



Lazard Insights
Conference Call Series

U.S. Health Care Reform

Identifying Potential Winners and Losers

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Agenda

- Definition of the problem
- Snapshot of the U.S. health care industry
- Policy scenarios and investment implications

Defining the Problem(s)

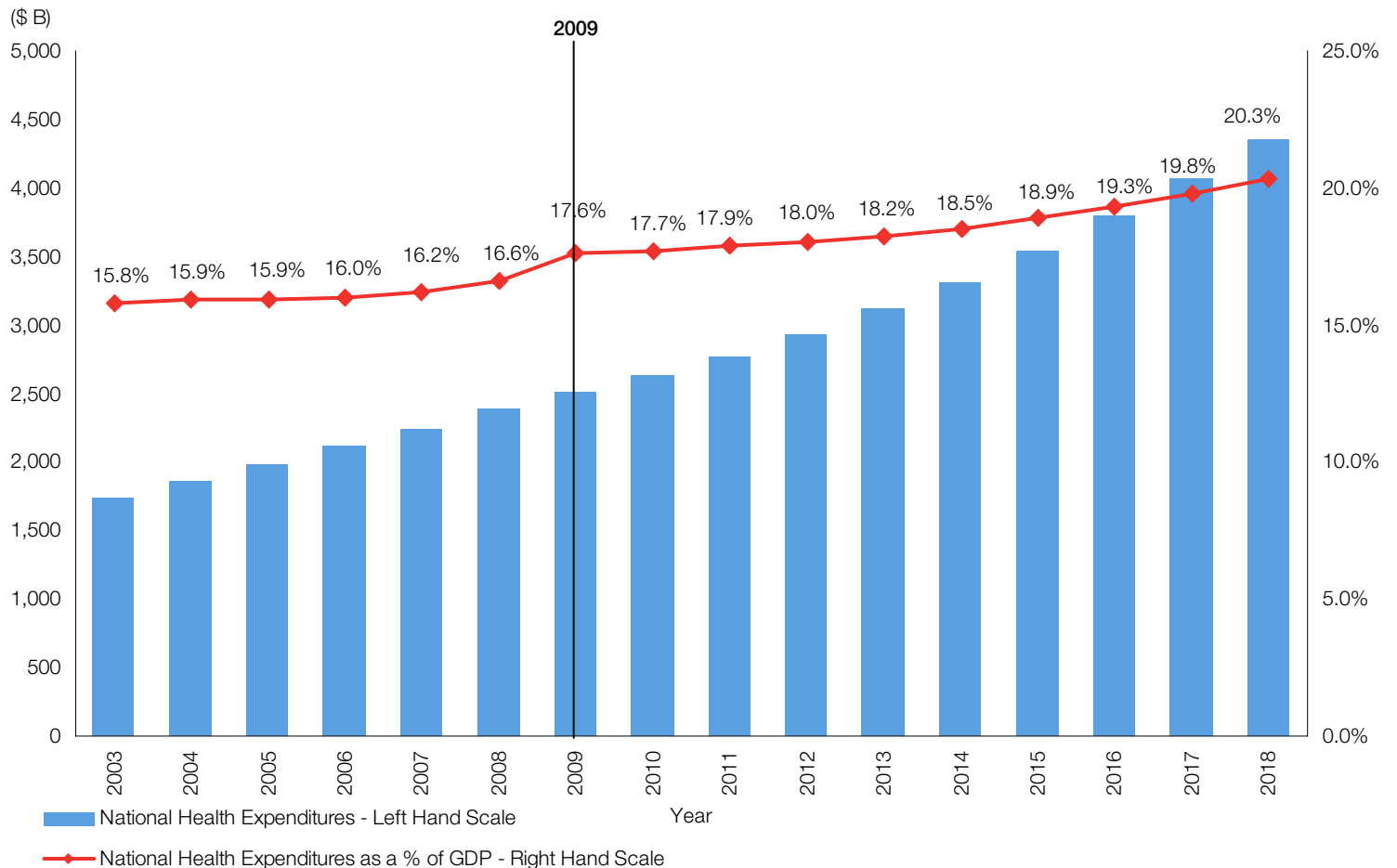
There is consensus about the existing problems with U.S. health care:

- Health care costs are forecast to grow to alarming levels of GDP
- Tens of millions of people are uninsured, when every individual should have access to health coverage
- Demographic trends are exacerbating the current situation

The current system is unsustainable

Cost Continues to Grow

Medicare and Medicaid—which currently represent 6% of GDP—are forecast to reach over 30% of GDP by 2050, according to the Congressional Budget Office



The health spending projections are based on the 2007 version of the National Health Expenditures released in January 2009
Source: Centers for Medicare & Medicaid Services, Office of the Actuary

