



**Q & A**

**HEALTHCARE**

## **DISCLAIMER**

Hedgeye Risk Management is a registered investment advisor, registered with the State of Connecticut. Hedgeye Risk Management is not a broker dealer and does not provide investment advice to individuals. This research does not constitute an offer to sell, or a solicitation of an offer to buy any security. This research is presented without regard to individual investment preferences or risk parameters; it is general information and does not constitute specific investment advice. This presentation is based on information from sources believed to be reliable. Hedgeye Risk Management is not responsible for errors, inaccuracies or omissions of information. The opinions and conclusions contained in this report are those of Hedgeye Risk Management, and are intended solely for the use of Hedgeye Risk Management's clients and subscribers. In reaching these opinions and conclusions, Hedgeye Risk Management and its employees have relied upon research conducted by Hedgeye Risk Management's employees, which is based upon sources considered credible and reliable within the industry. Hedgeye Risk Management is not responsible for the validity or authenticity of the information upon which it has relied.

## **TERMS OF USE**

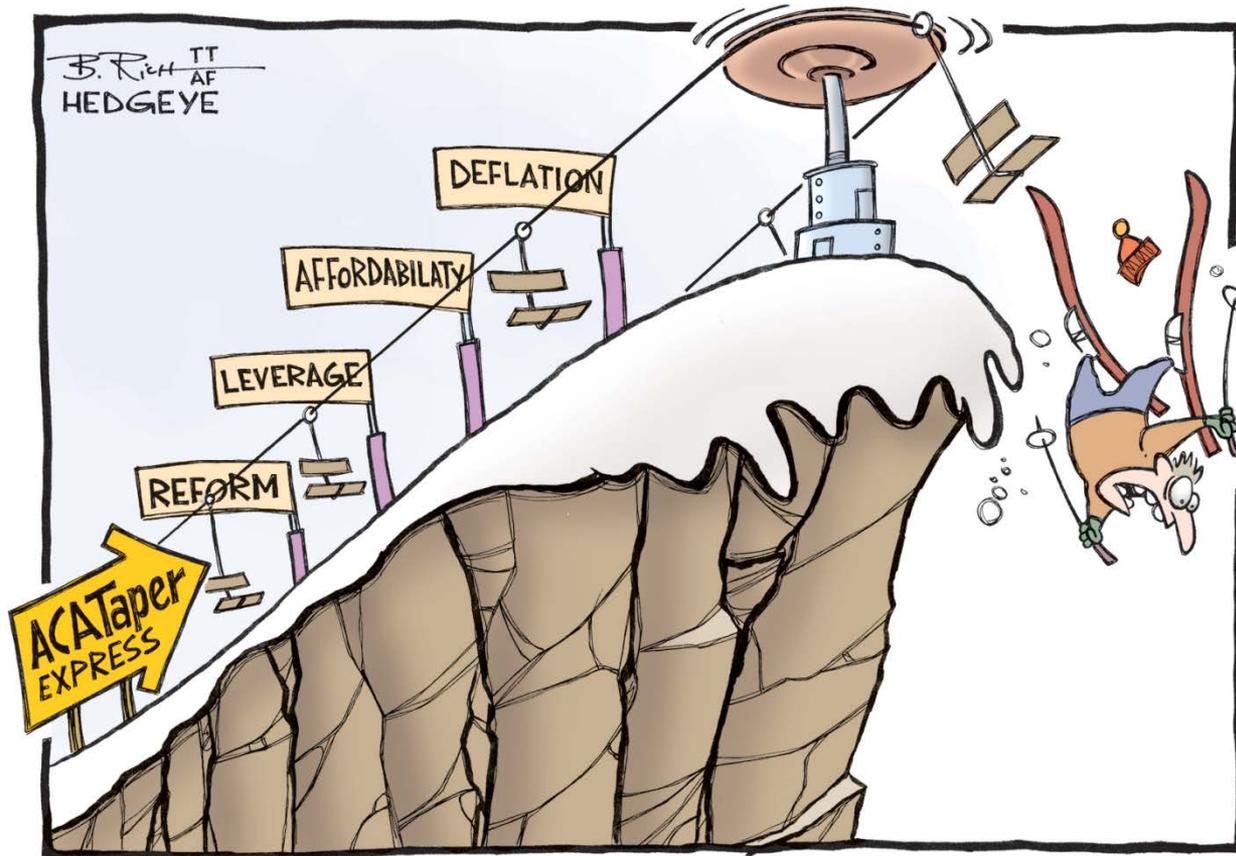
This report is intended solely for the use of its recipient. Re-distribution or republication of this report and its contents are prohibited. For more detail please refer to the appropriate sections of the Hedgeye Services Agreement and the Terms of Use at [www.hedgeye.com](http://www.hedgeye.com).

# HEALTHCARE POSITION MONITOR

Sentiment	Investment Ideas - Longs			Trade	Trend	Tail	Sentiment	Investment Ideas - Shorts			Trade	Trend	Tail
Score <sup>1</sup>	<b>LONG</b>						Score <sup>1</sup>	<b>SHORT</b>					
6	ATHN	athenahealth, Inc.	---	✓	✓		81	HOLX	Hologic, Inc.	x	x	x	
41	ILMN	Illumina, Inc.	---	✓	✓		59	AHS	AMN Healthcare Services, Inc.	---	x	x	
							53	ZBH	Zimmer Biomet Holdings, Inc.	---	x	x	
							33	MD	MEDNAX, Inc.	x	x	x	
							17	MDRX	Allscripts Healthcare Solutions, Inc.	x	x	x	
Sentiment	Long Bench						Sentiment	Short Bench					
Score <sup>1</sup>	<b>LONG</b>						Score <sup>1</sup>	<b>SHORT</b>					
6	EXAS	Exact Sciences Corporation	---	---	---		97	WOOF	VCA Inc.	---	---	---	
56	EVH	Evolent Health Inc Class A	---	---	---		79	LH	Laboratory Corporation of America Holdings	---	---	---	
72	CSLT	Castlight Health, Inc. Class B	---	---	---		71	ICLR	ICON Plc	---	---	---	
89	CERN	Cerner Corporation	---	---	---		62	DVA	DaVita HealthCare Partners Inc.	---	---	---	
							53	CRL	Charles River Laboratories International, Inc.	---	---	---	
							44	MDSO	Medidata Solutions, Inc.	---	---	---	
							41	HCA	HCA Holdings, Inc.	---	---	---	
							36	LPNT	LifePoint Health, Inc.	---	---	---	
							24	PRXL	PAREXEL International Corporation	---	---	---	
							22	QSII	Quality Systems, Inc.	---	---	---	
							18	Q	Quintiles Transnational Holdings, Inc.	---	---	---	
							5	DGX	Quest Diagnostics Incorporated	---	---	---	
							1	CYH	Community Health Systems, Inc.	---	---	---	
							1	CPSI	Computer Programs and Systems, Inc.	---	---	---	

<sup>1</sup>Percentile rank within sub-sector (1 = High Short Interest, Negative Sell Side / 100 = Low Short Interest, Positive Sell Side)

Bench = Timing is not right, or research in progress.



# HEALTHCARE THEMES

1

## #LATECYCLE

- The ACA likely steepened what is typically a late cycle recovery in medical consumption. Medical consumption trends are slow to develop and can often be confused as defensive. Its different this time...a steeper drop.

2

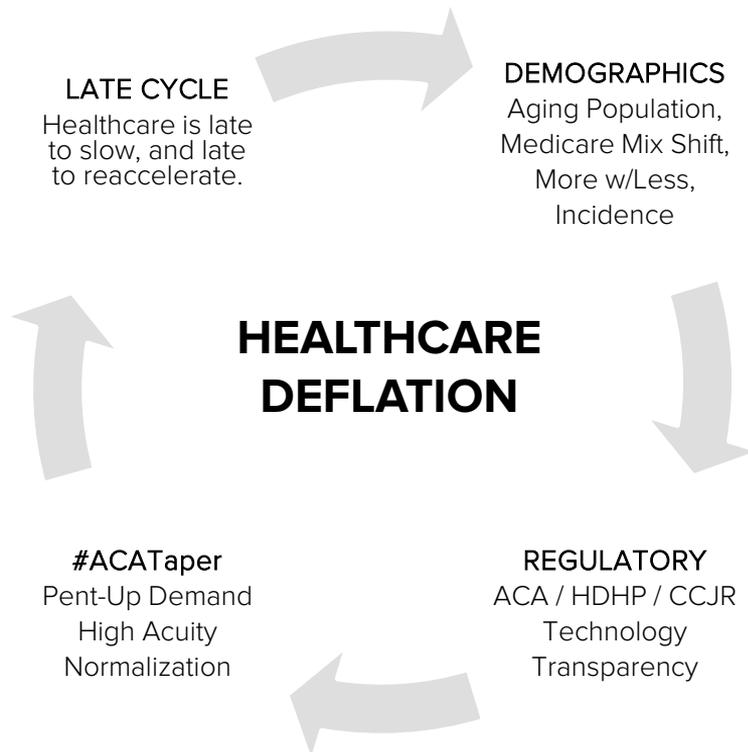
## DEMOGRAPHIC DEFLATION

- Commercially insured working population continues to slow. The Commercially Insured US Medical Consumer has the highest revenue and margins.
- Medicare beneficiaries are growing but CMS policy will need to reduce real per beneficiary spending.

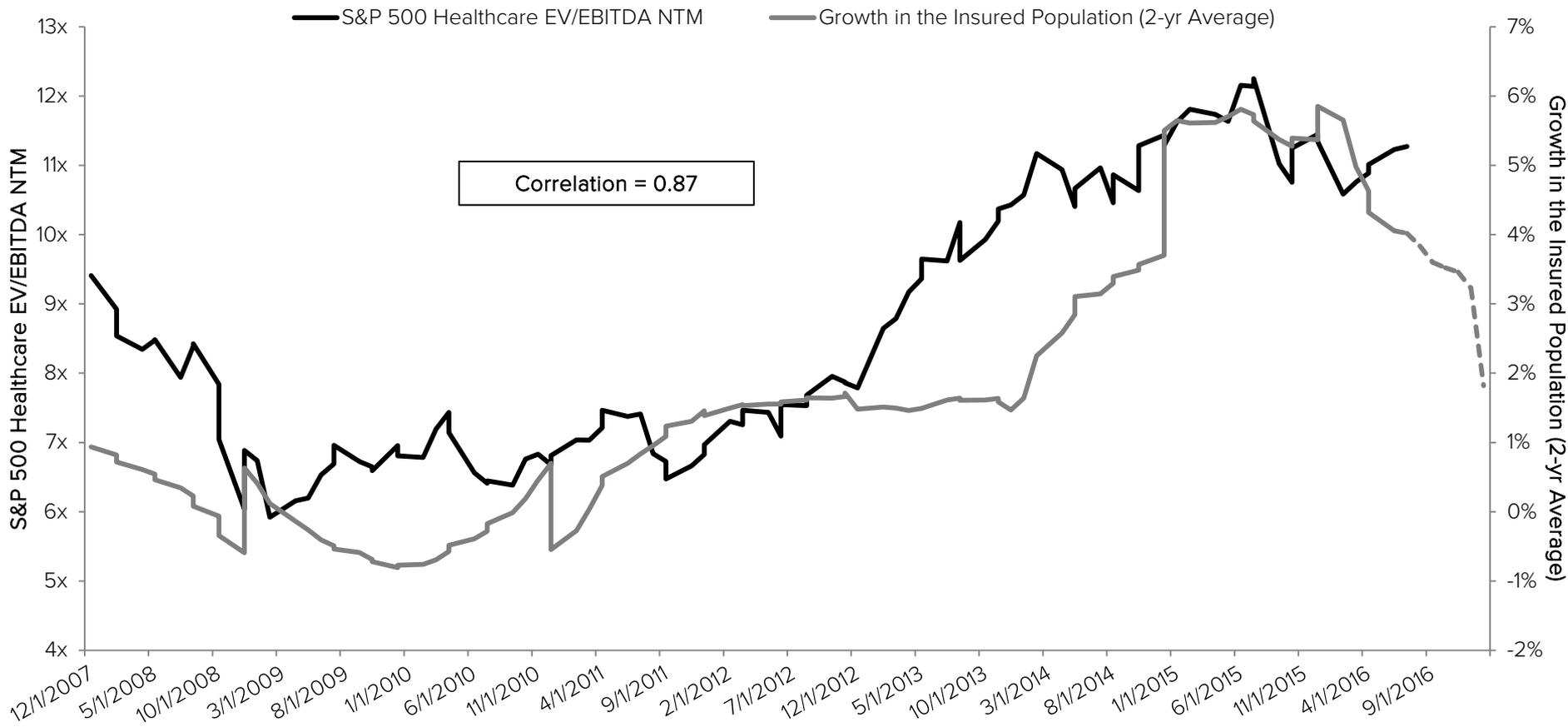
3

## REGULATION / #ACATAPER

- New enrollees from exchanges and Medicaid expansion was a one-time stimulus to the medical economy.
- ACA reforms will continue to put pressure on healthcare inflation.

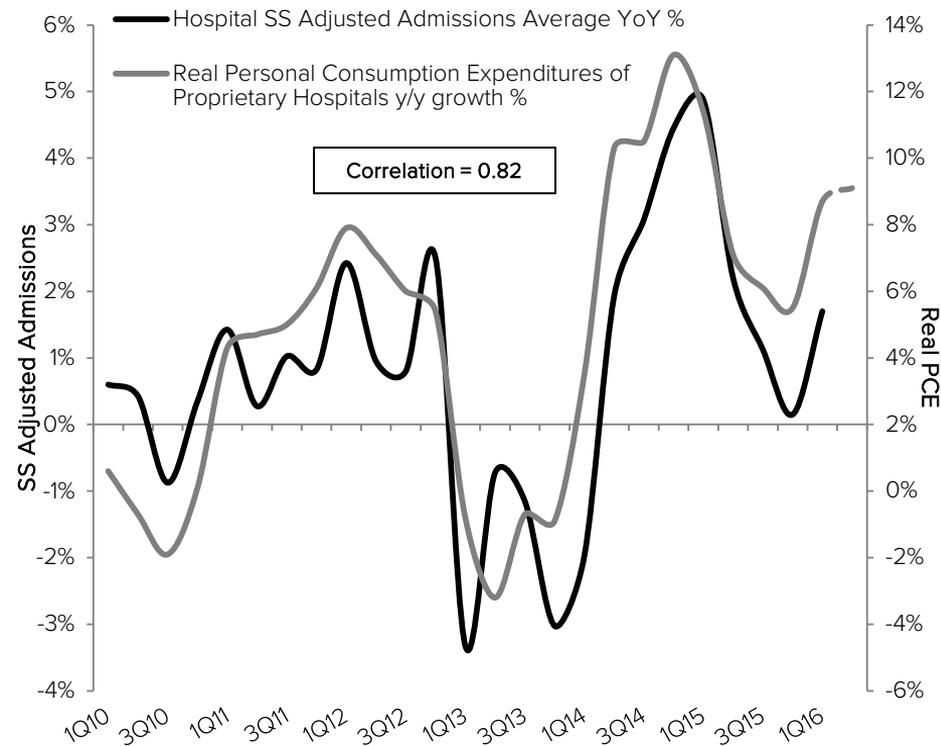
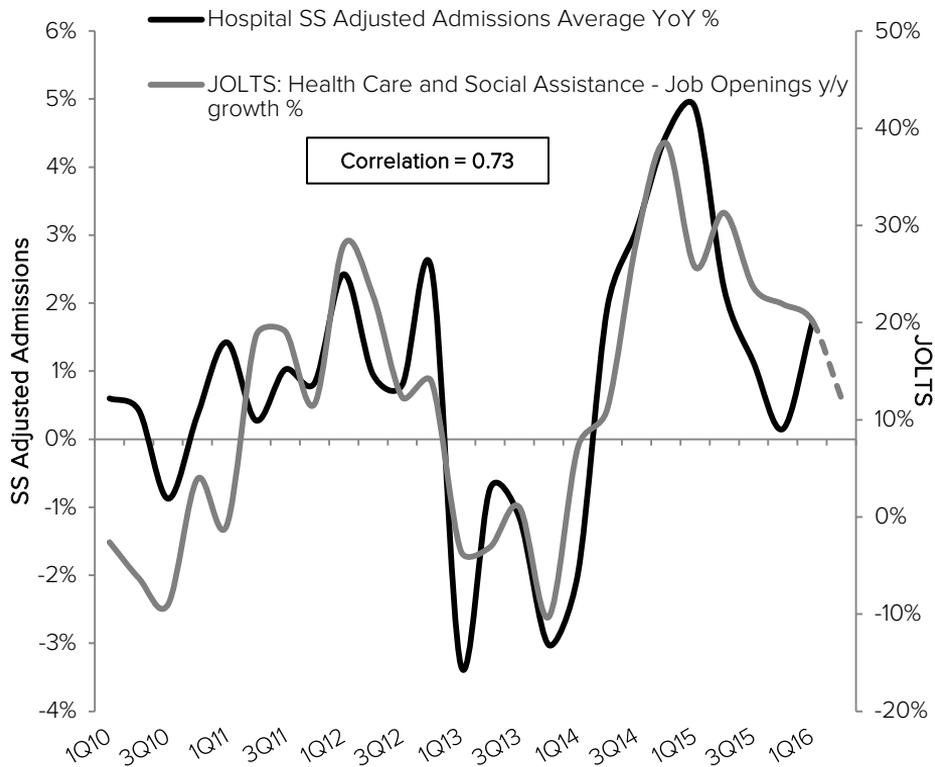


