

MSUSA HC Team: Guide to Investing for Election 2016

MSUSA's HC Team has collaborated to update our January work showing that HC outperforms post-election when gridlock reigns, and give our joint view of the best ways to play the possible outcomes. Clip our 'traders' guide' on page 2. Second, we outline the HC agendas of each presidential candidate. Third, in concert with polls that still show Clinton and the Democrats taking the White House and Senate in very tight races, we see the best of all realistic outcomes coming true: Gridlock reigns.

The S&P HC Index performance was analyzed over the last 12 election cycles. As before, HC outperforms the S&P500 when gridlock reigns and underperforms when it doesn't. But in this report, we give a bit more background on why that's the case and why, even with a Democrat in the White House, so long as the GOP controls the House, single payer as a risk can be taken off the long list of investor concerns.

We also explore in some depth what could happen under the various gridlock scenarios; Not all causes of gridlock necessarily have the same outcome. For example, given the tension in the GOP, even if the House stays red and Trump wins, it's not clear whether the Trump or Congressional Republican (Ryan) health plan would be the mandate of the day. More, even if Clinton wins and the House stays red, the pharma & related companies may not be in the clear from continued scrutiny and investigation of their pricing practices. When consumers are hurt, issues can become bi-partisan and don't forget that the Administration controls the DOJ and OIG.

We also present poll data from Friday and Sunday, using three different sources (538, HuffPost and Cook), all of which is subject to rapid change in this very close and tense election. As of this writing, it still appears that Clinton will win but without a landslide...and without a mandate. But if 538 is right about the polls being skewed, then Trump has a better chance of winning. From a market perspective, its this intense uncertainty that matters and likely makes for drama on Monday and Wednesday before we all settle down for the long term.

Finally, no matter what happens in this election, we think that budget math eventually will prevail: the rate of increase of spending on HC is likely unsustainable because the number of 'capitas' is rising too fast and per capital spend (probably) can't be zero. That means, we think, long-term reductions in capacity in high cost settings, for high cost/low value drugs and devices and sustained moves toward Right Care, Right Time, Right Place, for the Right Reason, at the Right Cost. In the long run, even politics seems to be 'always and ever' about the money.

Company	Symbol	Price (11/04)	Rating	PT
AmSurg Corporation	AMSG	\$64.25	Buy	\$95.00
HCA Holdings, Inc.	HCA	\$75.33	Buy	\$97.00
Ironwood Pharmaceuticals, Inc.	IRWD	\$13.57	Buy	\$20.00
MEDNAX, Inc.	MD	\$60.38	Buy	\$69.00
Pacira Pharmaceuticals, Inc.	PCRX	\$32.10	Buy	\$46.00
UnitedHealth Group Incorporated	UNH	\$137.71	Buy	\$169.00

Source: Bloomberg and Mizuho Securities USA

Sheryl R. Skolnick, Ph.D.
 Director of Research

+1 212 205 7853

Sheryl.Skolnick@us.mizuho-sc.com

Ann Hynes
 Managing Director, Americas Research

+1 617 235 1741

ann.hynes@us.mizuho-sc.com

Irina R. Koffler
 Managing Director, Americas Research

(212) 205-7929

irina.koffler@us.mizuho-sc.com

PLEASE REFER TO PAGE 22 OF THIS REPORT FOR IMPORTANT DISCLOSURE AND ANALYST CERTIFICATION INFORMATION. Mizuho Securities USA Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Exhibit 1: What's Good for Which Sector? MSUSA's Snip & Save Guide to Post-Election Day Investing

	Clinton President GOP Senate GOP House	Clinton President Democratic Senate GOP House	Trump President GOP Senate GOP House	Trump President Democratic Senate GOP House	Clinton President Democratic Senate Democratic House	Trump President Democratic Senate Democratic House
Hospitals	Positive	More Positive	Very Negative	Neutral/Negative	Most Positive Outcome	Neutral/Negative
<i>MSUSA Analyst:</i>	<i>Sheryl R. Skolnick and Ann Hynes</i>					
<i>Stocks Under Coverage:</i>	<i>HCA, UHS, THC, LPNT, CYH, and QHC</i>					
Post Acute Providers	Positive	More Positive	Very Negative	Neutral/Negative	Most Positive Outcome	Neutral/Negative
<i>MSUSA Analyst:</i>	<i>Sheryl R. Skolnick</i>					
<i>Stocks Under Coverage:</i>	<i>HLS, KND, AMED</i>					
Other HC Services Providers	Positive	More Positive	Very Negative	Neutral/Negative	Most Positive Outcome	Neutral/Negative
<i>MSUSA Analyst:</i>	<i>Ann Hynes</i>					
<i>Stocks Under Coverage:</i>	<i>ACHC, AAC</i>					
Physician Services	Positive	More Positive	Very Negative	Neutral/Negative	Most Positive Outcome	Neutral/Negative
<i>MSUSA Analyst:</i>	<i>Ann Hynes</i>					
<i>Stocks Under Coverage:</i>	<i>MD, AMSG, EVHC, TMH</i>					
Managed Care	Positive	Positive	Negative	Neutral/Negative	Most Positive Outcome	Neutral/Negative
<i>MSUSA Analyst:</i>	<i>Sheryl R. Skolnick</i>					
<i>Stocks Under Coverage:</i>	<i>UNH</i>					
Drug Distributors	Most Positive Outcome	Neutral/Negative	Positive	Positive	Very Negative	Neutral/Negative
<i>MSUSA Analyst:</i>	<i>Ann Hynes</i>					
<i>Stocks Under Coverage:</i>	<i>ABC, CAH, MCK</i>					
Retail Pharmacies	Most Positive Outcome	Neutral/Negative	Positive	Positive	Very Negative	Neutral/Negative
<i>MSUSA Analyst:</i>	<i>Ann Hynes</i>					
<i>Stocks Under Coverage:</i>	<i>CVS, WBA, DPLD</i>					
PBMs	Most Positive Outcome	Neutral/Negative	Positive	Positive	Very Negative	Neutral/Negative
<i>MSUSA Analyst:</i>	<i>Ann Hynes</i>					
<i>Stocks Under Coverage:</i>	<i>ESRX</i>					
Clinical Labs	Positive	More Positive	Very Negative	Neutral/Negative	Most Positive Outcome	Neutral/Negative
<i>MSUSA Analyst:</i>	<i>Ann Hynes</i>					
<i>Stocks Under Coverage:</i>	<i>DGX, LH</i>					
Specialty Pharma/Generics	Most Positive Outcome	Neutral/Negative	Positive	Positive	Very Negative	Neutral/Negative
<i>MSUSA Analyst:</i>	<i>Irina Koffler</i>					
<i>Stocks Under Coverage:</i>	<i>ADMS, AGN, DEPO, EGRX, ENDP, HZNP, IRWD, JAZZ, MNK, MYL, PCRX, SCMP, TEVA, VRX</i>					

Source: Mizuho Securities USA estimates and Bloomberg. *Pre-election is performance January 1st to election date. Post-election is performance 12 months post-election date. We provide six possible election scenarios above. Our current analysis of polling does not consider as realistic a scenario in which either party would have at least 60 Senate seats and be able to avoid a filibuster.

Exhibit 2: Who Does What to Whom? Clinton vs Trump HC Agendas

Issue	Hillary Clinton	Donald Trump
Position on the ACA	Maintain and build upon the ACA.	Repeal the ACA in its entirety.
Insurance Premiums	Increase premium tax credits available through the Marketplaces so that individuals and families pay no more than 8.5% of their income on health insurance premiums. Work with interested governors to establish a public option plan in their states using current flexibility under the ACA. Create a fallback process that gives the Secretary of Health and Human Services the authority to modify or block unreasonable health insurance rate increases in states that do not have such authority. Fix the "family glitch". Repeal the Cadillac tax.	Allow people to buy health insurance across state lines. Work with states to establish high-risk pools for individuals who have not maintained continuous coverage. Allow payments individuals make towards health care premiums to be tax deductible.
Out-of-Pocket Costs	Require plans to provide three sick visits per year that do not count towards deductibles. Provide a new progressive refundable tax credit of up to \$2,500 for an individual, \$5,000 per family, for out-of-pocket costs (including marketplace premiums) in excess of 5% of income for insured individuals who are not eligible for Medicare or claiming existing deductions for medical costs. Ensure consumers are required to pay no more than in-network cost-sharing for care received in a hospital in their plan's network. Enforce ACA transparency requirements; and require employers, providers, and insurers to provide more information about out-of-pocket costs, doctor networks, prescription drug costs, and other elements of health insurance so that consumers can make informed choices.	Allow people to enroll in tax-free Health Savings Accounts to pay for out-of-pocket costs, usable by all family members and inheritable without tax penalty. Require price transparency from all health care providers to enable individuals to shop for the best prices on medical procedures.
Medicaid Expansion	Encourage states to adopt the Medicaid expansion by allowing any state that expands Medicaid to receive a 100% federal match for the adult expansion population during the first three years, regardless of when the state chooses to expand.	NM
Medicaid Financing	Maintain current Medicaid financing structure.	Transform Medicaid into a block-grant to states.
Medicare Buy-In	Allow people age 55-64 to buy-in to Medicare.	NM
Medicare Drug Pricing	Allow Medicare to negotiate drug prices, especially for high-cost drugs with limited competition. Require drug manufacturers to provide rebates in the Medicare low-income subsidy program that are equivalent to rebates in the Medicaid program.	NM
Medicare Payment System Reform	Expand value-based delivery system reform in Medicare and Medicaid, and propose public-private efforts that incentivize employers and insurers to expand these payment models.	NM
Prescription Drugs Importation	Allow Americans to import drugs for personal use from foreign nations whose safety standards are as strong as those in the US.	Allow consumers access to imported, safe and dependable drugs from overseas.
Out-of-Pocket Drug Costs	Require health insurance plans to place a monthly limit of \$250 on covered out-of-pocket prescription drug costs for individuals.	NM
Generic Drugs and Biologics	Increase the availability of generic drugs by prohibiting "pay-for-delay" deals and by fully funding the FDA's Office of Generic Drugs to clear out their generic drug approval backlog. Lower the biologic exclusivity period from 12 to 7 years and direct FDA to give prioritized, expedited review to biosimilar applications with only one or two competitors in the marketplace.	NM
Prescription Drugs Prices	Eliminate corporate tax deductions for direct-to-consumer advertising; and require FDA approval of these advertisements. Require pharmaceutical companies that benefit from federal support to invest a "sufficient amount" of revenue in research and development or pay rebates to support basic research. Build on ACA provisions that use the results of private-sector analyses to hold drug companies accountable for justifying costs.	Has stated Medicare should be allowed to negotiate drug pricing.
Opioid Epidemic	Ensure enforcement of insurance parity laws between physical and behavioral health. Reevaluate Medicare and Medicaid payment practices to remove obstacles to reimbursement and help integrate care for addiction into standard practice.	End Medicaid policies that obstruct inpatient addiction treatment.

