

Kieger – Thoughts from the Street

Goldman Sachs HC Conference 2018

Zurich, June 22, 2018

Digitalisation finally meets healthcare, but will it help to control healthcare spending?

We attended the 39th annual Goldman Sachs Healthcare Conference 2018 from June 12th to 14th in Los Angeles.

The conference encouraged our view of constructive prospects for the healthcare industry, especially for Medtech and Healthcare Services companies. Most presentations and management conversations were reassuring and signalled confidence for a continuation of the recently strong business trends.

The presentations focused more on company-specific topics than on macro trends. However, there was a common theme that showed up across the different sessions: Digitalisation in Healthcare.

A day before the conference started, rumours of a potential acquisition of Boston Scientific by Stryker made the rounds. Although M&A was not a major discussion point during the official presentations, it dominated our conversations with other conference participants.

“We live in a digital world,...

While the transition to a digital enterprise has already had a major impact on numerous sectors of the economy, Healthcare is generally perceived as lagging when it comes to digitalisation. For example, the transition from paper-based medical records to electronic health records (EHR) only gained traction after massive government support through the Health Information Technology for Economic and Clinical Health (HITECH) Act. With EHR in place providers started to accumulate enormous amounts of data but lacked sensible applications beyond pure record keeping.

Additionally, the exchange of healthcare-related data between the different systems and different stakeholders is still not harmonized. It is estimated that even today with EHR broadly implemented in the US alone 17mn faxes are sent per day for data exchange purposes. Data illiquidity (patient data is not easily transportable due to regulations and technical issues) is generally seen as the main factor limiting the use of advanced IT in healthcare and protecting the industry from outside disruption. A second important limiting factor is the high degree of regulation.

However, it seems that now industry participants are catching up with several Healthcare companies putting digitalisation at the core of their strategies. Sentences like “We are an IT company that happens to do Healthcare” (Centene) or “We are as much an informatics company as we are a device company” (Philips) were heard left and right at the conference.

...but we are fairly analog creatures”

When it comes to applications beyond presentation talk we see three broader areas where the increased use of IT helps contain Healthcare costs:

- *More efficient processes to reduce costs:* It is estimated that 25-30% of healthcare costs could be avoided without compromising the quality of care by linking existing data pools and by reducing duplications of processes through a better coordination across the continuum of care.
Example: Reduction of duplicated lab tests
- *Contain future costs by early intervention:* If population data is consolidated predictive models can be built. We see managed care companies at the forefront since they have the biggest data pools and highest incentives.
Example: One managed care company is producing a risk score for opioid abuse using medical, pharmacy as well as socio-demographic data for each of its members. With this the company is able to intervene before opioid abuse is manifested.
- *Reduce cost by replacing manual processes:* At a panel discussion at the conference it was estimated that in the longer term 1/3 to 1/2 of the current amount of labour in healthcare can be replaced by artificial intelligence and robotics. Labour is the most important cost block in Healthcare.
Example: Melanoma detection through a deep learning convolution neural networks algorithm.

Bottom line: Generally positive tone, digitalisation the common theme

The conference increased our confidence in the healthcare sector. We felt that this time presentations focused more on company-specific themes. However, digitalisation in Healthcare was the common theme and we expect the impact of it to become visible through time.

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