# INSURED POPULATION GROWTH



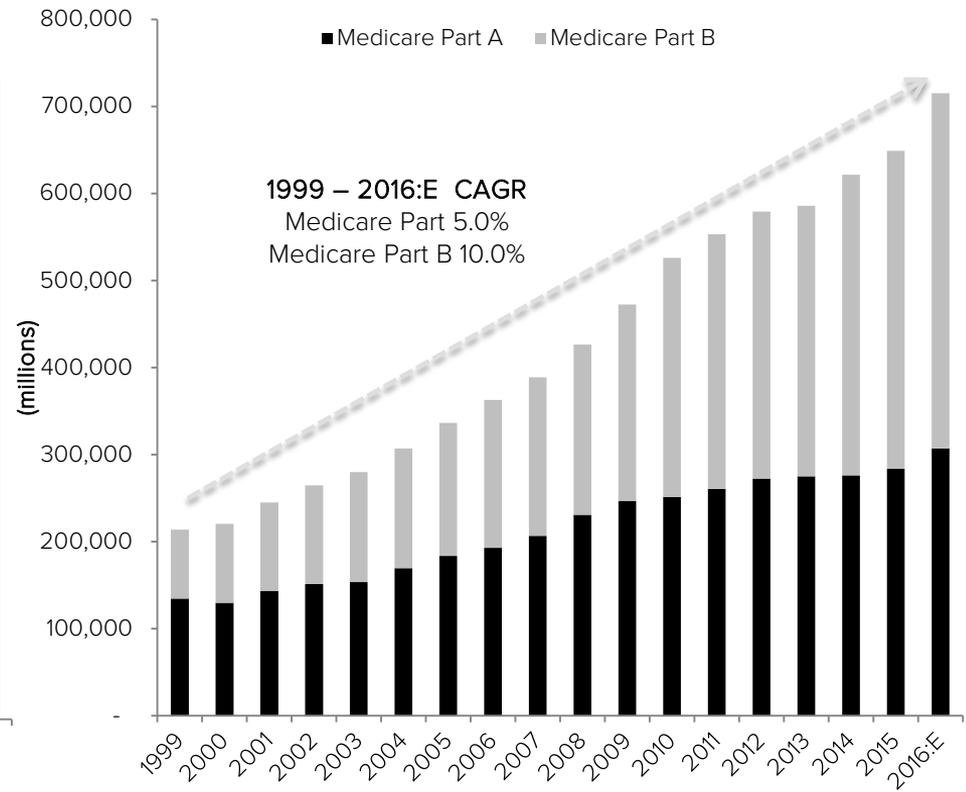
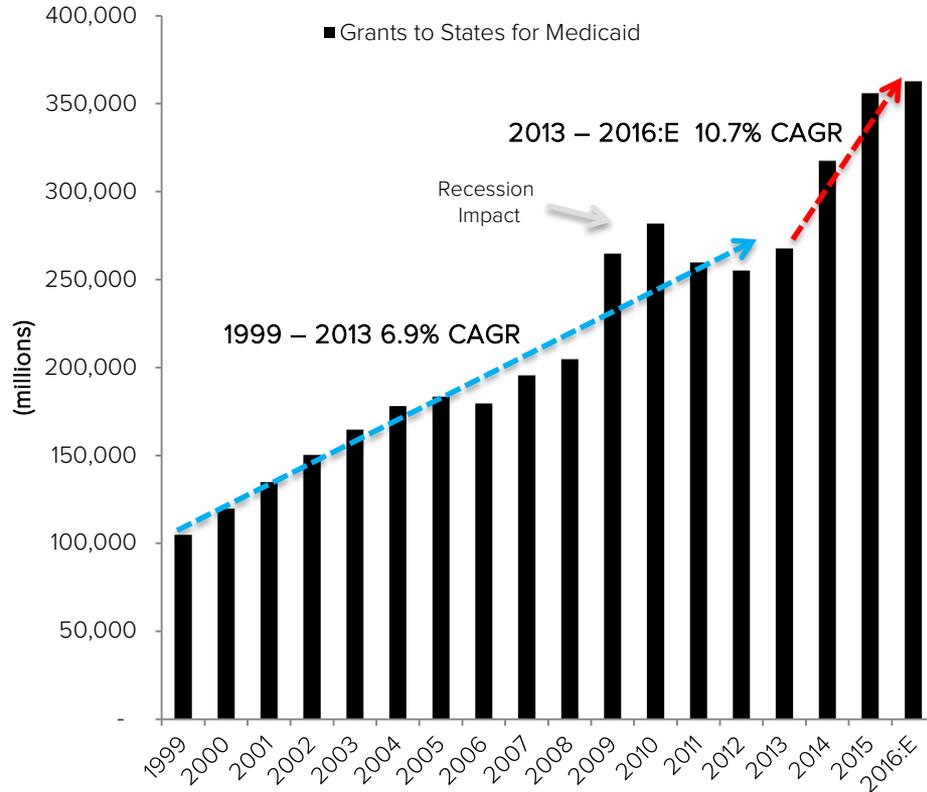
# UTILIZATION AND EMPLOYMENT

## INCREASE IN HIRING TO MEET NEW DEMAND

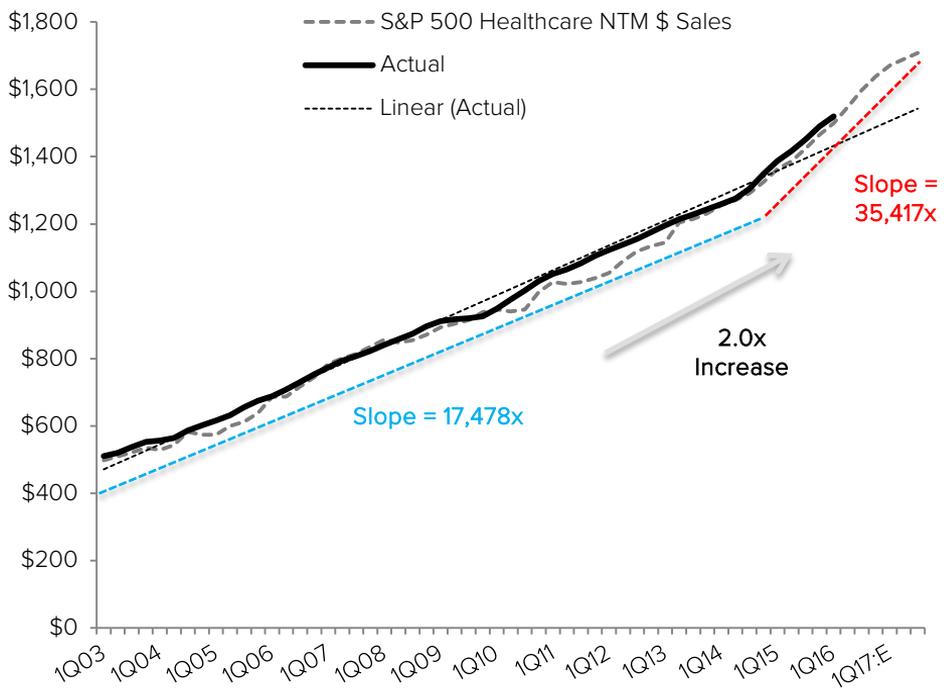
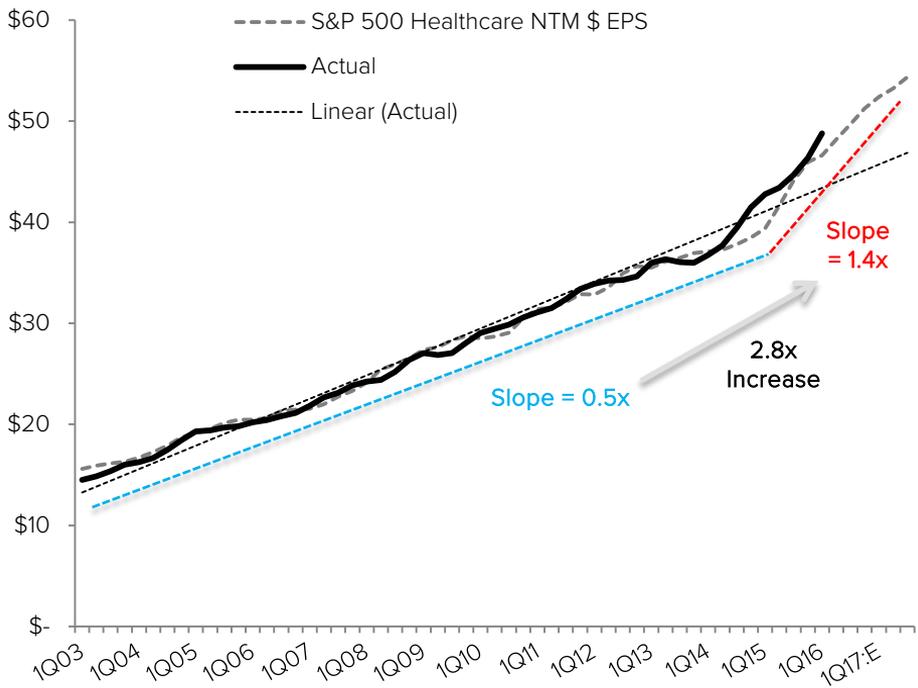


# FEDERAL GOVERNMENT OUTLAYS

## 2013-2015 FASTEST GROWTH IN MEDICAID EX-RECESSION



# ABSOLUTE SALES AND EPS ESTIMATES

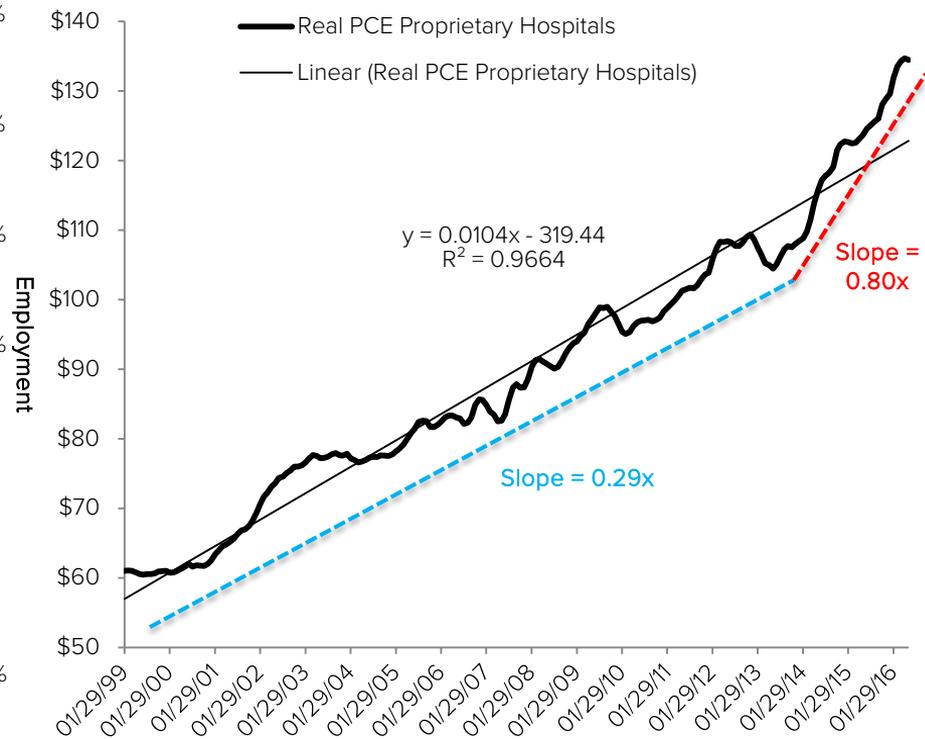
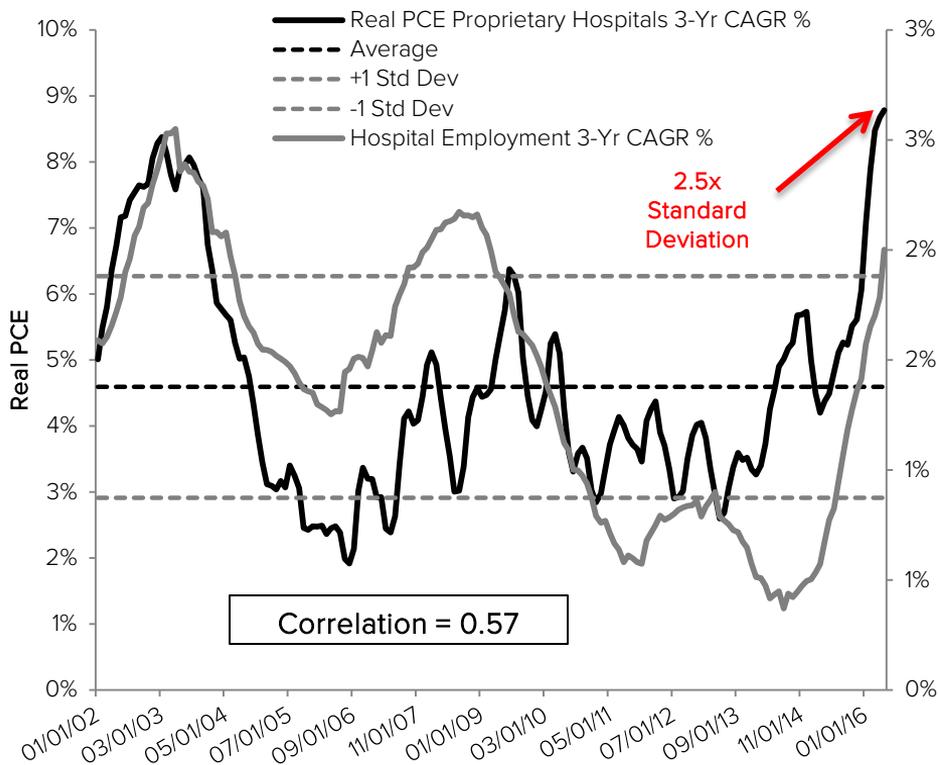


## CONSENSUS DEVIATING FROM LONG-TERM TREND

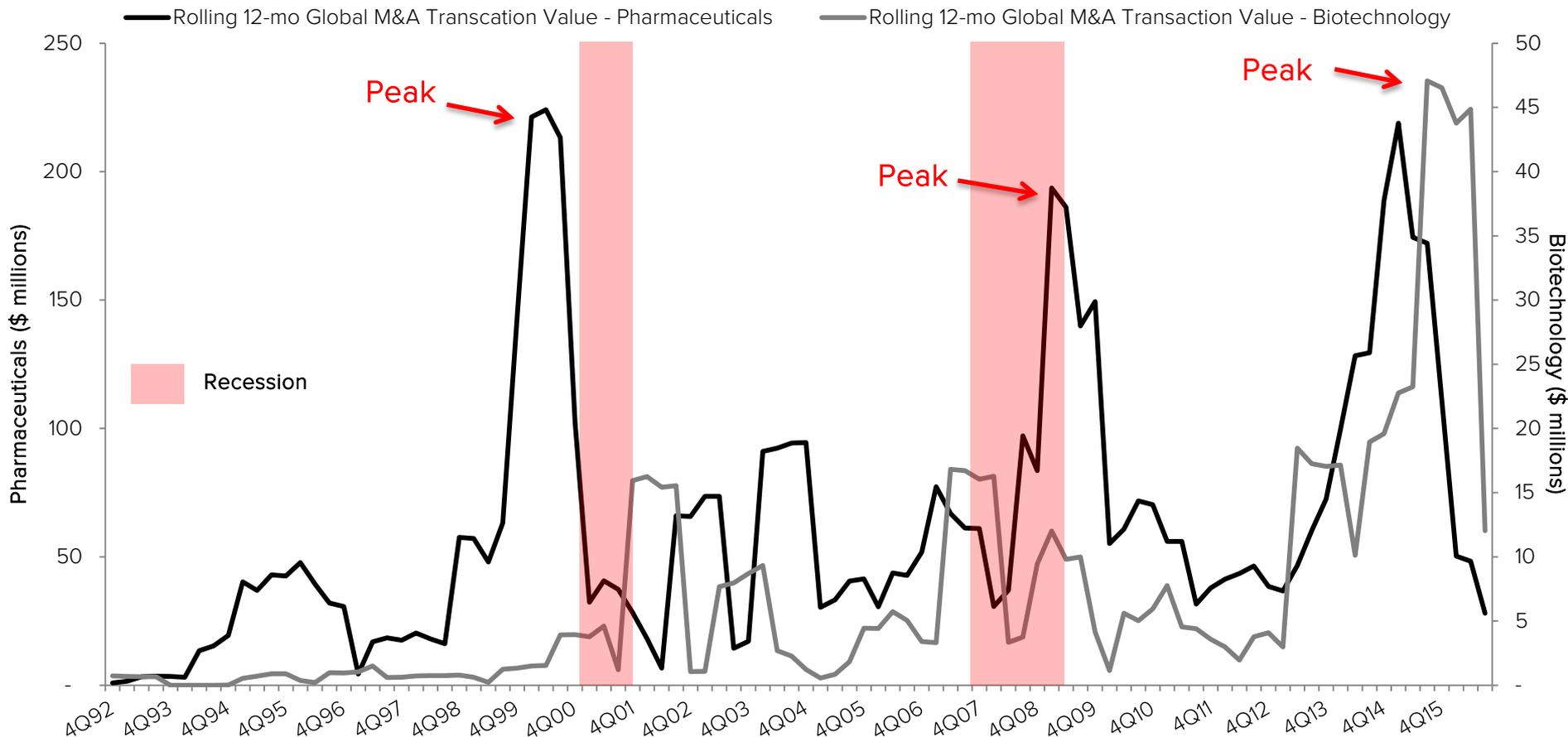
Reasonable given level of M&A and Stimulus.... but likely to mean revert amid slowing growth. Rate of change significant with slope increase 2.0x for Sales and 2.8x for EPS (> Sales due to operating leverage).

