



# Profits Ahead for Selected Healthcare Stocks

*As Americans and others throughout the world enter their golden years, their need for healthcare has created fertile investment opportunities. However during the past decade, U.S. politicians have been unable to keep promises to improve our current healthcare system. Most proposals would help some companies' fortunes while hurting others, but few proposals have passed. It is important that Americans have access to affordable health care. But it is also important for health care companies to receive adequate compensation to conduct the necessary research to find cures for our maladies. For the past 10 years, healthcare stock prices have generally underperformed other sectors of the stock market and now offer extraordinary values to prudent investors. This is an ideal time to add healthcare stocks to your portfolio. We present four extraordinary companies below that are leaders in the healthcare sector and are undervalued.*

*J. Royden Ward*

*J. Royden Ward, Author  
Cabot Benjamin Graham Value Letter*



## Healthcare Stock #1

**Amgen, Inc. (AMGN)** is a leading biotechnology company that develops products for rheumatoid arthritis and chemotherapy-related anemia. AMGN management recently announced that it will acquire Abgenix for \$2.2 billion. Abgenix has developed two important antibiotics that hold huge profit potential. AMGN is seeking approval to expand the use of two of its existing drugs (*Enbrel and Aranesp*) that could add substantial sales and profits. We forecast 20% earnings per share (EPS) growth for AMGN during the next several years. The shares have declined recently and now sell at 22.2 times next 12-month (forward) earnings per share. We expect AMGN shares to reach our Minimum Sell Price of \$108.96 within two years.



## Healthcare Stock #2

**CVS Corp. (CVS)** is a leading drug store chain with 5,474 stores located throughout the U.S. The company derives 30% of its business from the large array of typical drug store items and 70% from faster growing pharmacy prescription sales. CVS' acquisition of Eckerd drugstores in 2004 continues to produce excellent results. Sales growth is running ahead of forecasts, and cost savings are also very positive. CVS is a superb holding in the fast-growing pharmacy industry that will continue to benefit from the aging U.S. population. We forecast that EPS will increase 15% per year during the next three years. CVS shares are a bargain at 17.3 times forward EPS compared to Walgreen at 24.2. Our Minimum Sell Price for CVS is \$34, which will likely be achieved within two to three years.

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### Healthcare Stock #3

**Johnson & Johnson (JNJ)**, the world's largest diversified healthcare company, is in a strong earnings uptrend. Sales are currently strong in JNJ's consumer and medical device divisions, but drug sales are experiencing a slowdown due to competitive generic products. JNJ's acquisition of Guidant Corp., the maker of pacemakers and defibrillators, is on hold after Boston Scientific made a competing offer for Guidant. JNJ is a premier company and sells at only 16.0 times forward earnings per share. The company has a very strong balance sheet with \$13 billion in cash and minimal debt. JNJ has increased its dividend every year for over 30 years – the dividend payment currently yields 2.2% per year. We expect JNJ shares to reach our Minimum Sell Price of \$86 within two years.



### Healthcare Stock #4

**Stryker Corp. (SYK)** is a leading maker of orthopedic implants and a large array of other medical products sold mainly to hospitals. The wide range of products has enabled SYK to compete effectively with competitors who offer fewer products to hospitals. SYK's earnings have increased at a steady 22% rate of growth for the past 25 years. The company's outstanding growth record has been generated by successful development of its product line and expansion into foreign markets without the need for acquisitions. We expect management to continue with their winning business plan and to expand EPS by 20% during the next several years. SYK sell at 21.8 times forward EPS. The company is facing a challenging pricing environment, but exciting new product introductions will offset lower profit margins. We believe that SYK shares will advance to our Minimum Sell Price of \$72.18 within the next three years.

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*Sound Advice from the Teachings of Benjamin Grabam*

176 North Street, P.O. Box 2049  
Salem, MA 01970  
Telephone 978-745-5532  
Fax: 978-745-1283