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OUTRAGEOUS DRUG PROFITS

Outrageous Drug Profits

By Jim Pearce and the team of analysts at Investing Daily

It's hard to ignore an industry that will gross at least 18% a year for the next five years—despite these sluggish times.

In fact, the picture is even better than that. This report will walk you through the very best ways to cash in on the healthcare/Medicare spending crisis.

We've found the biggest moneymakers for you. They might not seem like exciting stocks; in fact, some are dull as dishwater. But we don't think you'll mind the predictability of the profits.

AbbVie

Drug company **AbbVie Inc.** (NYSE: ABBV) is one of the larger industry players, with a market cap of $145 billion and 28,000 employees. Its recent success is due in part to sales of Humira, a treatment for severe, chronic psoriasis.

Chicago-based AbbVie expects Humira will continue driving revenue growth for the foreseeable future, as will the company's hepatitis C treatments Viekira Pak and Technivie. Still, analysts worry AbbVie will have trouble meeting sales expectations when the Humira patent expires and the drug must compete with generic versions.

Although Humira does account for a majority of AbbVie's revenue, the drugmaker is no one-trick pony. Sales of Imbruvica, used to treat blood cancers, have been growing steadily and the pace should pick up thanks to the Food and Drug Administration, which cleared Imbruvica for first-line use in treating chronic lymphocytic leukemia. Previously, patients had to have undergone at least one other therapy before using the drug.

That makes Imbruvica the first non-chemotherapy treatment available to those patients as a first option. Plus, the survival rate for patients using Imbruvica is 90% after 18 months compared with 52% for those treated with chemotherapy. As a result, Imbruvica sales should reach $5 billion by 2020, and even that may be a conservative estimate, as the drug is being tested to treat additional cancers.

The company's hepatitis C drugs are another potential revenue booster. Sales of Viekira have been

somewhat disappointing because several competing treatments had similar or better results while being easier for patients to use. AbbVie's next-generation version of Viekira, however, looks as if it will overcome those hurdles, and many analysts now believe the drugmaker could gobble up about 10% of the hepatitis C market.

That potential revenue growth means AbbVie's dividend should continue rising. Since AbbVie became an independent company four years ago, the quarterly dividend payment has grown 60% and currently yields about 4%. Although you can find better yields in the sector, few come from healthcare companies that have grown as consistently as AbbVie or are as attractively valued as the drugmaker is now.

GlaxoSmithKline

Many investors had questions about the health of **GlaxoSmithKline** (NYSE: GSK) over the past year, doubts that kept the share price essentially flat. Of course, with a 6% yield, Glaxo is still a cash cow.

The biggest worry has been whether Glaxo would be able to breathe easy now that patents are expiring on its top-selling lung treatment Advair, which has faced competition from generics in Europe. Here in the U.S., the legal protection on Advair's Diskus inhaler kept competitors at bay, but that patent expired last year.

At the same time, generally tepid growth left many investors wondering where the revenue would come from to replace Advair profits. Sales growth averaged only about 1% annually over the past decade, and earnings growth came largely from cutting costs.

Those concerns seem to be abating, especially after management predicted earnings growth of 10% to 12% this year. Sales growth has already shown solid improvement, thanks to rising sales for vaccines and consumer healthcare products. Glaxo also managed to replace about 70% of the revenue the company lost as a result of Advair's generic competition.

Analysts now forecast that revenue for the British drugmaker will increase just over 8% this year, and earnings per share could jump 20% in local currency. At current exchange rates, that would translate into a 4% revenue gain in dollars and a 6% jump in EPS.

For those worried about investing in a U.K.-based company now that Britain has voted to leave the European Union, Glaxo also seems to have that surprise under control. First, only about 13% of its revenue comes from the U.K. In its most recent annual report, Glaxo says it doesn't expect Brexit will cause an "adverse impact" and that it has a plan to sidestep the worst of the effects.

As most of Glaxo's revenue is generated by vaccines and pharmaceuticals, we expect demand to remain steady no matter how the U.K.'s separation from Europe shakes out. In fact, Brexit might even be a positive for the drugmaker. One of the promises Leave campaigners made was to funnel some of the money saved on European Union dues back into Britain's National Health Service. Of course, that does depend on how much faith you put in politicians getting their diagnoses right.

Another potential benefit is the drubbing the British pound has taken since the Brexit vote. Although Glaxo reports in pounds, most of the company's revenue is in other currencies. That should boost sales as long as the pound stays anemic.

