51B). While the outlook for the healthcare innovation cycle remains unchanged, investor enthusiasm has clearly waned, leaving **sector valuations at cheapest levels in years** (S&P 500 Healthcare is trading at -4x relative to market vs. historical premium of ~1x), cheaper than its defensive peers (-5x relative to Staples and Utilities) and much cheaper than its growth peers (-9x relative to Tech). On the hyper-growth side, S&P Biotech collapsed by -44% relative to the market from 52W highs representing the largest underperformance on record and even below previous cycle lows (e.g. 2009-10, 2015-16, see Figure 2).

Healthcare has been in secular growth for several decades due to positive demographics (ageing and growing middle-class population), which we believe is unique to this sector. In the US alone, Healthcare expenditures have risen to 16% of total personal consumption wallet from 5% since the 1950s, while Food and Beverages has declined to 8% from 21%. This has translated to Healthcare generating the strongest revenue growth by far of all sectors since the GFC of 9.0% CAGR (vs. 4.4% S&P 500) and long-term growth rate of 10.6% CAGR (vs. 4.0% S&P 500 since 1994), see Figure 3. While rising energy and inflation costs could be a concern for crowding out healthcare spending in the short term, demographic trends, excess savings, and rising wages all suggest otherwise. Based on consensus estimates, Healthcare is expected to generate healthy mid-single-digit revenue growth this year and next. As for pricing power, Healthcare enjoys tech-like margins outside of Services and much higher than Defensive peers. Most Healthcare industries earn margins north of 20% given patent protection and scale while Biotech (38%) and Pharma (30%) generate among the strongest margins of all S&P 500 industries (in line

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See page 30 for analyst certification and important disclosures.

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with or higher than scalable Software and Internet Services: Semis ~32%, Software 31%, and Interactive Media at 26%). While these margins are often a target of political rhetoric during elections, investors are generally paid to fade headlines. More so, a gridlock outcome from the upcoming midterm elections should be a positive for the sector. As for inflation, Healthcare margins are more insulated during periods of rising costs and inflation given agriculture and energy are not significant inputs for Healthcare (unlike its defensive peer Staples, which is one of the largest users of commodities). Healthcare also has lower exposure to wage pressures given its asset-lite structure. Despite stronger organic growth and richer margins, Healthcare trades at a significant discount to Staples (16x vs. 20x for Staples).

Summary of investment theses for Healthcare sub-sectors with more details, including highest conviction ideas from JPM stock analysts, in the body of the report:

- **US Major and Specialty Pharma**. Industry fundamentals are healthier than expected with expectations for MSD top-line growth and HSD EPS growth. With a ~40% discount in terms of valuation vs. market, Major pharma continues to be attractive with room for multiple expansion. While there has been rotation out of higher growth multiple areas (e.g. Animal Health), the fundamental picture remains unchanged.

- **Biotech**. The industry remains under pressure from an uneven regulatory environment, clinical setbacks, struggling legacy business and weak investor sentiment driven by financing overhangs and deal volume. Fundamentals, however, remain relatively intact with an increasingly attractive valuation. Potential near-term catalysts could be M&A and clinical/regulatory successes. We particularly favor companies with strong valuation backstops, potentially disruptive tech platforms and healthy balance sheets (e.g. cash runway >24 months).

- **Medical Devices**. Medtech could be positioned for upside on increasing optimism around Covid antivirals, robust pipeline/innovation cycle and healthy balance sheet position for pursuing M&A opportunities/reinvestment/buybacks.

- **Managed Care**. The industry should continue to benefit from secular trends in Medicare Advantage penetration driving membership growth for MCOs. Given the ongoing economic recovery, prescription drug utilization is expected to rebound to pre-pandemic levels with the potential for strong growth tailwinds.

- **Healthcare Technology & Distribution**. The two most important themes in the industry are consumerization of healthcare and shift to value-based care. The rising cost of healthcare has been driving patients to demand convenience and price transparency, while also providing strong patient engagement. We expect the rising importance of data to benefit healthcare IT vendors.

- **Life Sciences**. The industry has been under pressure given the ongoing intra-sector rotation towards pharma/managed care/med tech and the broader sector rotation out of Healthcare/Growth. Tougher comps, fading Covid tailwinds and macro concerns remain key risks.

Figure 1: Drawdown of Healthcare Index vs. Constituents

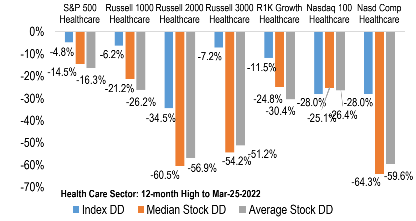


Figure 2: Largest Biotech Underperformance

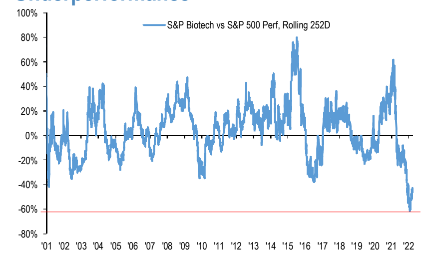


Figure 3: S&P 500 Healthcare Revenue (CAGR)

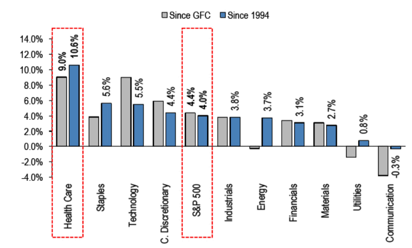
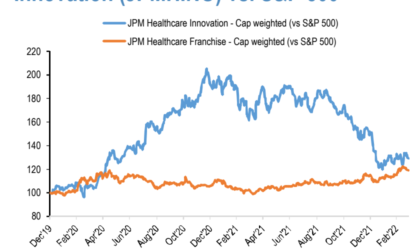


Figure 4: JPM Franchise (JPAMHFRA) and Innovation (JPMHINO) vs. S&P 500



Source for above figures: J.P. Morgan Equity Macro Research, Bloomberg Finance L.P.

Bloomberg subscribers can use the tickers JPAMHFRA <Index> and JPAMHINO <Index> to access tracking information on baskets created by the J.P. Morgan Delta One desk to leverage the themes discussed in this report. Over time, the performance of JPAMHFRA and JPAMHINO could diverge from returns quoted in our research because of differences in methodology. J.P. Morgan Research does not provide research coverage of these baskets and investors should not expect continuous analysis or additional reports relating to them. For more information, please contact your J.P. Morgan salesperson or the Delta One Desk.

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JPM Healthcare Franchise (JPAMHFRA) Basket

Methodology: The JPM Healthcare Franchise (JPAMHFRA) is a higher Quality basket expected to outperform S&P 500 Healthcare sector derived from high conviction picks from our JPM Stock Analysts.

