



Kieger – Thoughts from the Street

UBS Conference 2016

Zurich, June 3, 2016

UBS Healthcare Conference: Presentations focused on the strong fundamental Healthcare drivers

We attended UBS's annual Global Healthcare Conference 2016 from May 23th to 25th in New York.

The last 10 months - since the market peak in August 2015 - have been rough for healthcare investors and executives of healthcare companies alike. Executives presenting at the UBS conference seemed relieved and encouraged by the more constructive market environment lately.

Most presentations focused on and confirmed the continued positive impact of the fundamental drivers of the healthcare industry such as the demographic change, increased prevalence of chronic disease, increased healthcare spending across the globe and new markets generated by addressing unmet medical needs through innovation. Other key topics common across the presentations and Q&A sessions were the increased relevance of "Open source R&D" in Medtech and "Consumer centric healthcare" which seems to gain

further traction. Interestingly the political developments in the US (presidential elections) seemed less an area of concern.

Open source R&D

Though the name originated in software development, in healthcare it refers rather to externalise R&D than true open source research and development. External R&D has been part of the innovation power of Pharmaceutical companies for years. Licensing, the usage of contract research organisations and the acquisition of smaller innovative peers has been used to build and shape pipelines. The specialty pharma model went a step further by massively decreasing the capital allocated to internal R&D and instead relying heavily on open source R&D. The currently struggling company Valeant is one example of applying this business model.

The concept of acquiring innovation externally seems to increasingly reach the Medtech space. One panellist at the conference noted that in the US already 30% of the funding for start-ups in Medtech is provided by mature Medtech companies and that they have all established their dedicated cooperate venture arms. In Switzerland dental implants manufacturer Straumann used this approach to enter the Asian value implants market. The company took stakes in several early stage Asian manufacturers, however made it clear that not all investments would become successful. So far this open source R&D went in parallel with internal R&D. Going forward it will be interesting to see if also in Medtech a specialty model a la Valent evolves.

Consumer centric healthcare

There are currently several major trends that change the healthcare system towards more consumer centricity. The most important drivers are:

- *Consumer empowerment.* Due to increasing deductibles, co-insurances and -pays patients have to bear a higher share of the costs related to their consumption of healthcare products and services. Additionally the transparency of cost and outcomes has significantly increased. Both developments bolster the decision power of patients. Healthcare companies have to react by thinking of patients as consumers and investing in brand recognition, marketing and generally increasing the quality of the interaction with patients.
- *Consumer engagement.* On the other hand the fee for value shift increases the focus on disease prevention. Insurance companies have started to reward their members for healthy behaviour. However, fee for value also leads to increased risk taking of providers. Some hospitals for example have started to require a reduction of a patient's body mass index before a surgery, also leading to a form of consumer engagement.

Bottom line

We expect the (US) healthcare system to fundamentally change over the coming decade. Going forward the successful Healthcare company will have to be more efficient through open source R&D and will have to understand that patients will start to act like normal consumers. At the conference we felt that companies are aware of this changes and are prepared to invest accordingly.

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