



KIEGER HEALTHCARE

Monthly Commentary

Zurich, 3 May 2023

Sleepless Healthcare nights in April – for good reasons?

Q1 Healthcare earnings season is well underway, causing some restless nights even on top of Credit Suisse's drama and SVB Bank fall-out earlier in March. To date, 40% of MSCI World Healthcare companies have reported. Even though Q1 looks like a "below-average" season in terms of earnings surprises, we see a lot of positive signs in terms of demand, underlying trends and innovation. Healthcare equities increased by 3.6% in April, while global stocks were up 1.8%.

What to take away from April for Healthcare

Equipment & Supplies rose 7.0%. All the reporting firms outpaced expectations sales- and earnings-wise. Firms flagged good procedural volumes and an improving environment in China. Hearing aids continued their positive streak.

Pharma gained 5.3% despite some regulatory noise from the EU Commission. Reporting season so far has been mediocre. Eli Lilly (Mounjaro data) and Swiss heavyweights Novartis and Roche did well, while Catalent dropped on productivity issues. An EU Commission proposal to shorten drug exclusivity to 8 years has offset some of the performance.

Providers & Services were up 3.8%. Hospitals stayed strong in April (volumes and stable labour environment), while Managed Care bounced back. Distributors continued to benefit from favourable momentum, while Services were flat on constituents' mixed performance.

Biotechnology lost 0.7% on a subdued Q1 earnings season. Biogen was the top performer (news on reimbursement of Leqembi). Genmab and Vertex also did well on updates, while Moderna lost after a presentation on their personalised cancer vaccine (PCV). Abbvie also contracted after Q1 results and the termination of their cystic fibrosis programs. Biopharma M&A remained healthy and sustained SMID Biotechs which had been selling off in the second half of the previous quarter.

Life Sciences Tools & Services fell 3.8% with bioprocessing companies' visibility on destocking remaining limited. Since Q1, companies have also been calling out early-stage biotech demand weakness.

In detail

Equipment & Supplies rose 7.0% in April. Earnings updates were the primary driver of Medtech performance. **100% of the reporting companies came in above expectations** and cumulated earnings and sales surprises were above historical average. For orthopaedics, procedure volume was strong, helped by stable/better staffing levels. Capex-exposed names still see resilient end-market demand, with order books being supported by recovering hospital procedures. Hearing aids were strong again after flagging improving market trends. Dental's performance was mixed, with Q1 being fine but worries arising from the health of discretionary consumer demand in the remainder of 2023. Overall, a solid recovery in China with a notable acceleration in March helped Medtech.

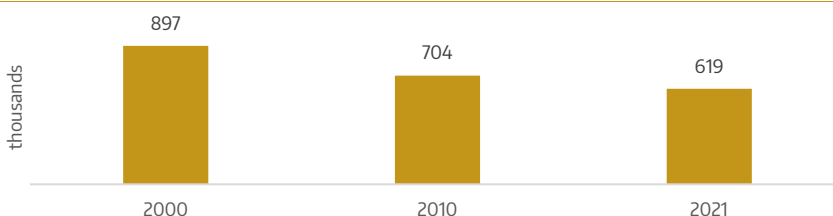
Pharma gained 5.3% in April. Aggregated sales surprises were above and earnings surprises below the average of the past 8 quarters. At the end of the month, Pharma **gave up some performance after an EU Commission proposal to shorten drug exclusivity to 8 years from 10**. Top performer was Eli Lilly (+15.3%) after high-dose Mounjaro showed superior weight loss compared to placebo. Novartis (good Q1 results) and Roche (no specific news) were also up more than 10%. The biggest laggard was Catalent (-23.8%) after reporting productivity issues and higher-than-expected costs at three of its facilities and the departure of its CFO.

Providers & Services were up 3.8%. Hospitals gained on strong volumes and better labour/cost trends. **Managed Care rebounded** in the latter part of April, and Distributors continued their positive momentum. Services were flat, with strong performance of dialysis players offset by weak laboratory and PBM names.

Biotechnology lost 0.7%. Aggregated sales and earnings surprises were both below the 2-year average. Biogen was the best performing stock (+9.4%) after a CMS official stated that Leqembi would be covered by the agency upon receiving full FDA approval. Genmab (partnership with Argenx to develop novel antibodies for immunology and oncology) and Vertex (FDA approval for TRIKAFTA in children with cystic fibrosis age 2-5 / rival AbbVie discontinuing its cystic fibrosis programs) also had a strong run. Moderna (-13.5%) came under pressure after an update on their PCV and questions remaining about path to approval. Abbvie (-4.3%) lost following Q1 results and CF-discontinuation. **Biopharma M&A helped SMID Biotechs:** Merck&Co acquires Prometheus for USD 11bn, GSK buys Bellus for USD 2bn and BMS pays Tubulis USD 23mn upfront (with the potential for more than USD 1bn).

Life Sciences Tools & Services fell 3.8%. Prior to results the sector fared well. Then, Sartorius, as the first major company to report, **did not declare that the destocking issue has been completely resolved** and additionally flagged some **early-stage biotech demand weakness**, triggering a sell-off. Others later confirmed this, accentuating negative sentiment. CRO's also lost on the emerging-biotech headlines, despite posting solid results and re-iterating that demand across mid-and large pharma remains strong.

Chart of the Month: Reduction in Malaria fatalities over the past 2 decades



Source: WHO

Despite a growing population, Malaria case numbers have remained stable at around 250 million over the past 21 years. But more importantly, there are now 278,000 fewer Malaria fatalities annually compared to the year 2000, corresponding to a reduction of 31%. A proof, that prevention and treatment do work. Nevertheless, more effort from Pharma companies is needed and new sustainable businesses focussed on fighting Malaria should be created. Check out our video on this subject on:

<https://kieger.com/news/kieger-healthcare-chart-of-the-month-17/>

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