Source: Kaiser Family Foundation and Mizuho Securities USA.

The Big Question: Will Healthcare Recover In 2017 Post the Sector's Pre-Election Volatility?

With the US presidential election on Tuesday, we are providing an update to our previously published note on the elections and healthcare service performance, "Historical Healthcare Performance in Elections Years and 2016 Top Picks" that was published on January 5, 2016. It is clear that the performance of healthcare stocks in the 12-months post the election will be closely tied to the outcome of the Presidential and Congressional elections, especially given the increased scrutiny in Washington on drug pricing and continued Republican talks of defunding or repealing health reform.

This note includes our previously published analysis on the performance of the S&P 500 versus various S&P 500 healthcare indices in the last 12 elections (including midterm elections) since the 1992 Presidential election and takes a look at the upcoming 2016 Congressional elections. The following are key highlights:

Gridlock in Washington is GOOD for healthcare stocks

- When there is joint control in Washington with one party controlling the Presidency and the other party controlling at least one chamber of Congress, the S&P 500 Healthcare outperformed the S&P 500 pre-election (+10% versus +2%) and post-election (+16% versus +12%) on average.
 - *Based on our analysis, healthcare stocks should outperform in the 12-months post the election as gridlock is likely **but...**we think the outcome of the Senate will play a larger role in the timing of the recovery for drug-related stocks.*
- **We think the best-case scenario for healthcare stocks would be a Clinton win, and both the Senate (toss-up) and House (likely) remaining Republican.** That's because, without complete control, getting any new legislation passed would be very difficult, if not continuing to be nearly impossible. Given the extreme tone of the rhetoric, we'd expect even more polarization of a split Washington, making even bipartisan issues (reducing health care spending) hard to legislate.
- **Even if the Senate does shift Democrat and the House stays Republican, health care stocks, especially non-drug stocks, should outperform based on historical performance.** However, we think the timing will be delayed and probably muted for drug-related stocks as Democratic control could keep the rhetoric alive given key changes in Senate leaderships roles on key committees (i.e. there speculation that Senator Bernie Sanders could be appointed Chair of the Budget Committee) despite the fact that it would take an act of Congress to change the law.
- **One party control in Washington equals underperformance for healthcare stocks.** When there is no joint control in Washington, i.e., when

one party controls the Executive and Legislative branches, the S&P 500 Healthcare underperformed the S&P 500 pre-election (-2% versus -0%) and post-election (+1% versus +11%) on average. Note that this performance is independent of which party controls Congress: whether control is in the hands of either the Democrats or Republicans, the health care index underperformed the S&P 500.

- 2016 Eerily Acting Like 2004.** We think the 2016 election cycle eerily mirrors 2004 where the S&P 500 healthcare was down -8% prior to the election. As in the current election, pharmaceutical pricing was an election issue given the then-recent passage of Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was passed by an all Republican Washington in December 2003. The law prohibits the federal government from negotiating directly with pharmaceutical companies on drug pricing and during the 2004 election cycle there was a lot of negative rhetoric from Democrats regarding this provision (and a threat to overturn it). As a result, brand manufacturers changed pricing behavior mid-year. After the election, when the risk of government controlled pricing abated, healthcare rallied +9% in the 12-months post the election. Although healthcare stocks typically do not outperform when there is no balance of power, 2005 was an exception given the high stakes with Medicare Part D and price controls. (In reality, the managed care plans started to consolidate in 2005 to get scale to dominate Part D – it was the first major market expansion for that sector in a long time. That was part of the reason for the outperformance.)

Exhibit 3: Election Performance Summary Pre-Election And Post-Election

Election Year	Pre-Election			Post-Election				
	Balance of Power	S&P 500 HC	S&P 500	Balance of Power	S&P 500 HC	S&P 500		
1992	Yes	(18%)	+1%	No	(12%)	+10%		
1994	No	+8%	+0%	Yes	+42%	+27%		
1996	Yes	+18%	+15%	Yes	+31%	+29%		
1998	Yes	+30%	+14%	Yes	+9%	+22%		
2000	Yes	+28%	(3%)	Yes	(8%)	(22%)		
2002	No	(17%)	(20%)	No	(1%)	+15%		
2004	No	(8%)	+2%	No	+9%	+7%		
2006	No	+5%	+9%	Yes	+5%	+6%		
2008	Yes	(22%)	(32%)	No	+9%	+12%		
2010	No	+1%	+7%	Yes	+6%	+5%		
2012	Yes	+14%	+12%	Yes	+33%	+25%		
2014	Yes	+21%	+9%	Yes	+7%	+7%		
		Pre-Election				Post-Election		
		Balance Of Power:	+10%	+2%			+16%	+12%
		No Balance of Power:	(2%)	(0%)			+1%	+11%

Source: Mizuho Securities USA estimates and Bloomberg. *Pre-election is performance January 1st to election date. Post-election is performance 12 months post-election date.

We analyzed the performance of the S&P 500 versus various S&P 500 healthcare indices in the last 12 elections (including midterm elections) since the 1992 Presidential election.

- **One thing is clear from the data—although the healthcare issues may change and the party controlling Congress may change—healthcare stocks historically outperform the S&P 500 and trade at a higher forward one-year PE than the market when there is joint control of Washington pre-election (similar to the current environment) and post-election.**
- **When averaging all 12 elections together, the S&P 500 Healthcare outperformed the S&P 500 pre-election (+10% versus +2%) and post-election (+16% versus +12%) on average when there is joint control in Washington. When one party controls both the Executive and Legislative branches the S&P 500 Healthcare underperformed the S&P 500 pre-election (-2% versus -0%) and post-election (+1% versus +11%) on average.**

Why is Gridlock Good? Going Back in History and a Civics Lesson

The Healthcare sector, being largely publicly funded already, is especially sensitive to the risk of legislation, regulation and Congressional inquiry. These factors can dramatically affect the industry on Main Street (creating or destroying business opportunities) and, therefore, Wall Street. Consider that in 1987, the Omnibus Budget Reconciliation Act created the Medicare Post-Acute/subacute care benefit and was the catalyst for a period of explosive new business creation that marked the beginning of the career of one of the authors of this report (the ‘Internet’ for healthcare). Consider also the impact of the Balance Budget Act of 1997 (10 years is not a coincidence) that, along with grave missteps by the companies themselves, nearly destroyed those same subacute/skilled nursing providers’ businesses. In 1987, Congress was controlled by the Democrats at the end of Reagan’s second term. In 1997, Congress was controlled by Republicans at the start of Bill Clinton’s second term.

While theoretically there was a ‘balance of power’ in both of those years, Congress was controlled by one party, making legislation easier to pass. **So we’d argue that it’s gridlock in Congress itself that prevents legislation from being passed that is really good for healthcare stocks.**

But why is that the case? Healthcare legislation virtually always requires some control or expansion of federal spending. As only the House can technically originate material tax increase bills and as most spending bills require ‘pay fors,’ getting such legislation passed when the House and Senate are controlled by the same party is much easier. The President can only ask a friendly legislator to sponsor a bill on his/her agenda and can only veto legislation: control over the White House only creates blocking power. In the current environment, we’ve seen what happens in precisely that situation: MACRA passed, but dozens of ACA repeal bills, even when

the Senate was GOP-controlled, went nowhere and a stalemate over healthcare even shut down the government in Obama's first term.

From a stock perspective, it's the uncertainty that creates the pre-post divergence. Again, another obvious observation, but one worth exploring in this election cycle. Today, the Sunday before the election, uncertainty is close to its peak. And we all know that as nature abhors a vacuum, the market abhors uncertainty.

- Thus, the market moves are pretty clearly telling us, not that the market has all of a sudden taken a Democratic bent, but that there is less uncertainty under a Clinton win scenario than under a Trump win.
- So the market is more stable when we think Clinton will win and had multiple losing sessions when the fear kicked in that Trump could win.
- In other words, we'd all rather have the so-called 'devil' we know, than the 'devil' we don't know in the White House.

A Word about Single Payer

Investors clearly fear the notion of a government takeover of healthcare, if not our daily lives, under a Democratic sweep of Washington. And nothing invokes more fear in healthcare-land than a 'single payer' health insurance system. When Clinton invoked 'single payer' in her healthcare letter, it sent shock waves through healthcare stocks and our inboxes. So let's explore a couple of thoughts here:

1. The civics lesson above, namely that the House controls taxation, not the Senate, means that even if the Democrats control the Senate and the White House, funding for a single-payer system would have no better chance of being passed in the House than a snowball surviving in a hot place. That's one of the reasons that a 'single payer' plan wasn't passed to begin with (the other was that the Senate moderates couldn't stomach it). So even with a Democratic Senate, Clinton can dream of a single-payer plan (and so can Bernie), but it almost certainly won't happen thanks to a likely even more polarized House.
2. A single payer plan is not the same as a government-sponsored plan on the exchanges. Folks, we hate to tell you this, but that Medicare Advantage and Managed Medicaid business that we love so much when it makes money for our managed care stocks are government-sponsored, single payer plans that have been privatized. The fear we should have, we think, of a government-sponsored plan on the exchanges is that in the absence of corrective legislation that fixes the problems with the ACA benefit to begin with, the bill to the taxpayer for such a plan will likely be enormous. (UNH, for example, has already lost at least \$1B, never mind what the co-ops and other participants have lost on the exchanges).