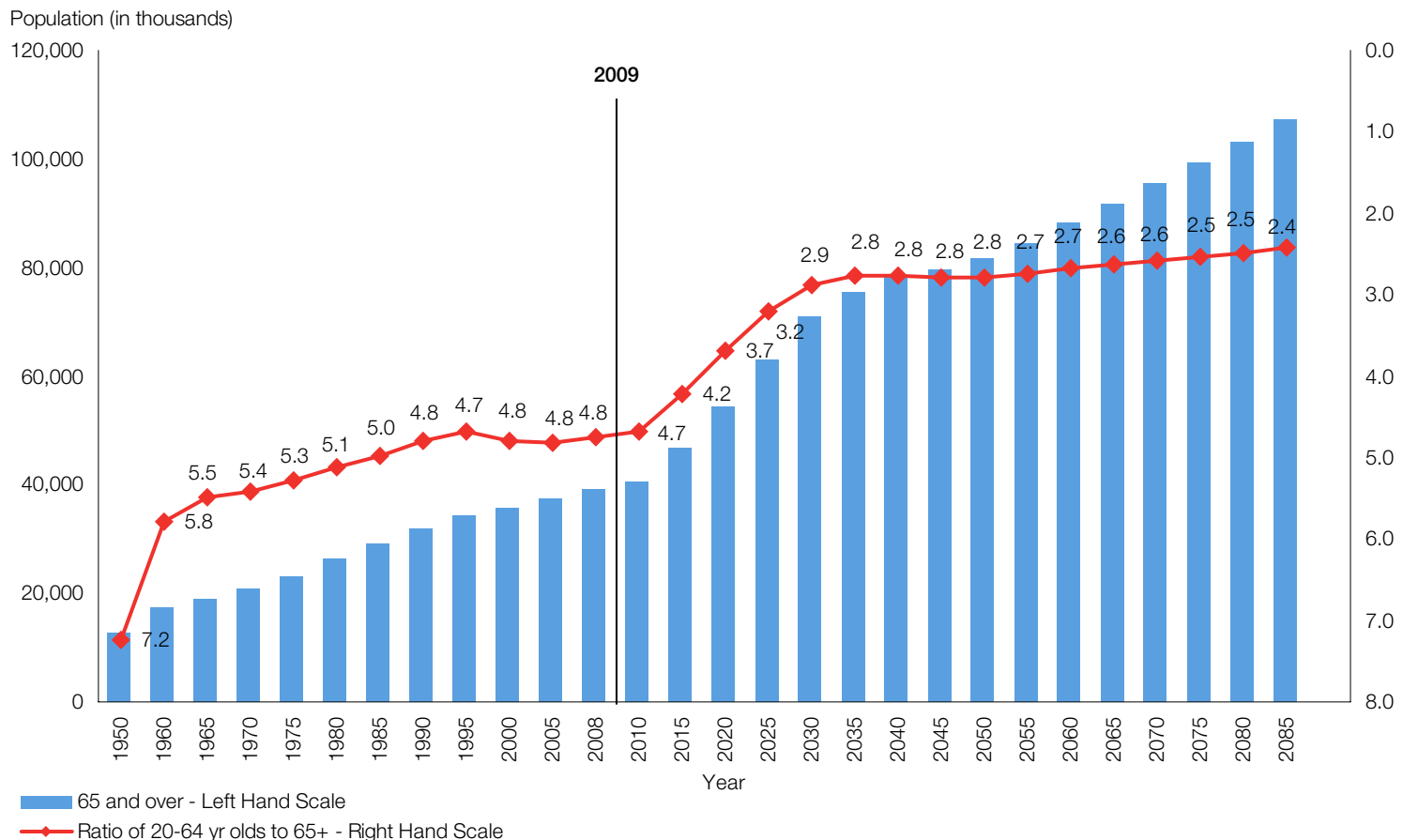
U.S. Health Care Coverage

Currently, 85% of Americans (approximately 255 million) have some form of insurance:

- Private insurance, 67% of population, 41% of annual spend
 - Employment based, 59%
 - Direct purchase, 8%
- Government insurance, 29% of population
 - Medicare, 14%, covers people age 65 or older and some disabled; represents 20% of spend
 - Medicaid, 14%, covers certain low income individuals/families; represents 15% of spend
- 15% (approximately 46 million) of people living in America do not currently have insurance
 - 3% (approximately 9.5 million) are not U.S. citizens
 - 12% (approximately 36.7 million) are U.S. citizens

The Current System is Unsustainable

Forecast movements in the dependency ratio suggest that significant changes are needed in entitlement programs like Medicare