Figure 5: JPM Healthcare Franchise (JPAMHFRA <Index>) Basket

				Company Stats				Price Perf (%)		Technicals				IBES Estimates		Valuation		
	GICS Sector/Industry	Company	Ticker	Current Price	52-Wk High/ Low	Market Cap	Avg Vol. (mm)	12-mos Change	YTD	Short as % of Out	RSI 30Day	Avg Rating 1 = Sell 5 = Buy	Repurchase Stock LTM % Mkt Cap	Sales Growth NTM	EPS Growth NTM	EV/ EBITDA LTM	P/E NTM	P/B
1	Sector: Health Care	DexCom, Inc.	DXCM	$495.08	659/318	$48,055	$362.8	24%	-8%	4%	56	4.7	—	25%	42%	140.5x	131.1x	21.3x
2	Health Care Providers & Service	UnitedHealth Group Incorporated	UNH	$513.20	517/361	$482,869	$1,513.9	54%	2%	1%	59	4.6	1.0%	13%	18%	18.6x	22.9x	6.7x
3		CVS Health Corporation	CVS	$108.04	111/73	$141,804	$653.6	59%	5%	1%	57	4.5	0.1%	6%	0%	11.3x	12.8x	1.9x
4		McKesson Corporation	MCK	$308.49	310/180	$46,211	$324.3	82%	24%	4%	72	4.5	4.8%	0%	1%	13.3x	13.3x	NA
5	Biotechnology	AbbVie, Inc.	ABBV	$161.97	162/104	$286,085	$1,117.4	50%	20%	1%	73	4.3	0.3%	6%	8%	11.6x	11.8x	18.6x
6		Vertex Pharmaceuticals Incorporat	VRTX	$255.72	258/176	$65,100	$478.5	20%	16%	1%	64	4.4	2.4%	15%	11%	17.0x	17.7x	6.4x
7		Seagen, Inc.	SGEN	$139.70	193/117	$25,545	$123.0	-8%	-10%	2%	51	4.1	0.0%	26%	Neg	NA	Neg	8.4x
8		Alnylam Pharmaceuticals, Inc	ALNY	$161.65	212/125	$19,432	$109.3	9%	-5%	4%	52	4.6	—	55%	Neg	NA	Neg	33.0x
9		BioMarin Pharmaceutical Inc.	BMRN	$78.36	94/72	$14,421	$91.9	1%	-11%	6%	45	4.7	0.3%	23%	- to +	629.0x	63.5x	3.4x
10		Neurocrine Biosciences, Inc.	NBIX	$93.59	108/72	$8,914	$77.1	-15%	10%	3%	58	4.2	0.0%	25%	148%	60.8x	41.5x	6.5x
11		United Therapeutics Corporation	UTHR	$175.23	218/158	$7,908	$68.9	5%	-19%	2%	43	4.3	0.1%	13%	63%	11.5x	10.7x	2.0x
12		Zai Lab Ltd. Sponsored ADR	ZLAB	$41.32	182/26	$3,984	$27.1	-72%	-34%	3%	44	5.0	0.1%	120%	Neg	NA	Neg	2.5x
13		PTC Therapeutics, Inc.	PTCT	$36.22	52/32	$2,585	$19.7	-37%	-9%	8%	47	3.7	0.0%	38%	Neg	NA	Neg	NM
14	Pharmaceuticals	Eli Lilly and Company	LLY	$291.66	295/179	$277,762	$873.4	42%	6%	1%	67	4.2	0.5%	2%	9%	35.0x	32.7x	29.4x
15		Zoetis, Inc. Class A	ZTS	$189.37	249/153	$89,377	$342.3	22%	-22%	1%	44	4.6	0.9%	11%	14%	37.0x	35.5x	19.7x
16		Jazz Pharmaceuticals Public Limite	JAZZ	$158.15	189/118	$9,764	$101.9	-6%	24%	6%	61	4.8	0.4%	18%	3%	18.0x	9.4x	2.5x
17	Life Sciences Tools & Services	Thermo Fisher Scientific Inc.	TMO	$583.19	672/439	$228,139	$857.2	30%	-13%	1%	52	4.7	0.9%	9%	-9%	23.4x	25.4x	5.6x
18		Danaher Corporation	DHR	$291.47	334/218	$208,504	$729.7	33%	-11%	1%	53	4.7	0.0%	6%	5%	26.7x	27.6x	5.0x
19		Avantor, Inc.	AVTR	$34.19	44/28	$20,855	$133.6	23%	-19%	3%	46	5.0	0.1%	10%	11%	24.9x	21.8x	6.5x

Source: J.P. Morgan Equity Macro Research, Bloomberg Finance L.P., IBES

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Figure 6: JPM Healthcare Innovation (JPAMHINO) Basket

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	GICS Sector/Industry	Company	Ticker	Current Price	52-Wk High/ Low	Market Cap	Avg Vol. (mm)	12-mos Change	YTD	Short as % of Out.	RSI 30Day	Avg Rating 1 = Sell 5 = Buy	Repurchase Stock LTM % Mkt Cap	Sales Growth NTM	EPS Growth NTM	EV/ EBITDA LTM	P/E NTM	P/B
1	Sector: Health Care	Treace Medical Concepts, Inc.	TMCI	$19.05	37/15	$1,043	$5.3	—	2%	2%	49	5.0	0.0%	46%	Neg	NA	Neg	11.1x
2	Health Care Providers & Service	agilon health inc	AGL	$24.07	45/14	$9,656	$35.5	—	-11%	4%	55	5.0	—	63%	Neg	NA	Neg	8.4x
3		Oak Street Health, Inc.	OSH	$27.05	65/14	$6,519	$57.2	-49%	-18%	8%	55	4.7	0.0%	63%	Neg	NA	Neg	126.8x
4		Guardant Health, Inc.	GH	$60.94	169/47	$6,208	$61.5	-59%	-39%	4%	45	4.9	1.3%	35%	Neg	NA	Neg	9.6x
5		Progyny, Inc.	PGNY	$50.55	68/33	$4,612	$45.4	20%	0%	6%	57	5.0	0.4%	66%	-71%	133.0x	260.6x	18.3x
6		Privia Health Group, Inc.	PRVA	$25.13	51/19	$2,676	$16.4	—	-3%	2%	52	5.0	0.0%	35%	- to +	NA	226.9x	6.3x
7	Health Care Technology	Evolent Health Inc Class A	EVH	$31.18	35/18	$2,832	$19.4	55%	13%	8%	60	5.0	0.1%	34%	660%	81.1x	205.1x	4.0x
8		Phreesia, Inc.	PHR	$28.43	76/23	$1,457	$12.9	-54%	-32%	3%	44	4.5	0.5%	39%	Neg	NA	Neg	3.2x
9	Biotechnology	Horizon Therapeutics Public Limite	HZNP	$108.72	121/80	$24,915	$162.7	20%	1%	2%	61	5.0	0.7%	28%	31%	28.1x	17.3x	5.3x
10		Sarepta Therapeutics, Inc.	SRPT	$76.07	101/61	$6,629	$74.7	-13%	-16%	6%	48	4.5	0.1%	33%	Neg	NA	Neg	7.1x
11		Ascendis Pharma A/S Sponsored	ASND	$111.35	179/97	$6,340	$29.5	-28%	-17%	8%	46	4.9	—	946%	Neg	NA	Neg	5.5x
12		Legend Biotech Corporation Spon	LEGN	$35.87	58/25	$5,482	$20.8	32%	-23%	3%	45	5.0	—	140%	Neg	NA	Neg	11.0x
13		Ultragenyx Pharmaceutical, Inc.	RARE	$67.97	120/61	$4,716	$31.5	-52%	-19%	4%	48	4.6	—	15%	Neg	NA	Neg	5.1x
14		Apellis Pharmaceuticals, Inc.	APLS	$48.10	73/28	$4,701	$54.7	0%	2%	7%	53	4.6	0.0%	114%	Neg	NA	Neg	NA
15		Beam Therapeutics, Inc.	BEAM	$59.06	139/53	$4,059	$47.3	-34%	-26%	12%	45	4.5	0.0%	-46%	Neg	NA	Neg	4.7x
16		Denali Therapeutics Inc.	DNLI	$33.00	80/29	$4,054	$18.1	-54%	-26%	5%	47	4.6	0.0%	90%	Neg	NA	Neg	4.2x
17		Natera, Inc.	NTRA	$40.25	129/26	$3,843	$51.3	-65%	-57%	5%	38	4.8	0.0%	33%	Neg	NA	Neg	5.0x
18		Relay Therapeutics, Inc.	RLAY	$29.84	39/19	$3,231	$19.0	-28%	-3%	15%	58	4.9	—	415%	Neg	NA	Neg	3.6x
19		Springworks Therapeutics, Inc.	SWTX	$60.69	90/47	$2,995	$19.0	-29%	-2%	8%	51	5.0	0.0%	—	Neg	NA	Neg	7.1x
20		SAGE Therapeutics, Inc.	SAGE	$33.71	81/30	$1,991	$21.0	-60%	-21%	5%	45	4.0	0.1%	704%	Neg	NA	Neg	1.1x
21		Immunocore Holdings Plc Sponsor	IMCR	$29.32	44/18	$1,286	$2.6	-39%	-14%	2%	56	4.6	0.0%	—	—	NA	Neg	4.7x
22		Replimune Group, Inc.	REPL	$15.71	40/15	$742	$4.6	-55%	-42%	4%	39	5.0	0.0%	—	Neg	NA	Neg	1.7x
23		Nurix Therapeutics, Inc.	NRIX	$13.70	37/13	$613	$5.4	-62%	-53%	9%	39	4.8	0.0%	69%	Neg	NA	Neg	1.8x
24		Scholar Rock Holding Corp.	SRRK	$13.40	55/11	$473	$3.4	-75%	-46%	12%	41	4.7	0.0%	-8%	Neg	NA	Neg	2.7x
25		Kiniksa Pharmaceuticals Ltd. Class	KNSA	$9.81	19/9	$335	$4.1	-52%	-17%	10%	45	5.0	0.0%	291%	Neg	NA	Neg	3.7x
26	Pharmaceuticals	Catalent Inc	CTLT	$108.00	143/91	$19,346	$106.5	-5%	-16%	1%	51	4.9	0.1%	14%	16%	21.1x	25.9x	4.3x
27		Edgewise Therapeutics, Inc.	EWTX	$9.10	40/9	$451	$2.2	—	-40%	8%	39	4.5	0.0%	—	Neg	NA	Neg	1.6x
28	Life Sciences Tools & Services	Repligen Corporation	RGEN	$179.57	327/156	$9,935	$71.5	-15%	-32%	4%	45	4.8	0.0%	27%	11%	70.1x	52.9x	5.7x

Source: J.P. Morgan Equity Macro Research, Bloomberg Finance L.P., IBES

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US Major Pharma fundamentals healthier than appreciated, in our view. Following the J.P. Morgan Healthcare Conference as well as 2022 guidance, we have seen an improvement in sentiment for the Major Pharma names and higher interest levels broadly across the sector. While broader market volatility clearly is playing a role in this renewed focus on the Majors, we have long argued that sector fundamentals are far healthier than valuations suggest. Here, we see mid-single-digit revenue growth and high-single-digit EPS growth for the group over the next several years. Despite this, the sector continues to trade at a historically low multiple relative to the S&P500 (12.5x vs 20x, ~40% discount), and we believe there is room for multiple expansion for Major Pharma group.