The Thinking Behind Our Call

In our scenario analysis presented in Exhibit 1, then, we judge the outcomes based on our expectations for material healthcare legislation for each of the subsectors we cover currently. Again, some of these conclusions, particularly the easy ones at the extremes of the outcome set, are blindingly obvious, for which we apologize.

1. **Repeal is bad for services stocks:** the status quo has been discounted into stock prices multiple times. The \$155B in pay-for cuts to hospitals and a host of regulations, taxes and fees on managed care have already been reflected in past years' earnings. The opportunity for coverage expansion to drive improved operating performance for hospitals and growth in Medicaid managed care has also come and gone. Making the benefits go away but leaving the pay-fors in place is the worst of all possible worlds for hospitals (those cuts totaled \$1 *Trillion* over 10-years: it is unlikely, therefore, that even a vehemently anti-Obamacare GOP Congress or President would be foolish enough to repeal those). Thus, a triple-play of GOP wins would be the worst case for services stocks.
2. **A Democratic sweep is bad for spec pharma, biotech, drug stocks and distributors. The fears, whether they are real or not, of drug price legislation, continued investigations, Congressional hearings and a Warren-Sanders agenda in Congress, are likely to dominate trading in those stocks, at least through the 100-day Agenda until the spring budget/legislative session.** By then we'll be able to see what's real versus what's feared.
3. **But if Clinton wins, even in a Democratic sweep, much will depend on her first 100-day agenda. The risk we see to the pharma sector broadly defined is that the furor over egregious drug pricing took on a decidedly bi-partisan air – and that's the real danger in our view, i.e., that Congress focuses on 'constituent concerns' and champions the fight against the high cost of drugs (albeit with different underlying reasons) through empowering increased regulation or, more likely, through the effective use of Congressional hearings and investigations.**
4. **The status quo outcome is also relatively easier to explore as well: A Clinton White House and GOP Congress means nothing meaningful happens legislatively so long as the GOP has fewer than 67 votes required to override a veto....and it probably means that pharma/related stocks have an upside catalyst.** Indeed, the venom is even more intense than it has been with President Obama in the White House and the gridlock may even intensify. Given that investors prefer a bad status quo to an unknown future, it's not surprising that our data shows that gridlock is good for healthcare stocks. Further, we suspect that the market will believe that the GOP will be unlikely to move forward with the anti-drug-pricing agenda.

5. **Trump winning scenarios, however, are nearly impossible to predict because his healthcare ‘plan’ wasn’t a plan...** But that doesn’t mean that Ryan and the House Republicans won’t be able to push through an anti-ACA agenda, even if they don’t control the Senate. They’ve already been successful defunding key elements of the law, even with Obama in the White House. So a GOP House and White House could lead to at least some negative legislation for providers and others who had at least some benefit from the ACA.
6. **Indeed, the outcome with a GOP triple play may be more of a whole-market outcome than a healthcare specific one.** That’s because even though Trump has laid out some of his policy initiatives, his campaign has been less policy-than concept-driven. And his economic policy may, if not tempered by a more deficit-sensitive GOP House, dramatically increase the deficit. Because we and other experts find Trump’s spring 2016 health care ‘plan’ so devoid of meaningful content (it’s a collection of old ideas in our view, that not even the GOP has fully endorsed), we suspect that Ryan’s Congressional Republican plan, developed last spring and released last June, is more likely to be the blueprint for health policy in a GOP-controlled Washington.
7. **The most interesting outcome would occur if Trump and the GOP control the White House and the House, but not the Senate.** (It’s a bizarre outcome, but no more bizarre than this election cycle has been in our view). **It’s pretty clear that Trump and House leadership are at-best uneasy with each other. But the GOP House could put party first and try to persuade Trump to follow their agenda, which would put healthcare provider/payer stocks at risk, but improve the outlook for pharm/related stocks. On the other hand, if they are diametrically opposed on policy, we could almost have a three-party situation in DC...a new version of gridlock, which would be good for everyone in health care, even if it could take until the spring (i.e., after the 100-day agenda and into the first Budget process) to see the provider/payer stocks react. One can always hope.**

The Historical Performance Analysis

Below we analyze the election data in Presidential election years and mid-term election years based on price performance of the S&P 500 Healthcare Index, S&P 500 Healthcare Equipment & Services Index, the S&P 500 Pharmaceutical, Biotech and Life Sciences Index versus the S&P 500 both on an absolute price performance basis and on a forward PE basis. Breaking down the data by Presidential election years and mid-term elections years the trend remains the same with healthcare outperforming the S&P 500 when there is a balance of power.

Presidential Election Years Breakdown. According to our data, the S&P 500 Healthcare Index outperformed the S&P 500 pre-presidential elections when there was a balance of power, gaining +4% versus a decline of -1%, respectively. Further, the S&P 500 Healthcare Index outperformed the S&P 500 post presidential elections when there was a balance of power, gaining +19% versus +11%, respectively. Some

years, the outperformance was greater depending on the healthcare issues at the time. For example, 2012 was an important year for healthcare legislation, with the Republicans campaigning to repeal Obamacare. Post the 2012 elections, a balance of power remained in Washington.

Exhibit 4: Stock Market Performance in Presidential Election Years

	1992 Pre Election	1992 Post Election	1996 Pre Election	1996 Post Election	2000 Pre Election	2000 Post Election	2004 Pre Election	2004 Post Election	2008 Pre Election	2008 Post Election	2012 Pre Election	2012 Post Election
S&P 500 Healthcare Index	(18%)	(12%)	+18%	+31%	+28%	(8%)	(8%)	+9%	(22%)	+9%	+14%	+33%
S&P 500 Healthcare Equipment & Services	(17%)	(11%)	+6%	+12%	+48%	(8%)	+3%	+24%	(33%)	+14%	+13%	+29%
S&P 500 Pharma, Biotech & Life Sciences	(18%)	(12%)	+22%	+37%	+23%	(7%)	(13%)	(2%)	(16%)	+7%	+15%	+35%
S&P 500 Index	+1%	+10%	+15%	+29%	(3%)	(22%)	+2%	+7%	(32%)	+12%	+12%	+25%

	Average All Elections		Balance Of Power		No Balance Of Power	
	Pre	Post	Pre	Post	Pre	Post
S&P 500 Healthcare Index	+2%	+10%	+4%	+19%	(8%)	+2%
S&P 500 Healthcare Equipment & Services	+3%	+10%	+3%	+11%	+3%	+9%
S&P 500 Pharma, Biotech & Life Sciences	+2%	+10%	+5%	+22%	(13%)	(2%)
S&P 500 Index	(1%)	+10%	(1%)	+11%	+2%	+10%

-Pre the 1992, 1996, 2000, 2008 and 2012 elections there was a balance of power in Washington
-Post the 1996, 2000, and 2012 elections there was a balance of power in Washington
- Pre the 2004 election no balance of power
- Post the 1992, 2004 and 2008 elections there was no balance of power in Washington

Source: Mizuho Securities USA estimates and Bloomberg. *Pre-election is performance January 1st to election date. Post-election is performance 12 months post-election date.

On a forward PE basis, the same trend is evident that a balance of power is good for healthcare stocks with post elections the PE for healthcare is 19.9x versus 13.4x if there is a no balance of power environment.

Exhibit 5: Election Year Stock Market Price to Earnings Valuation

	1992 Pre Election	1992 Post Election	1996 Pre Election	1996 Post Election	2000 Pre Election	2000 Post Election	2004 Pre Election	2004 Post Election	2008 Pre Election	2008 Post Election	2012 Pre Election	2012 Post Election
S&P 500 Healthcare Index	16.0x	13.1x	17.8x	21.1x	25.2x	24.8x	16.6x	16.8x	12.4x	10.3x	11.7x	13.8x
S&P 500 Healthcare Equipment & Services	17.0x	14.0x	16.8x	18.3x	21.7x	23.2x	16.6x	18.3x	13.2x	10.4x	11.4x	12.8x
S&P 500 Pharma, Biotech & Life Sciences	15.9x	13.0x	18.1x	21.8x	26.1x	25.2x	16.5x	15.7x	12.1x	10.2x	11.9x	14.4x
S&P 500 Index	13.4x	13.8x	13.7x	16.0x	20.9x	17.4x	14.7x	14.8x	12.0x	11.8x	11.8x	13.0x

	Average All Elections		Balance Of Power		No Balance Of Power	
	Pre	Post	Pre	Post	Pre	Post
S&P 500 Healthcare Index	16.6x	16.7x	16.6x	19.9x	16.6x	13.4x
S&P 500 Healthcare Equipment & Services	16.1x	16.2x	16.0x	18.1x	16.6x	14.2x
S&P 500 Pharma, Biotech & Life Sciences	16.8x	16.7x	16.8x	20.5x	16.5x	13.0x
S&P 500 Index	14.4x	14.5x	14.4x	15.5x	14.7x	13.5x

-Pre the 1992, 1996, 2000, 2008 and 2012 elections there was a balance of power in Washington
-Post the 1996, 2000, and 2012 elections there was a balance of power in Washington
- Pre the 2004 election no balance of power
- Post the 1992, 2004 and 2008 elections there was no balance of power in Washington

Source: Mizuho Securities USA estimates Bloomberg. * Pre-election is average PE January 1st to election date. Post-election is average PE 12 months post-election date.

Mid-Term Election Years Breakdown. It's the same trend only more pronounced pre-election when looking at the data from a forward PE basis. Note again that gridlock is good for health care – there's a nearly 50% premium multiple in the pre-election 12 months when there is gridlock versus when there isn't. (20.9x versus 14.6x). But what is different is that there is a surge in the index pre-mid-term election that is more than DOUBLE the average appreciation for the broader S&P 500 when gridlock prevails before and after the election.