# REAL PCE PROPRIETARY HOSPITALS

## REAL PCE GROWTH ACCELERATED WITH NEWLY INSURED



# M&A IS LATE CYCLE



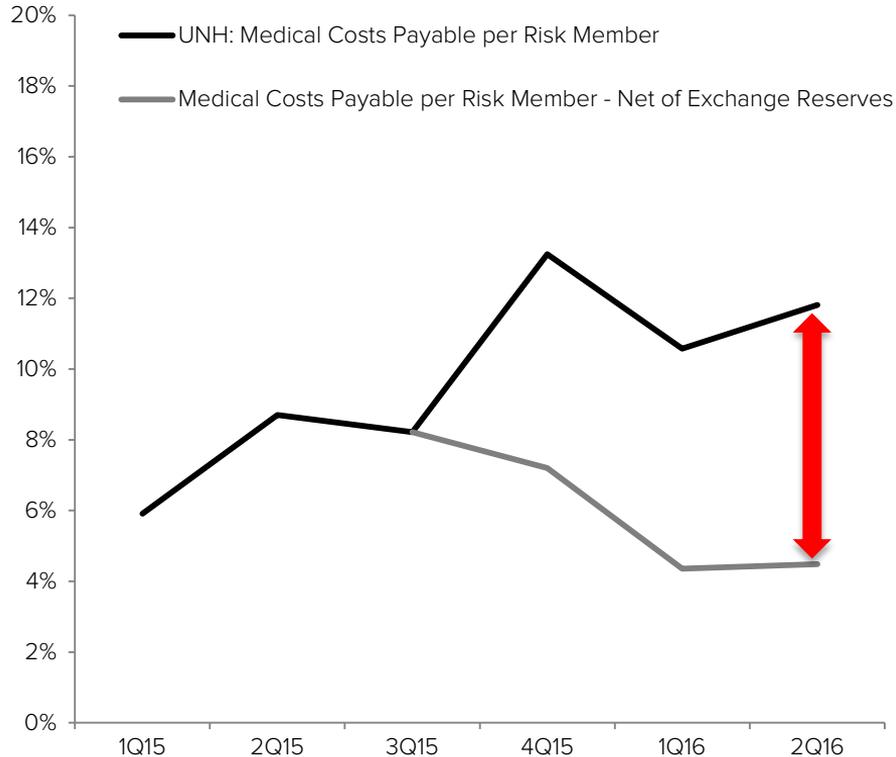
*Johnson & Johnson*

 UnitedHealthcare

**CONFIRMING THE TREND?**

# #ACATAPER IN EARNINGS REPORTS

## UNH 2Q16 Earnings Results



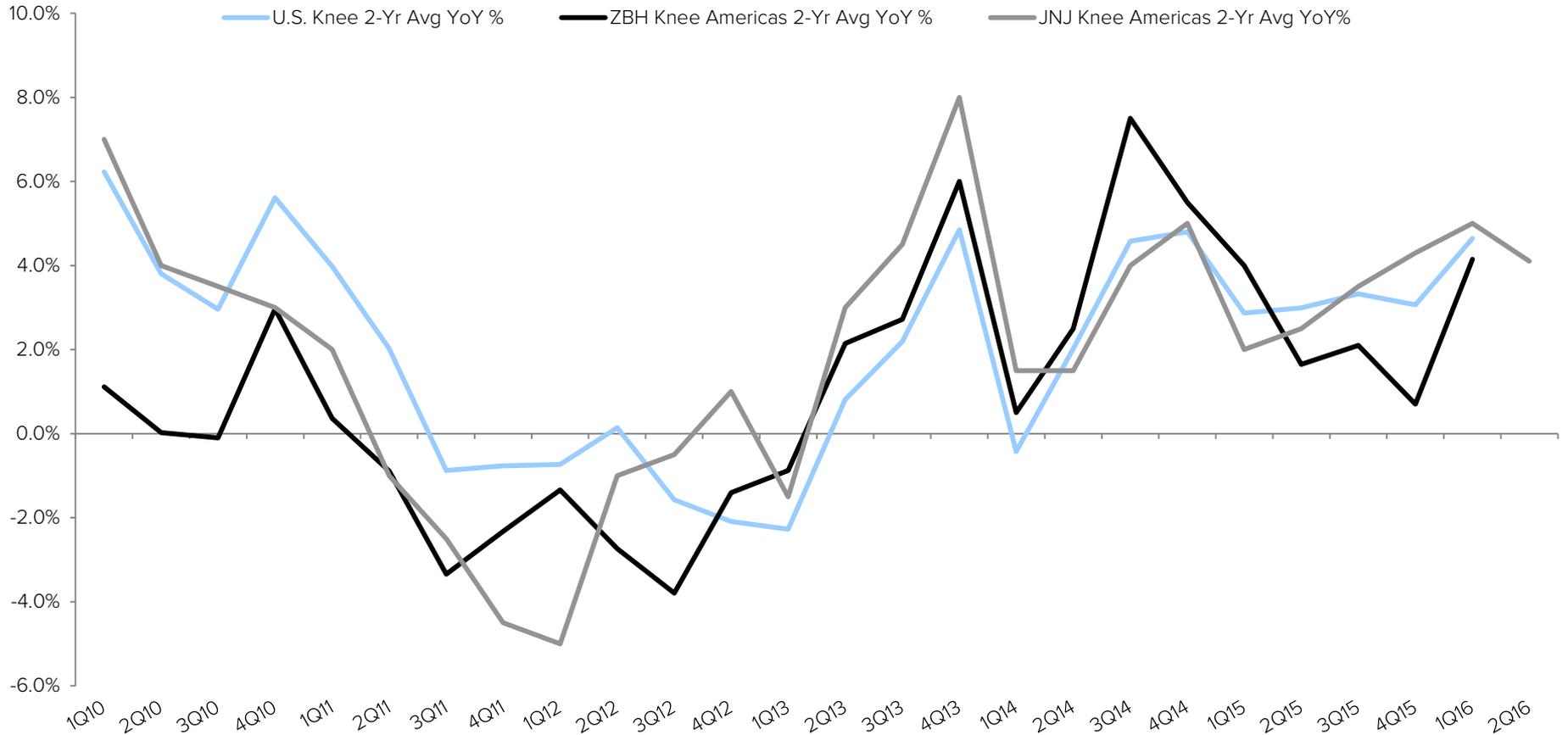
## JNJ 2Q16 Earnings Call

Q: “Could comment a little bit or Dominic on what you're seeing, you know, procedure, volume in the US, in Ortho and Medtech, that would be great. Thank you.

A: “We are seeing a pickup in terms of hospital admissions and surgical procedures. **I think hospital admissions are up around 3%. We think the procedures are up around 3 1/2%.**

**We continue to see some decrease overall in office physician visits, down a couple percent.** We think that's just due to, you know, a more moderated utilization at the front end due to **increased copays** and a number of other dynamics. But overall, if we look at the core growth rate in the medical, hospital, device area, you know, we're encouraged by some of the recent trends that we're seeing.”

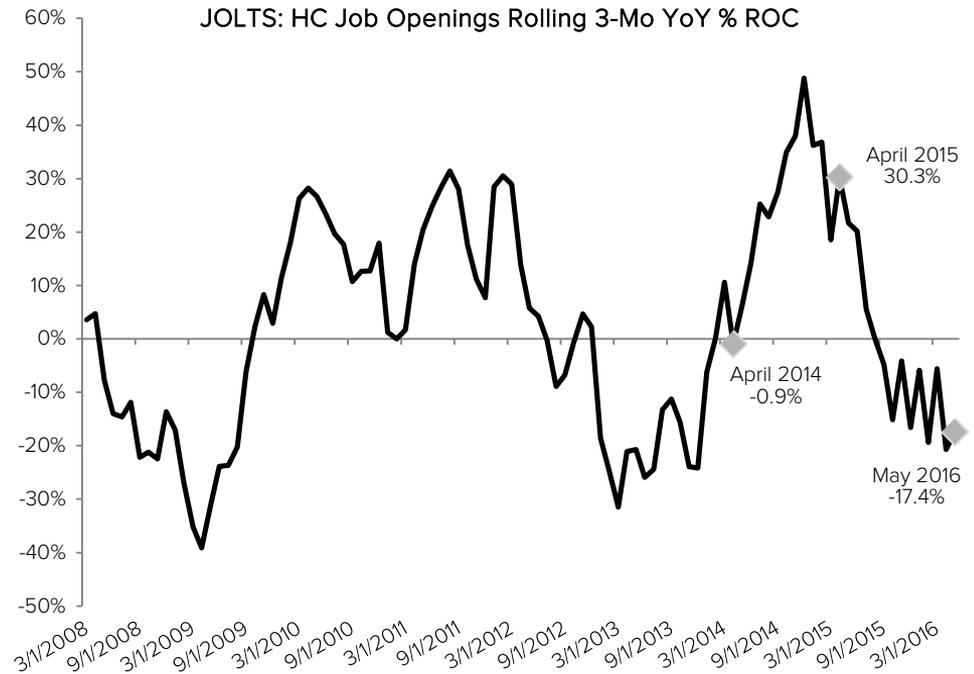
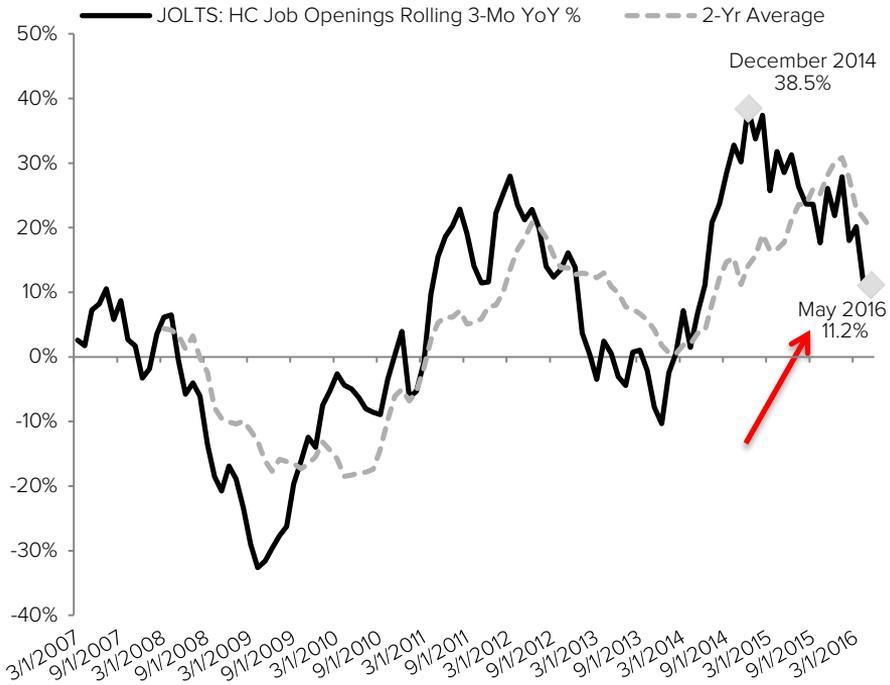
# U.S. KNEE MARKET GROWTH





**IT'S ALL ABOUT THE Q3 GUIDE...**

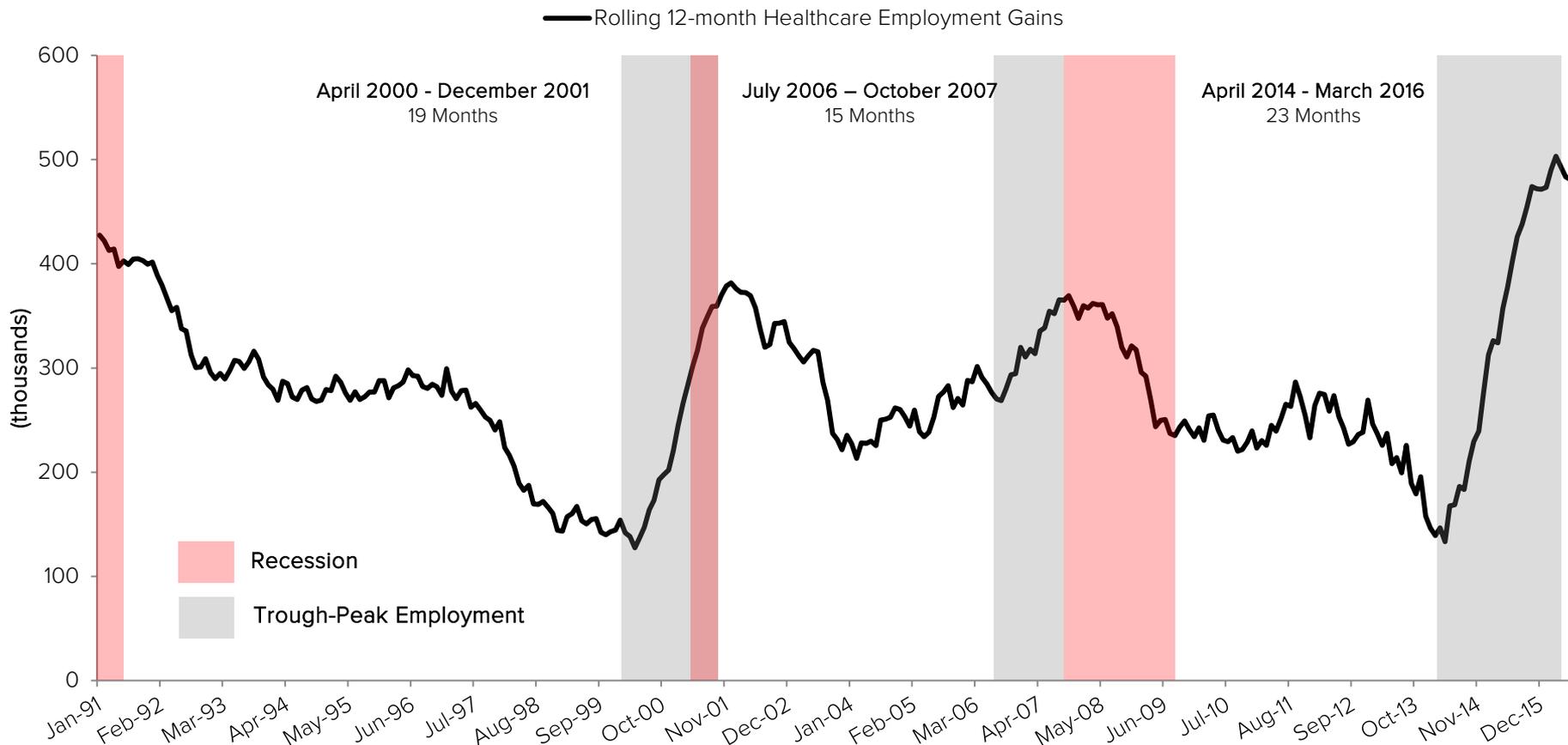
# HEALTHCARE JOB OPENINGS (JOLTS)



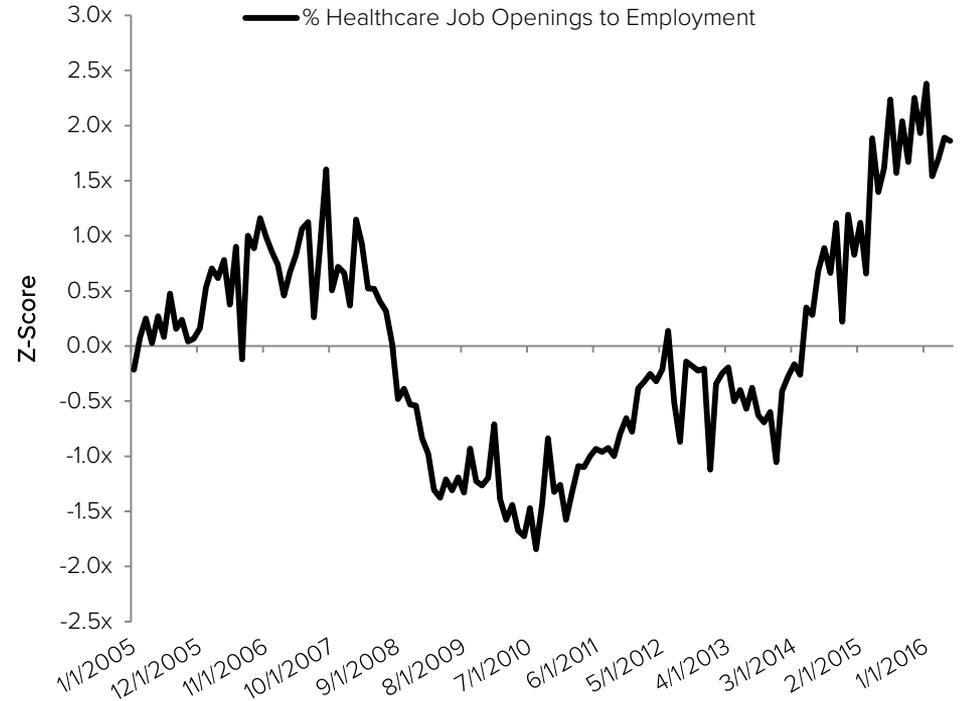
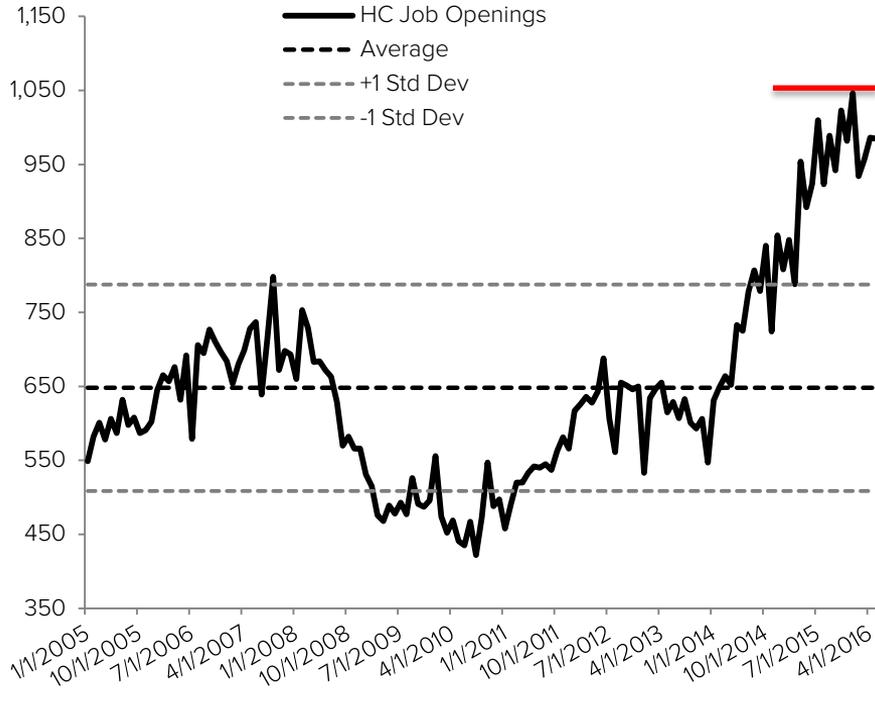
## HEALTHCARE JOB OPENINGS SLOWING...

After peaking in December 2014, Healthcare Job Openings posted the slowest growth in approximately 2-years. We expect growth to slow further as we comp out of stimulus.

# HEALTHCARE EMPLOYMENT GAINS



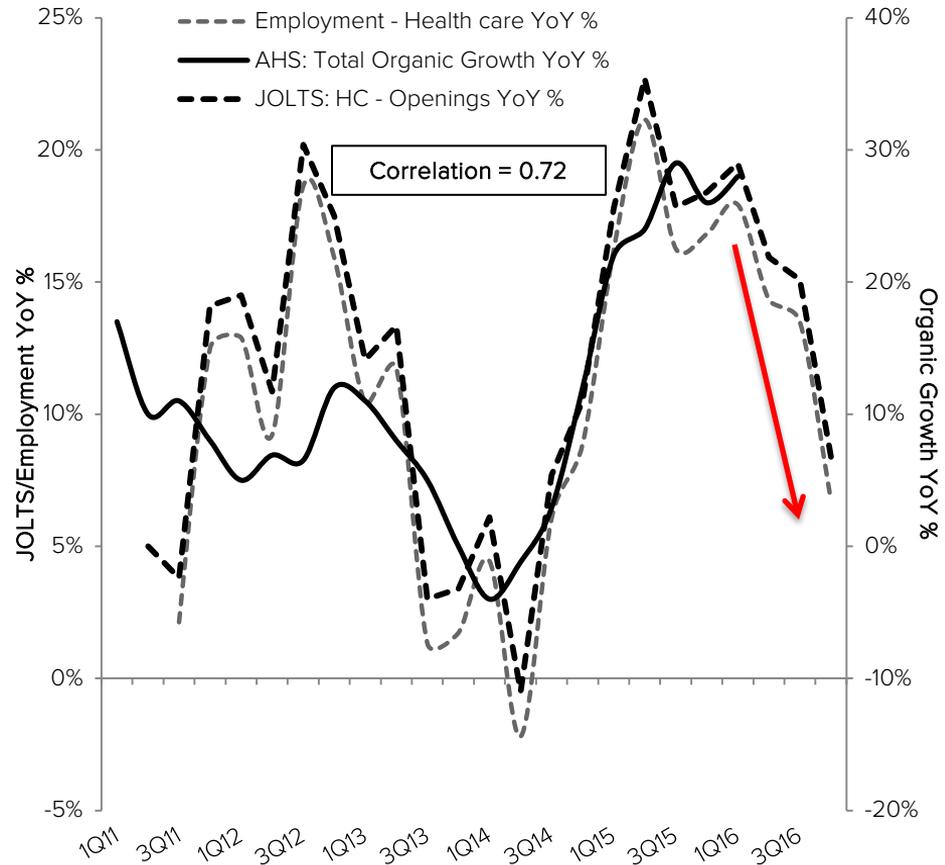
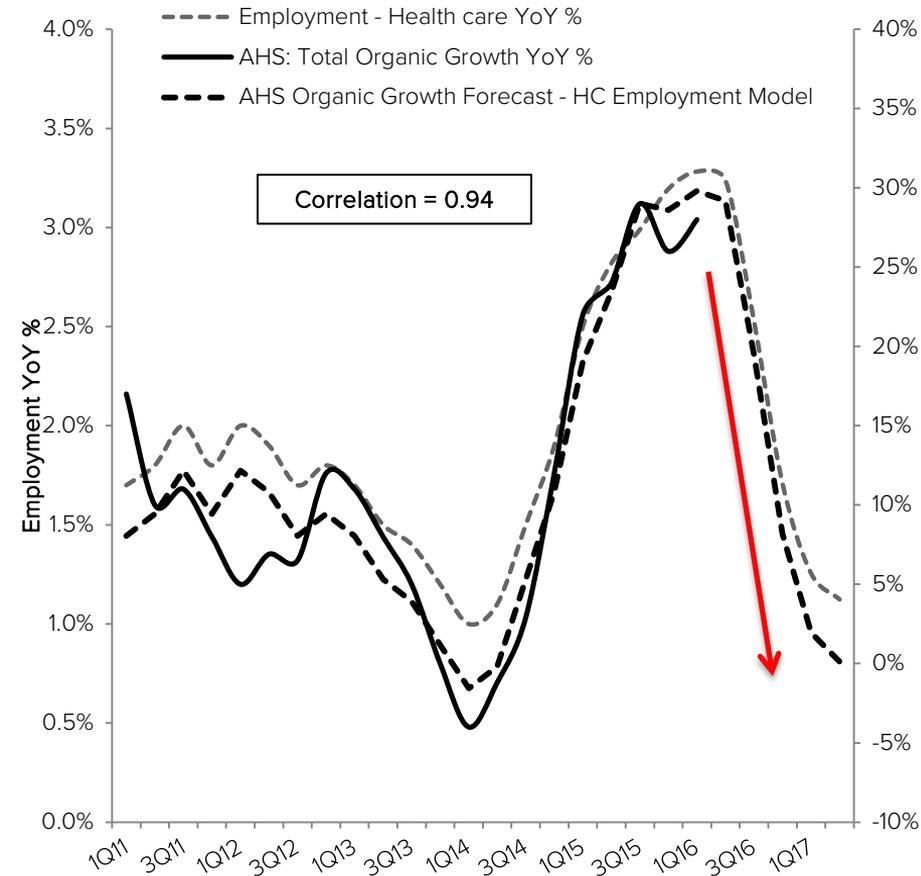
# HEALTHCARE JOB OPENINGS (JOLTS)



