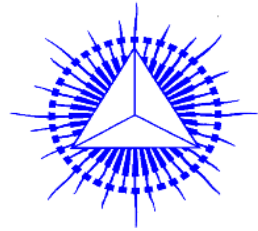


# **ATLANTIS RESEARCH SERVICE**



## **ADDENDUM**

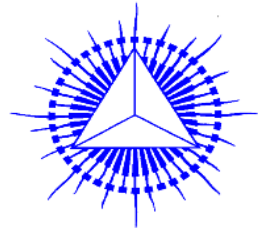
### **Challenges for Health Care Stocks 2010**

**Anne K Anderson CFA**

**Karen Sterling PhD CFA**

**October 14, 2009**

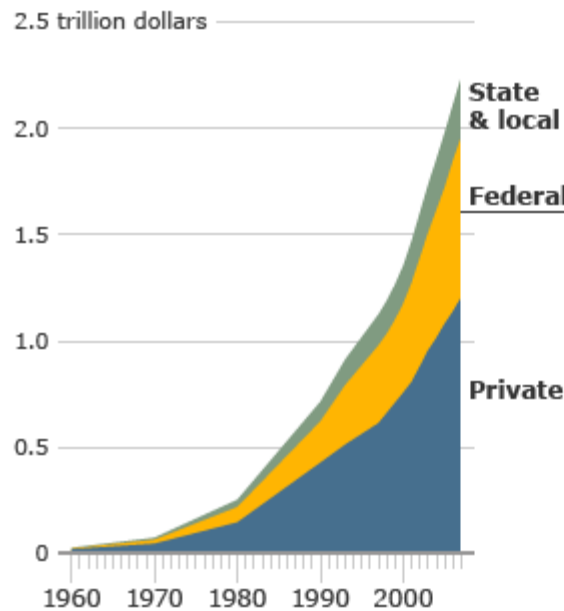
973 263 2333  
aanderson@atlantisinvestment.com



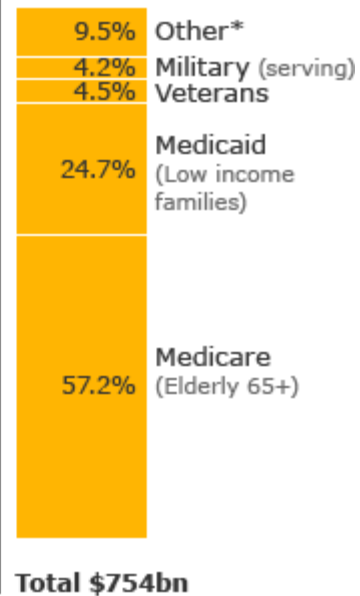
## US Health Care Spending by Payor Segment

### Private health insurance costs soar

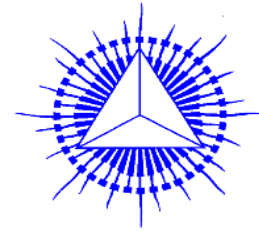
US national health expenditure  
1960-2007



Breakdown of US federal  
health expenditure, 2007



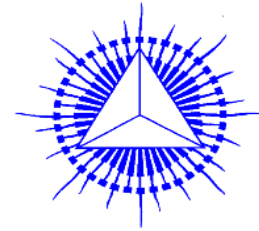
\*includes State Children's Health Insurance Program  
Source: US Department of Health and Human Services



## Medicaid Enrollment and Distribution

	Enrollment millions	% of total Medicaid	total residents	Medicaid % of total residents
US	<u>58.7</u>	<u>100%</u>	<u>300.5</u>	<u>20%</u>
CA	10.5	18%	36.4	29%
NY	5.1	9%	19.2	27%
TX	4.1	7%	23.9	17%
FL	3.0	5%	18.0	17%
IL	2.4	4%	12.7	19%
PA	2.1	4%	12.2	17%
OH	2.1	4%	11.3	19%
MI	1.8	3%	9.9	18%
GA	1.8	3%	9.5	19%
TN	1.5	3%	6.1	25%
NC	1.6	3%	9.1	18%
AZ	1.4	2%	6.4	22%
MA	1.2	2%	6.4	19%
subtotal	<u>38.6</u>	<u>66%</u>	<u>181.1</u>	<u>21%</u>

