



KIEGER HEALTHCARE

Monthly Commentary

Zurich, 1 March 2023

One step forward, one step back

From the ebb and flow of macro dynamics to the ups and downs of the Q4 reporting season, healthcare stocks experienced a flurry of activity in February (-4.1%). Further, M&A is picking up, while fundamentals continue to look strong.

Zoom in...

In Equipment & Supplies (-3.2%), diabetes stocks sold off (and then recovered) on the news that Apple is working on a non-invasive continuous blood glucose monitoring device. A pick-up of M&A within the sector was also a source of price action. Globus Medical announced the acquisition of NuVasive for USD 3bn, to build scale in the spinal devices market, and Abbott plans to buy Cardiovascular Systems (for USD 890m), boosting the acquirer's vascular disease offering.

In Biotechnology (-3.7%), Seagen (+29%) rocketed after Pfizer was reported to be in early talks to buy the company for over USD 30bn. As regards Abbvie, comments of the Humara erosion being slightly better than previously stated were sufficient to push the stock higher over the month. Moderna (-21%) was the weakest name in the sub-sector, after announcing Phase 3 interim results for a vaccine candidate against seasonal influenza, which showed superiority to

conventional vaccines against influenza A strains, but inferiority for both influenza B strains. Investors also questioned the company's ambitious USD 5bn 2023 guidance for COVID-19 vaccine sales.

Within Pharma (-3.9%), there was a preference for European large caps (Novo Nordisk, AstraZeneca), that outperformed most of their US and Swiss peers. The best performing stock was Catalent (+27%), on rumours that Danaher could be interested in the company.

Tools & Services lost 4.5%, despite releasing the best Q4 results of all healthcare sub-sectors. As observed in 2022, Tools & Services continues to exhibit the strongest inverse correlation to rising yields.

Within Providers & Services (-5.5%), MCOs, following a stellar 2022, remain out of favour in 2023 and lower-than-expected preliminary Medicare Advantage rates (at the lowest level since 2016) did not help. Distributors' performance was subdued. Oak Street shot up, after CVS announced its acquisition for USD 10.6bn. Fresenius Medical Care also gained ground, after its dominant shareholder announced a de-consolidation.

Go deeper...

Earnings season

Within Equipment & Supplies, the more procedure-exposed companies (Stryker, Zimmer Biomet, Medtronic, Edwards, Smith & Nephew, Boston Scientific) all did better than expected. Their outlooks were also favourable, pointing to a further stabilisation in procedural volumes globally (with the exception of China). Large hospital diagnostic capex names (Siemens, GE Healthcare, Elekta, Philipps) continue to accumulate orders and their products are seen as a means to mitigate staffing shortages/enable higher throughput capacity. Names that are more dependent on discretionary spending were mixed. Dental firms (Align, Straumann), which tend to strongly correlate with consumer confidence (that further improved during Q4), outdid expectations. Vision care also held up quite well. As regards Hearing Aids, manufacturers continue to operate in a soft environment, guiding to below-market growth for 2023.

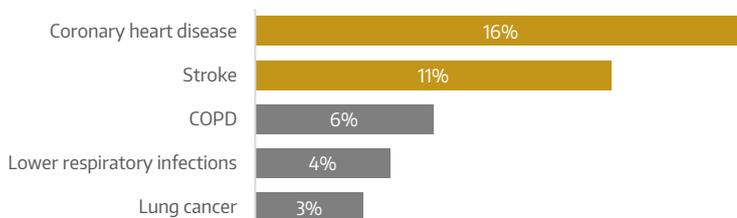
In Providers & Services, most Managed Care companies posted better-than-expected bottom-line results, while sales were roughly in-line. Hospital providers HCA and Community Health guided to a further normalisation in the space, with an improved situation on the labour front (lower turnover and contract labour expenses) and accelerating demand. Within Services, Laboratories' results were driven by a positive trending base business (in contrast to prior quarters, when the upside was driven by COVID-19). As for Distributors, all three US firms beat expectations and raised their 2023 outlooks (for the base businesses).

As regards Tools & Services, surprises on sales were above average but earnings surprises below average. Firms remain in good shape, with 83% of them outdoing expectations. Instrument players continue to see high demand for instruments but pointed to a more normalised growth rate in H2. For large bioprocessing firms, stocking is still a critical topic and companies' tenor is that COVID-19 inventories should gradually wash out over the next 1-2 quarters. In the base business, underlying demand remains robust but some of the firms are guiding to a more normalised environment ("customers are not anticipating a step-up versus what we've seen here in the last couple years"). CROs mentioned a softer environment for biotechs, but relationships to mid- and large-sized pharmas (still strong) more than offset the shortfall.

In Pharma, sales surprises were below historical averages. In terms of earnings, positive surprises exceeded the two-year average. Stocks were flat on average (-0.1%) following the quarterly reports.

Biotechnology experienced aggregate sales surprises that matched the historical average, while earnings came in below. Stocks shed 1.2% in the aftermath of publication. Notable was the breadth of the beats, with more than 80% of firms delivering better-than-expected numbers.

Chart of the Month: Cardiovascular disease is the leading cause of death globally



Source:WHO, BHF

Coronary heart disease and stroke, both classified as part of the cardiovascular disease (CVD) category, are responsible for 27% of total deaths. The main risk factors for CVD are hypertension, diabetes and obesity. Although the disease will become even more important going forward, investments in CVD drug development are much lower than in other therapeutic areas. One reason is the high cost of conducting large CVD trials. The need for successful prevention strategies and effective innovative drugs offers attractive investment opportunities. Check out our video on this subject on: <https://kieger.com/news/kieger-healthcare-chart-of-the-month-14/>

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