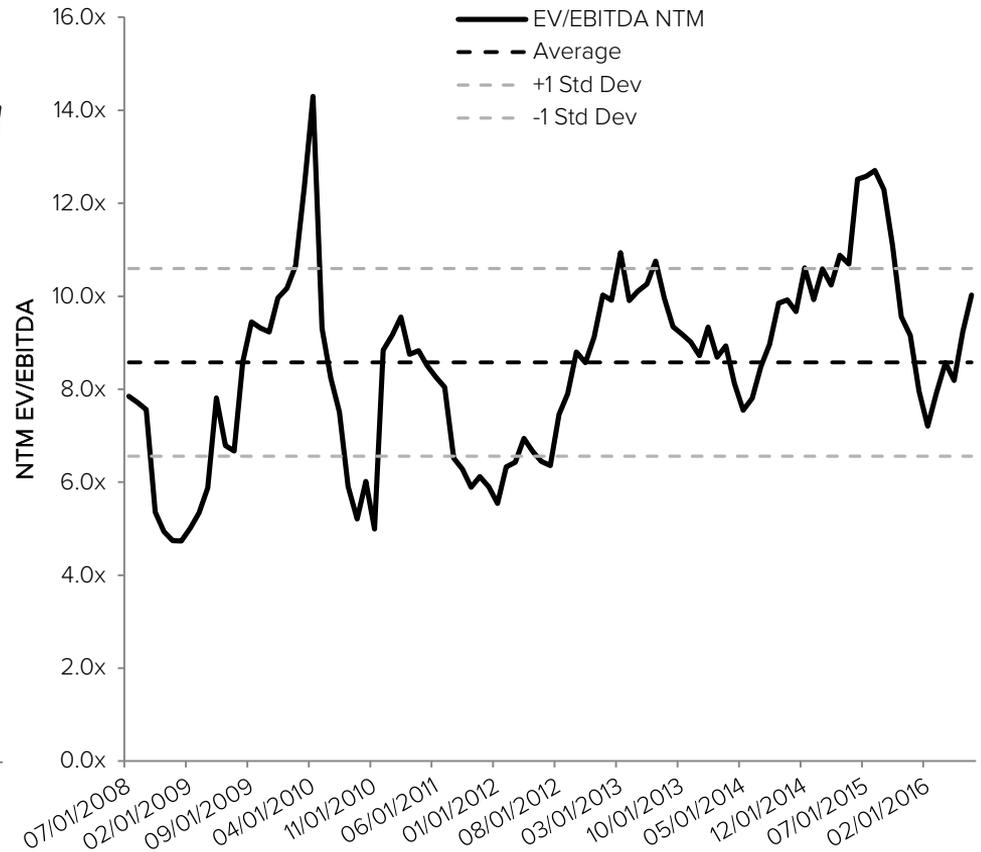
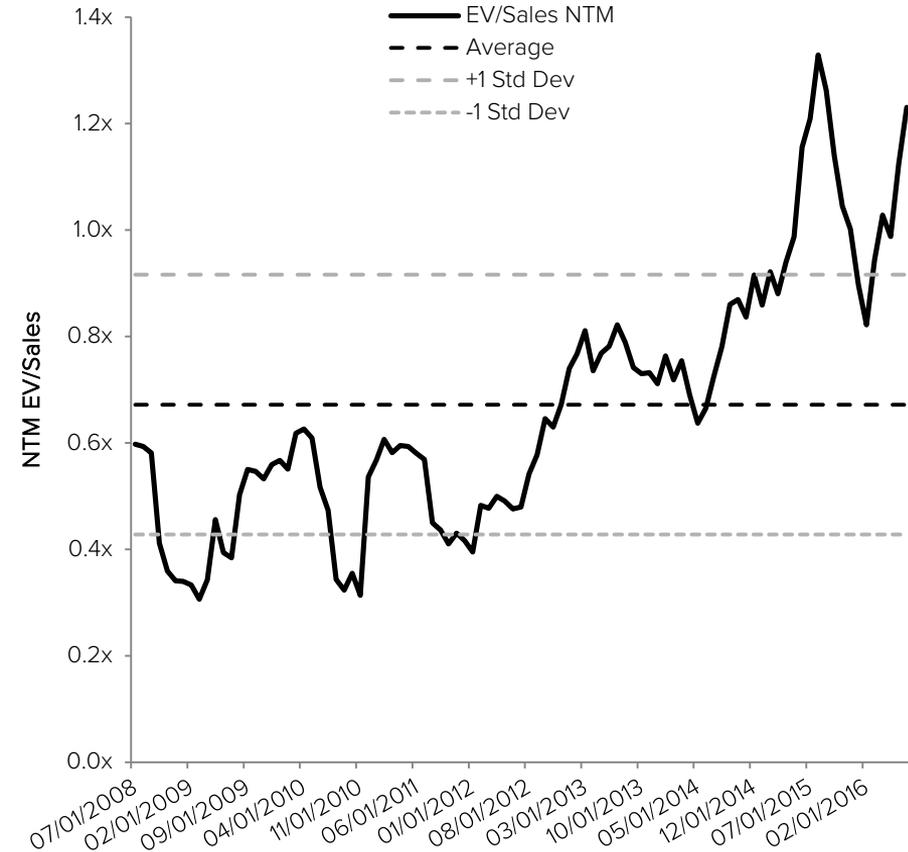
## HEALTHCARE JOB OPENINGS EXTENDED...

We have observed similar patterns across multiple metrics tied to medical consumption, enrollment, and employment suggesting that the Healthcare Economy is extended.