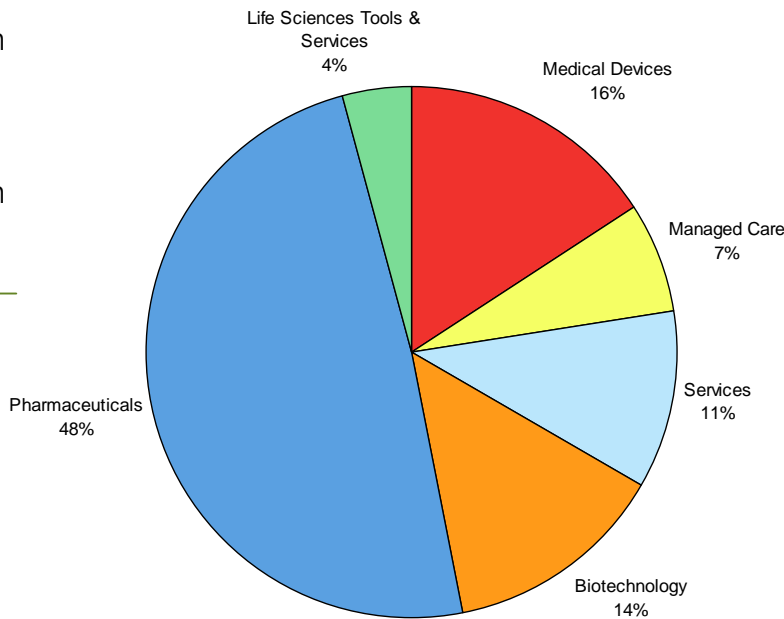


The health spending projections are based on the 2007 version of the National Health Expenditures released in January 2009
Source: Social Security Administration, http://www.ssa.gov/OACT/TR/2009/V_demographic.html#205410

The U.S. Health Care Industry

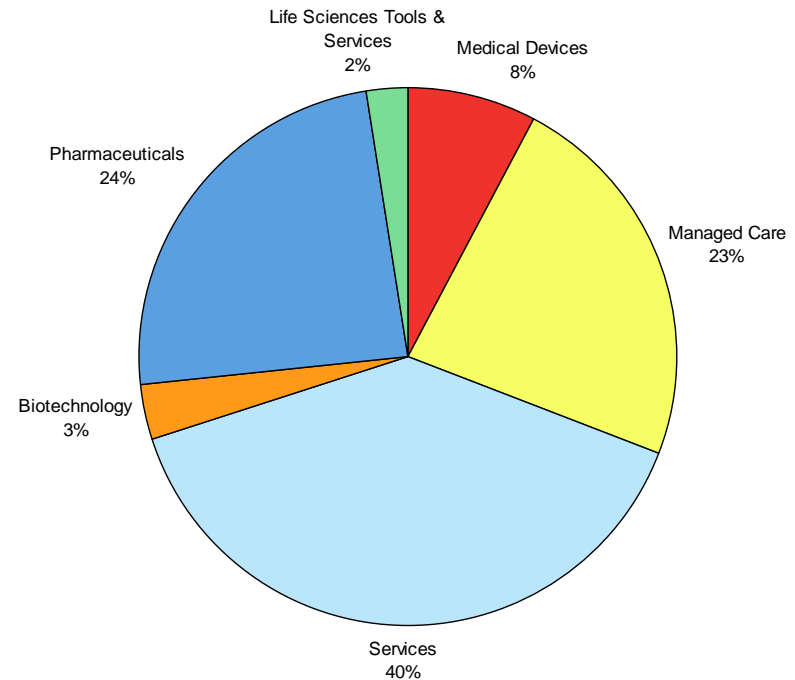
Market Capitalization

Profitability by subsector ranges significantly, as pharmaceuticals has a median EBITDA margin of 33% (42% for biotechnology), while managed care has a median EBITDA margin of 7%



Total: \$1.34 trillion

12-month Rolling Sales



Total: \$1.10 trillion

As of 31 August 2009

Source: Russell Investments

The charts above show the market capitalization and 12-month rolling sales of those publicly traded companies included in the health care sector of the Russell 1000 Index.

Policy Scenario A: Major Reform

Significant government involvement in setting market conditions

- Key features could include:
 - Individual insurance mandate
 - Insurance exchange
 - A “public option” run by the government; a prelude to a single-payer system
 - Strict industry regulation
 - Industry taxation
- In our view, this is a negative scenario for the vast majority of health care companies, but the degree of impact would vary significantly
- We believe this is not a likely scenario

Policy Scenario B: No Reform

Maintaining the status quo

- No reform merely postpones the problems rather than addressing them
- This scenario would likely be positive in the short term for the health care sector
- However, it would likely be negative in the longer term, as reform would still need to be addressed
- We believe this is also not a likely scenario

Policy Scenario C: Limited Reform

Addressing consensus problems without major government intervention

- Proposals could include:
 - Individual insurance mandate; tax credits to individuals
 - Insurance exchange
 - Non-profit cooperatives (member ownership)
 - Government subsidies to small businesses
 - Expansion of Medicaid
- We believe limited reform is the most likely scenario

Potential Relative Winners and Losers

Assuming a limited reform scenario:

- We believe resolution of the “reform” discussion should be positive for the health care sector, as it would eliminate an overhang in the short term
- Key characteristics of relative winners:
 - Operational flexibility, particularly P/L flexibility
 - Size and scale to be paramount across health care subsectors
 - Product differentiation tied to clinical outcomes
 - Information technology to drive efficiency (the “wiring” of health care)
- There are likely to be relative winners and losers within many subsectors, for example:
 - Generic drug manufacturers would benefit from increased volumes of low-cost drugs, while branded drug companies would face annual industry taxation and could potentially be subject to pricing dictates from a proposed Medicare Commission
 - Low tech (Class 1) medtech companies would not be subject to annual taxation, while high tech (Class 2 and 3) medtech companies would be

Conclusions

- Current system is unsustainable
- Limited reform is the most likely outcome of the debate
- We believe business models will be the defining factors in determining winners and losers

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