

# Kieger – Thoughts from the Street

## Goldman Sachs HC Conference 2019

Zurich, June 18, 2019

### Navigating through the politically charged environment ahead of the US presidential elections

We attended the 40<sup>th</sup> annual Goldman Sachs Healthcare Conference 2019 from June 11<sup>th</sup> to 13<sup>th</sup> in Los Angeles.

We felt the mood among executives and fellow investors was good. Probably less enthusiastic compared to prior years but still reasonably good given political uncertainties. The conference in general reassured us in our market thesis and individual investment cases.

With its 40th edition the Goldman Sachs Conference is the longest running investor conference focused on healthcare. Mainly big cap companies are presenting and it is therefore not necessarily a place to discover new equity stories but an excellent opportunity to review our big cap investment cases.

Beside politics, one of the recurring topics across the Medtech sessions remained robotics. However, to us it seemed that even companies, where a robot is not part of the main thesis, are using this momentum and talk over-proportionate about it.

An interesting new topic in the managed care space is the democratisation of personal healthcare data.

## Political desire versus legislative reality

The general consensus regarding upcoming healthcare regulation was that something on drug pricing will be done. This also because President Trump needs a "big win" for next year's re-election campaign. However, there was no consensus which of the many discussed options will be implemented.

The highest probability of implementation has some sort of Point of Sales (POS) rebates (negotiated rebates are passed to individual patient instead of pooled health plan). Other possibilities would be the prohibition of spread pricing (drug supply chain would get compensated on fixed rate versus a percentage rate of price) and the introduction of international pricing index as price setting mechanisms. It was interesting to see that even at the conference different parties (pharma vs the pharmacy supply chain) were trying to blame the other side for increasing drug costs.

Surprising to us was the absence of the Medicare for All (MFA) theme. It was the hot topic at the beginning of the year, however at the conference it was not mentioned once during the company sessions and only very briefly at a US Healthcare Policy panel. We had the opportunity to discuss this with a Washington D.C. political consultant and his view was that MFA has such a low probability that company managements, politicians (with the exemption of left wing Democrats) and also the investment community feels that it is not worth to consider it further.

While we share the view that the probability is low, we also note that potentially impacted companies (managed care) have not yet recovered the losses occurred when MFA was in the news. We continue to view the topic as an overhang going forward mainly due to headline risks.

## Democratisation of personal healthcare data

The US government mainly through its agency CMS (the Centers for Medicare & Medicaid Services) is pushing for interoperability and patient access of personal healthcare data. In 2018 CMS mandated providers to share data with their patients (Promoting Interoperability Rule) and provided access for patients through their Medicare's Blue Button 2.0 initiative. In 2019 CMS together with the ONC (the Office of the National Coordinator for Health IT) is forcing the rest of the healthcare insurance sector (managed Medicare, managed Medicaid and private insurances) to follow its lead.

In consequence the control of healthcare data will move from the controllers of financial flows (payors and providers) to the customers. In future the patient will decide which of his healthcare data is shared with whom (democratisation of personal healthcare data).

However, as healthcare data is more consistently shared across the system, it can be pooled (with the permission of the patient), better analysed and it allows for more refined predictive modelling (determine the next best treatment step). This in turn could help closing treatment gaps, avoid duplication of treatments and ultimately save costs. We notice that already today several companies have such systems in place. Going forward the engagement with customers (to get access to data) and the analytical capabilities will become an even more important success factor for managed care companies.

## Bottom line

The conference reassured us in our market thesis and individual investment cases as the industry is navigating through a political charged environment in the US. It seems that bigger changes (MFA) are unlikely, but alterations to the US drug distribution and compensation system are possible. The democratisation of healthcare data will increase the need for scalable data analytics capabilities and patient engagement tools at managed care companies as key success factors.

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