Exhibit 6: Stock Market Performance in Mid-Term Election Years

	1994 Pre Election	1994 Post Election	1998 Pre Election	1998 Post Election	2002 Pre Election	2002 Post Election	2006 Pre Election	2006 Post Election	2010 Pre Election	2010 Post Election	2014 Pre Election	2014 Post Election
S&P 500 Healthcare Index	+8%	+42%	+30%	+9%	(17%)	(1%)	+5%	+5%	+1%	+6%	+21%	+7%
S&P 500 Healthcare Equipment & Services	+8%	+32%	+5%	(13%)	(9%)	+9%	(5%)	+13%	(1%)	+10%	+19%	+12%
S&P 500 Pharma, Biotech & Life Sciences	+10%	+45%	+36%	+15%	(19%)	(5%)	+11%	+2%	+1%	+5%	+22%	+4%
S&P 500 Index	+0%	+27%	+14%	+22%	(20%)	+15%	+9%	+6%	+7%	+5%	+9%	+4%
	Average All Elections		Balance Of Power		No Balance Of Power							
	Pre	Post	Pre	Post	Pre	Post	Pre	Post				
S&P 500 Healthcare Index	+8%	+11%	+26%	+14%	(1%)	(1%)	(1%)	(1%)				
S&P 500 Healthcare Equipment & Services	+3%	+11%	+12%	+11%	(2%)	+9%						
S&P 500 Pharma, Biotech & Life Sciences	+10%	+11%	+29%	+14%	+1%	(5%)						
S&P 500 Index	+3%	+13%	+12%	+13%	(1%)	+15%						

-Pre the 1998 and 2014 elections there was a balance of power in Washington
-Post the 1994, 1998, 2006, 2010 and 2014 elections there was a balance of power in Washington
-Pre the 1994, 2002, 2006 and 2010 elections no balance of power in Washington
-Post the 2002 elections there was no balance

Source: Mizuho Securities USA estimates and Bloomberg. *Pre-election is performance January 1st to election date. Post-election is performance 12 months post-election date.

Exhibit 7: Election Stock Market Price to Earnings Valuation

	1994 Pre Election	1994 Post Election	1998 Pre Election	1998 Post Election	2002 Pre Election	2002 Post Election	2006 Pre Election	2006 Post Election	2010 Pre Election	2010 Post Election	2014 Pre Election	2014 Post Election
S&P 500 Healthcare Index	12.7x	15.0x	26.6x	28.1x	19.3x	17.1x	15.8x	15.4x	10.6x	10.9x	15.1x	16.1x
S&P 500 Healthcare Equipment & Services	14.0x	14.9x	21.4x	21.7x	18.9x	16.2x	16.4x	16.1x	11.8x	11.9x	14.6x	16.4x
S&P 500 Pharma, Biotech & Life Sciences	12.5x	15.0x	27.8x	29.7x	19.4x	17.4x	15.5x	15.1x	10.0x	10.5x	16.0x	16.0x
S&P 500 Index	12.7x	12.2x	18.3x	21.4x	14.5x	14.0x	13.8x	14.3x	11.8x	11.7x	14.5x	15.6x
	Average All Elections		Balance Of Power		No Balance Of Power							
	Pre	Post	Pre	Post	Pre	Post	Pre	Post				
S&P 500 Healthcare Index	16.7x	17.1x	20.9x	17.1x	14.6x	17.1x						
S&P 500 Healthcare Equipment & Services	16.2x	16.2x	18.0x	16.2x	15.3x	16.2x						
S&P 500 Pharma, Biotech & Life Sciences	16.9x	17.3x	21.9x	17.3x	14.4x	17.4x						
S&P 500 Index	14.3x	14.9x	16.4x	15.0x	13.2x	14.0x						

-Pre the 1998 and 2014 elections there was a balance of power in Washington
-Post the 1994, 1998, 2006, 2010 and 2014 elections there was a balance of power in Washington
-Pre the 1994, 2002, 2006 and 2010 elections no balance of power in Washington
-Post the 2002 elections there was no balance

Source: Mizuho Securities USA estimates and Bloomberg. * Pre-election is average PE January 1st to election date. Post-election is average PE 12 months post-election date.

It should be noted 1994 was a particularly important year for healthcare legislation. A taskforce (also known as a cast of thousands) established immediately after the inauguration in January of 1993 chaired by First Lady Hillary Rodham Clinton worked to create a health reform plan dubbed “HillaryCare.” In September 1993, President Clinton gave a major speech to Congress outlying his healthcare plan. The Democrats, who controlled both chambers of Congress, could not unite under President Clinton’s proposal and offered several different competing proposals. “HillaryCare” was stalled in Congress and no legislation passed. Post the 1994 elections, the balance of power shifted; with the Republicans taking control of both chambers of Congress and healthcare subsequently outperformed on a price performance basis and PE multiple expansion basis.

California Proposition 61 Could Cause Some Noise

California ballots will feature a proposition (CA Proposition 61) that is related to the pharmaceutical manufacturers. Proposition 61 is a yes / no vote that would require state agencies (Medi-Cal, CalPERS) to pay no more than the U.S. Department of Veterans Affairs (VA) pays for prescription drugs. Polls show ‘Yes’ winning 66% / 23%. The State of California spends ~\$3.8bn annually on prescription drugs with 83% of that amount spent by Medi-Cal and CalPERS. In California, state agencies negotiate drug prices with manufacturers in attempts to receive discounts and lower prices. In some situations, state agencies independently negotiate drug prices, leading

to different agencies of the state paying different prices for the same drug. In other instances, state agencies jointly negotiate drug price. Medicaid managed care programs are exempt from the proposition. The measure places no obligations on drug manufacturers to offer prescription drugs to the state at the lowest VA price. There are also concerns that similar ballot propositions could appear in other states.

A 2005 Congressional Budget Office report that indicated that the VA pays about 42 percent of market prices and that those in the California Medicaid system pay about 51 percent. We believe that CalPERS and other California state agencies pay higher drug prices. The proposition could face several difficulties to implement if passed.

1. Pricing information on what the VA pays for certain pharmaceuticals is not always published and readily available.
2. Drug manufacturers have no obligation to comply. If drug manufacturers do not reach agreement with Medi-Cal and exclude a certain drug, Medi-Cal is at risk of losing federal funding. The California Department of Health Care Services (DHCS) is required by federal Medicaid law to include the majority FDA-approved prescription drugs to beneficiaries. Failing to provide a FDA-approved drug could result in the loss of federal financial participation in the pharmacy portion of the Medi-Cal program.
3. In addition, the measure could jeopardize the supplemental rebates that DHCS collects from drug manufacturers because the rebates are based on voluntary state agreements with manufacturers that were the negotiated above what the VA pays. In such situations, the proposition could actually raise DHCS' cost of a prescription drug.

2016 Election Preview

Exhibit 8: Projected Close Races in 2016 Elections

<u>Senate</u>		<u>House</u>	
<u>Democrat</u>	<u>Republican</u>	<u>Democrat</u>	<u>Republican</u>
1	10	6	34

Source: Cook Political Report and Mizuho Securities USA estimates

This section of the note serves to provide a summary of key toss up re-election races for the House and Senate and highlight potential swing states in the Presidential election. In addition to the Presidential election, one-third of the Senate and the entire House are up for re-election. Currently in the House, Republicans have 247 seats and Democrats have 186. In the Senate, Republicans have 54 seats and Democrats (including two independents that caucus with the Democrats) hold 46 seats. A total of five senators (three Democrats and two Republicans are retiring). According to our analysis, there is one close Senate Democrat race (Nevada) and 9 Republican

ones. We believe the 9 close Republican races are in Arizona, Florida, Illinois, Indiana, Missouri, New Hampshire, North Carolina, Ohio, Pennsylvania and Wisconsin, several of which are swing states. Six of these states voted Democrat (FL, IL, NH, OH, PA and WI) in both the 2008 and 2012 presidential elections.

To take control of Senate, the Democrats need to pick up four seats in a Clinton win, and five if Trump wins. Although the current polls show that Democrats are handily leading in four states (IL, WI, IN and PA), Democrats could lose Nevada which is an open due to Senator Reid's retirement, so Democrats would need to pick up one of the other toss-up states (MO, NC, or NH).

Exhibit 9: Senate Seats Up For Election In 2016

Senator	State	Party	In Office Since	Potential Opponent/Leading In Polls	Advantage	Polling	Comment
Open Seat	NV	Democrat	NA	Catherine Cortez Masto (D) and Joe Heck (R)	Toss Up	Republican +1.7%	Open Seat Senator Harry Reid is not seeking re-election
Mark Kirk	IL	Republican	2011	Tammy Duckworth (D)	Lean Democrat	Democrat +13.3%	
Ron Johnson	WI	Republican	2010	Russ Feingold (D)	Toss Up	Democrat +4.7%	Russ Feingold is a former WI Senator
John McCain	AZ	Republican	1986	Ann Kirkpatrick (D)	Lean Republican	Republican +8.5%	
Rob Portman	OH	Republican	2011	Ted Strickland (D)	Lean Republican	Republican +14.5%	
Marco Rubio	FL	Republican	2011	Patrick Murphy (D)	Lean Republican	Republican +4.4%	
Open Seat	IN	Republican	NA	Even Bayh (D) and Todd Young (R)	Toss Up	Democrat +2.3%	Open Seat Senator Dan Coats is not seeking re-election
Roy Blunt	MO	Republican	2011	Jason Kander (D)	Toss Up	Republican +1.5%	
Richard Burr	NC	Republican	2005	Deborah Ross (D)	Toss Up	Republican +1.6%	
Kelly Ayotte	NH	Republican	2011	Maggie Hassan (D)	Toss Up	Republican +2.5%	Maggie Hassan is the current governor of NH
Pat Toomey	PA	Republican	2011	Katie McGinty (D)	Toss Up	Democrat +5%	

Source: Cook Political Report and Mizuho Securities USA estimates.

Our Democratic Triple-Play Scenario seem highly unlikely: The House almost certainly stays GOP-controlled, with little change in the conservative lean in the GOP. In the House, the Republicans demonstrated a strong showing in 2014, gaining +13 seats in the House. Though more likely than in our previously published analysis in January, and despite the turmoil in the Republican Party and low approval ratings in Congress, we do not believe a change in the House is likely in 2016. The Democrats need to gain +30 seats in the House to regain control. Currently, according to the Cook Political Report there are six (versus six in January 2016) close Democrat races and 34 (vs. 28 in January 2016) close Republican races. Though the races are still in play, 13 of the 34 Republican seats are in districts that are still leaning Republican and one of the Democrat held seats is polling likely Republican. In fact, as of late morning on Sunday, Five Thirty-Eight isn't even discussing the possibility of Democratic control of the House.