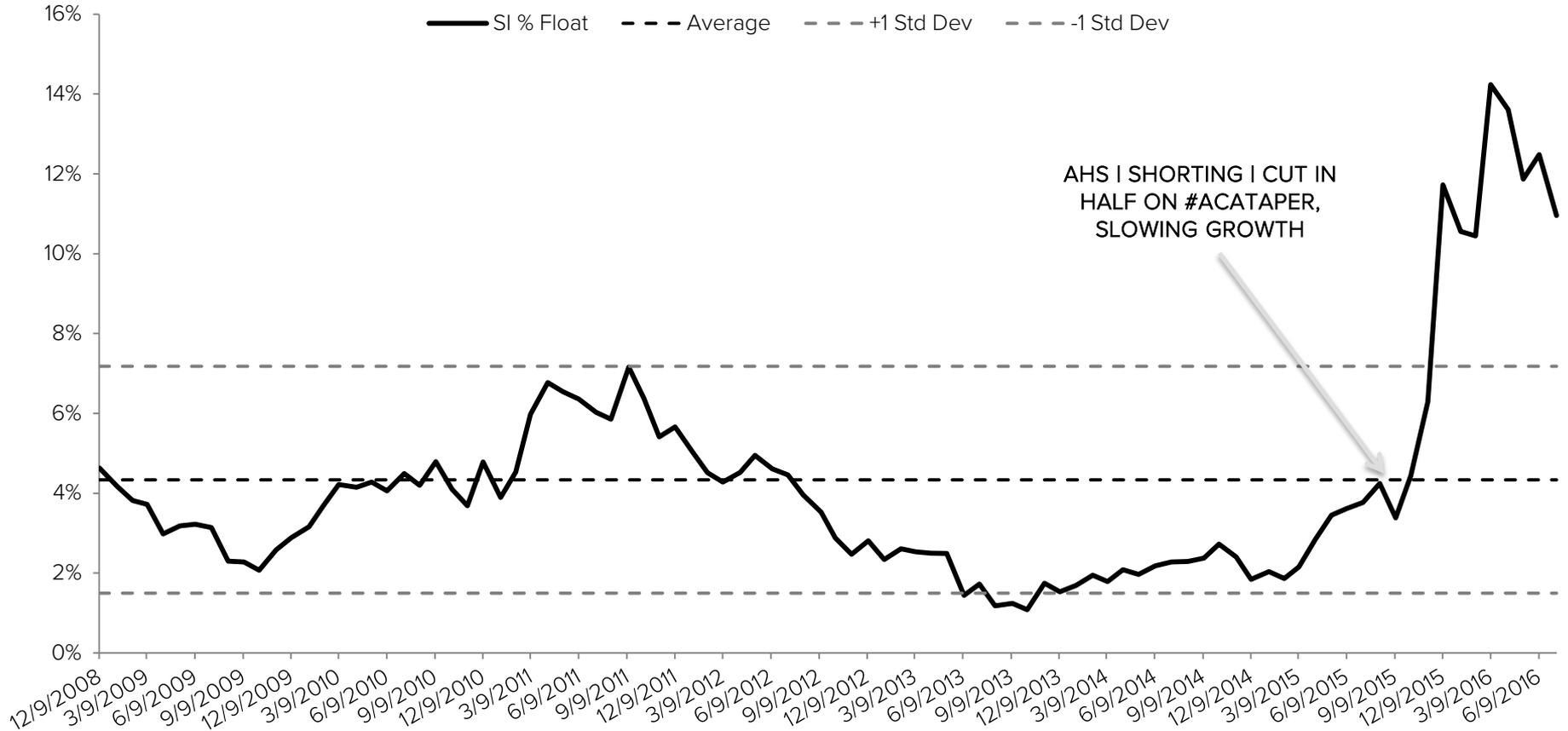
# AHS | ORGANIC GROWTH MODEL



# AHS | HISTORICAL MULTIPLE



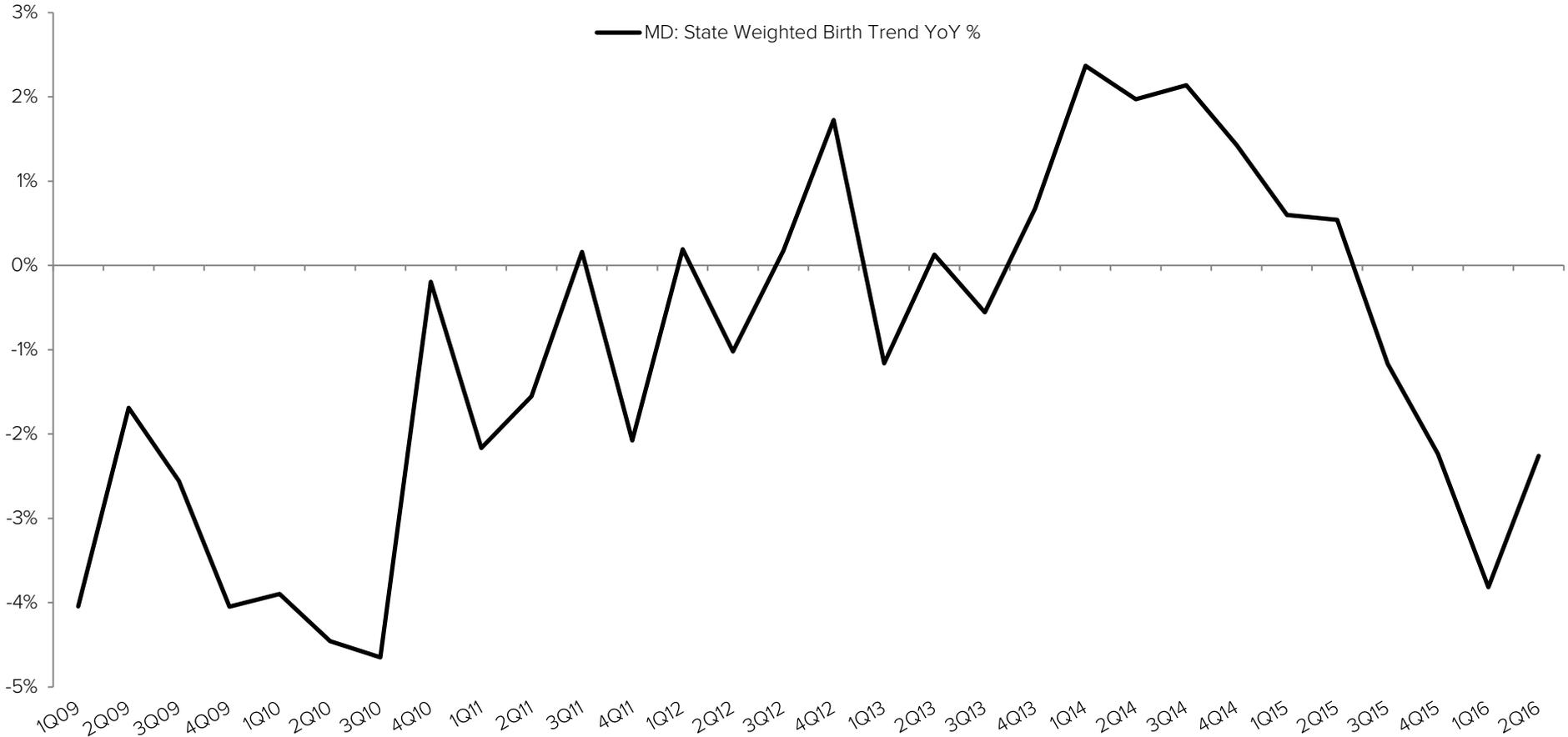
# AHS | HISTORICAL SHORT INTEREST



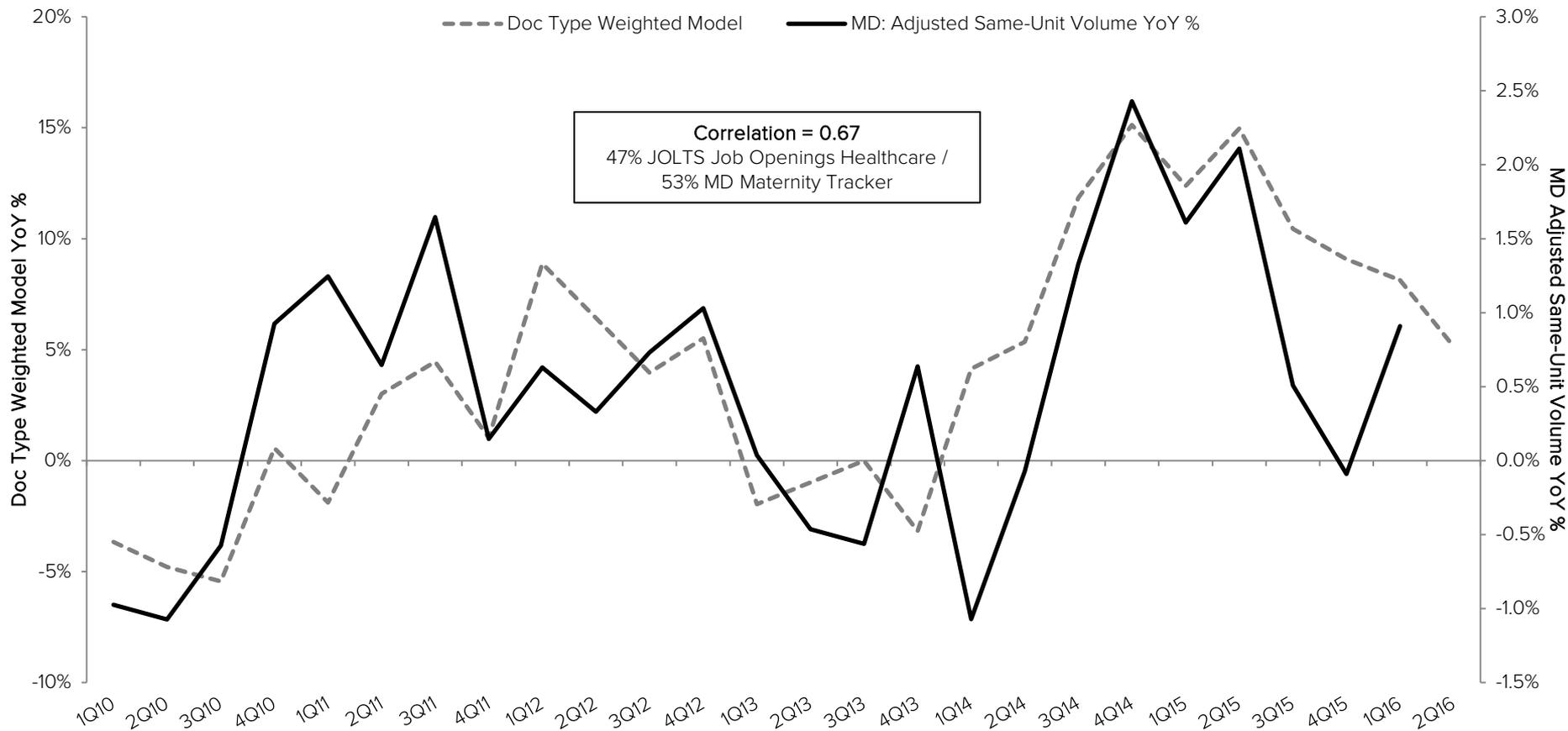


# MATERNITY TRACKER

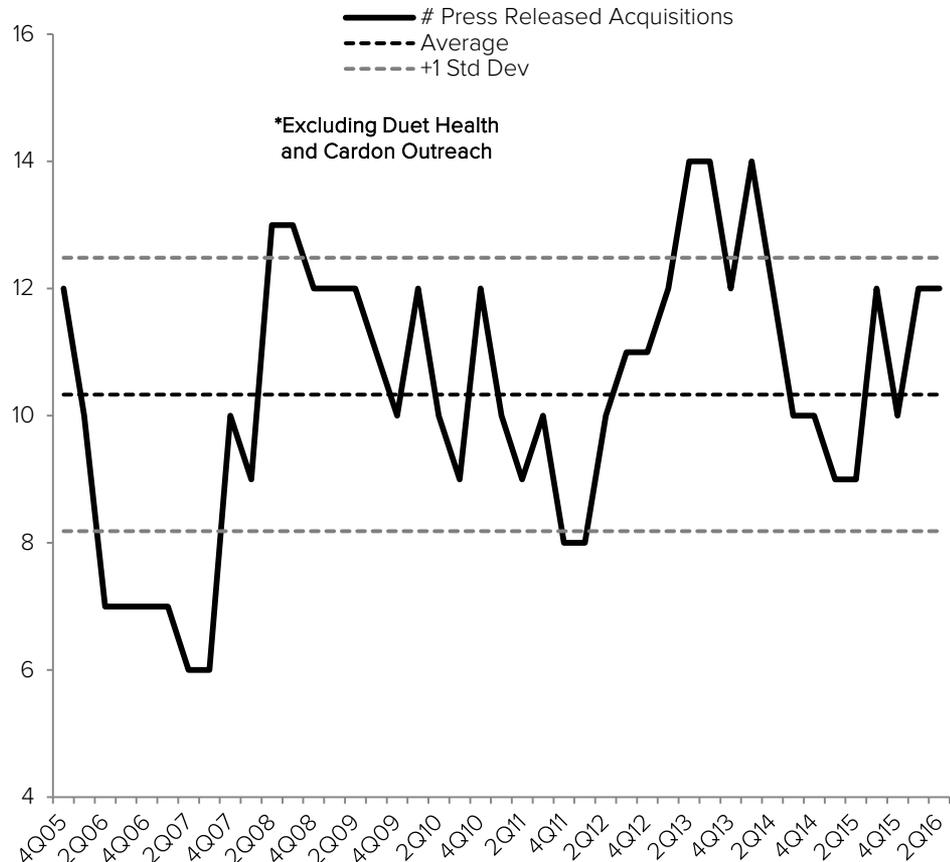
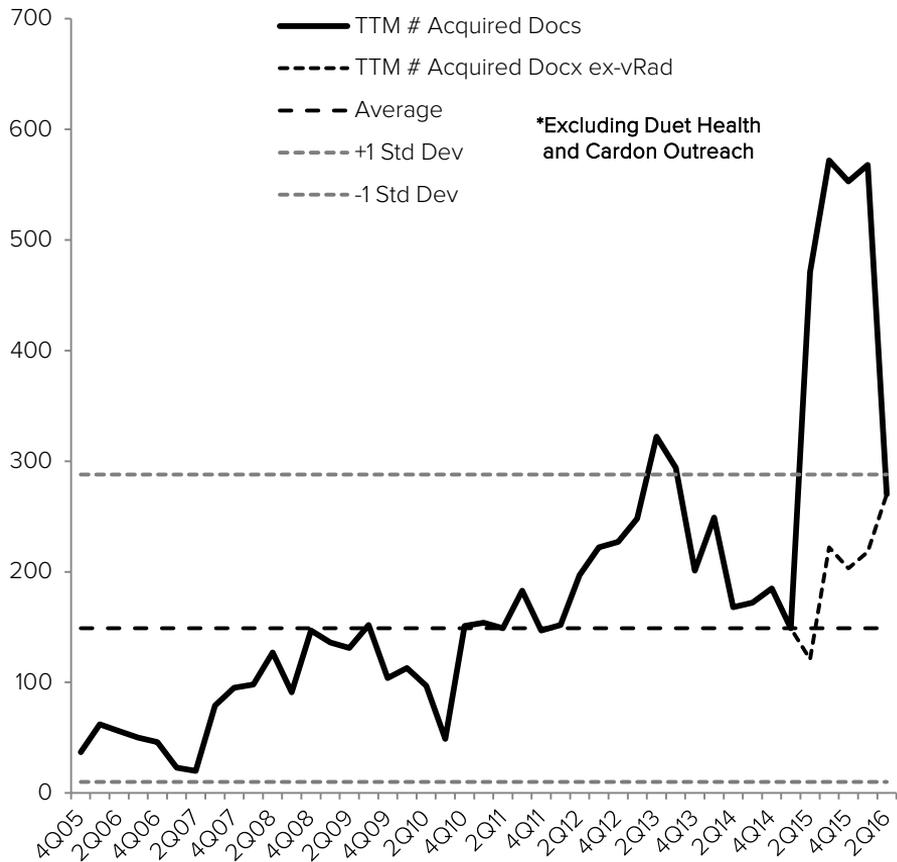
# MD | MATERNITY TRACKER



# MD | SAME-UNIT VOLUME

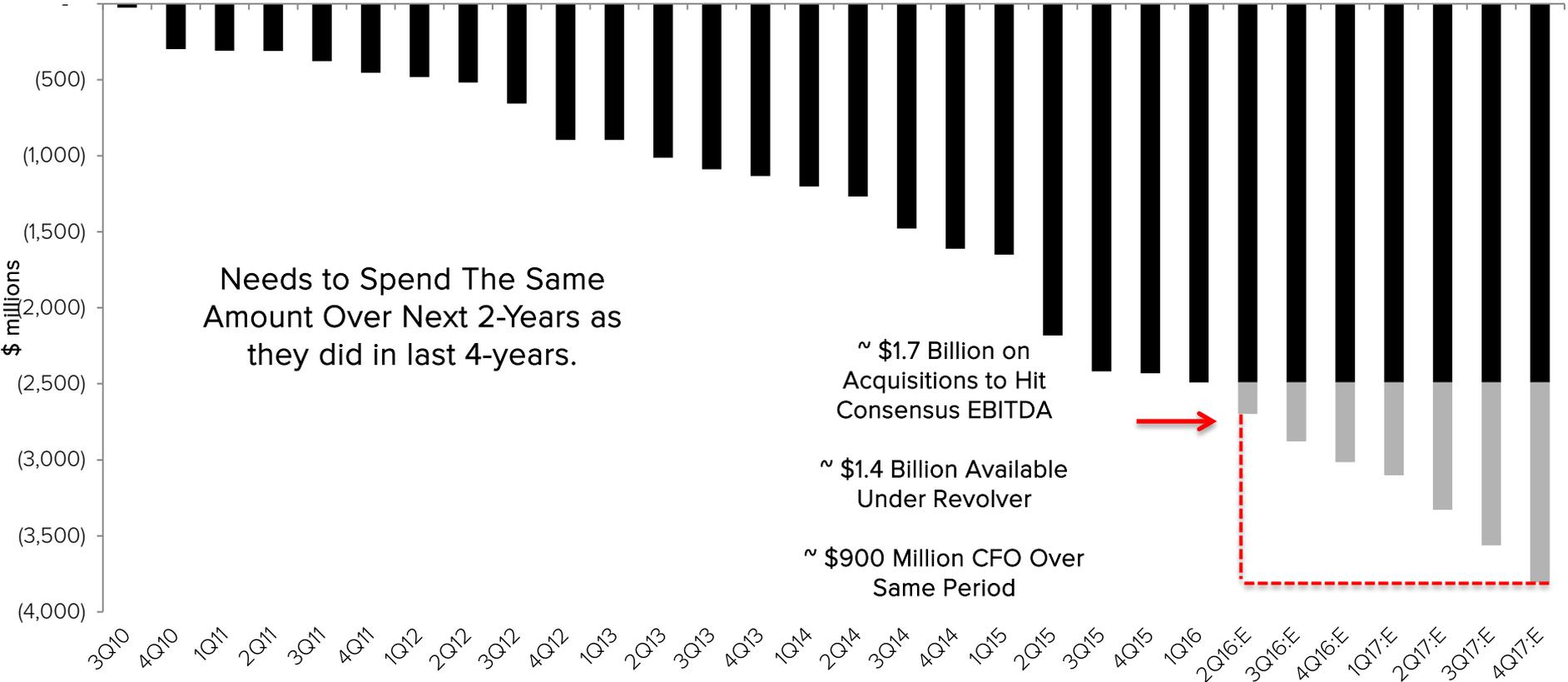


# MD | ANNOUNCED DEAL ACTIVITY



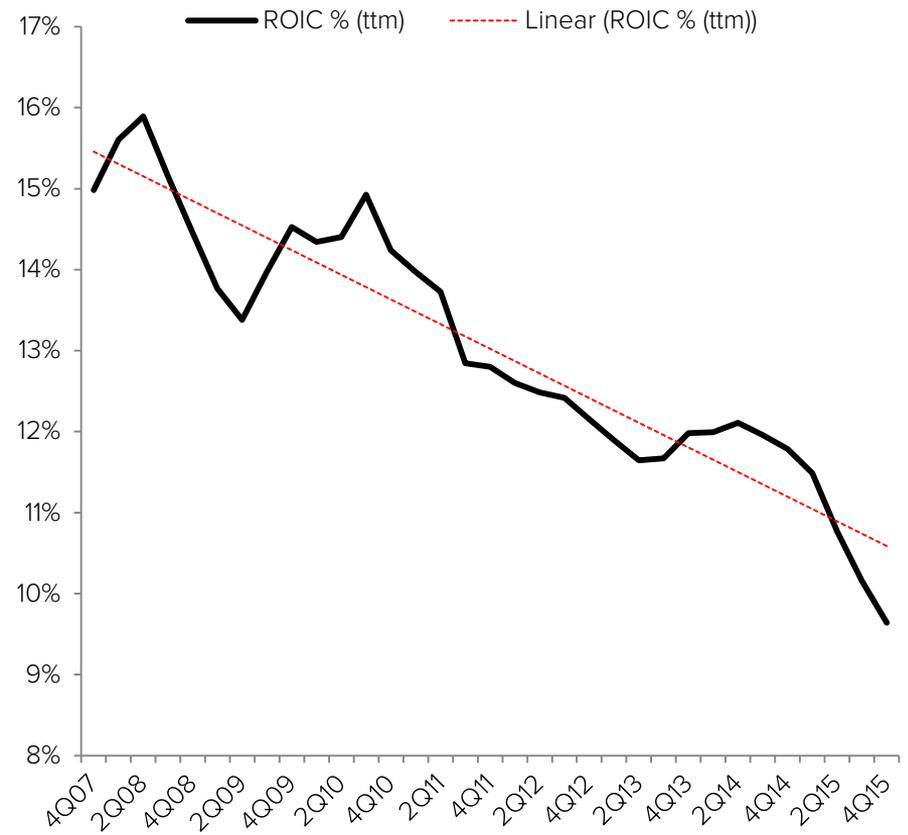
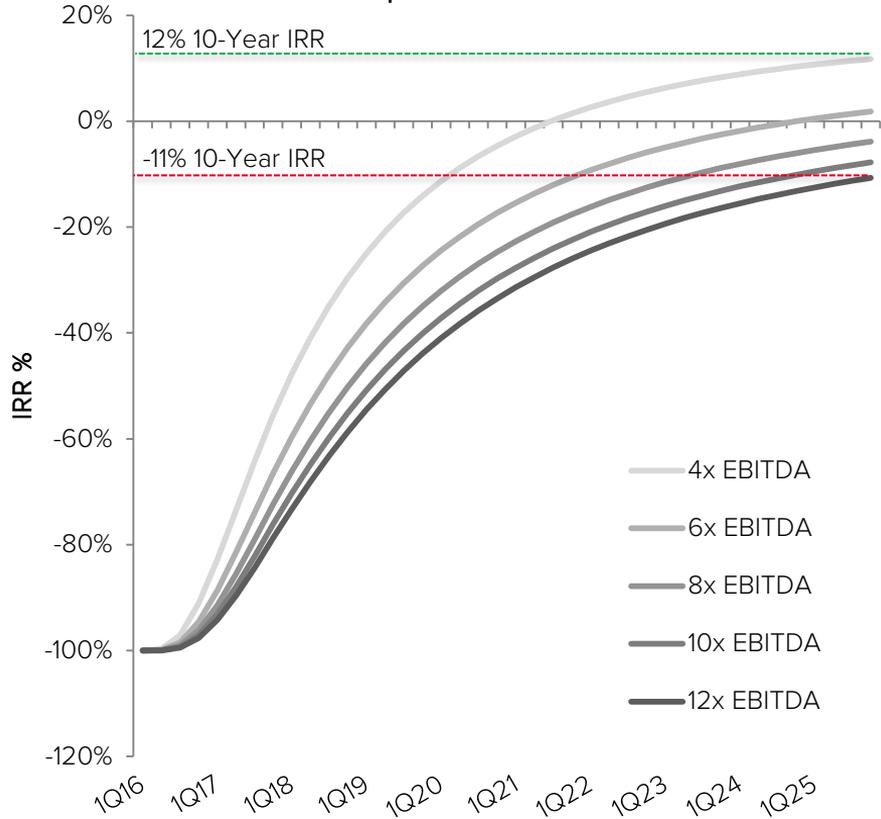
# MUST DOUBLE PACE OF ACQUISITIONS

■ Cumulative Acquisition Spend    ■ Acquisition Spend to Hit Consensus

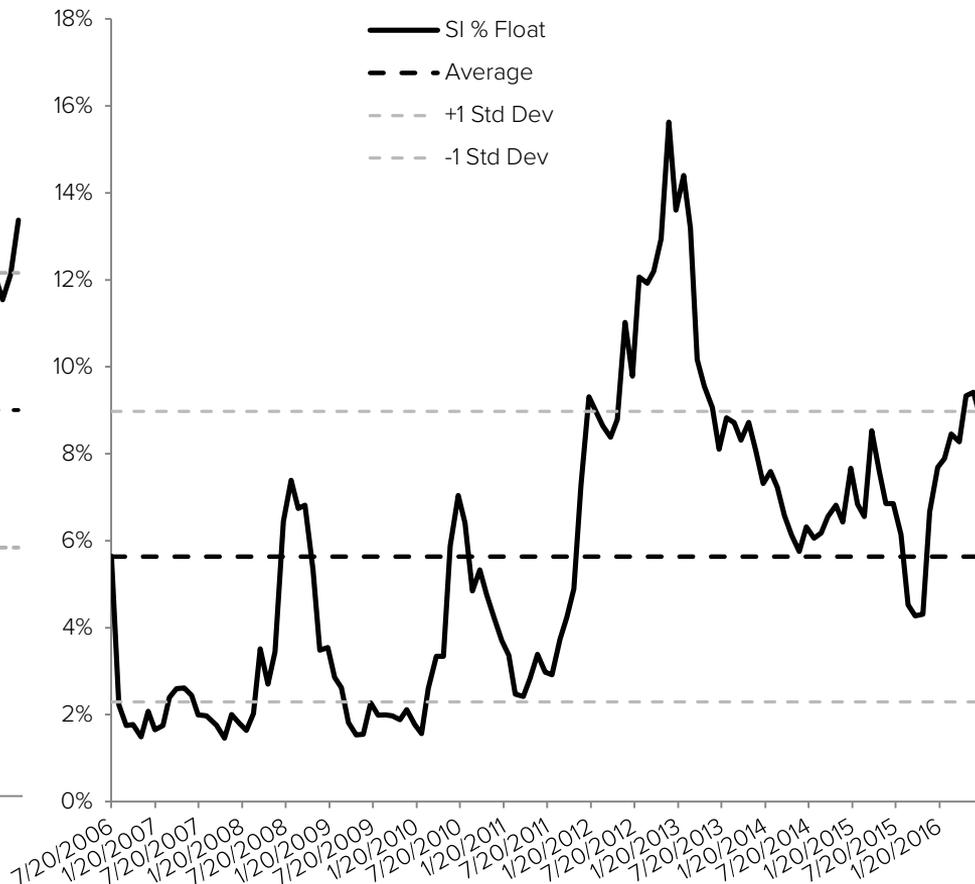
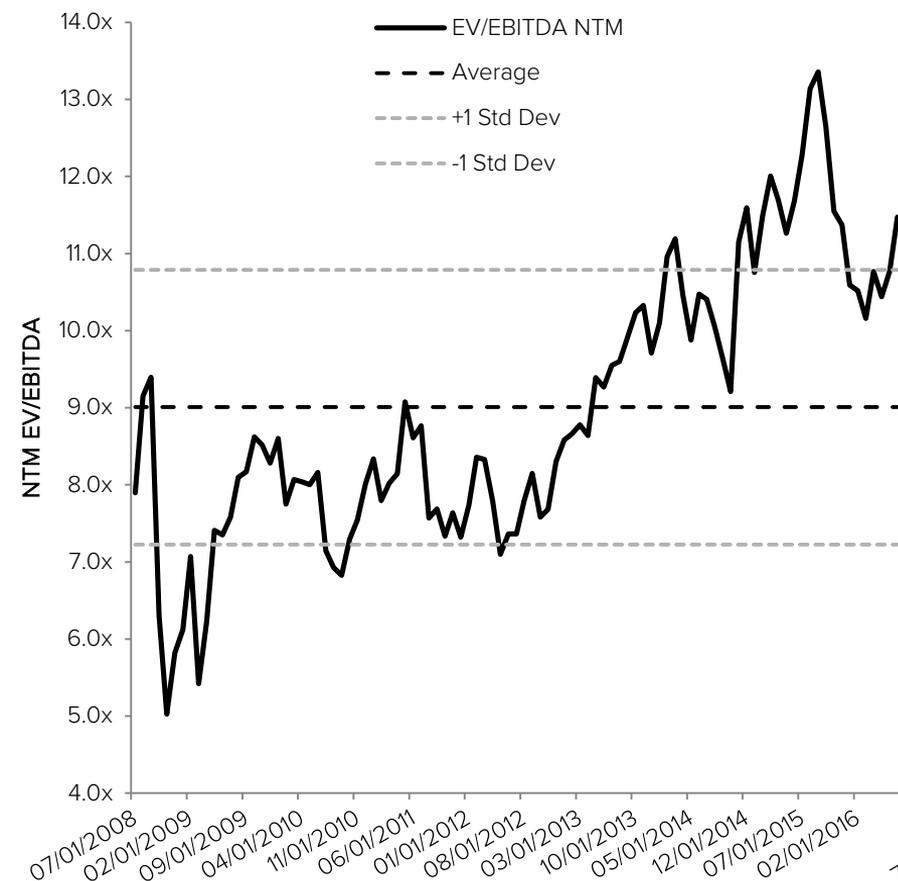


