The enactment of the Patient Protection and Affordable Care Act (PPACA)—popularly known as “Obamacare”—will produce the single largest expansion of insured patients in America since the introduction of Medicare in 1965.

These 32 million newly insured customers (with about 14 million added to Medicaid rolls) will be more likely to seek medical services, resulting in a huge windfall for the healthcare industry.

Before Obamacare was passed, healthcare was already a rapidly expanding sector, largely because of the aging U.S. population. A century ago, the US population had a median age of 22 years. Today, the median age is 37, and the title for the fastest-growing age group belongs to those 65 and over. Every day, another 10,000 Baby Boomers become eligible for full Medicare coverage—that’s roughly 3.5 million potential Medicare beneficiaries a year. This trend will accelerate into the next decade.

These macroeconomic forces are creating a “perfect storm” of growth for the healthcare sector. The following companies are poised to benefit from the industry’s secular boom.

**AMN Healthcare**

The onset of millions of newly insured patients will create a shortage of healthcare workers, fueling demand for temporary medical staff. AMN Healthcare (NYSE: AHS) is one of the industry’s leading providers of nurses and clinical workers, as well as technology developers to consult with prospective patients via the Internet.

The company operates primarily in three segments: nurse and allied healthcare staffing, locum tenens staffing and physician permanent placement services.

Over 70 percent of AMN’s revenue is generated by nurse and allied staffing, with approximately 25 percent of revenue coming from locum tenens and the remainder from its physician permanent placement segment.

The company is well positioned to take advantage of long-term macro changes to the healthcare system, including aging Baby Boomers, rising life expectancy, technology advances and increased spending on healthcare.

Major healthcare providers are also turning to large providers such as AMN Healthcare, because it provides a single-source provider for their staffing needs.

These powerful trends will drive demand for the company’s services that could grow more than 20 percent over the next 3 years.

**HCA Holdings**

America’s hospitals are the biggest beneficiaries of the PPACA. With 163 facilities and 110 freestanding surgery centers in 20 U.S. states and England, HCA Holdings (NYSE: HCA) is the largest for-profit hospital system in the U.S., and stands to reap the lion’s share of new healthcare demand—almost 5 percent of all in-patient care in the US is provided by HCA facilities.

The company has gained market share in 28 of its 37 markets, has consistently grown revenues and continues to get an increasing amount of visits to its facilities and emergency rooms.

Regardless of whether a hospital system treats it as charity care or simply uncollectable debt, unreimbursed medical attention is a major expense for hospital operators. According to data from the American Hospital Association (AHA), uncompensated care on average accounts for about 6 percent of total hospital expenses.

Due to a federal law that requires all hospitals accepting federal funds to provide stabilizing treatment to every patient who comes through the doors, HCA reserves about 9 percent of revenue in an average quarter for uninsured accounts. As this percentage of patients becomes insured under the healthcare reform law, HCA should see an almost immediate impact of at least 5.5 percent to its top line in the first quarter of 2014.

And given that HCA has proven extremely adept at controlling costs—it has one of the highest operating margins in the business—the positive effect could be even greater.

**Life Technologies**

The personalized medicine market is expected to double to more than $450 billion over the next two years, and Life Tech-
nologies (NSDQ: LIFE) is in a prime position to take advantage of this sizable market.

This global biotechnology company already boasts 50,000 total products in its growing portfolio, and its latest-genome-sequencing machine could lead to revolutionary cancer treatments—possibly changing the face of medicine as we know it.

With this potential breakthrough, oncologists could customize their treatment according to a patient’s genetic profile.

Life Technologies possesses one of the largest intellectual property estates in the life sciences industry, with nearly 5,000 patents and exclusive licenses. It has a plethora of strategic research partnerships with top public and private entities, including prestigious universities such as Harvard. And the company remains committed to funding its research and development (R&D) programs to find more high-margin technologies to fuel its robust growth.

About 85 percent of the company’s revenues are derived from consumable products that are recurring and fee-based, many of which are patent-protected.

Because Life Technologies has such a large list of diversified products, no product or customer accounts for more than 5 percent of its total revenue, giving the company downside protection.

**ICU Medical**

While ICU Medical’s (NSDQ: ICUI) devices have become a gold standard for the industry, so far few competitors have been able to match it. That said, the company holds only a tiny market share due to the relatively higher cost of its products in an era of medical cost cutting.

ICU has developed a line of catheters and connectors that are designed to minimize dead space and the need for flushing. They’re also needleless, reducing the chance that healthcare workers will accidently stick themselves when administering medications or periodically changing out the catheter sets. They allow for the creation of a closed system of vascular access to prevent the introduction of harmful pathogens.

Despite that hurdle, ICU Medical has become increasingly competitive, achieving an average 9 percent revenue growth per year, as it realizes economies of scale, and hospitals become increasingly willing to pay a few more cents on the front end to potentially save thousands of dollars on the back end.

Earnings per share (EPS) have been growing commensurately with revenues, thanks to the company’s high margins. Gross margins run about 50 percent, while operating margins typically fall in the high teens.

Management maintains a clean balance sheet that does not use debt for growth. With $200 million cash on hand, no debt and near double-digit sales growth, this company faces outsized growth prospects.

