



The ultimate long game

Charlie Munger, who died last week aged 99, will be remembered for his witty aphorisms. He was a master at inverting problems – thinking backwards from the end state towards the present. My favourite quote of his is: “All I want to know is where I’m going to die, so I’ll never go there.”

In the end, death sought out Charlie a mere five weeks before his 100th birthday. There are more than 500,000 centenarians alive today, and that number is expected to grow strongly. Let’s have a look at a few companies taking advantage of this longevity opportunity, making money from the end phase of life.

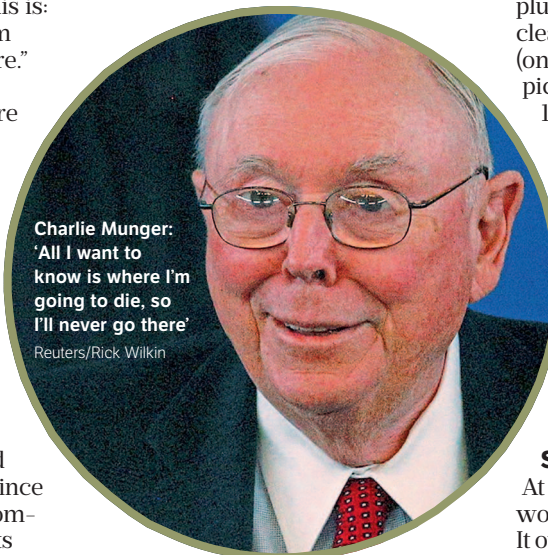
Agilon Health

Texas-headquartered Agilon Health was founded in 2017 and has been listed on the Nasdaq since 2021. The \$4.6bn market cap company is working hard to grow its network of health-care providers who specialise in caring for senior citizens.

Agilon negotiates a fixed monthly fee per patient payable by the large medical insurers to Agilon’s network of doctors, referred to as a global capitation model – effectively allowing doctors to share some of the risk and reward of healthy patient outcomes. That’s a much better system than the fee-for-service model that most of the US health sector works on. As Charlie once quipped: “Show me the incentive, and I will show you the outcome.”

Medical costs have been higher than expected over the past few years, so Agilon has been under financial pressure of late. Still, the group’s revenue, number of doctors and number of patients have all

grown by more than 50% a year over the past five years, an indication that the win-win business model is resonating with the market. Agilon’s shares dropped to a record low last week, but it seems that the group’s best days are ahead of it.



Arjo AB

Spun off from the larger Getinge Group and listed separately in Stockholm since 2018, Arjo has a market cap of 10-billion kronor (about \$1bn). The company specialises in the development and manufacturing of medical equipment for elderly and disabled patients.

One of its earliest blockbuster products was the first height-adjustable bathtub, launched in 1972. Today, Arjo sells medical beds, patient lifts, assisted-bathing devices and other medical equipment in more than 100 countries. Arjo has healthy gross profit margins of above 40% and trades at a p/e of 20. But there is concern that its target market has reached maturation – the company expects just 3%–5% of organic revenue growth in the next few

years, which doesn’t get us excited. As Charlie used to say: “I didn’t get to be where I am by going after mediocre opportunities.”

Chemed Corp

New York-listed investment holding company Chemed has an enviable track record of value creation, with 12 major acquisitions or divestitures since its founding in 1970. Over the past decade, Chemed shares have returned an impressive 22.5% a year.

The company, which has a market cap of \$8.5bn, owns two subsidiaries – Roto-Rooter (the US’s leading provider of plumbing, drain cleaning and water cleanup services) and VITAS Healthcare (one of the US’s largest providers of hospice care). VITAS employs more than

10,000 people, including almost 5,000 nurses, caring for nearly 100,000 patients annually. Patients receive palliative care for an average of 100 days and, due to a general increase in the burden of disease, hospice spending is growing strongly.

At a p/e of almost 30, Chemed shares are a bit expensive, but Charlie would say that it is a mistake to pass on a great company which is trading at a fair price.

Service Corp International (SCI)

At a market cap of \$9.1bn, SCI is the world’s largest funeral parlour business. It owns more than 1,500 of them and 400 cemeteries across the US and Canada, though it has a market share of only 15% in this fragmented industry. Founder Robert L Waltrip started with one funeral parlour in Houston, Texas, in 1962 and served as chair of the group for 53 years, growing the business organically and acquiring competitors along the way. He died this year at the age of 92.

Excess deaths due to Covid resulted in a record year in 2021, with the earnings base normalising now and SCI expecting to return to its historical 8%–12% annual growth rate in earnings. At a p/e of about 17, SCI shares seem to offer decent value, and I don’t foresee a major change in the funeral market any time soon – we all die at some point and that means an unending need for funerals. Charlie should have the last say here: “When something is working very well ... keep doing it!” x

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