# DEAL MULTIPLE ▲ ROIC ▼

### Acquisition J-Curve



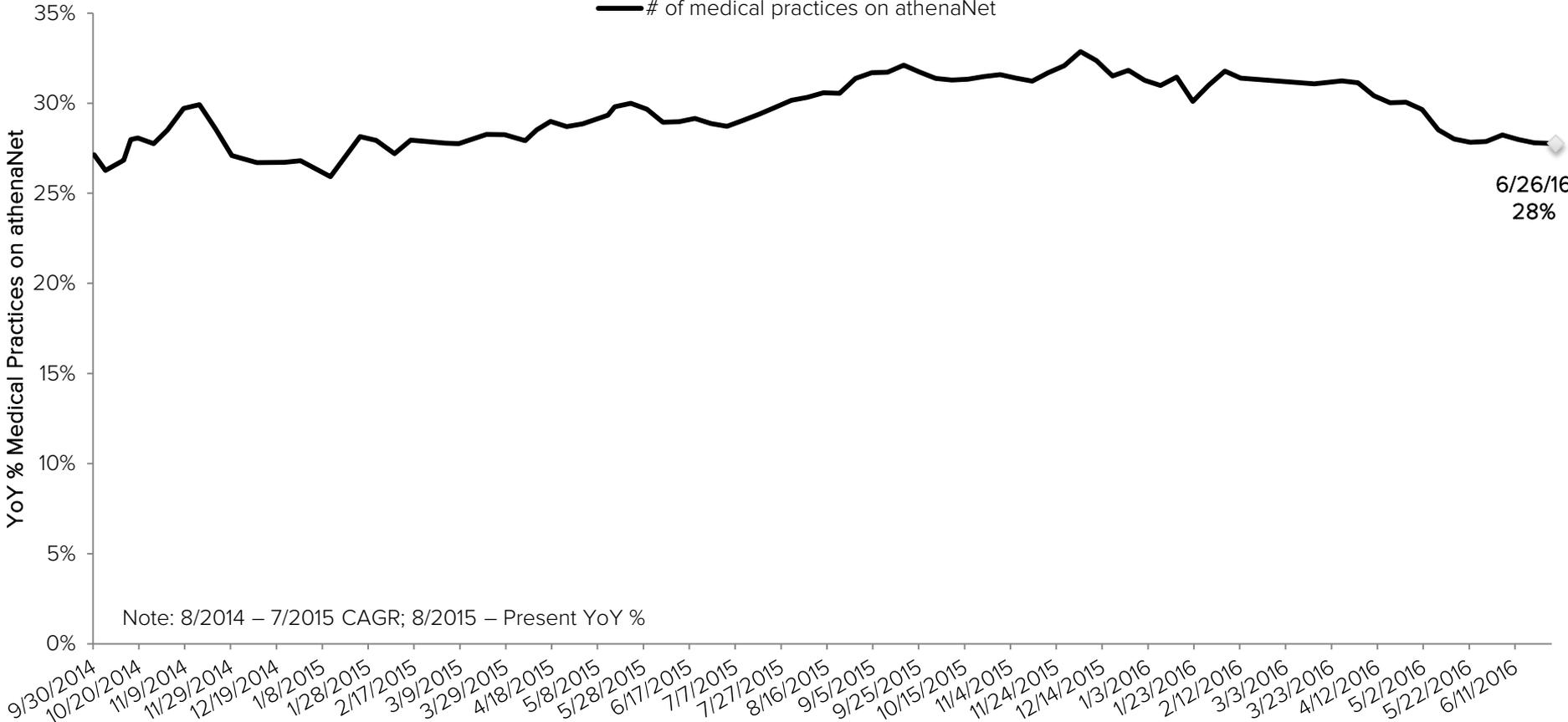
# MD | VALUATION AND SHORT INTEREST



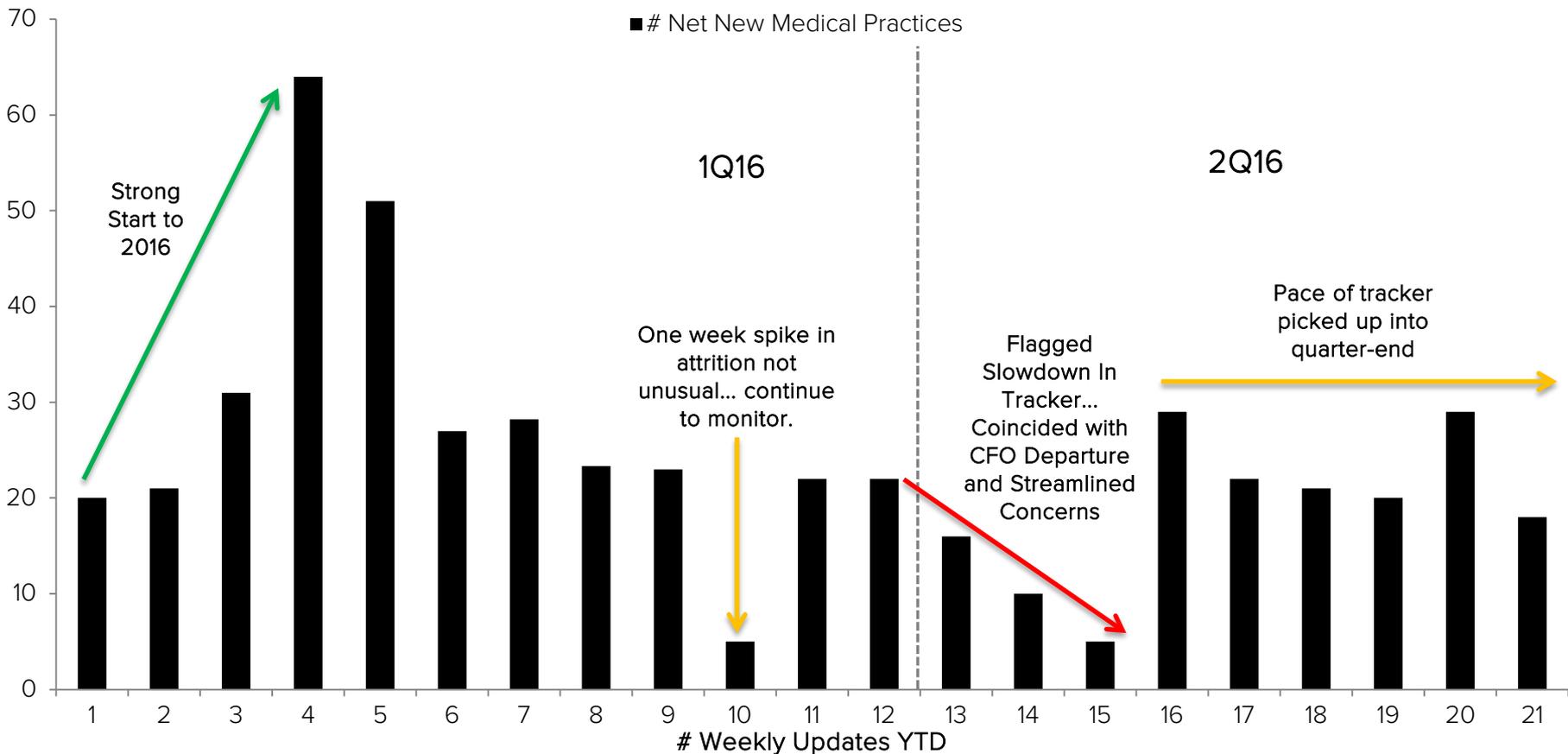


**TRACKER UPDATE**

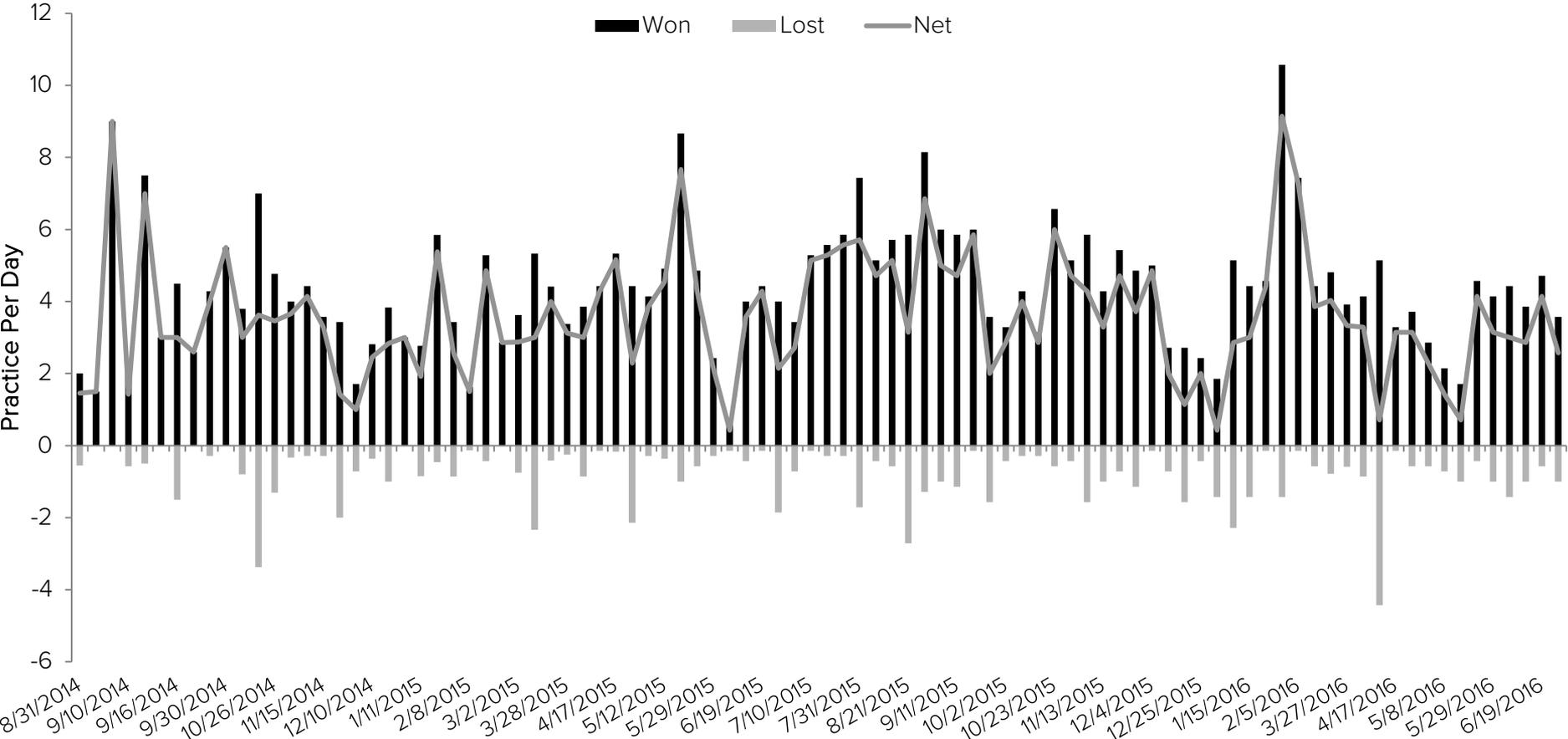
# ATHENA-TRACKER YOY GROWTH



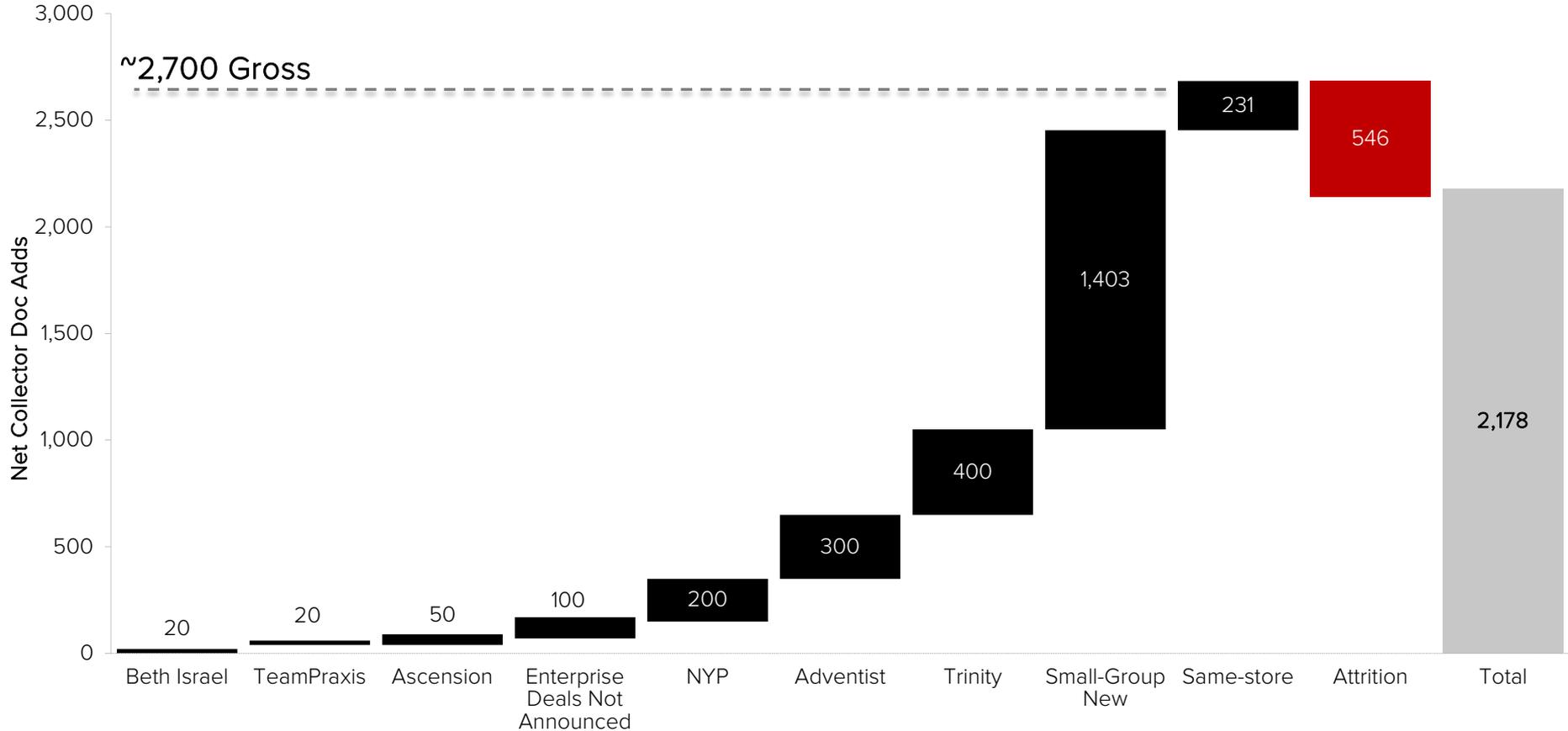
# YEAR-TO-DATE TRACKER UPDATES



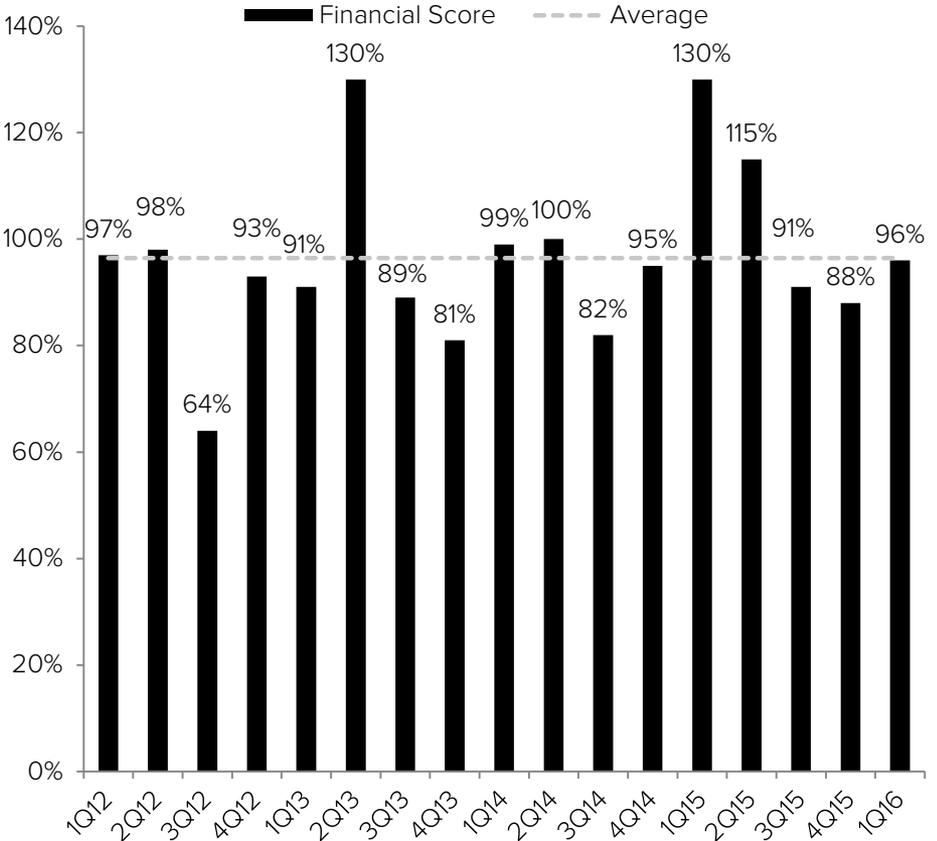
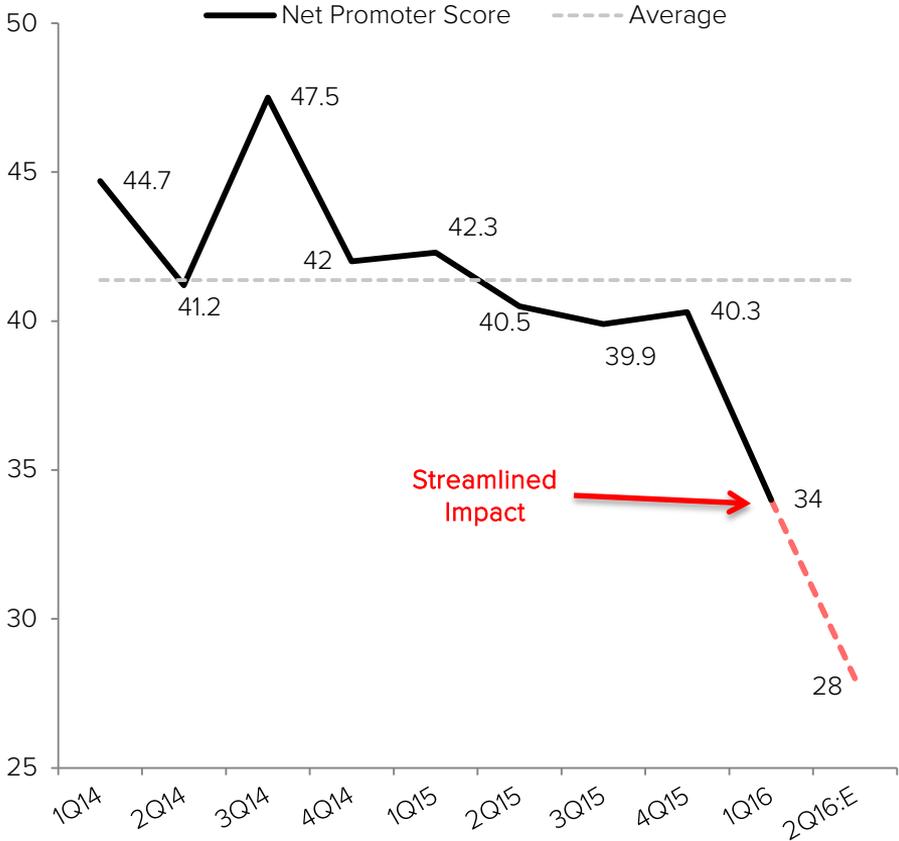
# ATHN | MEDICAL PRACTICE ATTRITION