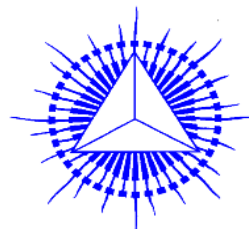
source: *StateHealthFacts.org*, funded by Kaiser Family Foundation



## Health Care Sectors Within Standard & Poors 500 Index Market Cap as of 09/30/2009

Sector:	Market Cap	% of total	S&P 500 weighting
Pharmaceuticals and Biotech	\$792,518	63.9%	8.4%
Medical Devices	\$141,120	11.4%	1.5%
Managed Care	\$82,088	6.6%	0.9%
Medical Supplies	\$67,742	5.5%	0.7%
PBMs	\$47,069	3.8%	0.5%
Biotech and Lab Equipment	\$38,370	3.1%	0.4%
Drug Wholesalers	\$29,292	2.4%	0.3%
Medical Services and Diagnostics	\$16,954	1.4%	0.2%
Generic Pharmaceuticals	\$14,365	1.2%	0.2%
Hospitals, Clinics and Providers	\$8,756	0.7%	0.1%
Information Services	\$2,800	0.2%	0.0%
	<u>\$1,241,073</u>	<u>100.0%</u>	<u>13.1%</u>

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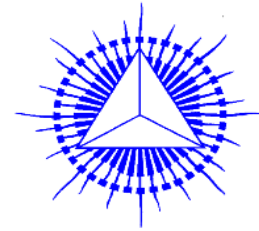


Challenges for Health Care, Addendum page 5

## Health Care Stocks Included in S&P 500 Index By Sector Market Cap as of 09/30/2009

Health Care Sector of S&P 500 Index						<b><u>\$1,241,073</u></b>
Pharmaceuticals and Biotech						
			Price	# Shares	Mkt Cap	
1	JNJ	Johnson&Johnson	\$61	2782	\$169,396	pharma
2	PFE	Pfizer	\$17	6752	\$111,746	pharma
3	ABT	Abbott Laboratories	\$49	1551	\$76,728	diagnostics, pharm, nutrition
4	MRK	Merck & Co.	\$32	2110	\$66,739	pharma
5	WYE	Wyeth	\$49	1356	\$65,879	pharma
6	AMGN	Amgen	\$60	1015	\$61,133	bio pharma
7	SGP	Schering-Plough	\$28	1658	\$46,839	pharma
8	BMY	Bristol-Myers Squibb	\$23	1983	\$44,657	pharma
9	GILD	Gilead Sciences	\$47	935	\$43,454	bio pharma
10	LLY	Lilly (Eli) & Company	\$33	1097	\$36,241	pharma
11	CELG	Celgene Corp.	\$56	467	\$26,111	bio pharma
12	GENZ	Genzyme Corp.	\$57	275	\$15,595	bio pharma
13	BIIB	BIOGEN IDEC Inc.	\$51	290	\$14,671	bio pharma
14	FRX	Forest Laboratories	\$29	303	\$8,932	pharma
15	CEPH	Cephalon	\$58	76	\$4,397	bio pharma
subtotal					<b><u>\$792,518</u></b>	
<b>Generic Pharmaceuticals</b>						
1	KG	King Pharmaceuticals	\$11	247	\$2,662	generic pharma
2	MYL	Mylan Inc.	\$16	459	\$7,350	generic pharma
3	WPI	Watson Pharmaceuticals	\$37	119	\$4,353	generic pharma
subtotal					<b><u>\$14,365</u></b>	
<b>Drug Wholesalers</b>						
1	MCK	McKesson	\$60	270	\$16,079	drug wholesaler
2	CAH	Cardinal Health	\$27	361	\$9,677	drug wholesaler
3	ABC	AmerisourceBergen	\$22	158	\$3,536	drug wholesaler
subtotal					<b><u>\$29,292</u></b>	