Core Animal Health fundamentals remain robust with a strong long-term growth outlook. While there has been a recent pullback across the Animal Health space fueled by a market-wide rotation out of higher growth/higher multiple names in a rising interest rate environment, we do not see any significant fundamental changes or challenges to the industry. Pet health trends remain very healthy exiting the pandemic, with veterinarians now treating a larger pet population and pet owners willing to spend more money on their pets (millennials and Gen Z pet parents now represent 50% of pet owners). And while labor shortages in the veterinary industry could modestly constrain growth, this headwind is very manageable and should dissipate as we move through the year. Overall, while we are not expecting 2020-2021 levels of growth in 2022, we expect companion growth will nevertheless be healthy in the coming years (10%+ growth for diagnostics, high-single digits for companion).

Franchise Healthcare Pick(s):

Eli Lilly – Overweight

Ticker: LLY, Price: $289.02, PT: $325

We continue to see Lilly as the best-positioned growth story in our coverage, and the stock represents one of our top picks in the group. We see healthy core product growth, along with several major new pipeline assets (tirzepatide, donanemab and adjuvant Verzenio), translating into a ~10% top line and at least a high-teens EPS CAGR over the next five years, with the Alzheimer's opportunity potentially extending this level of growth out through the remainder of this decade. Although Lilly trades at a significant premium to Major Pharma, we see this valuation as more than justified by Lilly's significantly higher top-line and bottom-line growth relative to peers' as well as the company's meaningful pipeline optionality.

AbbVie – Overweight

Ticker: ABBV, Price: $161.33, PT: $180

ABBV represents our top value idea within the pharma group with shares trading at just 12x our trough 2023 EPS estimate despite the potential for mid- to high-single-digit top-line growth looking beyond the Humira patent expiration. We see multiple sources of upside for AbbVie vs the Street, with strong underlying trends in Immunology and Aesthetics in particular, and see clear room for multiple expansion for ABBV shares if these core franchises exceed expectations. And, as we consider near-term catalysts that could increase the Street's confidence in both trough EPS as well as the potential for health growth off that trough, we are watching 1) Rinvoq's

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growth trajectory (new indication launches, JAK label impact), 2) ongoing aesthetic performance, and 3) further color on bHumira erosion as we move through 2022.

Zoetis – Overweight

Ticker: ZTS, Price: $189.43, PT: $250

We see Zoetis as a best-in-class animal health story driven by sustained innovation on the pet side of its business. This includes Simparica Trio (new flea/tick/heartworm product, we think the Street still underestimates the size of this opportunity) and Librella & Solensia (best-in-class pain medications for dogs and cats). We expect these launches, combined with continued growth for core franchises like Apoquel and Cytopoint (dermatology), as well as ZTS's diagnostics portfolio to support high-single-digit top-line and mid-teens EPS growth for the company for the foreseeable future. Along these lines, we would take advantage of the recent macro-driven underperformance for ZTS shares.

Innovative Healthcare Pick(s):

Horizon – Overweight

Ticker: HZNP, Price: $109.38, PT: $140

We see Horizon emerging as a leading rare disease company led by Tepezza as well as an emerging pipeline. On Tepezza, we see this as a $4+bn product in both acute TED as well as chronic TED (data expected later in 2022). Beyond Tepezza, we see the broader Horizon story increasingly shifting towards the company's emerging pipeline in which the company is making sustained investment, and we will be watching for several phase 2/3 readouts annually over the next several years.

Biotechnology – Large & SMid Cap

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Biotech's painful finish to 2021 has continued into the new year (YTD NBI down ~15% / XBI down ~23% versus S&P500 down ~6%). As we noted in our 2022 Outlook, we continue to see an evolving battle between sentiment and fundamentals. An uneven regulatory environment, clinical setbacks, and struggling legacy businesses are weighing on the group and keep sentiment mixed. Capital markets concerns on financing overhangs and the sheer volume of deals – both past and potentially again in the future – represent another source of debate. That said, from a more fundamental perspective, innovation – the core tenet of Biotech – is still very much intact and continues to drive the sector, and, interestingly, valuation broadly across the cap spectrum is typically not rate limiting to investment idea generation. Of course, M&A remains a wild card tailwind for the sector. Not surprisingly, a key question we commonly receive is along the lines of…"what turns the sector around?" In our view, it may take a confluence of events (M&A, clinical / regulatory "wins," etc.) for the sector to shift from being sensitive to sentiment/momentum and driven more by fundamentals. Fortunately, looking to the balance of the year, there are plenty of potential catalysts, milestones, and drug launches on the horizon that have the potential to improve the overall narrative to the extent these trend more positively. Ultimately, with the aforementioned dynamics, we view it prudent to take a selective approach to the sector. Along these lines, we'd broadly argue that names better positioned to weather a more volatile Biotech backdrop are 1) those afforded solid valuation backstops from commercial revenue streams and 2) companies with potentially disruptive technology platforms coupled with healthy balance sheets (>24 month of cash runway).

Franchise Healthcare Pick(s):

BioMarin – Overweight

Ticker: BMRN, Price: $79.02, PT: $135

BioMarin is a leading orphan disease company that we believe offers a highly favorable risk-reward at current levels. We estimate that BMRN shares trade at a meaningful discount to the value of the company's base commercial business after last year's approval of Voxzogo. While BMRN has suffered from investor frustration and apathy – contributing to the prevailing valuation disconnect – we remain bullish ahead of an ample lineup of potential clinical, regulatory, and commercial catalysts in 2022 and expect a favorable shift in the narrative on execution across these events. In our view, the key drivers to monitor include the Roctavian CHMP opinion 2Q22 and FDA decision by YE22, and the Voxzogo launch throughout the year. BMRN is currently on the J.P. Morgan Analyst Focus List.

Seagen – Overweight

Ticker: SGEN, Price: $138.33, PT: $175

We remain bullish on SGEN as a diversified commercial oncology story (now up to four marketed products following the approval of Tivdak in Sept) that is increasingly drawing interest from a wide range of investors. Amid Seagen's new product cycle, we continue to see underappreciated optionality in the early-stage pipeline. Encouraging updates from earlier assets and Seagen's newest SEA platform technology could emerge as the next lever for the story. There are also key readouts anticipated from existing commercial assets (Tukysa MOUNTAINEER and Padcev cohort K data in 2H22) as well as an anticipated decision on the Daiichi arbitration (likely in 1H22) that should all contribute to an ample catalyst flow over the next 12+ months. SGEN remains a top pick on the strength of the new product cycle, attractive pipeline optionality, and overall strategic value. SGEN is currently on the J.P. Morgan Analyst Focus List.

Vertex – Overweight

Ticker: VRTX, Price: $253.95, PT: $288

We believe Vertex is one of the best positioned large cap biotech companies given its prevailing dominance in the cystic fibrosis space, potentially meaningful bottom-line leverage, and advancing pipeline. Trikafta has the potential to drive substantial long-term upside in CF with 25K+ eligible patients yet to start therapy. Furthermore, the company's next gen once-daily triple regimen for CF (VX-121/tezacaftor/VX-561) could further cement its dominant position and improve overall franchise economics. The most notable near-term risk to the story we see is pending competitive CF data from ABBV, but we maintain our view that Trikafta sets a high bar to even meet, let alone beat. Beyond cystic fibrosis, VRTX is finally making notable progress across its broadening pipeline. There are multiple assets that could ultimately represent meaningful needle movers, including CTX-001 for sickle cell/B-thal, VX-147 for APOL1 mediated kidney disease (AMKD), and VX-880 for Type 1 diabetes. VRTX is currently on the J.P. Morgan Analyst Focus List.

Innovative Healthcare Pick(s):

Legend Biotech – Overweight

Ticker: LEGN, Price: $36.88, PT: $61

Legend Biotech is an emerging cell therapy company focused on the treatment of cancer. We believe LEGN is particularly well positioned within the BCMA multiple myeloma space, with lead agent Carvykti hailed as a potential $5B+ blockbuster by partner JNJ. Carvykti has consistently demonstrated best-in-class data to date in relapsed/refractory multiple myeloma, and data in earlier lines (CARTITUDE-4 &5) will determine the asset's potential for expanding its longer-term commercial opportunity. We anticipate a gradual launch for Carvykti following the FDA approval last month and then a far bigger driver of 2022 performance being a first look at top-line data in 2H from the CARTITUDE-4 study evaluating the product head to head against standard of care triplet therapy. Legend is developing a range of additional cancer products behind Carvykti, though the pipeline currently draws significantly less investor attention.

