

Industry Study



Mini Investment Class by the OKI Tri-State Chapter

*Courtesy Cincinnati Model Investment Club
Based on Original Presentation by Gretchen and Jim Hurt
Revised 02/22 by Sandy and Bob Lowery*

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Learn about the industry

- **Knowing about an industry helps us better analyze the SSG for the company.**
 - Debt levels
 - Pre-tax profit margins
 - P/E ratios
 - Cyclical or growth industry

Learn about the industry

- **Learning about the industry helps us better understand**
 - **Problems & opportunities in the industry**
 - **Who are the customers**
 - **How big is the potential market**
 - **New products and trends in this industry**
- **Knowledge of the industry helps us make better decisions about the company we are studying.**

Where to learn about the industry

- **Good sources of information:**
 - Value Line Industry Page
 - Your Broker's website
 - CFRA Resources
 - Internet
 - Also, don't forget to check the archives at www.betterinvesting.org

Let's take a look at the drug industry

Value Line Industry Printed Page

December 31, 2021 DRUG INDUSTRY 1609

INDUSTRY TIMELINESS: 12 (of 97)

Industry Timeliness Ranking

Stocks in the Drug Industry have come under significant pressure as we get ready close the books on 2021. While third-quarter earnings season was generally solid, with many of the pharmaceutical giants herein reporting better-than-expected operating results, renewed concerns tied to drug price regulation over these past few months (more below) has sent investors to the sideline in droves. In total, the XPH ETF, which tracks the performance of the broader pharmaceutical industry, has declined roughly 12% in value since early November, right around the time details of the U.S. government's new drug pricing reform plan were released.

Could We Finally See Some Type Of Reform?

Healthcare costs have soared over this past decade due in part to what some would call "questionable" pricing practices within the pharmaceutical industry. With this taking an increasingly significant toll on the typical American family, there has been growing support across both parties for some type of reform to be passed. While efforts made by past administrations have failed to materialize, the current one appears to have made it a priority. Curbing drug costs is a key part in President Biden's Build Back Better agenda.

This represents a significant overhang for many of the drugmakers in this issue, as the prospect of price reform would almost certainly chew into industry profits. However, given recent history, there remains widespread skepticism that recent efforts will result in meaningful change, at least in the near term. The case against increased regulation is that, in theory, it could stymie innovation as companies would be less incentivized to develop new innovative drugs.

A Strong 2021 Campaign

Most pharmaceutical companies have seen strong operational recovery this year on the back of subsiding pandemic-related pressures and more normalized conditions across the healthcare space. Indeed, patient hesitancy and overwhelmed hospitals tied to the COVID-19 outbreak last year made for much easier comparisons in 2021. Needless to say, drugmakers that poured capital into product development aimed at treating or protecting against the virus, and were successful, seemed to fare better, especially from a stock price standpoint. Companies like Pfizer and Moderna, the two clear leaders in the COVID-19 vaccine market, each etched new all-time highs in 2021.

COVID-19 To Remain A Lucrative Market in 2022

Vaccines and therapeutics to fight the virus proved to be a massive commercial opportunity for the Drug Industry in 2021. While headlines were dominated by the billions of dollars that Pfizer, Moderna, and Johnson & Johnson were generating from their shots and boosters, there were also a slew of other companies that benefited from sales of products to treat the symptoms. With the emergence of new variants, most recently Omicron, it seems likely that there will be more money to be made on vaccines and therapeutics in 2022 and possibly beyond. It is worth noting that Pfizer recently indicated that it plans to rake in \$29 billion in COVID-19 vaccine sales next year, an estimate that many believe will

ultimately prove conservative. The New York City-based drug giant could also see a significant boost in COVID-19-related sales from its new pill, Paxlovid.

Keytruda Proving To Be A Real Gamechanger

The standout immunology drug, developed by Merck & Co., is one of the most lucrative and highly coveted assets in the pharmaceutical space. It has also carried the New Jersey-based drugmaker over these last several quarters (currently 35% of the company's top line), helping to overshadow recent misses in other areas of its business. With Keytruda uptake trends gaining momentum, and the drug gaining approval across additional indications, sales estimates for the franchise continue to move higher. It pulled in \$4.53 billion last quarter (+22% year over year), reinforcing projections that it could become the world's best-selling drug by 2023, overtaking AbbVie's Humira.