# ATLANTIS RESEARCH SERVICE



Challenges for Health Care, Addendum page 6

## Health Care Stocks Included in S&P 500 Index By Sector, contd Market Cap as of 09/30/2009

### PBMs

1	MHS	Medco Health Solutions	\$55	488	\$26,991	managed care PBM
2	ESRX	Express Scripts	\$78	259	\$20,078	managed care PBM
				subtotal	<b>\$47,069</b>	

### Medical Devices

1	MDT	Medtronic Inc.	\$37	1115	\$41,017	medical devices
2	BSX	Boston Scientific	\$11	1515	\$16,039	medical devices
3	AGN	Allergan Inc.	\$57	305	\$17,335	medical devices
4	SYK	Stryker Corp.	\$45	399	\$18,127	medical devices
5	STJ	St. Jude Medical	\$39	351	\$13,677	medical devices
6	ZMH	Zimmer Holdings	\$53	216	\$11,518	medical devices
7	ISRG	Intuitive Surgical	\$262	39	\$10,123	medical devices
8	BCR	Bard Inc.	\$79	102	\$8,018	medical devices
9	VAR	Varian Medical Systems	\$42	125	\$5,266	medical devices - cancer therapy
10	CFN	CareFusion	\$22	226	\$4,927	medical devices recent spinout from Cardinal Health
				subtotal (excludes CFN)	<b>\$141,120</b>	

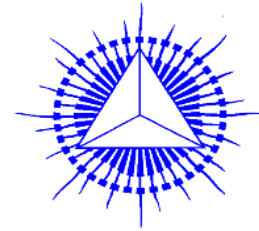
### Medical Supplies

1	BAX	Baxter International Inc.	\$57	612	\$34,890	medical supplies
2	BDX	Becton Dickinson	\$70	246	\$17,138	medical supplies
3	HSP	Hospira Inc.	\$45	162	\$7,243	medical supplies
4	XRAY	DENTSPLY International	\$35	152	\$5,240	medical supplies - dental
5	PDCO	Patterson Cos. Inc.	\$27	119	\$3,232	medical supplies - dental
				subtotal	<b>\$67,742</b>	

### Managed Care

1	UNH	UnitedHealth Group	\$25	1180	\$29,547	managed care
2	WLP	WellPoint Inc.	\$47	486	\$23,031	managed care
3	AET	Aetna Inc.	\$28	451	\$12,543	managed care
4	CI	CIGNA Corp.	\$28	275	\$7,728	managed care
5	HUM	Humana Inc.	\$37	169	\$6,293	managed care
6	CVH	Coverity Health Care	\$20	148	\$2,946	managed care
				subtotal	<b>\$82,088</b>	

# ATLANTIS RESEARCH SERVICE



Challenges for Health Care, Addendum page 7

## Health Care Stocks Included in S&P 500 Index By Sector, contd Market Cap as of 09/30/2009

### Hospitals, clinics and providers

1	DVA	DaVita	\$57	104	\$5,885	ESRD renal services
2	THC	Tenet Healthcare Corp.	\$6	488	\$2,871	hospital
				subtotal	<b>\$8,756</b>	

### Medical Services and Diagnostics

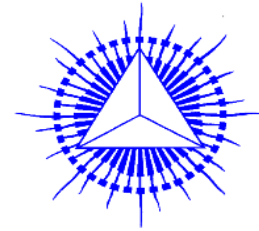
1	DGX	Quest Diagnostics	\$52	187	\$9,760	diagnostics
2	LH	Laboratory Corp. of America	\$66	110	\$7,194	lab services
				subtotal	<b>\$16,954</b>	

### Biotech and Lab Equipment

1	TMO	Thermo Fisher Scientific	\$44	424	\$18,503	biotech equip
2	LIFE	Life Technologies	\$47	179	\$8,330	biotech equip
3	WAT	Waters Corporation	\$56	96	\$5,362	biotech equip
4	MIL	Millipore Corp.	\$70	56	\$3,937	biotech equip
5	PKI	PerkinElmer	\$19	116	\$2,238	biotech equip
				subtotal	<b>\$38,370</b>	