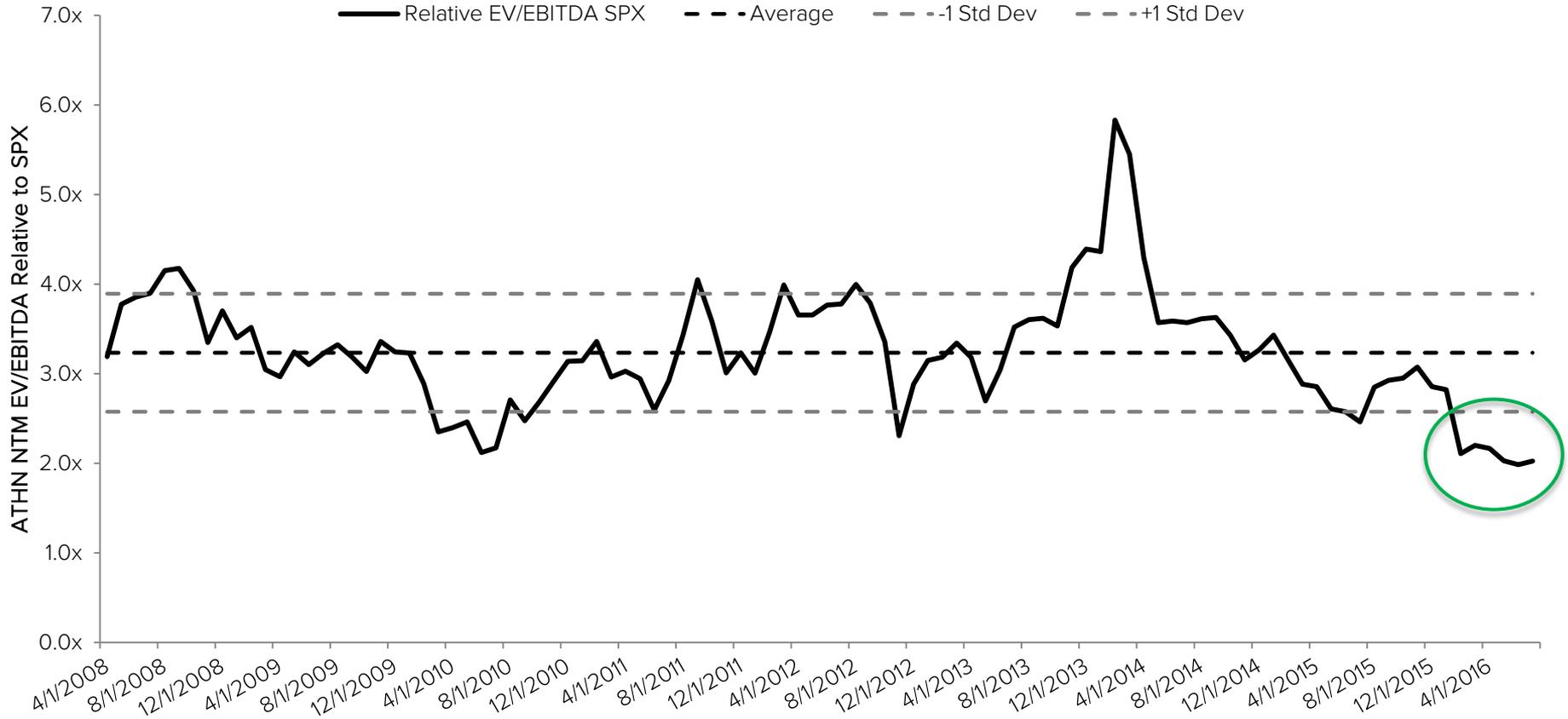
# ATHN | 2Q16 DOC ADD COMPOSITION



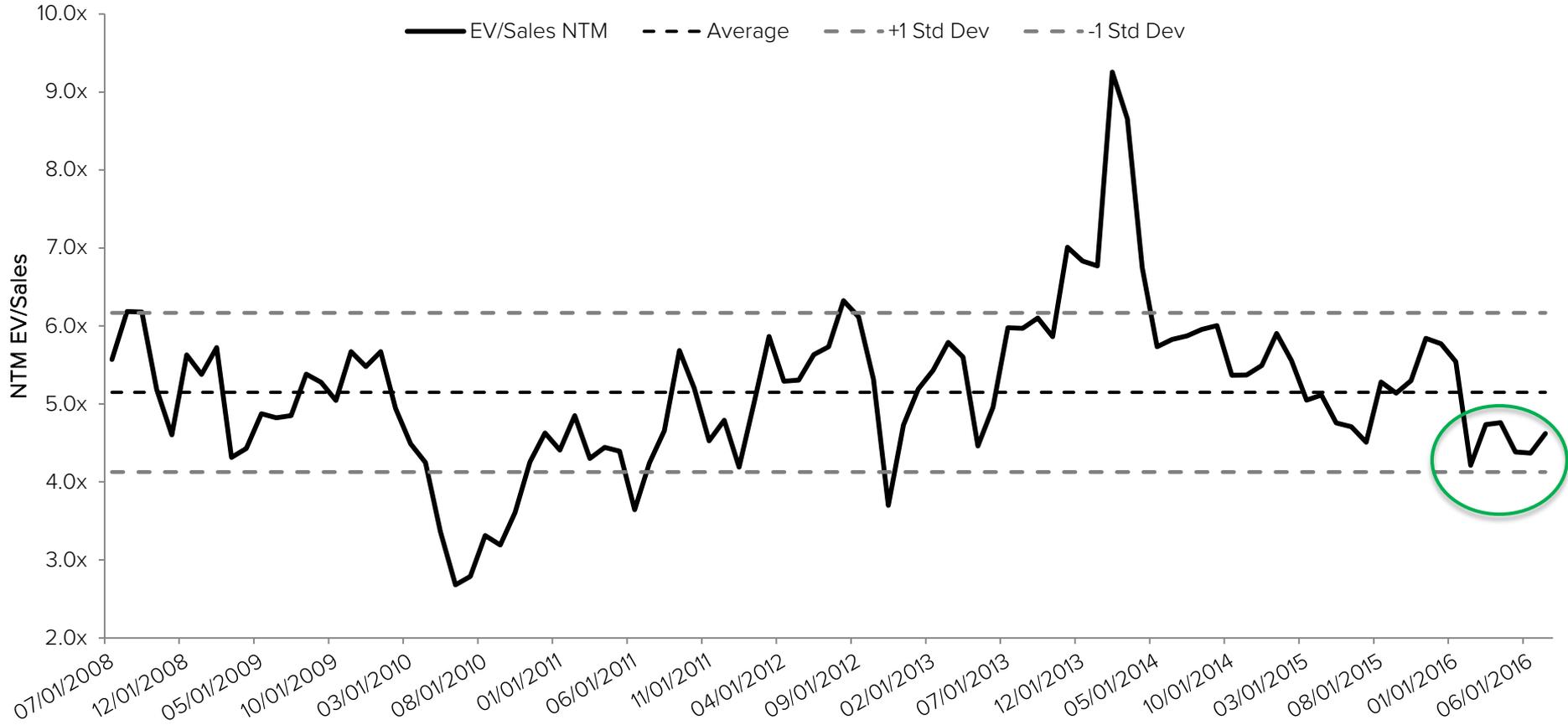
# ATHN | BALANCED SCORECARD



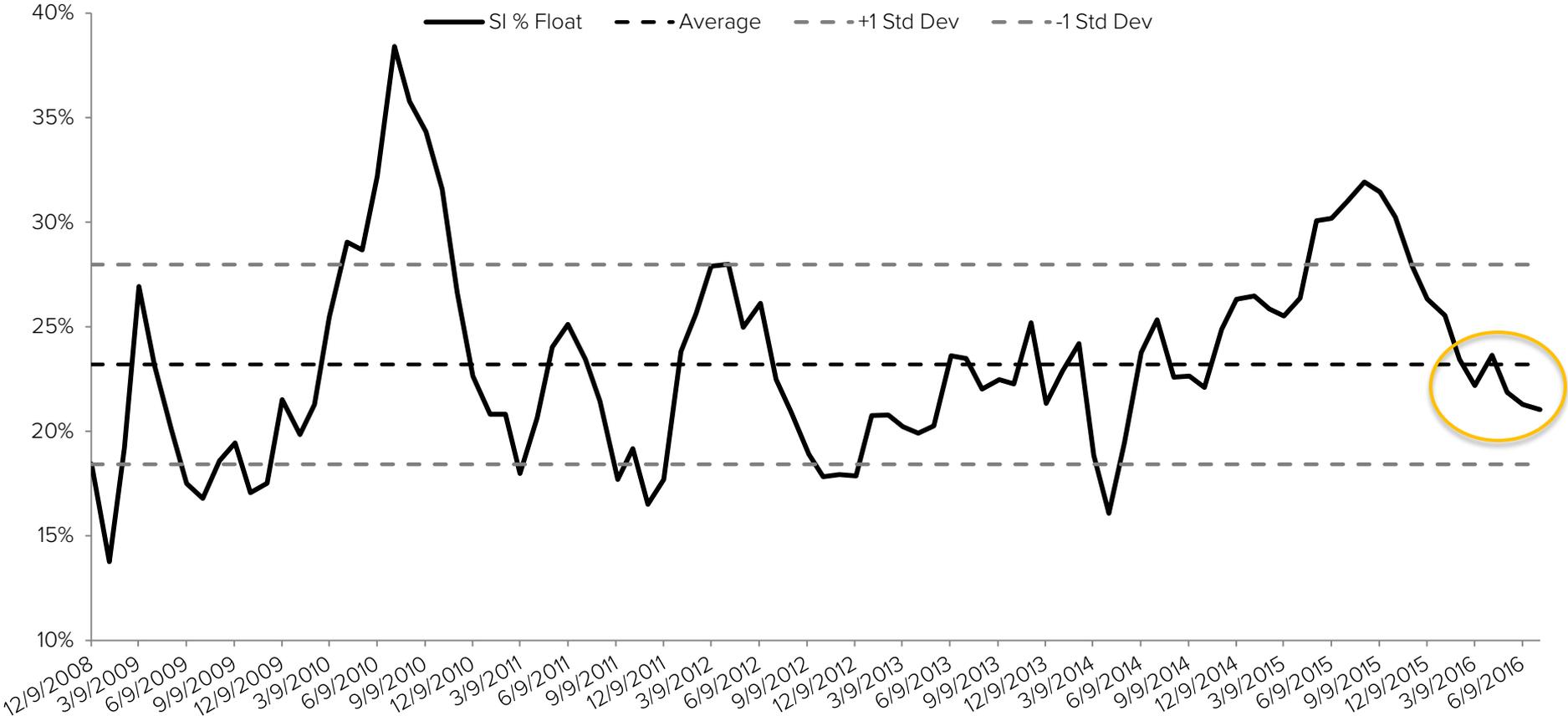
# ATHN | RELATIVE NTM EV/EBITDA



# ATHN | HISTORICAL NTM EV/SALES



# ATHN | SHORT INTEREST

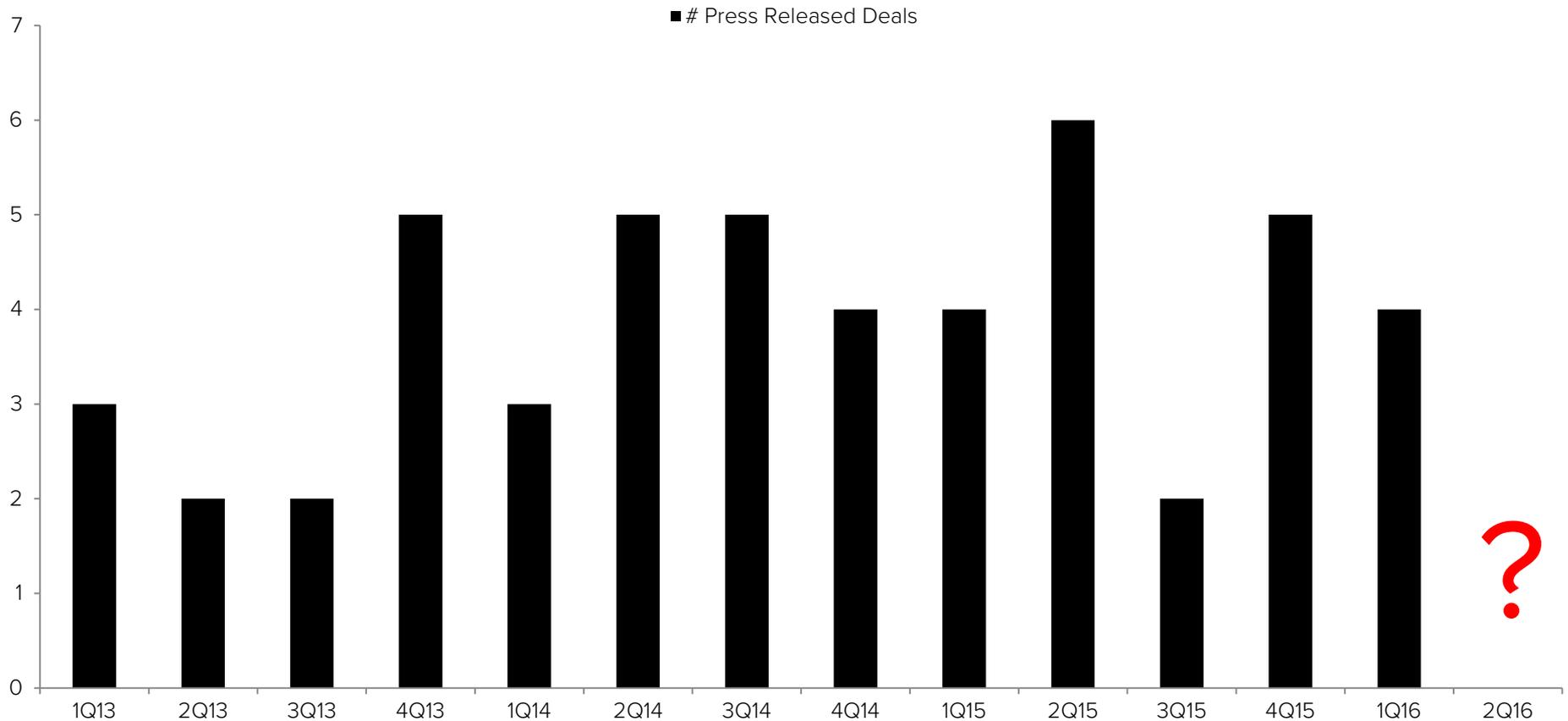




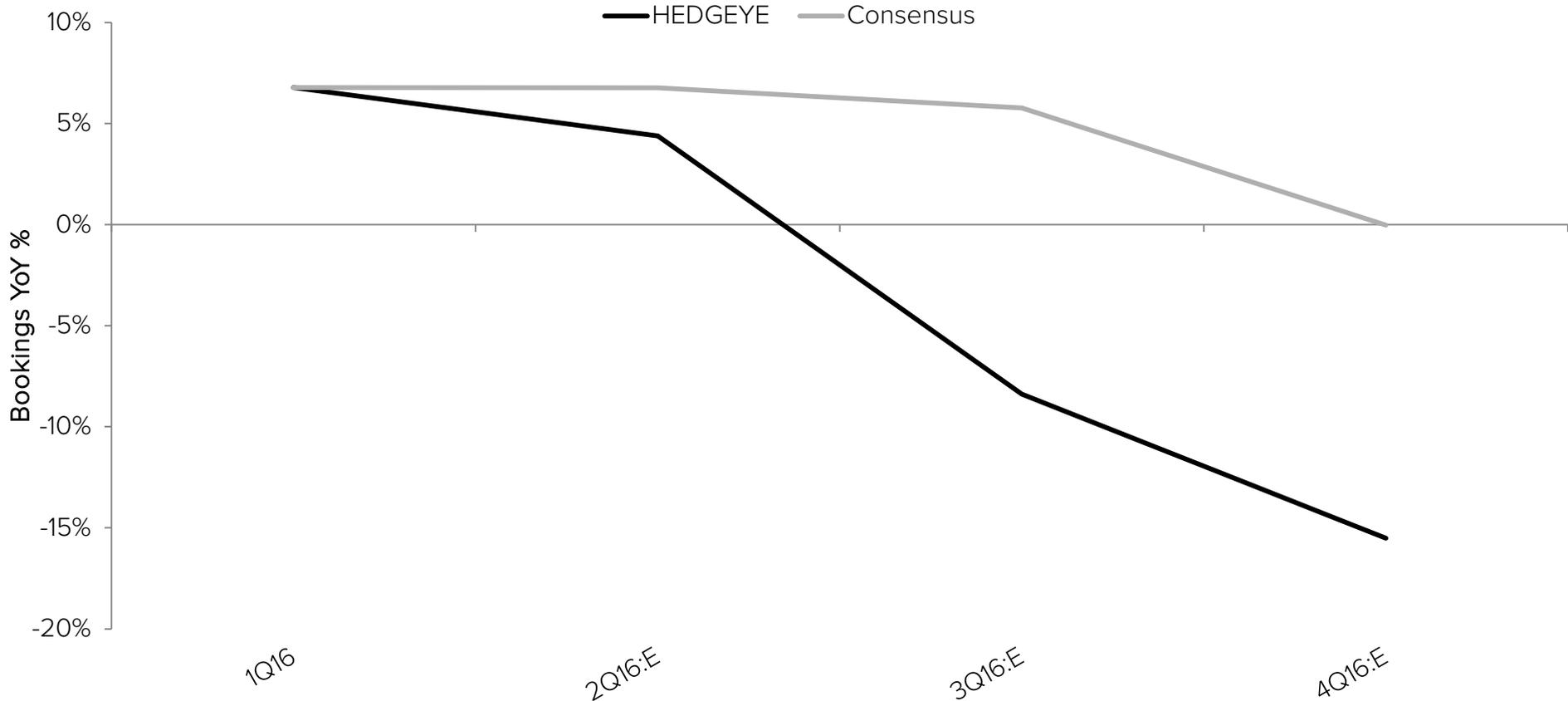
Allscripts™

**BOOKINGS, BOOKINGS, BOOKINGS**

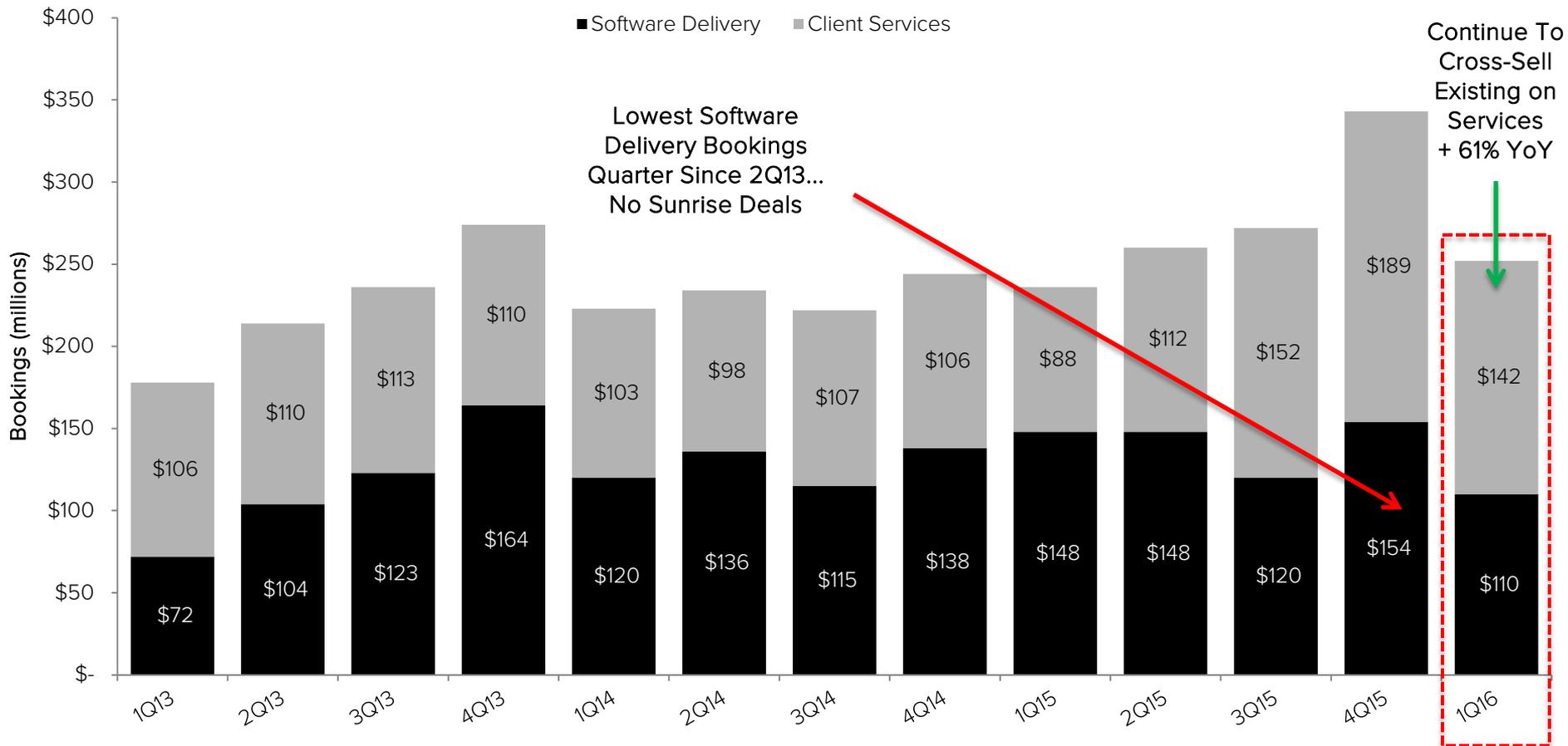
