



KIEGER HEALTHCARE Monthly Commentary

Zurich, 1 February 2021

A comfortable start into 2021 for Healthcare

The MSCI World Healthcare Net Return (NR) Index gained 1.1% in January 2021, while the MSCI World NR Index declined 1.0%.

Healthcare started 2021 on a very positive note, outperforming most of the other sectors (Energy, 3.0%, being the sole exception). Apart from Healthcare Providers & Services all Healthcare sub-sectors delivered positive returns, with Healthcare Technology stocks, Teladoc in particular, standing out. Overall, the sector experienced extraordinary news flow during the month of January, which saw the Q4 earnings season kick off and the J.P. Morgan Healthcare Conference (11-14 January) take place. Indeed, many firms pre-announced their results at or before this major event.

It is again a busy period of the year for analysts, with Q4 reporting under way. At the time of writing, 20% of MSCI World Healthcare firms have published their results. Although still early days, it seems unlikely that Q4 will experience the beats witnessed in Q3. This, as the resurgence in COVID cases has once again been weighing on procedure growth. Still, the first indications for Q4 show that many companies continue to exceed consensus expectations at both the EPS (88% of the firms) and sales (61%) levels. Due to the spike in COVID-19 infections during the quarter, we expect good numbers for the Life Sciences Tools & Services (consensus numbers lag the magnitude of testing, vaccine and drug production tailwinds), Providers & Services (for the same reason) and Healthcare Technology sub-sectors. Results should be more mixed for Equipment & Supplies (elective procedures softening, capex spending being postponed), as well as Pharma and Biotech (due to company specific news in both cases).

In the spotlight

COVID-19 treatments: On 6 January, the EU authorised Moderna's COVID-19 vaccine (the second one to gain approval). On 25 January, Merck & Co said it was discontinuing the development of its vaccine candidates after early clinical trial data showed an inferior immune response. One day later, Regeneron produced positive interim data for its antibody cocktail when used as a passive vaccine to prevent COVID-19. And on the following day, Eli Lilly indicated that its monoclonal antibody cocktail reduces hospitalisations by 70% for high-risk patients.

Politics: Joe Biden and a Democrat-held Congress could have the following implications: (1) Pandemic response, net positive for the healthcare sector: considered a top priority by the new US government, with additional stimulus packages expected; (2) Tax (re)reform, net negative for the sector (and all the others): with Democrats controlling the Senate, tax (re)reform has become more likely. The core change would be an increase in the corporate tax rate from 21% to 28%; (3) Drug pricing, net negative for pharma companies, positive for healthcare payors/managed care: branded drugs account for only 7% of US healthcare spending, but we expect more focus on this issue in the medium term, also in light of Bernie Sanders' appointment as Chairman of the Senate Budget Committee; (4) Other changes, neutral to slightly positive depending on implementation: fundamental changes in the healthcare system seem unlikely, but we expect improvements to be made to the current mechanisms (HIX, Medicaid, and Medicare).

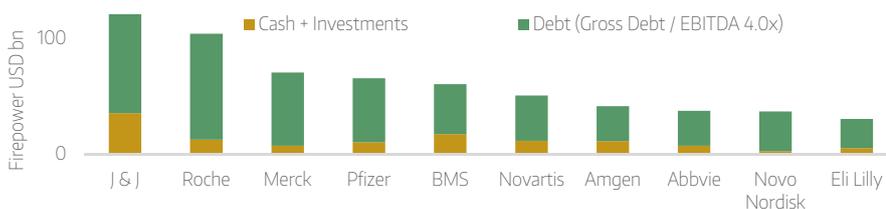
J.P. Morgan Healthcare Conference: We attended the virtual event, during which the major themes and trends discussed were: (1) COVID-19 is serving to accelerate usage of alternative sites of care; (2) Mental health, which was already a major unmet medical need, has been further hit by COVID-19; (3) mRNA is here to stay and will have an impact on many other disease areas (not only infectious diseases); (4) Total cost of care is to become more important when pricing healthcare services; (5) Digitalisation and data sciences are in their very early days and stand to make inroads in all aspects of healthcare; (6) Firms are increasingly embracing ESG and measure its importance.

Alzheimer's disease: An experimental drug developed by Eli Lilly has hit the main goal of a study that tested it on patients in the early phase of the disease. Those who received the drug saw their condition decline 32% more slowly than those on placebo, as measured by standard diagnostic scales. Full results will be presented at a congress.

M&A:

UnitedHealth agreed to purchase Change Healthcare for USD 13 billion, to strengthen its portfolio of healthcare technology services and capabilities. Further, AmerisourceBergen announced that it intends to acquire the Alliance business from Walgreens Boots Alliance for USD 6.5 billion, thereby adding additional capabilities/geographies to its leading manufacturer services business. For Walgreens, the deal means that it will be able to increase focus on expanding its core retail pharmacy businesses.

Chart of the Month: M&A firepower, who will strike next?



Source: GS, Bloomberg, company websites

Pharma and Biotech firms have entered 2021 with plenty of M&A firepower. Combining liquidity and the debt that they could theoretically take on before surpassing certain leverage levels (debt/EBITDA ratio of 4.0x), the top 10 Pharma and Biotech companies (by market cap) could deploy up to USD 600 billion for M&A.

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