### Information Services

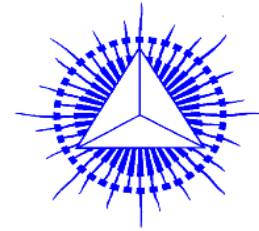
1	PX	IMS Health Inc.	\$15	182	<b>\$2,800</b>	pharma DB, services
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## Pharmaceutical Fundamental Comparisons Highlighting Johnson & Johnson

Name	Pharm Rev 2008	% Change	Total Rev 2008	% Change	% of Sales US / NA	Pharm % of Total	Operating Margin Pharm	Operating Margin Total
Abbott Laboratories	\$16,708	14%	\$29,528	14%	52%	57%	37.9%	21.6%
Astra Zeneca	\$31,601	7%	\$31,601	7%	47%	100%	28.9%	28.9%
Bristol-Myers Squibb	\$17,715	13%	\$20,597	13%	58%	86%	28.2%	26.6%
Eli Lilly	\$20,378	9%	\$20,378	9%	54%	100%	-5.3%	-5.3%
GlaxoSmithKline	\$37,705	-2%	\$45,051	-1%	44%	84%	38.1%	35.2%
<b>Johnson &amp; Johnson</b>	<b>\$24,567</b>	<b>-1%</b>	<b>\$63,747</b>	<b>4%</b>	<b>51%</b>	<b>39%</b>	<b>29.4%</b>	<b>27.2%</b>
Merck	\$19,383	-1%	\$23,850	-1%	56%	81%	40.2%	42.2%
Novartis	\$26,331	10%	\$41,459	9%	31%	64%	28.8%	21.6%
Pfizer	\$44,174	-1%	\$48,296	-0%	42%	91%	21.2%	20.1%
Schering Plough	\$14,253	40%	\$18,502	46%	30%	77%	15.5%	14.0%

