



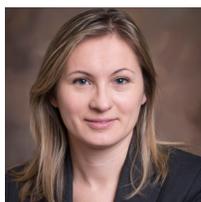
Finding Value Amid the Health Care Land Mines

The health care sector has historically been viewed as relatively defensive and less economically sensitive than some other sectors. Nonetheless, it is “full of land mines as health care credits have recently come under pressure from potential legal and legislative initiatives,” says Marianna Korpusova, a T. Rowe Price investment professional who analyzes high yield bonds in the health care sector.

With health care shaping up as one of the pivotal issues of the 2020 U.S. presidential election, the sector is facing political and regulatory risk as both Democrats and Republicans introduce initiatives aimed at lowering government health care costs. These include proposals allowing Medicare to negotiate drug prices or index them to an international drug price index in developed countries.

Also looming is a potential crackdown on surprise medical billing in which patients are unexpectedly billed for out-of-network physician care at rates that can be much higher than care rendered by in-network providers. In addition, some health companies are facing potential litigation risk involving distribution of opioids and price fixing of generic drugs.

“I think health care remains a defensive, less cyclical sector and there are many durable businesses worth investing in, but you really have to be careful not to step on one of these land mines,”



Talking with

Marianna Korpusova

Investment Professional, Health Care Industry,
T. Rowe Price

Marianna says. “The good news is that it is a very diverse sector, so there is opportunity to diversify away from the credits that might be impacted the most and take advantage of any sell-off in certain credits when the time is right.”

Going Beyond The Numbers Reveals The Full Story

At T. Rowe Price, our investment approach is to go beyond the numbers when evaluating what companies may offer the best future potential. By getting out into the field, we gain insights and a deeper understanding of where a company or industry stands and where it could go in the future.

Marianna says attending industry conferences and meeting with company managements and government officials firsthand is vital to her research.

“This external research accounts for more than half of my evaluation because you don’t see the full picture from the numbers,” she says. “By doing the legwork, you gain a lot more insight into a company than what you see in the

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financials; you learn how the companies in the industry are interconnected with each other, and that leads to a better understanding of the trends. And that is how you spot inefficiencies in the market.”

For example, after a recent visit to Nashville to meet with hospitals and physician outsourcing companies, she decided not to recommend some outsourcing companies that provide physician services to hospitals. “These companies rely quite a bit on out-of-network billing, so they are very susceptible to the proposed surprise billing legislation, which would cap bills at median in-network rates,” she says.

Research Reveals Opportunity In A Turnaround

On the other hand, she had a favorable view of Bausch Health Companies

(formerly Valeant Pharmaceuticals), a multinational specialty pharmaceutical company, as it appeared to be recovering from a tumultuous past in which it had accumulated too much debt.

Several meetings with the company’s new management “reinforced my belief that the company is on a growth trajectory. Also, it does not have much exposure to the various risks affecting the sector,” she says. Through the first half of 2019, Bausch bonds were among the best-performing credits in the U.S. high yield market.

In the current environment, Marianna says “it’s hard to find health care companies that are not affected by regulatory or litigation exposure, but there are opportunities if you do your homework.”

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