Exhibit 10: Notable House Races In 2016

Lean Democrat	Party	State	Toss Up	Party	State	Lean Republican	Party	State
Open AZ-01	Democrat	AZ	Rick Nolan	Democrat	MN	Open FL-18	Democrat	FL
Ami Bera	Democrat	CA	Brad Ashford	Democrat	NE	Don Young	Republican	AK
Open CA-24	Democrat	CA	Jeff Denham	Republican	CA	David Valadao	Republican	CA
David Jolly	Republican	FL	Steve Knight	Republican	CA	Open IN-09	Republican	IN
Frank Guinta	Republican	NH	Darrell Issa	Republican	CA	David Young	Republican	IA
Crescent Hardy	Republican	NV	Mike Coffman	Republican	CO	Kevin Yoder	Republican	KS
			John Mica	Republican	FL	Open MI-01	Republican	MI
			Carlos Curbelo	Republican	FL	Tim Walberg	Republican	MI
			Bob Dold	Republican	IL	Mike Biship	Republican	MI
			Rod Blum	Republican	IA	Erik Paulsen	Republican	MN
			Open MN-02	Republican	MN	Lee Zeldin	Republican	NY
			Bruce Poliquin	Republican	ME	John Katko	Republican	NY
			Open NV-03	Republican	NV	Open PA-16	Republican	PA
			Scott Garrett	Republican	NJ	Mia Love	Republican	UT
			Open NY-19	Republican	NY	Open WI-08	Republican	WI
			Open NY-22	Republican	NY			
			Open PA-08	Republican	PA			
			Will Hurd	Republican	TX			
			Barbara Comstock	Republican	VA			
Total		6	Total		19	Total		15

Source: Cook Political Report and Mizuho Securities USA estimates.

2016 Presidential Election

We believe key states to focus on in the presidential race are: Arizona, Florida, Iowa, Nevada, North Carolina, Ohio, Pennsylvania, Virginia, and Wisconsin. Add to that uncertainty around Colorado, Michigan and New Hampshire.

But even as of late morning Sunday, the poll data is still changing. What we do know is that Florida and its 29 electoral votes probably matter as much, if not more, than most of the other ‘real’ swing states. Most of the election scenarios involve potential Trump wins in Pennsylvania and possibly Michigan. The GOP dreams about winning PA and hasn’t so far, but Clinton isn’t leaving that one to chance as it is part of her ‘firewall.’ On the other hand, North Carolina is truly too close to call. Early voting is again playing a role and polls-only data may or may not pick that up.

Five Thirty Eight (Nate Silver) is calling for a solid 268 electoral votes for Clinton and sees a strong potential for Nevada to end up in the Democratic column. See the story [here](#). There’s a six point lead for registered Democrats and most voters vote early in that state, so the conclusion is that Clinton’s probably ahead there according to that analysis, but won’t show up in the polls. That state isn’t counted in the site’s 268 votes.

But for any of that to matter, Trump has to win pretty much everything that's contested and also break a blue state loose. He must win NV, AZ, FL, NC, IA and OH, along with Maine's second district's single vote. Then, he must break loose a solid blue state, e.g., NH, PA and or CO. At the moment, given the polls and early vote data, it's possible that NH is his best shot.

On the other hand, the New York Times (yes, we know, a bastion of eastern liberalism and therefore suspect by some) supports a more favorable outcome for Clinton: Midday Sunday, the Times called for a more than 91% chance of Clinton winning.

The Huffington Post poll, which uses the Cook Report for tie-breakers (Charlie Cook's column appears in the National Journal, perhaps balancing out any charges that the Huff Post poll is too liberal), called for a Clinton win with 272 electoral votes and more than that if the toss up states fall in her direction.

One of our favorite data analysts, (Skolnick's husband) puts together tracking data from each of the polls from Five Thirty Eight and the Huffington Post to assist her in building her stock calls. The race, according to this rapidly changing data, is close, with 538 and HuffPost only agreeing on 268 electoral votes in Clinton's column. Still, combined, that data tends to support a Clinton win but no landslide. In a completely unofficial and unreliable poll, his conclusion is supported by one of our favorite very conservative republicans and a vehement Trump supporter and buyside analyst, despite being trained by one of the authors of this report. This analyst also says Clinton wins and no landslide. Unfortunately, he thought Romney would win. The point is this: the polls aren't likely to help the market much, because even deep red investors have been investing for a Clinton win and polls this close probably lead to intense volatility on Monday and extraordinary pain on Wednesday if both our unofficial pollsters are wrong.

See Exhibit 10 and the full tables at the end of this report. Note that there is some discussion that 538's methodology of 'unskewing' the polls has resulted in a very significant shift in Trump's favor.

Exhibit 11: Huffington Post vs. 538 as of Sunday Morning

Huffington Post		Five Thirty Eight					
Electoral Votes	538	Electoral Votes	538				
Clinton Total (Solid + Lean)	272	Clinton Solid:	229	Clinton Total (Solid + Lean)	268	Clinton Solid:	185
Toss-Ups Clinton	50	Clinton Lean:	43	Toss-Ups Clinton	4	Clinton Lean:	83
Dead Even Clinton	18	Trump Solid	154	Dead Even Clinton	0	Trump Solid	163
Trump Total (Solid+ Lean)	164	Trump Lean	10	Trump Total (Solid+ Lean)	191	Trump Lean	28
Toss-Ups Trump	33	Toss-up HRC	50	Toss-Ups Trump	25	Toss-up HRC	4
Dead Even Trump	0	Toss-up Trump	33	Dead Even Trump	50	Toss-up Trump	25
Memo: Dead Even Total	19	Dead Even Clinton	19	Memo: Dead Even Total	50	Dead Even Trump Lean	50

Sources: Huffington Post poll [here](#) and 538 poll [here](#). Links may not pull to data in this chart. Downloads done as of noon 11/6/16.

Turning to other professional polling results, when we say that the polls/analysis is rapidly changing, the following analysis was done on Friday morning. While informative, by the time this work is published it will likely be out of date.

According to the Cook Political report, Hillary Clinton would clinch the presidency at this point with 278 votes favoring Democrats. However, 90 of the votes (CO, ME*, MI, MN, NH, NV, PA, VA and WI) are in 'lean' Democrats states and 46 electoral votes (FL, ME*, NE*, and NC) remain toss ups.

Exhibit 12: Cook Report's 2016 Presidential Election Summary

Solid Democrat	Electoral Vote	Likely/Lean Democrat	Electoral Vote	Toss Up	Electoral Vote	Likely/Lean Republican	Electoral Vote	Solid Republican	Electoral Vote
CA	55	CO	9	FL	29	AZ	11	AL	9
CT	7	ME*	2	ME*	1	AK	3	AR	6
DE	3	MI	16	NE*	1	GA	16	ID	4
DC	3	MN	10	NC	15	IA	6	KS	6
HI	4	NH	4			IN	11	KY	8
IL	20	NV	6			MO	10	LA	8
ME*	1	PA	20			OH	18	MS	6
MD	10	VA	13			SC	9	MT	3
MA	11	WI	10			TX	38	NE*	4
NM	5					UT	6	ND	3
NJ	14							OK	7
NY	29							SD	3
OR	7							TN	11
RI	4							WV	5
VT	3							WY	3
WA	12								
Total	188	Total	90	Total	46	Total	128	Total	86

Source: Cook Political Report and Mizuho Securities USA estimates. * State's electoral votes may be split into multiple districts. Note 270 electoral votes needed to win the presidential election.

Concluding Thoughts

With the polls still calling for a Clinton win and a chance that the Democrats control the Senate, it seems likely that the ACA will be preserved.

Therefore, our Top Picks of UNH, HCA, UHS and our physician services recommendations (MD, AMSG) and the lab companies DGX and LH should be positioned to benefit both from post-election relief in the overall market and the healthcare-specific bump that comes from a gridlocked Washington.

On the other hand, pharma pricing-sensitive stocks could stay under pressure as the threat of continued investigations into pricing behavior could be sustained under a Clinton administration, if not increased. Moreover, if pharma pricing remains an almost-bi-partisan issue, Congressional hearings and scrutiny would then be likely to continue with Democratic control of the White House and Senate. Eventually, though, we think the stocks could have enough of this 'bad news, but no real

legislation' discounted in them to become more 'buyable.' Watch the agenda for the first 100 days for clues as to how this could unfold.

We would note in the specialty pharma sector, two stocks that could likely outperform the group are as follow:

- **Ironwood Pharmaceuticals (top pick)** has a durable, high-growth Linzess franchise in constipation and irritable bowel syndrome. Linzess launched in 2013 and continues to grow more than 30% Y/Y in 2016, consistently outperforming expectations. Management committed to a reasonable pricing strategy which we expect to continue following Allergan's "social contract" to temper price increases; and there are no overhangs or investigations on this stock. We also model increased operating leverage in Ironwood's Linzess co-promote with Allergan. Based on speculated sales EBITDA multiples of 12x for Valeant's decelerating Salix business, we value Ironwood's stake in the Linzess co-promote at ~\$3.2 billion or \$22/share (excluding its other products or pipeline), and therefore view the stock as meaningfully undervalued.
- **Pacira Pharmaceuticals** is a hospital-focused company selling a non-opioid post-surgical pain treatment, Exparel. Reduction in opioid utilization is an important national goal that we believe could receive positive press after the election. Exparel is also a relatively inexpensive product with no recent price increases and the company invests heavily in R&D and physician education on reduced opioid use, another societal benefit. We think Pacira could become a takeout target in 2017.

Importantly, though, our longer-term view remains that budget concerns trump partisanship. We think this means that Congressional/legislative pressure on health care spending continues because the projected growth in healthcare spending just can't be sustained: per capital spend x # of capitas can't only be controlled by squeezing per capita spending because the number of 'capitas' is growing too fast and price per capita can't be zero.