Ultragenyx – Overweight

Ticker: RARE, Price: $68.87, PT: $132

We believe Ultragenyx is uniquely positioned to generate value over the long term with its broad and diverse pipeline of orphan disease assets. A significant rerating in shares over the last year despite continued growth of the commercial portfolio and advancement of the pipeline prompted our recent upgrade. The company has a well-respected management team overseeing four commercial assets and a deep pipeline that now has six clinical candidates. Current investor attention is primarily focused on GTX-102 for Angelman syndrome; a pending midyear data update is likely the key event for 2022. Longer term, however, we expect enthusiasm to also build for programs like setrusumab for osteogenesis imperfecta and UX701 for Wilson Disease among others.

Sage – Overweight

Ticker: SAGE, Price: $32.42, PT: $92

SAGE shares may be struggling in the short term as investors debate the outlook for the company's lead drug candidate for major depressive disorder, but we believe the name offers favorable risk-reward over the longer term based on the potential of this controversial asset (zuranolone), combined with multiple other shots on goal in the company's broad CNS-focused pipeline. Any new treatment for MDD has the potential to be lucrative given the size of the indication and the fact that it's been lacking innovation for decades. A fast acting, short course of treatment offers a differentiated approach. Sage is also targeting postpartum depression (ph3 data in mid-22e), and we believe zuranolone should work given its predecessor compound was already approved here. Progress with other assets – SAGE-324 in essential tremor and even more so SAGE-718 in Huntington's, Parkinson's, and Alzheimer's Diseases – offer meaningful upside potential over the intermediate to long term. With a current EV of <$250M, this is a situation where we believe patience could pay.

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Franchise Healthcare Pick(s):

United Therapeutics – Overweight

Ticker: UTHR, Price: $178.68, PT: $230

We remain bullish on UTHR in 2022 based on what we see as a fundamentally strong launch for the company's largest product, Tyvaso, for the treatment of PH-ILD and the long-term growth potential the pipeline holds. In the near term, despite the PDUFA extension to May, we continue to see approval of Tyvaso DPI (a next-gen version with a more convenient inhaler) as extending the franchise's durability and see US government reimbursement expected in the coming months representing a tailwind for volume and rev growth. Accordingly, we forecast above-consensus Tyvaso sales in 2022. Net-net, with such improving fundamentals at UTHR, we see opportunities for both upside to estimates and multiple expansion and believe there is an attractive opportunity in the stock at current levels.

Jazz Pharmaceuticals – Overweight

Ticker: JAZZ, Price: $160.70, PT: $200

While JAZZ has outperformed the sector YTD (+26% vs NBI -13%), with shares currently valued at ~10x JPMe '22 EPS, we see an attractive entry point in the stock and a path to outperformance in the near and long term, driven by continued revenue growth of newer products and multiple mid-/late-stage trials poised to advance the pipeline. We see 2022/2023 setting up as a period during which Jazz will be able to demonstrate the resiliency of the oxybate franchise through the entry of authorized generics. Already, we see guidance provided for 2022 setting the stage for a solid year and helping investors better understand the near-term dynamics of the company's two largest franchises (the oxybate business and Epidiolex; key focuses for the Street) while increasing confidence in the company's more ambitious 2025 target of $5bn revenue and 5 percentage points of improvement in adjusted operating margins off of 2021.

Innovative Healthcare Pick(s):

Ascendis Pharma – Overweight

Ticker: ASND, Price: $114.39, PT: $177

ASND shares are down 32% from their recent highs in September (vs. -25% NBI), with the slight underperformance potentially reflecting investors' cautious view towards the near-term launch of its first commercial product, Skytrofa, (for the treatment of growth hormone deficiency) and questions around whether the stock can outperform based on clinical catalysts alone. However, considering the upside we see over time from Skytrofa as the best-in-class asset and our optimism for the commercial uptake of TransCon PTH following positive phase III (PaTHway) results in adults with chronic hypoparathyroidism (HP), we see the pullback creating an attractive opportunity to own a company with a derisked platform, potentially two commercial products in the near term, and multiple clinical-stage pipeline assets to drive value in the portfolio.

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Denali – Overweight

Ticker: DNLI, Price: $33.20, PT: $74

With shares having pulled back 26% YTD (vs NBI -13%), we see DNLI as an attractive option for those with an extended investment horizon looking to take advantage of potential high-impact technology platforms. DNLI leverages its novel blood-brain-barrier (BBB) crossing technology to create multiple classes of therapeutic molecules, including enzymes, proteins, antibodies and ASOs, that can enter the brain to address various diseases involving the central nervous system, and we expect multiple clinical readouts over the next 1-2 years to de-risk the platform. Already this year, updated phase I/II data for wholly-owned asset DNL310 currently being evaluated for patients with Hunter syndrome continued to show best-in-class data. Building on this momentum, we see DNLI pushing forward with a big expansion of the pipeline portfolio and expect data from another wholly-owned asset, DNL343 in ALS in mid-2022. Overall, we see tremendous potential in DNLI's BBB crossing technology and believe we are still in the early innings of the potential value that can be created by advancing their platform.

Immunocore – Overweight

Ticker: IMCR, Price: $28.54, PT: $53

With lead asset Kimmtrak now approved by the FDA for uveal melanoma, we see the company's novel bispecific antibody based platform (ImmTAC) as de-risked from both a clinical and regulatory standpoint. In addition to the US, we expect approval and launch in Europe in 2Q22. As such, we see commercial execution on Kimmtrak's launch as a key focus for investors for the year ahead. While a game-changing therapy, uveal melanoma is not a particularly large indication, and we look forward to multiple data readouts over the next 12 months expected from earlier-stage assets IMC-C103C and IMC-F106C (these target certain tumor types that express biomarkers called MAGE-A4 and PRAME, respectively), both of which are also based on the ImmTAC platform. We see these readouts as derisking opportunities with potential to add substantial value to shares given the significantly larger commercial opportunities that can be addressed by these products. Ahead of these readouts and against the backdrop of the recent weakness in the group (-13% NBI YTD), which has taken IMCR (-17% YTD) with it, we see a unique opportunity to own a company with a novel, de-risked platform.

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Franchise Healthcare Pick(s):

PTC Therapeutics – Overweight

Ticker: PTCT, Price $37.00, PT: $76

With a steadily expanding commercial rare disease franchise (Translarna and Emflaza for DMD; Evrysdi royalties in SMA), we view PTC Therapeutics as an underappreciated name that trades at a ~35% EV/sales discount relative to its mid and emerging large cap peers, despite having a ~29% top-line growth outlook in FY22. With little being accredited to the development pipeline at current levels, we think shares are poised to realize upside potential from a series of late-stage clinical catalysts beginning mid-2022 through 2023 (including an EU approval / launch in AADC and pivotal readouts in PKU, MEDS, and FRDA), with an eye toward potential clinical proof-of-concept data with oral genetic medicine candidate PTC518 for Huntington's disease.

Innovative Healthcare Pick(s):

Beam – Neutral

Ticker: BEAM, Price $58.03, PT: $110

While the field of precision medicine-focused biotechs continues to expand, few can wear the mantle of delivering durable, functional cures. In our view, Beam and its base-editing platform technology offers the potential to correct an array of genetic disorders at their source with a single course therapy. In view of what we believe are potential advantages in editing accuracy and versatility over conventional CRISPR-base editing, we see Beam emerging as a leading clinical stage genomic medicine company over the next 12-24 months, particularly in the area of liver mediated disorders. With the recent collaboration agreement with Pfizer underscoring its platform potential, an internal LNP innovation engine focused on expanding the scope of targetable tissue types, and strong balance sheet (runway into 2025), we view Beam as a highly differentiated biotech, expecting it to rise in visibility with the start of clinical programs for sickle cell disease in 2H22.

Nurix – Overweight

Ticker: NRIX, Price $13.91, PT: $46

We hold a generally bullish outlook on the broader category of targeted protein degraders (TPD) given their potential to 1) unlock the heretofore 'undruggable' protein target space and 2) bypass drug resistance mechanisms to conventional small molecules. Within the arena of public TPD-focused biotechs, we view NRIX as an underappreciated name (trading at a ~70% EV discount relative to clinical stage peers) despite showing clinical proof-of-concept with its lead candidate, oral BTK degrader NX-2127. In view of potentially affirming readouts for NX-2127 in B-cell cancers in 2H22, other clinical proof-of-concept enabling readouts in 2022 from the earlier stage, oncology focused pipeline, alongside an estimated cash runway to 2H24, we view current levels as an attractive entry point.