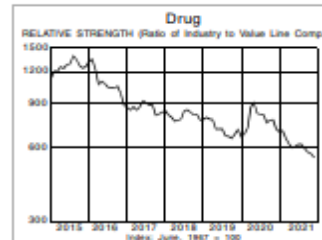
Dividends and Relative Safety

The Drug Industry maintains a solid base of high-yielding equities with favorable risk profiles that could be a draw for income seekers managing more conservative portfolios. A few options to consider in this issue include Pfizer, Merck & Co. and Swiss-based Novartis. AbbVie is also attractive from a pure dividend standpoint (currently yielding 4.3%), but comes with a higher degree of risk (Safety: 3).

Conclusion

The Drug Industry has continued its ascent up our Timeliness rankings over these past few months, gaining two spots on the chart since our last report went to press in October. It remains comfortably within the upper quintile of sectors under Value Line's coverage (12th out of 97) with respect to year-ahead relative price performance. Some notable momentum targets in the large cap space include domestic heavyweights Pfizer, Merck & Co., and AbbVie, all three of which currently hold above average (2) grades for Timeliness. As always, we recommend investors review each stock individually to find which best fits their respective strategies.

Michael Ratty



Information about the Industry


Prospects for companies in the industry

Your Broker's Website

- Here we are using the TDAmeritrade website for illustration only: Go to Research & Ideas tab, click on Sectors & Industries, then use the "Industries" drop-down to find Pharmaceuticals.

The screenshot shows the TDAmeritrade website header and navigation menu. The 'Research & Ideas' tab is selected and highlighted in green. A red arrow points from the text above to this tab. Below the navigation menu, the 'Sectors & Industries' link is highlighted in green, with another red arrow pointing to it. The main content area is divided into several columns: Stock Profile, Options Research, Charts, Ideas, Alerts, Investor Movement Index, Markets, ETFs, Mutual Funds, Bonds & CDs, and a Smart Score for Stocks section. A search bar is located in the top right corner.

My Account: Overview

 **Resources Roundup: Tax Help for New Investors** New post
A few ideas to help you navigate taxing issues

Your Broker's Website

In the R&I tab, you can also access CFRA sector watch

My Account Trade **Research & Ideas** Planning & Retirement Education Client Services

Markets: Sectors & Industries

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Jump to a specific sector or industry

Select sector

Latest sector activity

All sectors are higher along with the S&P 500 which is up by 1.20% this morning. The Communication Services and Real Estate sectors are performing the best so far today; higher by 1.32% and 1.08% respectively. Although Communication Services continues its recent positive momentum, having gained 0.41% over the 5 trading days including today's session, it is currently trading below its negatively sloping 200 day moving average which implies the longer term trend has yet to improve.

Sectors

Pharmaceuticals	+1.20%
Professional Services	+1.32%
Real Estate Management & Development	+1.08%
Road & Rail	+1.00%
Semiconductors & Semiconductor Equipment	+0.88%
Software	-0.78%
Materials	+0.48%
Financials	+0.45%
Utilities	+0.41%
Energy	+0.34%
Consumer Staples	+0.09%

As of 10:43a ET 02/09/22

CFRA Sector Watch
[Sector Watch](#) February 7, 2022

TD Market Monitor

S&P 500 Performance Last 3 Months: **-4.66%**

Telecommunications	+8.61%
Consumer Services	+1.55%
Health Care	+0.24%
Industrials	-7.37%

Explore a macro view of the markets

Get a broad view of all stocks in the S&P 500 by sector, performance and market capitalization as well as important events in the market today.