With the many value-based reforms in the ACA likely to stay in place with a Clinton win, utilization will likely continue to be under attack as reimbursement methodologies shift toward Right Care, Right Time, Right Place for the Right Reason at the Right Price. In the long run, we think that means that hospitals consolidate, not by M&A but rather by reduction in beds, managed care must actually manage and direct care and downstream participants (providers, manufacturers, PBMs and disruptors) must prove their value through providing superior outcomes ever more modest costs. That's just budget math. And budget math eventually can cause even the most staunchly tribal Washington to agree on healthcare legislation. In the long run, it seems as if even politics is 'always and ever' about money.

Exhibit 13: Tracking the Huffington Post Polls

State	E-Votes	Clinton: 1=YES	Clinton Solid E-Votes: 6% or Greater	Clinton Lean: 1=YES; (3% to <6%)	Clinton Lean E-Votes	Trump Solid: 1=YES; 6% or Greater	Trump Solid E-Votes	Trump Lean: 1=YES; 3% to <6%	Trump Lean E-Votes	Toss-up Favors Clinton: 1=YES; 1% to <3%	Clinton Tossup E-Votes	Toss-up Favors Trump: 1=YES; 1% to <3%	Trump Tossup E-Votes	HuffPost Margin on 11-6-16	Race Dead Even	Dead Even E-votes	Edge since 26-16	Chng since 10-16	Most Recent Change
Alabama	9		0		0	1	9		0		0		0	18.9				1.6	C
Alaska	3		0		0	1	3		0		0		0	6.5				0.3	C
Arizona	11		0		0		0		0		0	1	11	1.8				-1.5	T
Arkansas	6		0		0	1	6		0		0		0	16.6				1.2	C
California	55	1	55		0		0		0		0		0	25.9				-0.8	C
Colorado	9		0		1	9	0		0		0		0	5.1				0.9	T
Connecticut	7	1	7		0		0		0		0		0	11.2				3.1	T
Delaware	3	1	3		0		0		0		0		0	15				0.1	T
DC	3	1	3		0		0		0		0		0	29.5				43.5	T
Florida	29		0		0		0		0		1	29	0	2.2				-0.1	C
Georgia	16		0		0		0		0		0	1	16	2				1.1	C
Hawaii	4	1	4		0		0		0		0		0	29.5				-5.4	C
Idaho	4		0		0	1	4		0		0		0	19.1				0.7	C
Illinois	20	1	20		0		0		0		0		0	17.3				-1.7	C
Indiana	11		0		0	1	11		0		0		0	10.7				-2.1	T
Iowa	6		0		0		0		0		0	1	6	2.1				-2.1	T
Kansas	6		0		0	1	6		0		0		0	12.8				-2.6	T
Kentucky	8		0		0	1	8		0		0		0	22.3				-7.1	T
Louisiana	8		0		0	1	8		0		0		0	12.7				2.7	C
Maine	2	1	2		0		0		0		0		0	8.8				0.7	T
Maine 1st District	1	1	1		0		0		0		0		0	13.2				4.3	T
Maine 2nd District	1		0		0		0		0		0		0	0		1	1	0.7	C
Maryland	10	1	10		0		0		0		0		0	28.4				1.2	T
Massachusetts	11	1	11		0		0		0		0		0	24.5				1.9	T
Michigan	16	1	16		0		0		0		0		0	7.4				-0.9	C
Minnesota	10	1	10		0		0		0		0		0	6.9				0	NC
Mississippi	6		0		0	1	6		0		0		0	9.6				0.6	C
Missouri	10		0		0	1	10		0		0		0	8.3				-0.9	T
Montana	3		0		0	1	3		0		0		0	17				-4.9	T
Nebraska	2		0		0	1	2		0		0		0	17				1.8	C
Nebraska 1st Dist.	1		0		0	1	1		0		0		0	16.9				-0.6	T
Nebraska 2nd Dist.	1		0		0		0		1	1		0	0	3.3				0	C
Nebraska 3rd Dist.	1		0		0	1	1		0		0		0	37.8				-0.8	T
Nevada	6		0		0		0		0		1	6	0	1.7				0.5	C
New Hampshire	4		0		1	4	0		0		0		0	3.3				3.5	T
New Jersey	14	1	14		0		0		0		0		0	14.4				0.6	T
New Mexico	5	1	5		0		0		0		0		0	7.8				1.6	T
New York	29	1	29		0		0		0		0		0	21.3				0.3	T
North Carolina	15		0		0		0		0		1	15	0	2.1				-0.3	C
North Dakota	3		0		0	1	3		0		0		0	22.7				-3.9	T
Ohio	18		0		0		0		0		0		0	0.2		1	18	-0.1	C
Oklahoma	7		0		0	1	7		0		0		0	23.5				-0.2	T
Oregon	7	1	7		0		0		0		0		0	10.4				1.2	T
Pennsylvania	20		0		1	20	0		0		0		0	5.4				0.6	T
Rhode Island	4	1	4		0		0		0		0		0	29.5				-12.8	C
South Carolina	9		0		0		0		1	9		0	0	5				1.4	C
South Dakota	3		0		0	1	3		0		0		0	16.1				-2.8	T
Tennessee	11		0		0	1	11		0		0		0	12				1	C
Texas	38		0		0	1	38		0		0		0	6.5				0.2	C
Utah	6		0		0	1	6		0		0		0	10.4				-2.9	T
Vermont	3	1	3		0		0		0		0		0	26.4				0.9	T
Virginia	13	1	13		0		0		0		0		0	6.5				1.6	C
Washington	12	1	12		0		0		0		0		0	13.3				0.6	T
West Virginia	5		0		0	1	5		0		0		0	23.8				2.1	C
Wisconsin	10		0		1	10	0		0		0		0	5.7				0.5	C
Wyoming	3		0		0	1	3		0		0		0	28.9				4.9	C
Electoral Votes	538	Clinton Solid:	229	Clinton Lean:	43	Trump Solid	154	Trump Lean	10	Toss-up HRC	50	Toss-up Trump	33		Dead Even Clinton Lean	19			
States won		20			4	22		2	3		3				2				26

Source: Huffington Post as of 12:01 am 11/16/16. Mizuho Securities USA estimates. * State's electoral votes may be split into multiple districts. Note 270 electoral votes needed to the win the presidential election.

Exhibit 14: Tracking the Five Thirty Eight Polls

State	Electoral Votes	Clinton: 1=YES	Clinton Solid E-Votes (6% or Greater Lead)	Clinton Lean: 1=YES; 3% to <6%	Clinton Lean E-Votes	Trump Solid: 1=YES	Trump Solid E-Votes: (6% or Greater Lead)	Trump Lean: 1=YES; 3% to <6%	Trump Lean E-Votes	Toss-up Favors Clinton: 1=YES; 1% to <3%	Clinton Tossup E-Votes	Toss-up Favors Trump: 1=YES; (1% to <3%)	Trump Tossup E-Votes	Margin on 11-6-538	Race Dead Even	Dead Even E-votes	Edge (0% to <1%)	Chng since 10-29-16	Change Favors ...
Alabama	9		0		0	1	9		0		0		0	21.9				-1.4	T
Alaska	3		0		0	1	3		0		0		0	7.4				-0.6	C
Arizona	11		0		0		0	1	11		0		0	3.4				-3.1	T
Arkansas	6		0		0	1	6		0		0		0	20				-2.2	T
California	55	1	55		0		0		0		0		0	22.4				2.7	T
Colorado	9		0	1	9		0		0		0		0	3.4				2.6	T
Connecticut	7	1	7		0		0		0		0		0	11.1				3.2	T
Delaware	3	1	3		0		0		0		0		0	11.8				3.3	T
DC	3	1	3		0		0		0		0		0	70.8				2.2	T
Florida	29		0		0		0		0		0		0	0.1	1	29	T	2	T
Georgia	16		0		0		0	1	16		0		0	4.7				-1.6	T
Hawaii	4	1	4		0		0		0		0		0	24.5				-0.4	C
Idaho	4		0		0	1	4		0		0		0	21.2				-1.4	T
Illinois	20	1	20		0		0		0		0		0	12.7				2.9	T
Indiana	11		0		0	1	11		0		0		0	12				-3.4	T
Iowa	6		0		0		0		0		0	1	6	3.4				-3.4	T
Kansas	6		0		0	1	6		0		0		0	13.3				-3.1	T
Kentucky	8		0		0	1	8		0		0		0	19.1				-3.9	T
Louisiana	8		0		0	1	8		0		0		0	16.5				-1.1	T
Maine	2	1	2		0		0		0		0		0	6.2				3.3	T
Maine 1st District	1	1	1		0		0		0		0		0	12.7				4.8	T
Maine 2nd District	1		0		0		0		0		0	1	1	1				-0.3	T
Maryland	10	1	10		0		0		0		0		0	26.6				3	T
Massachusetts	11	1	11		0		0		0		0		0	22.6				3.8	T
Michigan	16		0	1	16		0		0		0		0	3.9				2.6	T
Minnesota	10		0	1	10		0		0		0		0	5.1				1.8	T
Mississippi	6		0		0	1	6		0		0		0	15				-4.8	T
Missouri	10		0		0	1	10		0		0		0	11.1				-3.7	T
Montana	3		0		0	1	3		0		0		0	16				-3.9	T
Nebraska	2		0		0	1	2		0		0		0	19.3				-0.5	T
Nebraska 1st Dist.	1		0		0	1	1		0		0		0	20.1				-3.8	T
Nebraska 2nd Dist.	1		0		0		0	1	1		0		0	3.3				0	C
Nebraska 3rd Dist.	1		0		0	1	1		0		0		0	38.5				-1.5	T
Nevada	6		0		0		0		0		0		0	0.1	1	6	T	2.1	T
New Hampshire	4		0		0		0		0	1	4		0	2				4.8	T
New Jersey	14	1	14		0		0		0		0		0	11.5				3.5	T
New Mexico	5		0	1	5		0		0		0		0	5.7				3.7	T
New York	29	1	29		0		0		0		0		0	20.1				1.5	T
North Carolina	15		0		0		0		0		0		0	0.1	1	15	T	1.7	T
North Dakota	3		0		0	1	3		0		0		0	23.6				-4.8	T
Ohio	18		0		0		0		0		0	1	18	2.4				-2.3	T
Oklahoma	7		0		0	1	7		0		0		0	27.1				-3.8	T
Oregon	7	1	7		0		0		0		0		0	8.7				2.9	T
Pennsylvania	20		0	1	20		0		0		0		0	3.5				2.5	T
Rhode Island	4	1	4		0		0		0		0		0	13.4				3.3	T
South Carolina	9		0		0	1	9		0		0		0	7				-0.6	T
South Dakota	3		0		0	1	3		0		0		0	17.1				-3.8	T
Tennessee	11		0		0	1	11		0		0		0	13.2				-0.2	T
Texas	38		0		0	1	38		0		0		0	9.6				-2.9	T
Utah	6		0		0	1	6		0		0		0	11.5				-4	T
Vermont	3	1	3		0		0		0		0		0	26.3				1	T
Virginia	13		0	1	13		0		0		0		0	5				3.1	T
Washington	12	1	12		0		0		0		0		0	12.2				1.7	T
West Virginia	5		0		0	1	5		0		0		0	27.3				-1.4	T
Wisconsin	10		0	1	10		0		0		0		0	4.3				1.9	T
Wyoming	3		0		0	1	3		0		0		0	37				-3.2	T
Electoral Votes	538	Clinton Solid	185	Clinton Lean	83	Trump Solid	163	Trump Lean	28	Toss-up HRC	4	Toss-up T	25		Dead Even	T	50		
States won	Votes	16		7		23		3		1		3			3				3