Relay – Overweight

Ticker: RLAY, Price $28.71, PT: $47

Within the field of precision oncology, we view Relay as a potentially differentiated name, leveraging leading-edge protein structure and machine learning techniques in support of its motion-based discovery platform while focusing on targets where selectivity is paramount and other industry efforts have come up short. With platform de-risking data for FGFR2 inhibitor RLY-4008 shown in 4Q21, and shares recovering from their 1Q lows, we continue to see an attractive reward/risk profile for RLAY shares in view of multiple value creating clinical updates within its existing pipeline over the next 15 months and potential near-term pipeline expansion. Indeed, mutant selective PI3Kα inhibitor RLY-2608 is central to our bullish outlook for shares given the high frequency of PIK3Ca mutation across solid tumors (peak sales forecast of $2.6-3.5B+ in the US alone), tolerability challenges with non-mutant selective incumbents, and strategic interest by large biopharma competitors. Backed by a strong balance sheet (runway into 2025), we see RLAY shares outperforming our broader coverage universe and maintain RLAY as a top pick into 2022.

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Franchise Healthcare Pick(s):

Alnylam – Neutral

Ticker: ALNY, Price: $163.81, PT: $188

Alnylam is a pioneer in the RNAi space, and the company's platform has generated multiple approved products (and will likely to continue to do so). Indeed, looking from now to 2025, the company's "P^5 x 25" strategy aims to deliver 6+ marketed products in rare / prevalent diseases, over 20 clinical programs with 10+ in late stage, 4+ INDs/year, ≥40% revenue CAGR, and achieve sustainable non-GAAP profitability during the time period. Our Neutral rating on ALNY shares balances the de-risked nature of the company's platform to generate pipeline shots on goal with valuation and evolving Street expectations for a critical near-term catalyst (APOLLO-B study for patisiran in ATTR-CM; anticipated mid-year). Pending the outcome of APOLLO-B and / or valuation pullback, we would potentially look to get more constructive on ALNY shares.

Neurocrine – Overweight

Ticker: NBIX, Price: $93.72, PT: $125

In our view, NBIX shares are trading under the value of lead commercial product Ingrezza alone, which is already a blockbuster product in the approved indication of tardive dyskinesia (TD). We believe the underdiagnosed nature of TD, continued investment in sales and marketing / DTC by the company, increased penetration of the product, and label expansion to include Huntington's disease should all drive growth over the long term (JPMe peak sales of ~$3B+). At current levels, we view the broader pipeline, where there are plenty of shots on goal in 2022 / 2023 timeframe, as free options.

Zai Lab – Overweight

Ticker: ZLAB, Price: $42.31, PT: $136

While we acknowledge that macro geopolitical headlines are a risk, we note that the healthcare / therapeutics industry is already highly regulated in Mainland China, and Zai has proven its ability to obtain regulatory approvals in the region without data from local patients. Of note, recent headlines suggest progress related to Chinese US-listed securities between Chinese and US regulators (see note here), which has the potential to be a near-term tailwind if progress continues. Further, Zai's pipeline is vast and has multiple innovative products that are de-risked via existing data from ex-China partners. Zai has emerged as a go-to partner in Mainland China to unlock regional potential. The revenue potential of innovative therapeutics in Mainland China has been a point of debate. We note that we have one of the most conservative models on the Street. In our view, this is not about achieving blockbuster potential for individual products, but rather the aggregate of many ~$200-500M+ products resulting in a ~$4B peak total revenue potential (JPMe). We view ZLAB shares as undervalued, even when taking into account this conservative approach. *Zai Lab is currently on the J.P. Morgan Analyst Focus List.*

Innovative Healthcare Pick(s):

Apellis – Overweight

Ticker: APLS, Price: $49.28, PT: $66

Apellis is an emerging player in the complement space, with 1 approved product (Empaveli in PNH; JPMe peak WW sales ~$500-600M), one late-stage product (pegcetacoplan in geographic atrophy), and many early- and mid-stage shots on goal. The key near-term focus is on pegcetacoplan in geographic atrophy, where, in our view, the pivotal phase 3 DERBY / OAKS study (supported by recent 18-month data) and phase 2 FILLY results should, in totality, warrant approval (regulatory filing in 1H22 with potential approval in 4Q22). Pegcetacoplan could emerge as the first approved treatment option in geographic atrophy, which is the leading cause of blindness. We conservatively estimate peak sales in the indication approaching ~$2B (JPMe). In our view, APLS shares are undervalued on the potential in geographic atrophy as a near-term driver, along with commercial / pipeline optionality.

Kiniksa – Overweight

Ticker: KNSA, Price: $9.70, PT: $25

In our view, KNSA shares are trading below the value of the commercially approved Arcalyst, where the primary focus is on the recently approved recurrent pericarditis indication (JPMe peak sales of ~$700M+). Indeed, we view KNSA as undervalued into the mid- to high-teens/share level alone on Arcalyst, driven near term by product penetration and longer term by treatment duration. Pipeline focus is on phase 2b readout of vixarelimab in prurigo nodularis in 2H22 (JPMe peak WW sales of ~$500-600M). In our view, the phase 2a vixarelimab data provided early proof-of-concept and, at current levels, is essentially a free option into the phase 2b readout. *Kiniksa is currently on the J.P. Morgan Analyst Focus List.*

Replimune – Overweight

Ticker: REPL, Price: $15.99, PT: $47

Replimune is a next generation oncolytic immunotherapy company focused on maximizing therapeutic cancer response. The company’s lead asset, RP1, has de-risking early-stage data in cutaneous squamous cell carcinoma and refractory melanoma, and both indications have pivotal readouts towards YE22. The company also has follow-on products of RP2 and RP3 that will be studied in a range of tumor types (focus indications will be outlined in March 2022 for the individual programs). In our view, REPL shares are undervalued on RP1 alone in aforementioned lead indications (of note, on an unadjusted basis, REPL shares are undervalued even if only the cutaneous squamous cell carcinoma ultimately makes it to the market; peak sales of JPMe ~$800M+).

Sarepta – Overweight

Ticker: SRPT, Price: $77.27, PT: $133

Sarepta’s focus indication is Duchenne Muscular Dystrophy (DMD), though the company also has a broader rare muscular dystrophy pipeline. While the company does have three approved commercial products in DMD (JPMe peak aggregate sales of ~$1B), the key valuation driver is lead pipeline asset SRP-9001, which is a micro-dystrophin gene therapy in DMD. In our view, 1) the SRP-9001 clinical data to date across multiple early- and mid-stage trials have shown compelling efficacy trends, 2) these data de-risk the ongoing phase 3 EMBARK study (data mid-2023 / 2H23), 3) the company is gaining ground on the competition (Pfizer) and will potentially be the first company with pivotal data in the micro-dystrophin gene therapy space, and 4) the product has multi-billion dollar potential, globally (JPMe ~$6B WW). We believe SRPT shares do not currently appropriately account for the probability-adjusted potential of SRP-9001.

SpringWorks – Overweight

Ticker: SWTX, Price: $62.36, PT: $$101

We see multiple pipeline drivers for SWTX shares in 2022 and beyond. We continue to believe the phase 3 DeFi study of nirogacestat in desmoid tumors has a high probability of success (data in 1H22), potentially making it the first approved drug in the indication. In our view, with treatment duration being a key driver, the peak sales in desmoid tumors is being underappreciated by the Street (JPMe ~$1B+ WW). Post the DeFi readout, focus will quickly shift to the BCMA multiple myeloma opportunity for nirogacestat, where the company has multiple non-exclusive partnerships with large and SMID biopharma companies (data anticipated to start reading out 1H22). The company also has a broader pipeline which has multiple shots on goal (potential data throughout the course of 2022). *SpringWorks is currently on the J.P. Morgan Analyst Focus List.*

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Innovative Healthcare Pick(s):

Edgewise Therapeutics – Overweight

Ticker: EWTX, Price: $9.28, PT: $32

We continue to see Edgewise as an attractive name in SMID biotech, particularly for those interested in companies with an innovative asset that, while in the early stages, has tremendous potential. We believe EDG-5506 (a selective type II fast myosin inhibitor; wholly owned) is a drug that has significant promise. As an alternate therapeutic strategy, EDG-5506 aims to modulate the contraction of the muscle to prevent the stress propagation that leads to muscle breakdown in an array of high unmet need neuromuscular disorders. With the stock dislocated from 52-week highs around the March '21 IPO (~-75% vs. NBI -11%) despite impressive data in January, and cash runway sufficient into end-2024, we see an interesting entry point at current levels. There is a cadence of updates to expect that we believe could drive continued de-risking for the asset in the year ahead and beyond as multiple phase 2 trials kick off in 2022. Though the cornerstone of our thesis is around EDG-5506, we also see the potential for value to start to come into the stock from the rest of the muscle-targeting precision medicine platform as we learn more about additional assets. Edgewise is our top pick into 2022 and is on the J.P. Morgan Analyst Focus List.