Headlines

[U.S. Stocks Move Higher, Extending Rally -- WSJ](#)
10:27 am ET (Dow Jones)

[U.S. stocks build on rebound as bond selloff takes a breather](#)
9:48 am ET (MarketWatch)

[Logistics Operator DSV's Results Helped By Acquisition -- Market Talk](#)
9:47 am ET (Dow Jones)

[Cannabis BDC Altmore sets \\$14.50-\\$15.50 price range in IPO](#)

CFRA Resources

CFRA Resources acquired S&P Research in 2016. Some of their content is available without charge at <https://www.cfraresearch.com/resources/>



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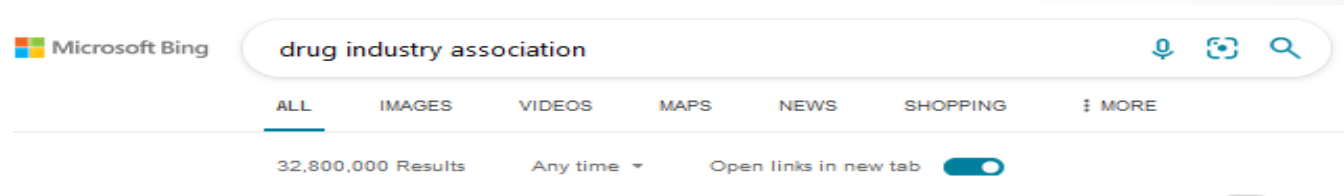
VIEW MORE

Industry Information on Internet

- **Researching Industry Information on the Internet takes time.**
- **Good place to start is to look for an industry association on your web browser. We will use Microsoft Bing.**

Results on Microsoft Bing

Over 32,000,000 results



The screenshot shows the Microsoft Bing search interface. The search bar contains the text "drug industry association". Below the search bar, there are tabs for "ALL", "IMAGES", "VIDEOS", "MAPS", "NEWS", "SHOPPING", and "MORE". The "ALL" tab is selected. Below the tabs, it shows "32,800,000 Results", "Any time" with a dropdown arrow, and "Open links in new tab" with a toggle switch that is turned on.

PhRMA Org | PhRMA

<https://www.phrma.org>

Pharmaceutical Research and Manufacturers of America® 950 F Street, NW Suite 300, Washington, DC 20004. Please be advised that this page contains pixel tags. To learn more about...

Related searches for drug industry association

[dia drug association](#)

[american pharmaceutical manufacturers association](#)

[pharmaceutical manufacturing association](#)

Pharmaceutical Research & Manufactures of America looks most promising – now known as PhRMA.

This site had a lot of good information especially on the industry, but we could not access the specific information we wanted

Among the *many* other websites you might check for the pharmaceutical industry are:

- **[Top Pharmaceutical Industry Associations | Pharma IQ](#)**
- ***<https://www.pharma-iq.com/regulatorylegal/articles/...>***
- **Aug 02, 2018 · Drug Information Association (DIA): "Providing invaluable forums to exchange vital information and discuss current issues related to healthcare products, technologies, and**

- **[Drug Information Association](#)**
- ***<https://www.diaglobal.org>***
- **Global Forum, DIA's Digital Magazine. Uncover expert insights through global and regional coverage of the discovery, development, regulation, surveillance, and marketing of healthcare**

You will undoubtedly find many other helpful websites as you continue your search.

Important Information We Have Learned About The Drug Industry:

- 1. Major Competitors**
- 2. These companies have higher than average P/E's**
- 3. The best of these companies have very high ROE.**
- 4. The best of these companies have very high Pre-Tax Profit Margins.**
- 5. Most of these companies have low long-term debt to Capitalization Ratios.**
- 6. Major problems facing this industry.**

One Major Problem In this Industry

- **For any drug company you study, it is important to find out how many drugs they have in the pipeline and what phase they are in.**

Definitions (thanks to Hugh McManus)

In a pipeline you have a number of drugs undergoing clinical trials.

- **Clinical Trials**
 - Phase 1 lasts a few months
 - Phase II lasts a year
 - Phase III lasts two years.
- **Drugs often get 50 to 150 clinical trials.**

In The Pipeline For A Specific Drug Company You May Find

- **Pre-Clinical - 7**
- **Phase 1 - 10**
- **Phase 1/2 - 7**
- **Phase 2 - 34**
- **Phase 3 - 22**
- **Discontinued - 8**

Industry Studies

- **Industry studies do take time.**
- **An industry study adds valuable information to the study of a company.**
- **The better you understand a company and industry the better your judgment on projections.**

For more ways to learn:

Contact the

OKI Chapter Board for free One Hour “Classes to Clubs”

Attend one of our OKI Special Events or Webinars

Visit the LEARNING CENTER on your BetterInvesting.org



Contact the OKI Chapter via email:

contact@okitristate.betterinvesting.net

Include presentation title in your subject line.