Source: www.fivethirtyeight.com as of 12:30 pm 11/16/16. Mizuho Securities USA estimates. * State's electoral votes may be split into multiple districts. Note 270 electoral votes needed to the win the presidential election.

Price Target Calculation and Key Risks

AmSurg Corporation

Our price target of \$95 is based on 12.0x 2016E Proforma EV/EBITDA, in-line with the company's two-year trading average. We believe M&A, cross-selling opportunities and organic growth are driving upside. Risks to our thesis include increased competition in the sector, acquisition integration risk, government reimbursement pressures, client and affiliated physician retention rates, increases in physician compensation, a change in payer mix, and M&A integration risks.

HCA Holdings, Inc.

Our valuation of \$97 is based on a blend of 9.0x our 2016E EV/EBITDA less NCI, a P/E of 16x (PEG of 1.0x) our \$6.47 2016E EPS EXCLUDING \$0.22 of tax benefit (to make growth apples to apples), and our target FCF yield of 5%. The average of these methods yields our \$97 PT. We believe HCA should trade at the high-end of historical EV/EBITDA trends from 2000-2007 given its clear leadership in FCF generation and the continuing growth opportunities that FCF supports, coupled with the potential EPS accretion from the almost complete \$3B share repurchase.

Risks to valuation include pricing pressure from government and private payors, continued soft volume growth, further deterioration of bad debt, competition for acquisitions, increasing labor costs and labor market shortages, HITECH payment risk, a levered balance sheet and the implementation of all of the provisions of the ACA and other recent legislation (MACRA and IMPACT).

Ironwood Pharmaceuticals, Inc.

We value Ironwood using a discounted cash flow analysis. We utilize a weighted average cost of capital of 11% and a 3% terminal growth rate. We believe that the growth rate is warranted given the durability of the Linzess and Zurampic patent estate and the progression of the company's pipeline. This analysis generates a valuation of \$20 per share, up from \$19 previously, which supports our BUY recommendation on the stock.

Risks

- (1) Catalyst flow in 2016 may not be sufficiently meaningful to offset the volatile macro-environment, and could keep the stock range-bound.
- (2) Commercial execution in Linzess or in the gout market may prove more challenging than expected.
- (3) Clinical risk in the colonic release trial and in the refractive GERD program could represent future disappointments.

MEDNAX, Inc.

Our \$69 price target is based on a 11.5x multiple applied to our 2017E adjusted EV/EBITDA. Our valuation multiple is in-line with the current forward-year multiple and near the high-end of the industry average range of 11x-14x over the last two to five years. We view a premium valuation multiple as warranted given the company's earnings visibility and consolidation opportunity. Risks to our thesis include increased

competition in the sector, government reimbursement pressures, client and affiliated physician retention rates, and M&A integration risks.

Pacira Pharmaceuticals, Inc.

Valuation:

We value Pacira based on discounted cash flow analysis using a 12% WACC (to reflect existing clinical risk in both ongoing Exparel programs and its early stage pipeline) and a 2% terminal growth rate, down from 3% previously. We believe that Pacira has created a highly durable hospital business that has a long growth trajectory, and no imminent competitors in sight, which also may be attractive to strategic buyers. Based on this methodology, we arrive at a value of \$46 per share, down from \$64 previously, which supports our Buy recommendation.

Risks:

- (1) Clinical trial risk in the company's arthroscopic knee and spine infiltration trials, as well as its pivotal nerve block studies. We have also modeled in a 50% probability of approval for Pacira's DepoMeloxicam and DepoTranexamic acid programs.
- (2) Increasing cost sensitivity in the hospital setting could make commercial execution more challenging than expected and require greater discounting.
- (3) Uncertainty around the FDA tracked safety issue (TSI) could overhang the stock in the near-term. If the TSI results in unfavorable label changes or in delayed approval of the nerve block indication, it could slow the Exparel growth trajectory in the future. We are not very concerned about this issue at this time.

UnitedHealth Group Incorporated

Price Target Methodology: Our \$169 one-year PT is based on a 50/50 blend of our DCF model using a 2.5% long-term growth rate, of \$181; and a target P/E of 17.1 on our 2017E Adjusted EPS of \$9.10, a 5% discount to the current P/E on our 2016E EPS of \$8, or \$156 per share. Blending the two equally yields our \$169 1-year price target for UNH shares.

Key Risks: Among the key risks to our rating and price target are execution risk; reimbursement and regulatory risks; competitive risks and market risk. Further, UNH is modestly exposed to exchange rate risk, with less than 5% of its revenue derived from its global businesses, principally in Brazil. Execution risk includes risks in both the benefits and services businesses. In the benefits business, estimation of cost trends and other actuarial calculations are critical activities as they influence pricing and reserves for the Company's insurance products. Any misstep there could result in a material and negative effect on the stock price. In addition, the Optum services business is highly innovative and technology driven. Missteps there could lead to the potential for material disappointments in results and multiple compression. Reimbursement and regulatory risk could not only affect pricing, but also members served. The timing and extent of such changes are usually out of the Company's control and therefore could represent exogenous events with negative earnings and stock price implications. Should tax subsidies for Federal Exchange premiums be overturned by the Supreme Court, there could be meaningful downside to multiples, earnings and the stock price. The US election and congressional inquiries into drug pricing/PBMs are also risks to our rating, price target and estimates.

Companies Mentioned (prices as of 11/04)

AAC Holdings, Inc. (AAC- Neutral \$7.51)	Acadia Healthcare Company, Inc. (ACHC- Buy \$37.32)
Adamas Pharmaceuticals, Inc. (ADMS- Buy \$13.93)	Allergan PLC (AGN- Buy \$195.00)
Amedisys, Inc. (AMED- Neutral \$38.20)	Amerisource Bergen Corp. (ABC- Neutral \$70.47)
AmSurg Corporation (AMSG- Buy \$64.25)	Cardinal Health, Inc. (CAH- Buy \$65.17)
CA Technologies (CA- Neutral \$30.68)	Community Health Systems, Inc. (CYH- Underperform \$5.54)
CVS Health (CVS- Buy \$82.31)	Depomed, Inc. (DEPO- Neutral \$22.66)
Diplomat Pharmacy, Inc. (DPLO- Neutral \$12.50)	Eagle Pharmaceuticals, Inc. (EGRX- Buy \$74.96)
Endo International PLC (ENDP- Buy \$14.98)	Envision Healthcare Holdings, Inc. (EVHC- Neutral \$21.39)
Express Scripts Inc. (ESRX- Neutral \$67.86)	HCA Holdings, Inc. (HCA- Buy \$75.33)
HealthSouth Corporation (HLS- Buy \$40.29)	Horizon Pharma Plc (HZNP- Buy \$15.05)
Ironwood Pharmaceuticals, Inc. (IRWD- Buy \$13.57)	Jazz Pharmaceuticals, Inc (JAZZ- Buy \$103.10)
Kindred Healthcare, Inc. (KND- Neutral \$8.20)	Laboratory Corp. of America Holdings (LH- Neutral \$121.89)
LifePoint Health, Inc. (LPNT- Neutral \$58.10)	Mallinckrodt PLC (MNK- Buy \$54.65)
McKesson Corporation (MCK- Neutral \$130.76)	MEDNAX, Inc. (MD- Buy \$60.38)
Mylan NV (MYL- Buy \$35.00)	Pacira Pharmaceuticals, Inc. (PCRX- Buy \$32.10)
Quest Diagnostics Inc. (DGX- Neutral \$81.22)	Quorum Health Corp (QHC- Neutral \$3.91)
Sucampo Pharmaceuticals, Inc. (SCMP- Neutral \$11.35)	Team Health Holdings Inc (TMH- Neutral \$42.65)
Tenet Healthcare Corp. (THC- Neutral \$17.75)	Teva Pharmaceutical Industries Ltd. (TEVA- Neutral \$40.24)
UnitedHealth Group Incorporated (UNH- Buy \$137.71)	Universal Health Services Inc. (UHS- Buy \$120.35)
Valeant Pharmaceuticals International, Inc. (VRX- Neutral \$19.18)	Walgreens Boots Alliance, Inc. (WBA- Buy \$80.35)

IMPORTANT DISCLOSURES

The disclosures for the subject companies of this report as well as the disclosures for Mizuho Securities USA Inc. entire coverage universe can be found at <https://msusa.bluematrix.com/sellside/Disclosures.action> or obtained by contacting EQSupervisoryAnalystUS@us.mizuho-sc.com or via postal mail at Equity Research Editorial Department, Mizuho Securities USA Inc., 320 Park Avenue, 12th Floor, New York NY, 10022.