It's too early to predict a dividend increase this year, but thanks to Glaxo's improving sales outlook and significant debt- and cost-cutting initiatives of late, a dividend increase isn't off the table. Aside from one special dividend declared last year, the company's quarterly dividend policy hasn't budged in two years.

As for Brexit, it shouldn't threaten the dividend, and Glaxo may even see some net benefits from it—once the dust settles.

Gilead Sciences

Gilead Sciences (NSDQ: GILD) is a drug-making machine. The U.S.-based biopharmaceutical company

is one of the world's largest and sells 19 patented drugs that are used to treat HIV, liver disease, cancer, inflammatory, respiratory and cardiovascular conditions.

In 2014, the FDA approved Tybost and Vitekta for HIV treatment, Zydelig for chronic lymphocytic leukemia and Harvoni for hepatitis C. Harvoni became an instant success, with a 94% to 99% cure rate for hepatitis C. Harvoni and Sovaldi, another hepatitis C treatment, together accounted for $12.4 billion of Gilead's total revenue. When revenue was forecasted to drop in 2015 because of growing competition in U.S. and European markets, Gilead beat analysts' estimates by drawing up agreements with pharmaceutical companies in India to sell the drug there. Gilead hopes to sell Harvoni to 91 developing countries, where there are an estimated 100 million people infected with hepatitis.

Harvoni sales in the U.S. should also get a boost from the FDA's decision in April 2017 to approve the drug's use with pediatric patients age 12 and older. Although not a huge market, estimated at a maximum of treatable 46,000 patients, at an annual cost of $380,000 per patient it represents a total addressable market of more than $17 billion annually in sales revenue.

Johnson & Johnson

Johnson & Johnson (NYSE: JNJ)—a medical, pharmaceutical, and consumer products hybrid—has been a solid performer for years.

On the healthcare front, J&J's drug-eluting stents, which are used to prop open clogged arteries, capture most of the headlines. But the company also has several other major product lines, including blood glucose monitoring systems and bone reconstruction equipment.

On the consumer products front, brands like Neutrogena and Aveeno have been reliable revenue growers for years. You won't see a huge surge in sales revenue for an industry giant like J&J, but you won't get surprised by an unexpected plunge, either.

Meanwhile, J&J maintains a very healthy profit margin of better than 20%. That provides enough cash flow for the company to pay a solid 2.5% dividend yield while leaving plenty leftover to acquire new product lines.

CVS

The drug store has come a long way from the days of the mom-and-pop pharmacies. Now we have regional and national players able to command better prices, including the biggest of the retail world, WalMart.

The deal is this: All the leaders in the drug store sector are attractive. Some have solid national distribution and branding. Some are reformed from past stumbles and others are amassing their empires. But all represent good values and will work to carry us through troubled times and the better times that follow.

CVS (NYSE: CVS) is second to Walgreens only in size but on a similar path. Both chains share the same goal: to be on the right corner in every major market.

CVS recognizes that stand-alone stores are the most effective engine for its sales, 70% of which come from prescription drugs. At the end of 2017, the company operated more than 9,700 retail drugstores (up from 7,822 in 2015) and 1,100 walk-in health care clinics.

Where CVS diverges from Walgreens is in its focus on building a comprehensive basic healthcare access business. About 65% of annual sales come from pharmacy management services for nearly 90 million plan members. In early 2018, CVS announced that it will acquire Aetna in a move designed to capture the entire chain of health care payments.

At a forward price-to-earnings ratio of 10.1, CVS appears to be a bargain. However, where Walgreen's business is built on brand recognition through real estate dominance, CVS hopes to become consumers' number one choice for basic healthcare services, which constitute a substantial portion of the chain's revenue.

IMPORTANT NOTES:

Guidance concerning the stocks highlighted in this report is believed to be accurate and represent our best advice at the time of writing. However, market conditions change constantly and guidance at the time of this writing may not reflect our latest advice. For our current take on any stock in this report, it is vitally important that you check the Portfolio tables on the website and confirm that the stock still earns a buy rating. Furthermore, confirm that the stock trades below our current buy limit. Do not buy any stocks above our recommended buy limits. If a stock's price exceeds our buy limit, wait for a pullback or invest in another Portfolio holding that trades below our buy limit. Any advice in the Portfolio tables, a recent issue of the publication, or our email alerts always trumps older advice in this special report. We reserve the right to substitute special reports as market trends dictate.

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