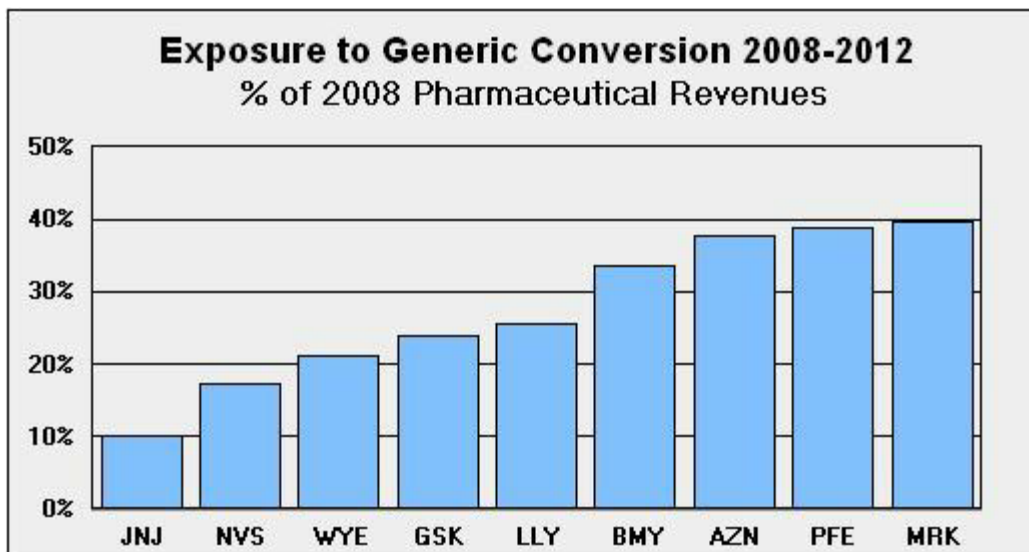


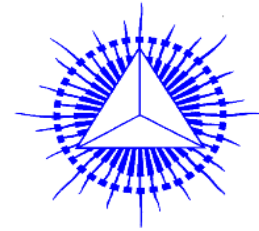


## Pharmaceutical Generic Conversions 2008 - 2012 By Pharmaceutical Company

Expiration Year	Drug Name	Company	2008 Revenue (\$MM)	% of Total Revenue	Indication
2010	Arimidex	AZN	\$1,857	5.9%	Breast Cancer
2012	Seroquel	AZN	\$4,452	14.1%	Schizophrenia
2012	Symbicort	AZN	\$2,004	6.3%	Asthma
2012	Crestor	AZN	\$3,597	11.4%	Cholesterol
2011	Avapro/Avalide	BMJ	\$1,290	6.3%	Hypertension
2012	Plavix	BMJ	\$5,603	27.2%	MI, Stroke, PAD (Anticoagulant)
2008	Lamictal	GSK	\$1,528	3.4%	Bipolar Disorder, Epilepsy
2008	Imitrex	GSK	\$1,134	2.5%	Migraine
2010	Advair/Seretide	GSK	\$6,826	15.2%	Asthma
2012	Avandia	GSK	\$1,328	2.9%	Type 2 Diabetes
2008	Risperdal	JNJ	\$2,126	3.3%	Schizophrenia
2009	Topamax	JNJ	\$2,731	4.3%	Epilepsy
2011	Levaquin	JNJ	\$1,591	2.5%	Antibiotic, Anthrax
2012	Zyprexa	LLY	\$5,198	25.5%	Schizophrenia
2008	Fosamax	MRK	\$1,553	6.5%	Postmenopausal Osteoporosis
2010	Cozaar/Hyzaar	MRK	\$3,558	14.9%	High Blood Pressure, Diabetes
2012	Singulair	MRK	\$4,337	18.2%	Asthma
2012	Diovan	NVS	\$5,740	13.8%	High Blood Pressure
2012	Zometa	NVS	\$1,382	3.3%	Cancer
2011	Lipitor	PFE	\$12,401	25.7%	Cholesterol
2011	Xalatan	PFE	\$1,745	3.6%	Glaucoma, Ocular Hypertension
2012	Viagra	PFE	\$1,934	4.0%	Erectile Dysfunction
2012	Detrol	PFE	\$1,214	2.5%	Overactive Bladder
2012	Geodon	PFE	\$1,007	2.1%	Schizophrenia, Bipolar Disorder
2010	Aricept	PFE	\$482	1.0%	Alzheimer's, dementia
2010	Effexor XR	WYE	\$3,928	21.2%	Depression, Panic Disorder

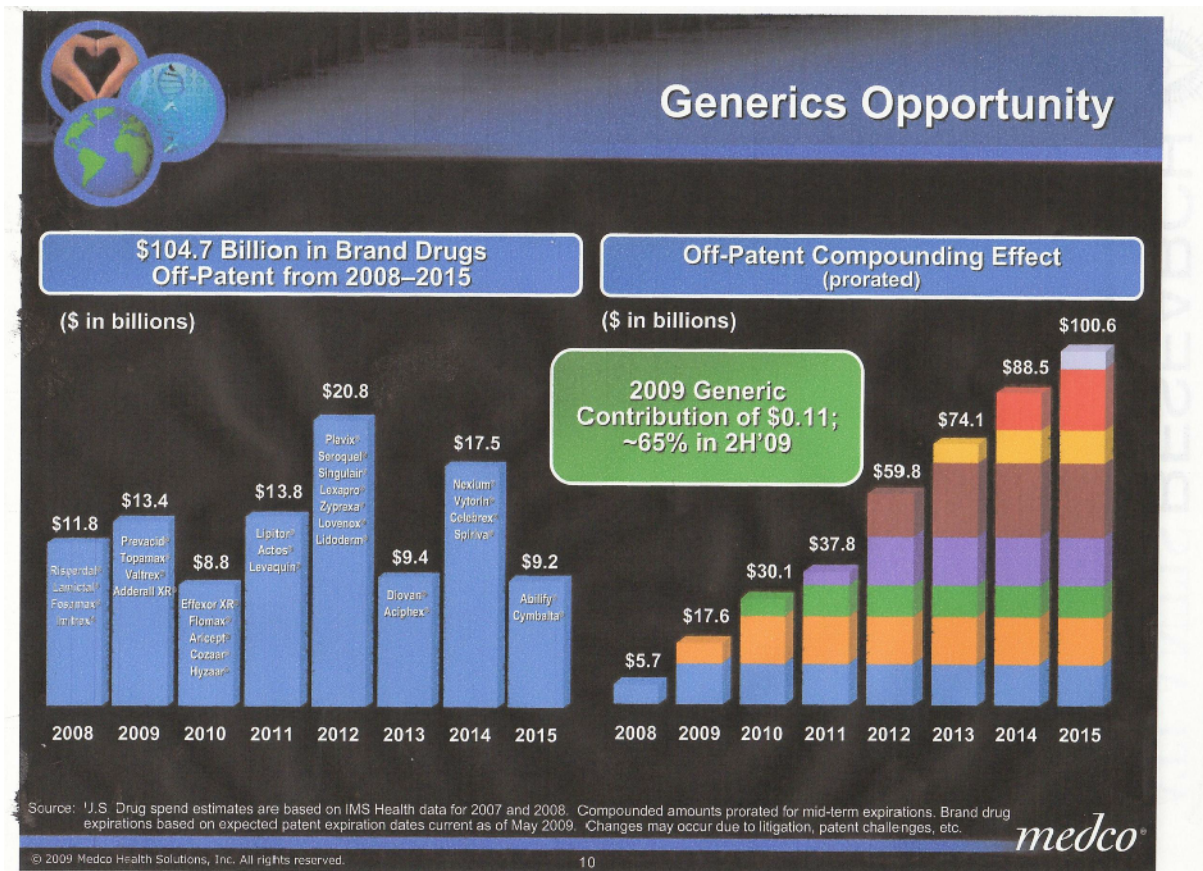
NOTE: JNJ exposure shown as % of total revenues, while others shown as % of pharmaceutical revenue

