

Kieger – Thoughts from the Street

Jefferies Conference 2017

Zurich, June 12, 2017

Conference presentations focused on company specific factors and were in general positive

We attended the Jefferies Healthcare Conference 2017 from June 6, to June 9 in New York City.

After a complicated 2016, the healthcare investment year 2017 so far has a lot to like. With the strong performance across the sector (YTD > 10%) and especially across subsectors like Medtech, Healthcare Services and Life Sciences Tools and Services (each YTD >20%) the conversations changed completely from last year's "*will the market ever recover?*" to today's "*how much longer can this healthcare bull market last?*".

Interestingly, it seems that despite the strong performance only specialist investors participated while generalists mostly remained on the side-line or engaged only through bellwether names like Johnson & Johnson and Medtronic (both with a good performance YTD).

At the conference, management presentations seemed confident regarding the future of the industry and focused mostly on individual catalysts, product cycles and end market developments.

Sometimes it is more important to listen to what is NOT said...

For some time now the future of the US healthcare system in general and President Trump's impact on it were the hot discussion points in every investor presentation we attended. However, at the Jefferies conference we noticed a remarkable change. This topic was untouched by managements and by conference attendees in any of the company presentation and Q&A session. We have two potential explanations for this shift in focus:

- Companies and investors alike have accepted that they are currently not capable of predicting the outcome of the political process with its contradicting developments on a daily basis and thus are focusing on topics that they can analyse and control.
- Or the US healthcare reform - in all its variations that currently are discussed - is much more benign than initially feared and will have only little impact on company results.

Whatever the reason, healthcare in the US has become a significant burden on public and private household finances that the pressure to reduce costs will persist.

Further we feel that the equity market is currently pricing in a lot of the potential positive aspects of President Trump's policy changes (e.g. tax reform and its subsequent consolidation wave), while potential negatives (e.g. no tax reform and governmental healthcare spending cuts) might not be taken into full consideration. This could lead to downside risk in case policies (e.g. tax reform) are not implemented.

...and to pay attention to WHERE something is said

The digital lifestyle combined with technological advances allow for a more precise and targeted customer communication. While targeted advertising is nothing new, the usage of big data leads to even more "targeted" approaches as the audience is precisely determined and the message might even be customised (personalised marketing). We noticed that healthcare companies are increasingly using such approaches.

At the conference one producer of dental aligners described its new direct to consumer (DTC) strategy focused on the underpenetrated "teens" segment. Instead of just using channels frequented by teens, the manufacturer has chosen to first create awareness by focusing on the parents followed by subsequently targeting the teens themselves. Another company uses predictive analytics to estimate when diabetes patients on competitor pumps are eligible for a new pump to subsequently start its marketing activities.

In both cases the main objective is to spend marketing resources effectively by focusing on relevant targets determined through the use of data analysis.

Bottom line: Positive tone, but a lot of policy upside seems priced in

Healthcare executives at the conference signalled confidence in their business prospects. The presentations were mainly focused on company specific topics. While the developments around the future US healthcare policy remain in the headlines, surprisingly this topic received little attention. A lot of the potential positives of President Trump's policy plans seems priced in while potential negatives might be partially neglected. Another interesting development is the increased use of targeted/personalised marketing in the healthcare space resulting in more effective market communications.

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