**Molina Healthcare**

As a company that runs mostly Medicaid health maintenance organizations (HMOs), serving nearly 4.3 million Medicaid and Medicare recipients in 15 states, Molina Healthcare (NYSE: MOH) is on track to profit from the Medicaid expansion plans that accompany Obamacare.

The company already has a large footprint in 4 out of the 5 largest Medicaid markets, and is ready to capture more customers who are dual eligible enrollment types.

Rate increases have benefited the company over the past year. Revenue from its Texas operations, which accounts for 25 percent of total revenue, tripled in 2012 from the previous year, due to a 4 percent rate hike. The company also expects a rate hike in California.

Molina has averaged 20 percent growth since 2008 and more than 10 percent from the previous year. And management has plans to double total sales to $12 billion over the next 3 years, while also improving profit margins.

Finally, Molina could be an acquisition target for larger insurers seeking Medicaid exposure.

**Baxter International**

Pharmaceuticals company Baxter International (NYSE: BAX) will reap the windfalls of Obamacare as a greater number of insured patients are able to afford its higher-margin brands.

Among its list of innovative drugs is Gammagard, first approved in 2005 for the treatment of certain immunodefiency conditions, such as low B-lymphocytes (white blood cells), which leave patients more susceptible to illness.

Gammagard is also a promising treatment for delaying the onset of Alzheimer’s disease, with limited trials showing that the drug held the disease at bay for about three years. Although Gammagard isn’t a cure for Alzheimer’s, it is the first new treatment to be discovered for the disease in more than nine years and offers the best hope for Alzheimer’s patients around the world.

While it will be some time before the drug is available for widespread use as an Alzheimer’s treatment, it exemplifies the innovative research spearheaded by Baxter.

The company currently has 18 products in late-stage development, several of which could be approved this year, and no significant upcoming patent expirations.

Management recently bought Gambro, a leader in kidney therapy technologies, for around $4 billion, and continues to show it is committed to investing in R&D. The company has spent more than $800 million per year on R&D since 2008.

The company is projected to rack up a compound annual growth rate in EPS of between 8 percent and 10 percent through 2017.

**Novartis AG**

Swiss-based Novartis AG (NYSE: NVS) is Europe’s second-largest pharmaceutical company by sales and market value. Its products include top brands Excedrin, Zometa (cancer), Gleevec (leukemia) and Diovan (hypertension).

Although Novartis lost patent protection on Diovan, a
blockbuster drug for hypertension, the company’s sales only declined by 3 percent in 2012, with a return to positive growth expected in 2013.

Novartis has already won European backing for Bexserio, the first vaccine for meningitis B, in January 2013. Novartis expects this drug to generate more than $1 billion in sales per year, helping offset losses from Diovan.

Novartis won 17 major approvals in 2012, allowing it to replace Diovan, as well as other medicines that lost their patents.

The company also has an aggressive management team that’s willing to invest in R&D for future drugs, as well as in growth-oriented acquisitions such as the $12 billion purchase of eye-care specialist Alcon Laboratories from Nestlé (OTC: NSRGY).

Novartis also has a huge pipeline of over 200 projects in clinical development and is spending well over $2 billion per year in R&D and for joint venture agreement deals. The latter pays smaller, unprofitable biotech companies to help it conduct research to discover new innovative drugs.

Novartis boasts a growing dividend that currently returns 3.6 percent. Management has boosted the dividend every year since 1997, for a 10-year dividend growth rate of 13.4 percent.
IMPORTANT NOTE: The stocks highlighted in this report are believed to be accurate and represent our best advice at the time of writing. However, these reports are reviewed quarterly and may not reflect our latest advice. For our current take on any stock in this report, it is vitally important that you check the Portfolio tables on the website and confirm that the stock still earns a buy rating. Furthermore, confirm that the stock trades below our current buy target. Do not buy any stocks above our recommended buy targets. If a stock's price exceeds our target, patiently wait for a pullback or invest in another Portfolio holding that trades below our buy target. Any advice in the Portfolio tables, a recent issue of the publication, or our email alerts always trumps any advice in this special report. Markets can move quickly, so we appreciate your understanding of our protocol for delivering the most timely advice via our website.

Investing Daily, a division of Capitol Information Group, Inc., 7600A Leesburg Pike, West Bldg., Suite 300, Falls Church, VA 22043. Subscription and customer services: P.O. Box 3808, McLean, VA 22103-9823, 800-832-2330. It is a violation of the United States copyright laws for any person or entity to reproduce, copy or use this document, in part or in whole, without the express permission of the publisher. All rights are expressly reserved. ©2013 Investing Daily, a division of Capitol Information Group, Inc. Printed in the United States of America. POWB1113-MF. The information contained in this report has been carefully compiled from sources believed to be reliable, but its accuracy is not guaranteed. For permission to photocopy or use material electronically from Personal Finance, ISSN #0164-7768, please access www.copyright.com or contact Copyright Clearance Center, Inc. (CCC) 222 Rosewood Drive, Danvers, MA 01923, 978-750-8400. CCC is a not-for-profit organization that provides licenses and registration for a variety of users. Disclaimer: For the most up-to-date advice and pricing, go to www.PFNewsletter.com or check your latest Personal Finance issue.