Scholar Rock – Overweight

Ticker: SRRK, Price: $14.27, PT: $46

We see Scholar Rock's lead candidate, apitegromab (a selective latent myostatin inhibitor; wholly owned), as a high quality asset in the later stages of development for the treatment of the neuromuscular disorder Spinal Muscular Atrophy (SMA). With shares dislocated from 52-week highs last year (~-70% vs. NBI -11%), we believe current levels represent a compelling entry point. As a novel muscle-directed approach to help improve motor function and potentially complement commercial SMN upregulators, we believe apitegromab is a high quality asset and offers an attractive market opportunity with >$1B commercial potential. We recommend SRRK shares for those looking to invest in the potential of mature asset with de-risked proof-of-concept data in SMA that has both development/strategic optionality. Further, we believe pivotal SAPPHIRE results represent a potentially transformative catalyst albeit farther out. For the time being, additional data readouts are also expected over the next ~6-12 months which we see as offering opportunities for a better appreciation of the potential of the platform.

Life Science Tools & Diagnostics

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Tools and diagnostics have broadly underperformed YTD, stemming from an ongoing sector rotation into pharma, managed care and med tech, paired with a broader rotation out of healthcare and growth names. For core tools, despite solid fundamentals over the last few months, companies face a difficult set-up for 2022 in light of macro concerns, the roll-off of COVID tailwinds and difficult comps, although the 12-20% pullback YTD has created an interesting set-up for diversified companies (AVTR, DHR, TMO), which we expect to fare better than peers given increased exposure to bioprocessing, the durability of COVID therapeutic and vaccine tailwinds, and bolstered cash positions from pandemic tailwinds (DHR, TMO). Additionally, we like the set-up for CROs and CDMOs given the strong growth outlook (i.e. 10-12% for IQV, etc.), stable end market trends and, for CDMOs, a continued high-growth outlook for the bioprocessing market. In the near term, we acknowledge the noise surrounding potential biotech funding slowdowns stemming from MEDP's comments that RFPs declined -25% y/y in January 2022, however CROs and bioprocessing names have continued to point towards a robust funding environment, with the MEDP comments increasingly viewed as company-specific. Finally, we continue to expect a rebound for catalyst-rich smid cap names in 2022, including NTRA and GH, which are now trading at 4x and 12x forward revenues, respectively.

Franchise Healthcare Pick(s):

Avantor – Overweight

Ticker: AVTR, Price: $33.57, PT: $55

We believe AVTR will outperform this year given the company recently expanded its portfolio with meaningful M&A (Masterflex, Ritter and RIM Bio) which increased its bioprocessing exposure, lifted its proprietary offerings mix and will drive long-term margin expansion. All in, we expect AVTR to outpace its +4-6% LT organic growth guidance given the recent portfolio additions. AVTR's healthy FCF conversion will drive continued de-leveraging (and increasingly, M&A optionality). With these factors in mind, we continue to expect the valuation discount to core tools will narrow.

Danaher – Overweight

Ticker: DHR, Price: $287.53, PT: $400

We continue to believe DHR is one of the best-positioned tools companies in our coverage and is set up to outperform in 2022 given the conservative guidance framework and the company's ability to likely manage through potential macro headwinds. DHR expects COVID vaccine and therapeutics revenue to be flat in 2022 and believes the vaccine and therapeutic segment is sustainable in an endemic COVID phase, while we believe there is room for additional upside this year as DHR continues to ramp capacity. Long term, DHR guided to MSD+ core revenue, which we believe is conservative given recent high growth acquisitions (Cytiva +HSD and Aldevron +>20%).

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Thermo Fisher Scientific – Overweight

Ticker: TMO, Price: $574.29, PT: $700

We believe TMO is well positioned to drive additional upside to numbers, underpinned by bioprocessing tailwinds (+HSD/LDD), early PPD contributions and a recovery in the core academic business. On the bioprocess front, TMO continues to expand capacity for vaccine and therapeutics with COVID revenues transforming into core revenues as it shifts to other applications. Longer term, the company expects +7-9% organic growth (vs. market +4-6%), driven by product innovation and biopharma exposure, with room for upside from potential future M&A.

Innovative Healthcare Pick(s):

Catalent – Overweight

Ticker: CTLT, Price: $107.08, PT: $160

FY21 was a standout year for Catalent, as COVID-19 tailwinds put into focus the strong bioproduction platform, in particular, for vaccine vial filling and packaging. Importantly, CTLT also built a strong pipeline with non-COVID work, acquiring drug product capabilities in Europe with the Anagni facility and organic investments into drug products with expected benefits materializing in FY23. Growth durability is further supported by recent capacity investments, driving our confidence in CTLT's revised long-term pro forma revenue growth targets (+8-10%). All in, we are encouraged by strong demand in Biologics continuing to offset transient headwinds elsewhere in the business (although, trends are improving) and strong FY22 organic outlook with upside potential from vaccines. In the near term, while the stock has been under pressure on the recent 483 news associated with Novo Nordisks; Wegovy, we note this is just one of >7,000 drugs that CTLT makes, and we would use the weakness as an opportunity to step in.

Guardant Health – Overweight

Ticker: GH, Price: $59.26, PT: $150

GH saw a re-acceleration in clinical volumes in 2021 despite a residual COVID impact, with strength across clinical and biopharma, while the company has also made significant pipeline progress, including the launch of new products (REVEAL, G360 Response and G360 TissueNext). Looking ahead, we see GH as well positioned to drive upside in 2022 on the back of recent product launches (especially REVEAL, with CMS reimbursement starting next year), salesforce expansion (driving penetration into the community setting) and OUS expansion (UK and Japan). More importantly, the ECLIPSE readout and LUNAR-2 launch next year, along with recent leadership restructuring, should kick start GH's cancer screening franchise, and progress towards multi-cancer screening should further accelerate GH's ability to address the largest segment of the liquid biopsy TAM.

Natera – Overweight

Ticker: NTRA, Price: $39.70, PT: $150

Following an inflection in 2020, we continue to be impressed with NTRA's execution across all three segments and significant progress on the pipeline across Oncology (first-mover advantage in MRD, as highlighted in our deep dive, with robust volume momentum) and Transplant (expansion into heart and lung). While a recent short report about NTRA's prior authorization practice has resulted in a -30% decline in the stock, we believe the market reaction is overdone, as the potential financial impact (in the form of retrospective payment denials) is likely limited in scope (<7% of Women's Health test volume), and the thesis around Transplant and Oncology upside remains intact. Looking to 2022, Signatera should lead to meaningful revenue ramp on the back of ADLT status and recently expanded LCD coverage, with Prospera indication expansion further contributing to the revenue ramp. Furthermore, pipeline progress around cancer screening should expand NTRA's addressable market significantly over the long term. As such, we think the recent stock weakness (-57% YTD vs. the XLV -3%) has created an attractive buying opportunity, and we continue to see multiple sources of potential upside.

Repligen – Overweight

Ticker: RGEN, Price: $180.55, PT: $320

2021 has been another very strong year for RGEN, with full year organic growth of +71%, including +38% growth in the base business and $190M contribution from COVID programs, with the increasing base business contribution (vs. vaccine tailwind) further supporting sustainability of the strong growth trajectory. Looking ahead, we think RGEN is well positioned to drive continued robust performance in 2022, with growing gene therapy momentum, new product ramp (TFDF, FlowVPX, AAV ligand), M&A synergy (ARTeSYN systems), and booster vaccine doses (which is not included in management guidance of $200-220M tailwind in 2022 based on existing orders) all set to drive meaningful upside. As such, we reiterate our Overweight rating.

Medical Supplies & Devices

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Despite increased uncertainty in the near term, we remain bullish on MedTech, as we believe fundamentals remain poised to drive a sharp recovery with (1) optimism about recent COVID antivirals, which should keep most patients out of the hospital (key for MedTech volumes); (2) continued robust pipelines and healthy new innovation cycles; along with (3) solid balance sheet positions that allow for accretive M&A, heavy reinvestment, or share repurchases. With companies taking the opportunity to double down on R&D over the course of 2021 and highlighting a greater focus on tuck-in M&A as we look out to 2022+, we remain bullish on MedTech's ability to return to being a 5%+ top-line grower with high-single-digit-plus growth on earnings over the long run. We continue to see this as a premium outlook relative to the broader market, something that should support continued multiple expansion relative to the market as trends normalize in the quarters ahead. With just a modest degree of stability after a frustrating 2021 for investors, we are optimistic on MedTech in 2022

Franchise Healthcare Pick(s):

Dexcom – Overweight

Ticker: DXCM, Price: $480.97, PT: $600

With continued tailwinds from the shift to the pharmacy and the launch of G7 around the corner, we think Dexcom is set to outperform again in 2022. Not only was Dexcom able to withstand pandemic-related headwinds, but the company also delivered record new patient starts throughout the year to drive an installed base of almost 1.3M ending 2021, something that should bode well for more beat-and-raise quarters in 2022. While Dexcom still has significant room to run in its core US insulin-intensive market, with penetration at just ~30%+, the potential for adoption in new markets should begin to become clearer in 2022 as Dexcom dedicates more resources to pursuing primarily the non-insulin intensive Type 2 market, along with opportunities in emerging markets, gestational diabetes, and hospital/patient monitoring. Add in the launch of G7 and continued volume tailwinds from the shift to the pharmacy, where the majority of the accompanying mix headwind is now behind us, as well as the significant expansion in OUS access that was started in 1H21, and we think all the pieces are in place for Dexcom to have another strong year in 2022.