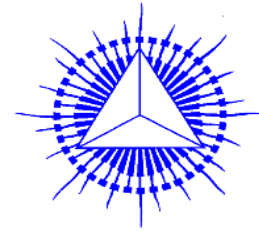




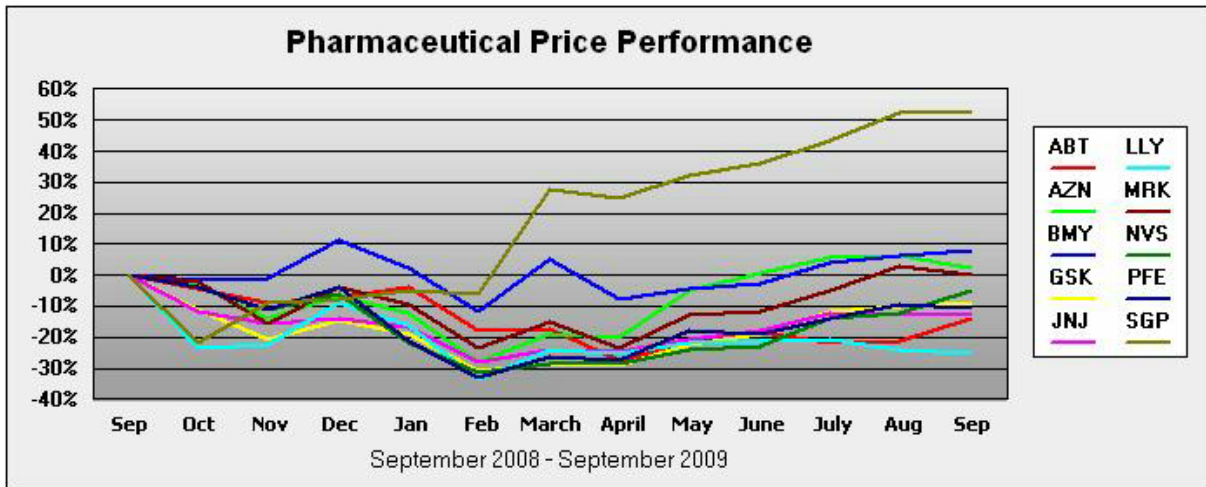
## Pharmaceutical Generic Conversions 2008 - 2015 by Year

