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# Healthcare: riding the Covid rollercoaster

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Last August I became a parent for the first time. Between scans, the birth and the inevitable visit to A&E, I have spent more time in hospitals over the last year than thankfully much of the rest of my life. To be precise, I have spent more time in hospital car parks as Covid meant appointments were restricted to only one parent, and generally my wife was the more crucial attendee. The disruption to our healthcare systems caused by Covid was far more significant than my experience; and is why the past year has been somewhat of a rollercoaster for healthcare companies. Two of *Endeavour's* holdings illustrate this well.

Last year AstraZeneca teamed up with Oxford University to develop a vaccine for Covid. This was surprising as AstraZeneca generated 0.5% of its revenues from vaccines in 2019. Nevertheless, they had expertise in carrying out large-scale trials, and could offer manufacturing and distribution on a global scale. Early trials success saw AstraZeneca's share price rally 50%, even though they had agreed to sell the vaccine at cost. However, the subsequent furore over supply issues to the EU, and the risk of blood clots, meant the shares fell all the way back to their April 2020 level.

We were not invested in AstraZeneca in 2020 and so missed the share price merry-go round. But we used the correction to re-evaluate the company's fundamentals. AstraZeneca's core business has one of the highest growth rates among its peers and had performed well despite the Covid disruption, and so we took the opportunity to initiate a position at a rare price.

Abbott Labs is a US medical equipment company that in 2017 bought the diagnostics business Alere. The acquisition has proven fortuitous as it made Abbott the global leader in rapid, point-of-care testing. This came in useful last year as the revenue from its Covid tests outweighed the fall in demand for its other businesses, and the share price more than doubled. Demand was expected to remain high as mass testing was seen as the path back to normality, from re-opening schools to resuming international travel; but the success of the vaccines put this in doubt. When at the start of this month the US Centre for Disease Control instructed fully vaccinated people to refrain from testing, the company lowered their guidance, and the shares gave up their gains for the year.

As a longstanding holding in the fund, we benefitted from the strong rally in 2020 and had booked some of those gains before the profit warning. We expect Abbott's non-Covid business will recover well, driven by its glucose-monitoring devices for diabetics that continued to deliver excellent growth through the pandemic. Having reassessed the company, we believe the market has over-reacted and have started to add back to our position.

The past year has been extraordinary for many reasons, not least the speed with which perceived wisdom around the virus has changed. The market has at times got over-excited about both of these companies due to their roles in fighting the pandemic; but their non-Covid business has always been our focus. The stability provided by attractive growth driven by structural demand for drugs or devices that is resilient to the economic cycle is exactly what we are looking for as the Covid rollercoaster comes to an end.