Innovative Healthcare Pick(s):

Treace Medical – Overweight

Ticker: TMCI, Price: $18.99, PT: $37

Treace stood out among the class of MedTech IPOs in 2021, with consistent execution and continued momentum in Lapiplasty adoption driving solid top-line results. Treace's innovative solution for bunion correction should enable the company to continue capturing share from legacy procedures, with a differentiated product offering and solid intellectual property setting the company apart from orthopedics peers. In addition, the company's growing portfolio of ancillary products enable the company to become a one-stop shop for bunion procedures, neutralizing the advantage of Treace's larger competitors. When combined with tailwinds from the company's ramping DTC marketing efforts and the shift to a direct selling strategy, we see this driving a ~25% revenue CAGR through 2026, with the potential for upside through continued solid execution. With shares trading at just ~6.0x 2023E sales, we see this as an attractive entry point for a high-growth name with solid execution and a long-runway for future beat-and-raise quarters.

Managed Care

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We remain bullish on the outlook for managed care and tech-enabled providers. We expect Medicare Advantage penetration will continue to increase, driving additional membership growth for managed care organizations (MCOs). Additionally, we expect MCOs will continue transitioning Medicare Advantage members into value-based reimbursement models, which should benefit tech-enabled providers. Within the Rx channel, we expect a continued recovery in prescription drug utilization to pre-pandemic levels, and believe strong growth in specialty should drive a tailwind across the group, with biosimilars representing an emerging opportunity.

Franchise Healthcare Pick(s):

UnitedHealth Group – Overweight

Ticker: UNH, Price: $513.03, PT: $540

We believe UNH should be a core holding for long-term investors, as we believe the company is well positioned to continue delivering on its 13%-16% long-term adj. EPS growth target. We believe UNH's large and diverse membership base affords the company with a strong view on medical cost trends and that the company remains conservatively positioned heading into 2022. Although UNH's roots are in managed care, Optum, UNH's healthcare services businesses, now generates the majority of adj. EPS. We continue to view Optum, specifically OptumHealth, as the biggest growth driver for the company. At ~24x 2022 EPS, UNH trades at a substantial premium to managed care peers, which we believe is warranted given its earnings diversification and leading market position in growth areas such as Medicare Advantage and risk-based care delivery (OptumHealth).

CVS Health – Overweight

Ticker: CVS, Price: $108.56, PT: $120

We believe CVS Health is among the best positioned companies within our coverage universe in an evolving marketplace characterized by the shift to value-based care and the ongoing "retailization" of healthcare. We highlight the company's integrated model, robust portfolio of assets, strong clinical capabilities and continuity across care settings, which should allow the company to increase access (meeting consumers where they want to be met), drive engagement (CVS owns the patient touchpoint), improve the quality of care and reduce overall healthcare costs. The company continues to make progress executing on its strategy to deliver an integrated healthcare experience centered around the consumer. We view CVS's forecast for a return to sustainable low-double-digit adjusted EPS growth in 2024 and beyond favorably and point to a high degree of financial flexibility, as the company expects to generate $40-$50B in deployable cash over the 2022-2024 period. We believe valuation is attractive, with shares trading at ~13x 2022 EPS, a sizeable discount vs. MCO peers and a significant discount to the S&P 500.

McKesson – Overweight

Ticker: MCK, Price: $310.48, PT: $316

We point to a favorable fundamental backdrop within the core pharmaceutical distribution business, as an aging population and increased utilization of prescription drugs should continue to drive solid top-line trends, while generic deflation and branded inflation have stabilized. While MCK has seen a sizeable tailwind over the past two years based on its role as the central distributor of COVID vaccines for the U.S., we believe the outlook will remain strong even as that tailwind abates and highlight the company's differentiated focus on higher growth/higher margin areas, including oncology and biopharma services. Within oncology, specifically, we point to an increasing benefit over time from biosimilars. Further, we believe a strong balance sheet and cash flow provide opportunities for accretive capital deployment. Given MCK's expectation for long-term adjusted EPS growth of 12-14%, we believe valuation is attractive, with shares trading at ~14x CY22 EPS (a PEG of ~1x, and a significant discount to the S&P 500).

Innovative Healthcare Pick(s):

agilon health – Overweight

Ticker: AGL, Price: $23.59, PT: $37

AGL's partnership model enables primary care physicians to participate in global capitation arrangements for their Medicare Advantage patients with no downside risk. As value-based care momentum continues to build in the U.S., we think more providers will begin taking risk on their patients – creating a substantial opportunity for companies like AGL. The TAM opportunity for global capitation in Medicare Advantage is significant (estimated at ~$267B in 2020) and we see the direct contracting program, which enables providers to enter into capitated arrangements for Medicare fee-for-service patients, as another potentially meaningful long-term opportunity. At ~3.6x EV/S on 2022 revenue, AGL trades at premium compared to tech-enabled provider peers, which we believe reflects strong revenue growth and improving profitability (AGL expects to be adj. EBITDA positive in 2022).

Privia Health – Overweight

Ticker: PRVA, Price: $25.50, PT: $51

PRVA is a technology-driven physician enablement platform that attempts to accelerate the shift to value-based care reimbursement models and simplify physician administrative requirements. The company has a unique partnership model based on total practice collections across all payor types and contracts (free-for-service and value-based). We believe the company is positioned for accelerating practice collections growth (+35% y/y) in 2022, driven by new market entries in California and West Texas, entry into two fully capitated arrangements covering ~23,000 Medicare Advantage lives, the launch of three new accountable care organizations (ACOs), and transition of four existing ACOs to the Medicare Shared Savings Program (MSSP) Enhanced Track. Additionally, PRVA is in active discussions with multiple payors regarding additional full-risk conversions, suggesting there could be further upside to 2023 practice collections and GAAP revenue estimates. At ~2.5x EV/S on 2022 revenue, PRVA trades at a slight discount to the peer average, although we believe PRVA's multiple should expand as the company enters more full risk arrangements.

Oak Street Health – Overweight

Ticker: OSH, Price: $25.49, PT: $40

OSH is a capitated, integrated network of primary care centers focused on serving the Medicare-eligible population with a focus on high-risk, chronically ill seniors. 2021 was a challenging year for OSH due to the combined negative effects of lower risk scores and higher patient acuity. We expect this headwind will begin to ease in 2022 and beyond, with management recently pointing to better economics on the 2021 new patient cohort that should be more in line with historical performance. Additionally, platform contribution across center cohorts is tracking ahead of OSH's most mature centers, suggesting center-level profitability could ramp faster than expected (although we believe accelerated new center openings will lead to higher near-term losses). At ~3.6x 2022E EV/S, OSH trades at a slight discount to the peer average despite strong revenue growth. We believe the multiple reflects continued uncertainty around medical cost management and the recent disclosure that the DOJ is investigating OSH's relationships with third-party marketing agents and the provision of free transportation for Medicare beneficiaries.

Healthcare Technology & Distribution

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We view the consumerization of healthcare and shift to value-based care as the two most disruptive themes in our space. Regarding the shift to the consumer, the rising cost of healthcare has driven patients to demand convenience and price transparency, and patient engagement is important for providers as they work to deliver superior outcomes and retain patients. On the shift to value, this transition requires a substantial amount of data and analysis to measure and analyze healthcare costs and quality metrics, and ultimately we believe this change should be very beneficial to Healthcare IT vendors (see our deep dive on value-based care here). With that context, we would look to own names that are well positioned to capture these macro trends and have fundamental drivers in place.

Innovative Healthcare Pick(s):

Phreesia – Overweight

Ticker: PHR, Price: $27.78, PT: $51

We view Phreesia as the best way to own the consumerization of healthcare trend in our space. PHR automates the intake process at the physician's office using a SaaS-based platform and provides an integrated payments solution for secure processing of patient payments. Fundamentally, we believe Phreesia is at an inflection point in its growth trajectory, catalyzed by a combination of COVID-19 driving digital interactions and labor shortages necessitating automation. We view Phreesia as squarely positioned to benefit from the important consumerization of healthcare trend, as providers are increasingly focusing on the patient experience to attract and retain patients.