Source: Medco Health Solutions



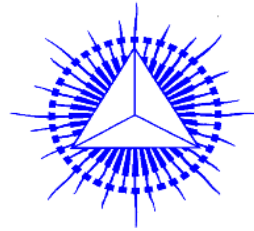


## Pharmaceutical Price Performance 12 months to September 2009

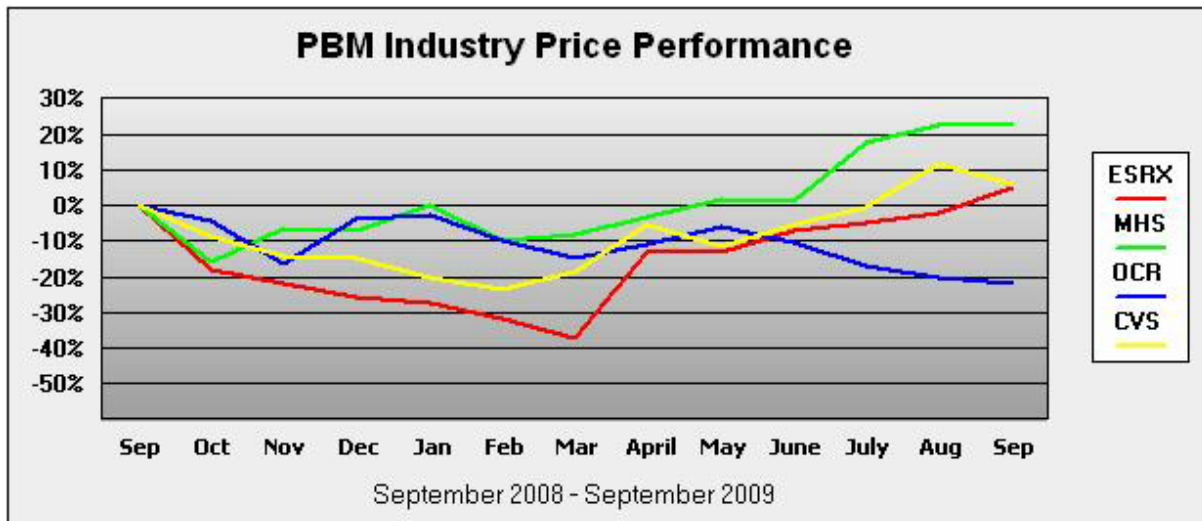


### Pharmaceutical Price Performance Sort by Highest to Lowest September 2008 - September 2009

Schering Plough	SGP	53%
Wyeth	WYE	32%
BristolMyers-Squibb	BMY	8%
Astra Zeneca	AZN	2%
Merck	MRK	0%
Novartis	NVS	-5%
GlaxoSmithKline	GSK	-9%
Pfizer	PFE	-10%
Johnson & Johnson	JNJ	-12%
Abbott Laboratories	ABT	-14%
Eli Lilly	LLY	-25%