Ownership Disclosures and Material Conflicts of Interest or Position as Officer or Director

None

Receipt of Compensation

Mizuho Securities USA Inc. and or its affiliates makes a market in the following securities: UnitedHealth Group Incorporated, MEDNAX, Inc., HCA Holdings, Inc., AmSurg Corporation, Ironwood Pharmaceuticals, Inc., Pacira Pharmaceuticals, Inc., AAC Holdings, Inc., Amerisource Bergen Corp., Acadia Healthcare Company, Inc., Allergan PLC, CA Technologies, Cardinal Health, Inc., CVS Health, Community Health Systems, Inc., Depomed, Inc., Quest Diagnostics Inc., Diplomat Pharmacy, Inc., Endo International PLC, Express Scripts Inc., Envision Healthcare Holdings, Inc., HealthSouth Corporation, Horizon Pharma Plc, Jazz Pharmaceuticals, Inc, Kindred Healthcare, Inc., Laboratory Corp. of America Holdings, LifePoint Health, Inc., McKesson Corporation, Mallinckrodt PLC, Mylan NV, Sucampo Pharmaceuticals, Inc., Teva Pharmaceutical Industries Ltd., Tenet Healthcare Corp., Team Health Holdings Inc, Universal Health Services Inc., Valeant Pharmaceuticals International, Inc. and Walgreens Boots Alliance, Inc.

Mizuho Securities USA Inc. and or its affiliates has received compensation for investment banking services for UnitedHealth Group Incorporated, MEDNAX, Inc., HCA Holdings, Inc., CVS Health, Quest Diagnostics Inc., Express Scripts Inc., Mylan NV, Universal Health Services Inc., Valeant Pharmaceuticals International, Inc. and Walgreens Boots Alliance, Inc. in the past 12 months.

Mizuho Securities USA Inc. and or its affiliates has managed or co-managed a public offering of securities for UnitedHealth Group Incorporated, MEDNAX, Inc., HCA Holdings, Inc., CVS Health, Quest Diagnostics Inc., Express Scripts Inc., Mylan NV, Universal Health Services Inc., Valeant Pharmaceuticals International, Inc. and Walgreens Boots Alliance, Inc. in the past 12 months.

Mizuho Securities USA Inc. and or its affiliates have provided non-investment banking securities-related services for UnitedHealth Group Incorporated, CVS Health and Quest Diagnostics Inc. who are or were clients in the past 12 months.

Mizuho Securities USA Inc. and or its affiliates expects to receive or intends to seek compensation for investment banking services for HCA Holdings, Inc. in the next 3 months.

Mizuho Securities USA Inc. and or its affiliates have provided investment banking services for HCA Holdings, Inc., Express Scripts Inc. and Walgreens Boots Alliance, Inc. who are or were clients in the past 12 months.

Mizuho Securities USA Inc. and or its affiliates have provided non-securities-related services for CA Technologies who is or was a client in the past 12 months.

Mizuho Securities USA Inc. and or its affiliates has received compensation for products or services other than investment banking services for CVS Health and Quest Diagnostics Inc. in the past 12 months.

The compensation of the research analyst writing this report, in whole or part, is based on MSUSA's annual revenue and earnings and is not directly related to any specific investment banking compensation. MSUSA's internal policies and procedures prohibit research analysts from receiving compensation from companies covered in the research reports.

Regulation Analyst Certification (AC)

I, Sheryl R. Skolnick, Ph.D., hereby certify that the views expressed in this research report accurately reflect my personal views about any and all the subject companies. No part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Ann Hynes, hereby certify that the views expressed in this research report accurately reflect my personal views about any and all the subject companies. No part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Irina R. Koffler, hereby certify that the views expressed in this research report accurately reflect my personal views about any and all the subject companies. No part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Rating Definitions

Mizuho Securities USA investment ratings are based on the following definitions. Anticipated share price change is based on a 6- to 12-month time frame. Return expectation excludes dividends.

Buy:	Stocks for which the anticipated share price appreciation exceeds 10%.
Neutral:	Stocks for which the anticipated share price appreciation is within 10% of the share price.
Underperform:	Stocks for which the anticipated share price falls by 10% or more.
RS:	Rating Suspended - rating and price objective temporarily suspended.
NR:	No Rating - not covered, and therefore not assigned a rating.

Rating Distribution

(As of 11/04)	% of coverage	IB service past 12 mo
Buy (Buy)	41.89%	45.95%
Hold (Neutral)	55.85%	31.08%
Sell (Underperform)	2.26%	16.67%

For disclosure purposes only (NYSE and FINRA ratings distribution requirements), our Buy, Neutral and Underperform ratings are displayed as Buy, Hold and Sell, respectively.

For additional information: Please log on to <http://www.mizuhosecurities.com/us> or write to Mizuho Securities USA Inc. 320 Park Ave, 12th FL, New York, NY 10020.

Disclaimers

This report has been prepared by Mizuho Securities USA Inc. (“MSUSA”), a subsidiary of Mizuho Americas LLC, solely for the purpose of supplying information to the clients of MSUSA and/or its affiliates to whom it is distributed. This report is not, and should not be construed as, a solicitation or offer to buy or sell any securities or related financial products.

This report has been prepared by MSUSA solely from publicly available information. The information contained herein is believed to be reliable but has not been independently verified. MSUSA makes no guarantee, representation or warranty, and MSUSA, MHSC and/or their affiliates, directors, employees or agents accept no responsibility or liability whatsoever as to the accuracy, completeness or appropriateness of such information or for any loss or damage arising from the use or further communication of this report or any part of it. Information contained herein may not be current due to, among other things, changes in the financial markets or economic environment. Opinions reflected in this report are subject to change without notice.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. The report has been prepared without regard to the individual financial circumstances, needs or objectives of persons who receive it. The securities and investments related to the securities discussed in this report may not be suitable for all investors, and the report is intended for distribution to Institutional Investors. Readers should independently evaluate particular investments and strategies, and seek the advice of a financial adviser before making any investment or entering into any transaction in relation to the securities mentioned in this report.

MSUSA has no legal responsibility to any investor who directly or indirectly receives this material. Investment decisions are to be made by and remain as the sole responsibility of the investor. Investment involves risks. The price of securities may go down as well as up, and under certain circumstances investors may sustain total loss of investment. Past performance should not be taken as an indication or guarantee of future performance. Unless otherwise attributed, forecasts of future performance represent analysts’ estimates based on factors they consider relevant. Actual performance may vary. Consequently, no express or implied warranty can be made regarding future performance.

Any references in this report to Mizuho Financial Group, Inc. (“MHFG”), MHSC and/or its affiliates are based only on publicly available information. The authors of this report are prohibited from using or even obtaining any insider information. As a direct subsidiary of Mizuho Americas LLC and indirect subsidiary of MHFG, MSUSA does not, as a matter of corporate policy, cover MHFG or MHSC for investment recommendation purposes.

MSUSA or other companies affiliated with MHFG, Mizuho Americas LLC or MHSC, together with their respective directors and officers, may have or take positions in the securities mentioned in this report, or derivatives of such securities or other securities issued by companies mentioned in this report, for their own account or the accounts of others, or enter into transactions contrary to any recommendations contained herein, and also may perform or seek to perform broking and other investment or securities related services for the companies mentioned in this report as well as other parties generally.

Restrictions on Distribution

This report is not directed to, or intended for distribution to or use by, any person who is a citizen or resident of, or entity located in, any locality, territory, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to or restricted by law or regulation. Persons or entities into whose possession this report comes should inform themselves about and observe such restrictions.

United States: Mizuho Securities USA Inc., a subsidiary of Mizuho Americas LLC, 320 Park Avenue, 12th Floor, New York, NY 10022, USA, contact number +1-212-209-9300, distributes or approves the distribution of this report in the United States and takes responsibility for it. Any transaction by a US investor resulting from the information contained in this report may be effected only through MSUSA. Interested US investors should contact their MSUSA sales representative.

United Kingdom/European Economic Area: This report is distributed or has been approved for issue and distribution in the UK by Mizuho International plc (“MHI”), Mizuho House, 30 Old Bailey, London EC4M 7AU, a member of the MHSC Group. MHI is authorized and regulated by the Financial Services Authority and is a member of the London Stock Exchange. For the avoidance of doubt this report is not intended for retail clients. This report may be distributed in other member states of the European Union.

Japan: This report is distributed in Japan by Mizuho Securities Co., Ltd. (“MHSC”), Otemachi First Square Otemachi 1-chome, Chiyoda-ku, Tokyo 100-0004, Japan. Registered Financial Instruments Firm, No. 94 (Kinsho), issued by the Director, Kanto Local Finance Bureau. MHSC is a member of the Japan Securities Dealers Association, the Japan Securities Investment Advisers Association and the Financial Futures Association of Japan, and the Type II Financial Instruments Firms Association.

Singapore: This report is distributed or has been approved for distribution in Singapore by Mizuho Securities (Singapore) Pte. Ltd. (“MHSS”), a member of the MHSC Group, which is regulated by the Monetary Authority of Singapore. Any research report produced by a foreign Mizuho entity, analyst or affiliate is distributed in Singapore only to “Institutional Investors,” “Expert Investors” or “Accredited Investors” as defined in the Securities and Futures Act, Chap. 289 of Singapore. Any matters arising from, or in connection with this material, should be brought to the attention of MHSS.

Hong Kong: This report is being distributed in Hong Kong by Mizuho Securities Asia Limited (“MHSA”), a member of the MHSC Group, which is licensed and regulated by the Hong Kong Securities and Futures Commission.

Australia: This report is being distributed in Australia by MHSA, which is exempted from the requirement to hold an Australian financial services license under the Corporation Act 2001 (“CA”) in respect of the financial services provided to the recipients. MHSA is regulated by the Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws. Distribution of this report is intended only for recipients who are “wholesale clients” within the meaning of the CA.

If you do not wish to receive our reports in the future, please contact your sales person and request to be removed from receiving this distribution.

© Mizuho Securities USA Inc. All Rights Reserved 2016. This document may not be altered, reproduced or redistributed, or passed on to any other party, in whole or in part, without the prior written consent of Mizuho Securities USA Inc.