Evolent Health – Overweight

Ticker: EVH, Price: $30.87, PT: $37

Evolent is a pure play way to own value-based care, a trend that is seeing increased traction due to ballooning healthcare expenditures, pressure from CMS, and an acceleration from COVID-19. Evolent combines population health with plan administration to offer an end-to-end solution that helps health systems make the transition to value. Their revenue model is both performance based (Evolent Care Partners & New Century Health) and fee based (Evolent Health Services). We see significant runway for mid-teens+ long-term annual revenue growth as healthcare transitions to a new payment model, and we believe P&L accountability of the execution of the recent transformation strategy (streamline the business, divesting non-synergistic businesses, and more narrowly focusing its capital allocation strategy) will be demonstrated in 2022 results.

Progyny – Overweight

Ticker: PGNY, Price: $49.88, PT: $74

We like the combination of a differentiated product offering and favorable macro backdrop for Progyny, which is the fastest growing company in our coverage universe. PGNY is a data-driven fertility benefits provider with a differentiated model in a large and growing $12B fertility market. We believe COVID illustrated the resiliency of the fertility space and expect low-double-digit market growth to remain a sustained favorable tailwind driven by demographic shifts such family planning at later stages in life and non-traditional paths to parenthood (single parents,

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LGBTQ+ families). Importantly, the prevalence of infertility is high (1 in 8 couples), but the coverage is low (<50% of patients have insurance coverage), leaving the space ripe for disruption. Progyny has a rare combination of rapid growth and profitability, and, due to a lean cost structure, the company has been able to achieve meaningful leverage, seeing 20+% incremental margins over the past year on >50% revenue growth.

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- **Spinoffs.** The spinoff company and parent will be included in the basket, and both the spinoff and parent company weights will be readjusted according to new market capitalizations after the spinoff date.
- **Tender offers and share buybacks.** The company remains in the basket and its weight is adjusted according to the impact the tender/buyback has on the stock's market value.
- **Delisting/insolvency/bankruptcy.** The company is removed from the basket as of the close of the last trading day, and the proceeds (losses) will be redistributed into remaining companies according to recalculated weights of remaining companies in the basket. If a stock trades on "pink sheets" it will not be included in the basket.

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Joseph, Eric W: Achilles (ACHL), Akebia (AKBA), Akero (AKRO), Aligos (ALGS), Atea (AVIR), Autolus (AUTL), Beam (BEAM), Black Diamond (BDTX), C4 Therapeutics (CCCC), Century (IPSC), Enanta Pharmaceuticals (ENTA), Freeline (FRLN), Humanigen (HGEN), Ironwood Pharmaceuticals (IRWD), Karyopharm Therapeutics (KPTI), Kymera (KYMR), Monte Rosa (GLUE), Myovant (MYOV), Novavax (NVAX), Nurix (NRIX), Omeros (OMER), PTC Therapeutics (PTCT), Precigen Inc (PGEN), Precision BioSciences (DTIL), Recursion (RXRX), Relay (RLAY), Revolution (RVMD), Rocket (RCKT), TG Therapeutics (TGTX), Terns (TERN), Verve (VERV)

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(EDIT), Gilead Sciences (GILD), Incyte Corporation (INCY), Jounce Therapeutics (JNCE), Karuna Therapeutics (KRTX), Legend Biotech (LEGN), Lyell Immunopharma (LYEL), Moderna (MRNA), Novocure LTD (NVCR), Puma Biotechnology (PBYI), Regeneron Pharmaceuticals (REGN), Sage Therapeutics (SAGE), Sana Biotechnology (SANA), Seagen Inc (SGEN), Ultragenyx (RARE), Vertex Pharmaceuticals (VRTX), bluebird bio (BLUE)

Marcus, Robert J: Abbott Laboratories (ABT), Acutus Medical (AFIB), AtriCure (ATRC), Baxter Intl (BAX), Becton, Dickinson & Co (BDX), Bioventus (BVS), Boston Scientific Corporation (BSX), CONMED (CNMD), CVRx (CVRX), Dexcom (DXCM), Eargo (EAR), Edwards Lifesciences (EW), Inogen Inc (INGN), Inspire Medical (INSP), Insulet Corp (PODD), Integra LifeSciences (IART), Intersect ENT (XENT), Medtronic PLC (MDT), Minerva (UTRS), NeuroPace (NPCE), Nevro (NVRO), Penumbra (PEN), RxSight (RXST), Silk Road Medical (SILK), SmileDirectClub (SDC), Stryker Corp (SYK), The Cooper Companies, Inc. (COO), Treace (TMCI), Zimmer Biomet Holdings Inc (ZBH)

Peterson, Tycho W: 10x Genomics (TXG), Absci (ABSI), Accelerate Diagnostics (AXDX), Adaptive Biotechnologies (ADPT), Agilent Technologies (A), Avantor (AVTR), Bruker Corporation (BRKR), Catalent (CTLT), Charles River Laboratories (CRL), DENTSPLY SIRONA Inc (XRAY), Danaher (DHR), Envista (NVST), Guardant Health (GH), Hologic (HOLX), ICON Plc (ICLR), IQVIA Holdings Inc (IQV), Illumina, Inc. (ILMN), Intuitive Surgical, Inc. (ISRG), Invitae (NVTA), LabCorp (LH), Mettler-Toledo (MTD), Myriad Genetics Inc. (MYGN), NanoString (NSTG), Natera (NTRA), OraSure Technologies (OSUR), Ortho Clinical Diagnostics Holdings plc (OCDX), Pacific Biosciences Inc. (PACB), PerkinElmer (PKI), Qiagen N.V. (QGEN), Quanterix (QTRX), Quest Diagnostics (DGX), Quidel (QDEL), Rapid Micro Biosystems (RPID), Renalytix AI (RNLX), Seer (SEER), Singular Genomics (OMIC), Sophia Genetics (SOPH), Sotera Health (SHC), Syneos Health Inc (SYNH), Talis Biomedical (TLIS), Thermo Fisher Scientific (TMO), Twist Bioscience (TWST), Waters (WAT), Zymergen Inc. (ZY)

Rama, Anupam: Aeglea Biotherapeutics (AGLE), Agios Pharmaceuticals (AGIO), AlloVir (ALVR), Alnylam Pharmaceuticals (ALNY), Amicus Therapeutics (FOLD), AnaptysBio (ANAB), Annexon Biosciences (ANNX), Apellis (APLS), BioAtla (BCAB), BridgeBio Pharma (BBIO), ChemoCentryx, Inc. (CCXI), Cyteir Therapeutics (CYT), Cytokinetics (CYTK), Day One Biopharmaceuticals (DAWN), Elevation Oncology (ELEV), Erasca (ERAS), Frequency Therapeutics (FREQ), G1 Therapeutics (GTHX), IDEAYA Biosciences (IDYA), Infinity Pharmaceuticals (INFI), InflaRx (IFRX), Kiniksa (KNSA), Kodiak Sciences (KOD), Neurocrine Biosciences (NBIX), Nuvalent (NUVL), ORIC Pharmaceuticals (ORIC), Olema Oncology (OLMA), Protagonist Therapeutics (PTGX), RAPT Therapeutics (RAPT), Replimune (REPL), Sarepta Therapeutics (SRPT), Solid Biosciences (SLDB), SpringWorks Therapeutics (SWTX), Theravance Biopharma (TBPH), Zai Lab (ZLAB), Zai Lab - HK (9688.HK)

Romero, Tessa T: Atara Biotherapeutics (ATRA), Dyne Therapeutics (DYN), Edgewise Therapeutics (EWTX), Generation Bio (GBIO), Global Blood Therapeutics (GBT), Orchard Therapeutics (ORTX), Passage Bio (PASG), Scholar Rock (SRRK), Y-mAbs Therapeutics (YMAB)

Samuel, Anne E: Allscripts (MDRX), Cerner (CERN), Change Healthcare (CHNG), Convey Health (CNVY), Evolent Health (EVH), Health Catalyst (HCAT), HealthEquity (HQY), NextGen Healthcare, Inc. (NXGN), Omnicell (OMCL), Phreesia (PHR), Premier, Inc. (PINC), Progyny (PGNY), R1 RCM (RCM), Signify Health (SGFY)

Schott, Christopher: AbbVie (ABBV), Amneal Pharmaceuticals, Inc. (AMRX), Bausch Health Cos Inc (BHC), Bristol-Myers Squibb Company (BMY), Coherus (CHRS), Elanco Animal Health Inc. (ELAN), Eli Lilly & Company (LLY), Endo International PLC (ENDP), Heska (HSKA), Horizon Therapeutics (HZNP), Idexx (IDXX), Johnson & Johnson (JNJ), Merck & Co., Inc. (MRK), Organon (OGN), Perrigo Company (PRGO), Pfizer Inc. (PFE), Royalty Pharma (RPRX), Teva Pharmaceuticals (TEVA), Viatris Inc (VTRS), Zoetis (ZTS)

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage*	52%	37%	11%
IB clients**	53%	46%	34%
JPMS Equity Research Coverage*	51%	37%	12%
IB clients**	74%	68%	50%

*Please note that the percentages might not add to 100% because of rounding.
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