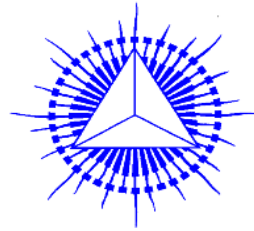


## PBM Price Performance 12 months to September 2009

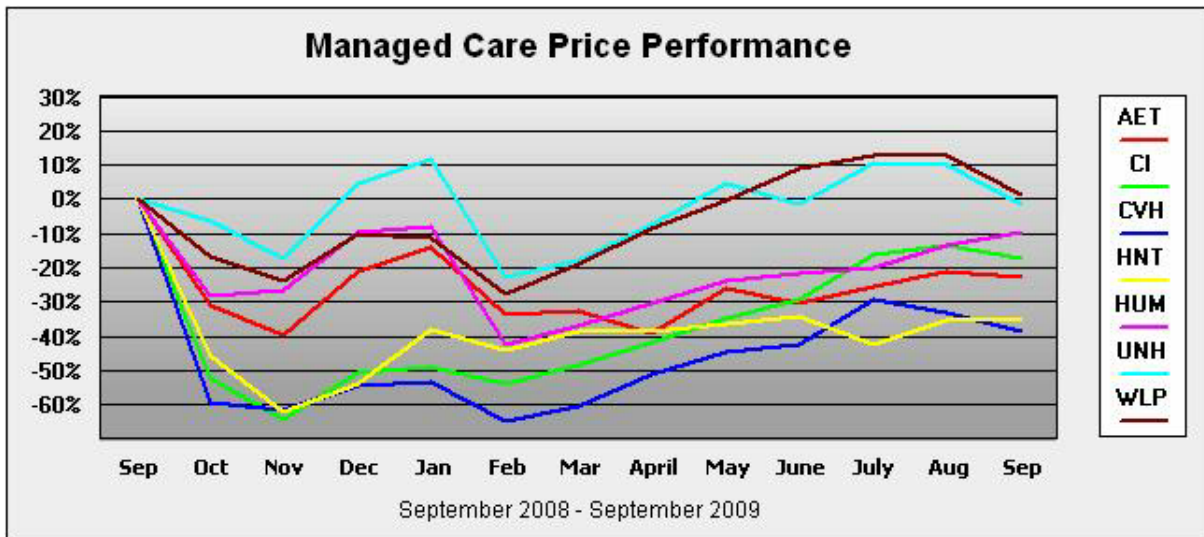


### PBM Price Performance Sort by Highest to Lowest September 2008 - September 2009

Medco Health Solutions	MHS	23%
CVS Caremark	CVS	6%
Express Scripts	ESRX	5%
Omnicare	OCR	-22%

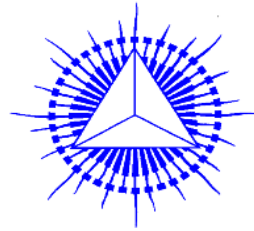


## Managed Care Price Performance 12 months to September 2009

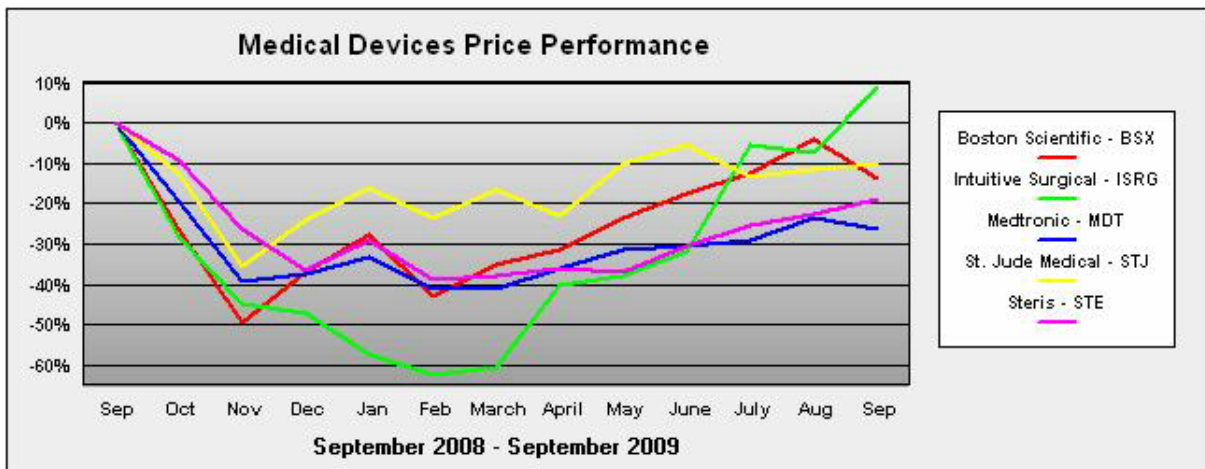


### Managed Care Price Performance Sort by Highest to Lowest September 2008 - September 2009

WellPoint	WLP	1%
UnitedHealth Group	UNH	-1%
Humana	HUM	-9%
CIGNA	CI	-17%
Aetna	AET	-23%
Health Net	HNT	-35%
Coventry	CVH	-39%



## Medical Device Price Performance 12 months to September 2009



## Medical Devices Price Performance Sort by Highest to Lowest September 2008 - September 2009

Intuitive Surgical	ISRG	9%
St. Jude Medical	STJ	-10%
Boston Scientific	BSX	-14%
Steris	STE	-19%
Medtronic	MDT	-27%