# MDRX | # OF ANNOUNCED DEALS



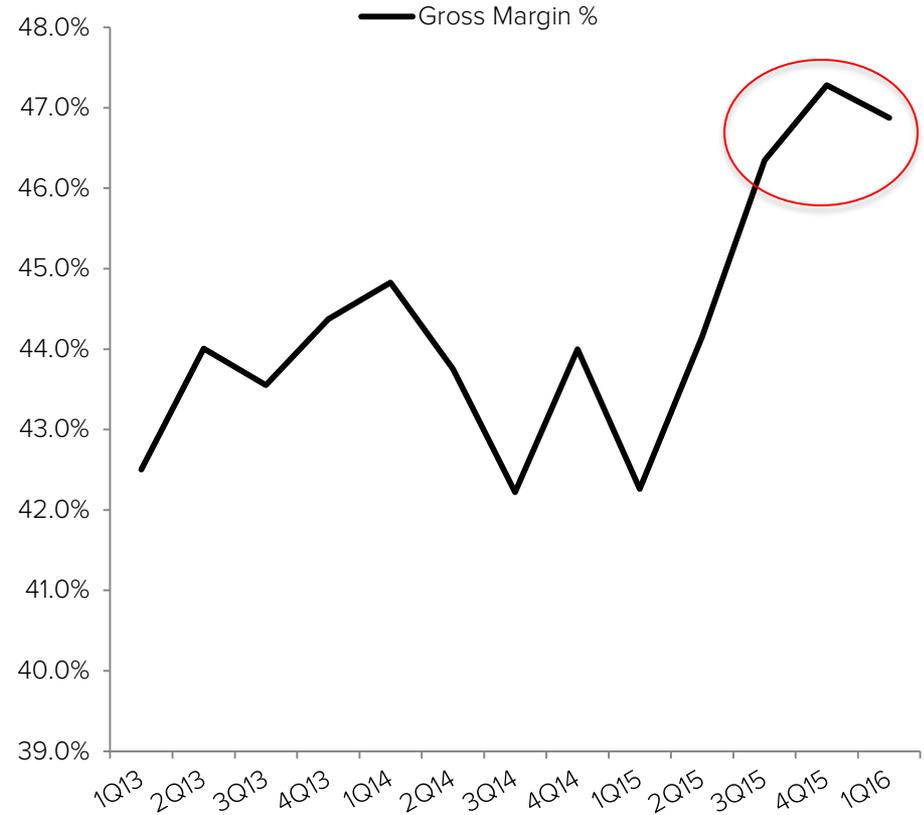
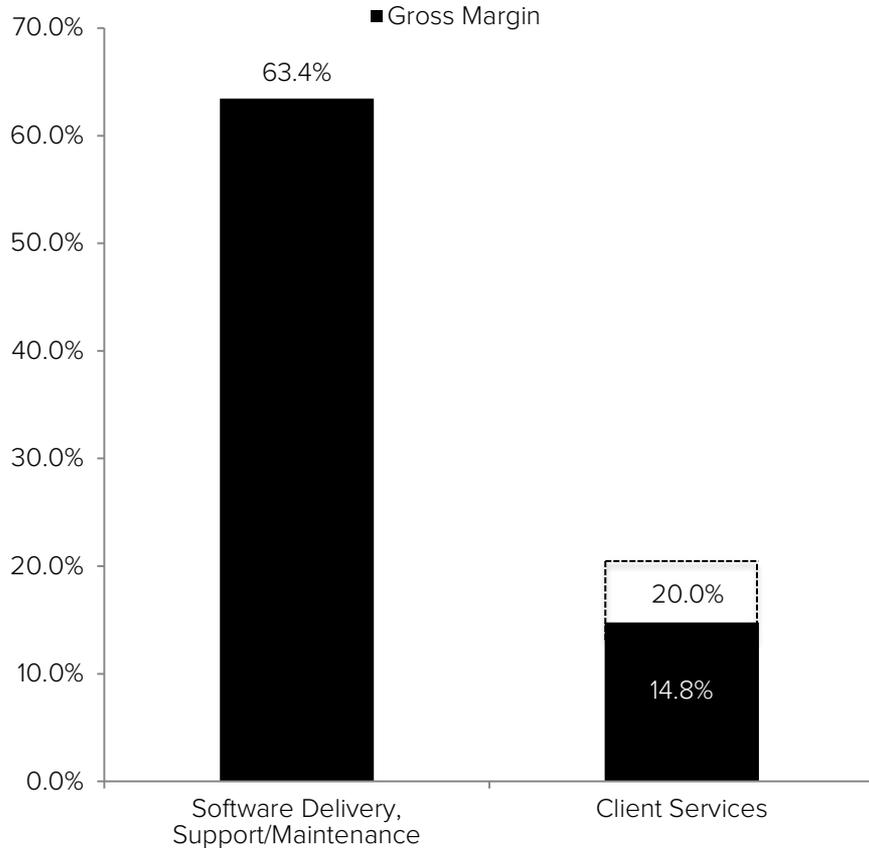
# MDRX | BOOKINGS ESTIMATES



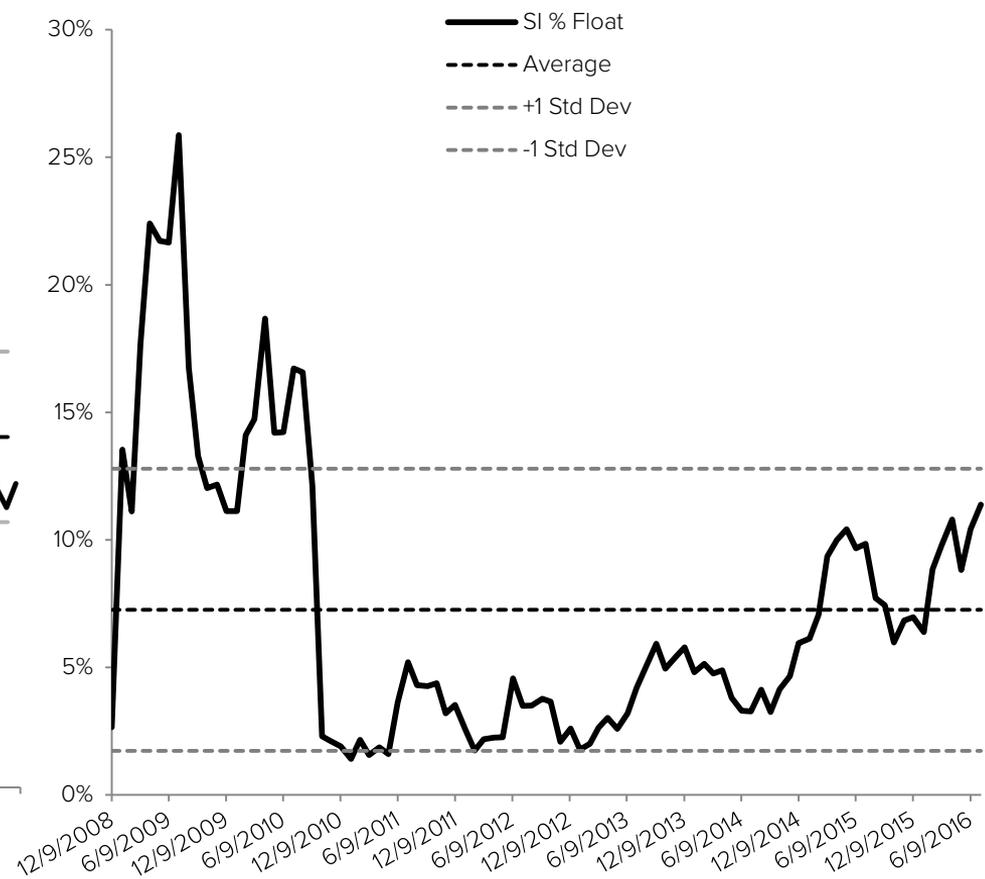
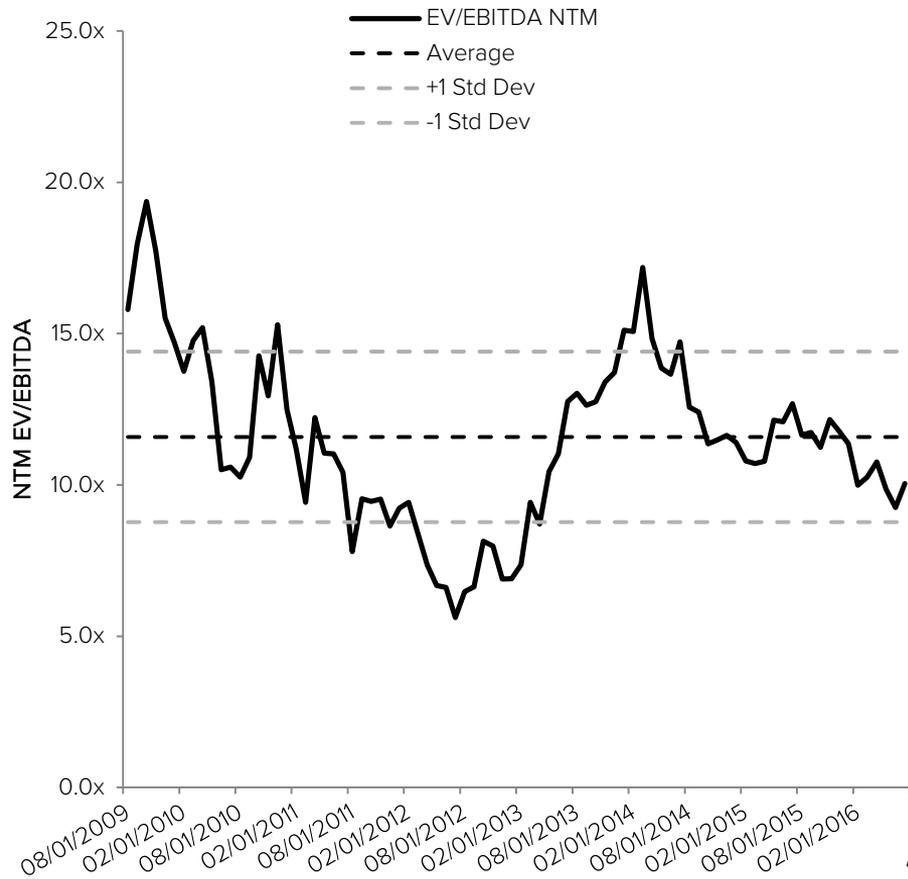
# MDRX | BOOKINGS COMPONENTS



# MDRX | GROSS MARGIN



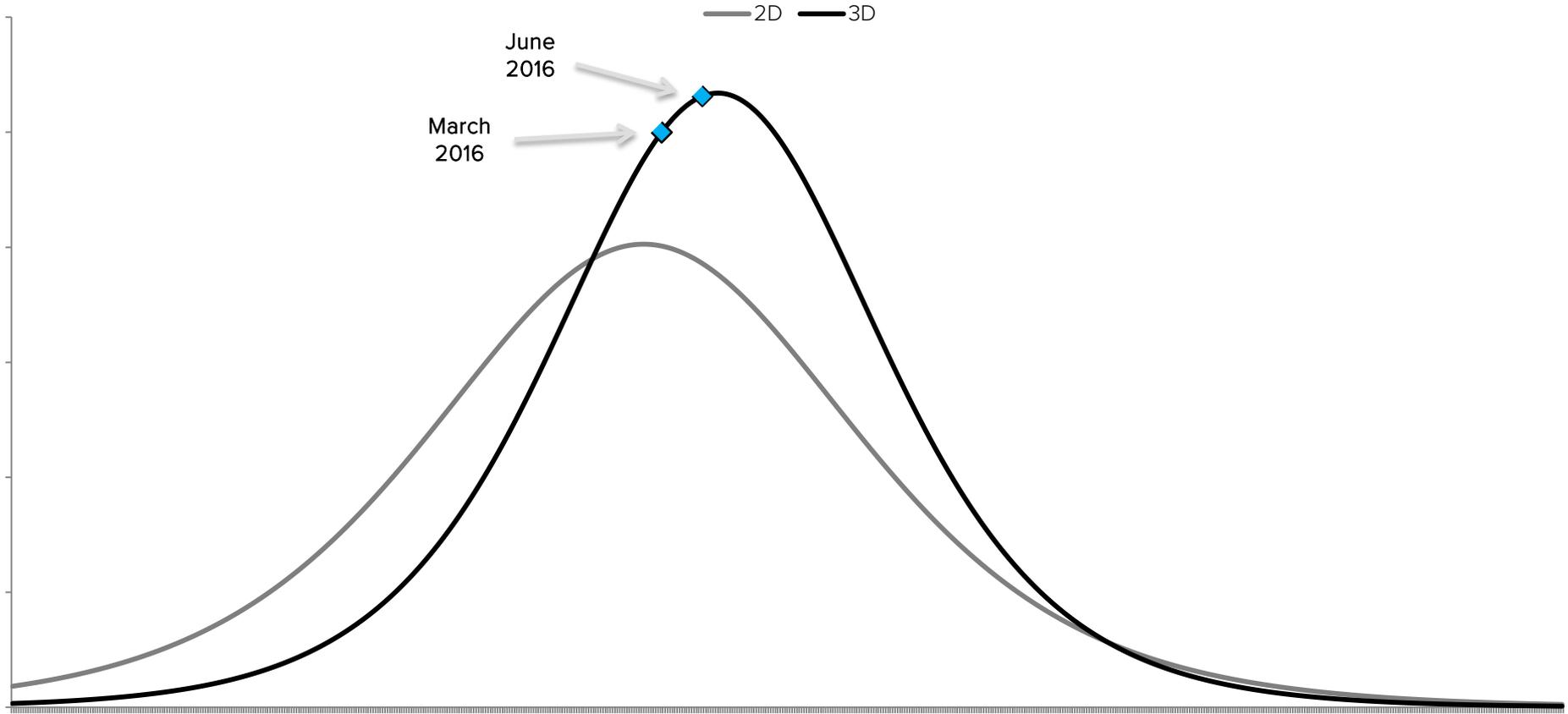
# MDRX | MULTIPLE AND SHORT INTEREST



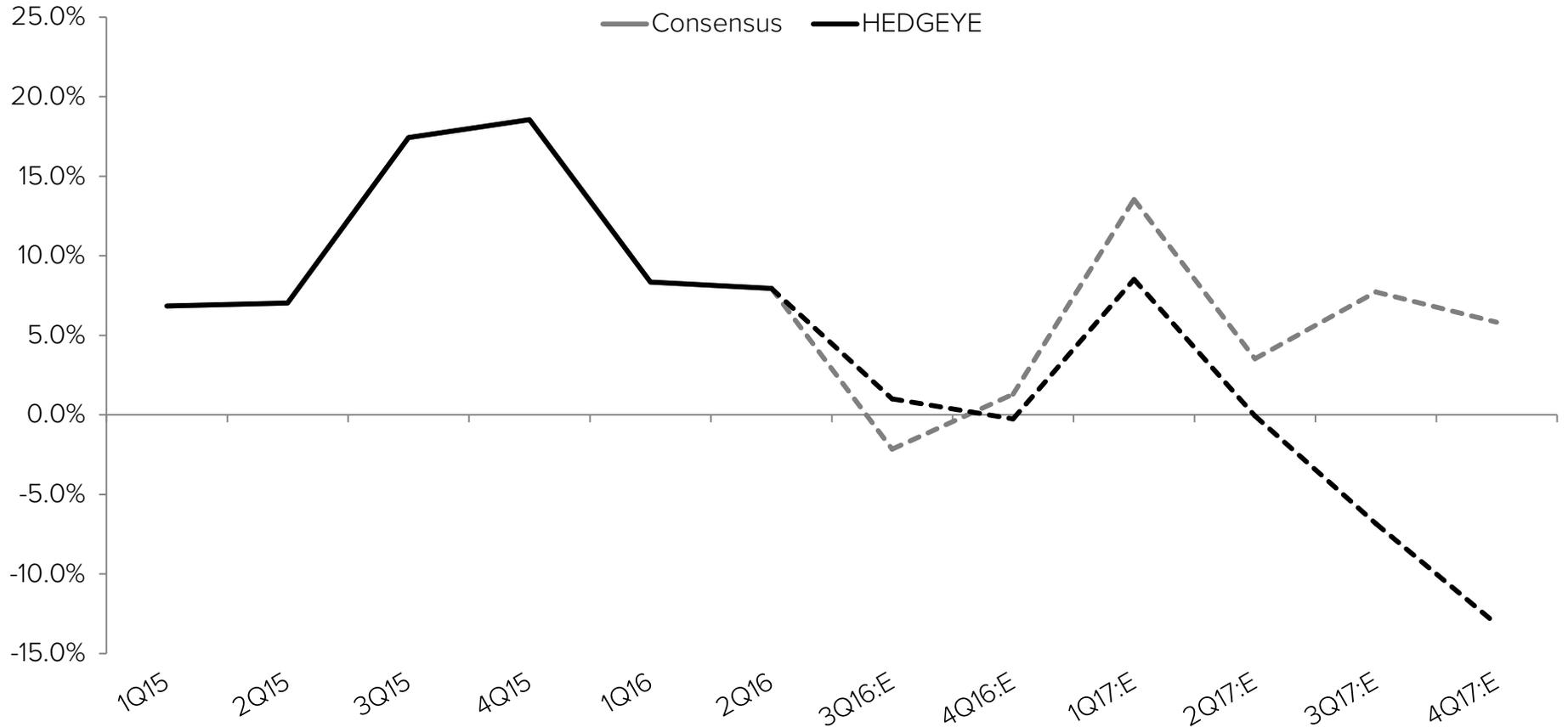
**HOLOGIC™**

**#TOMOCLIFF**

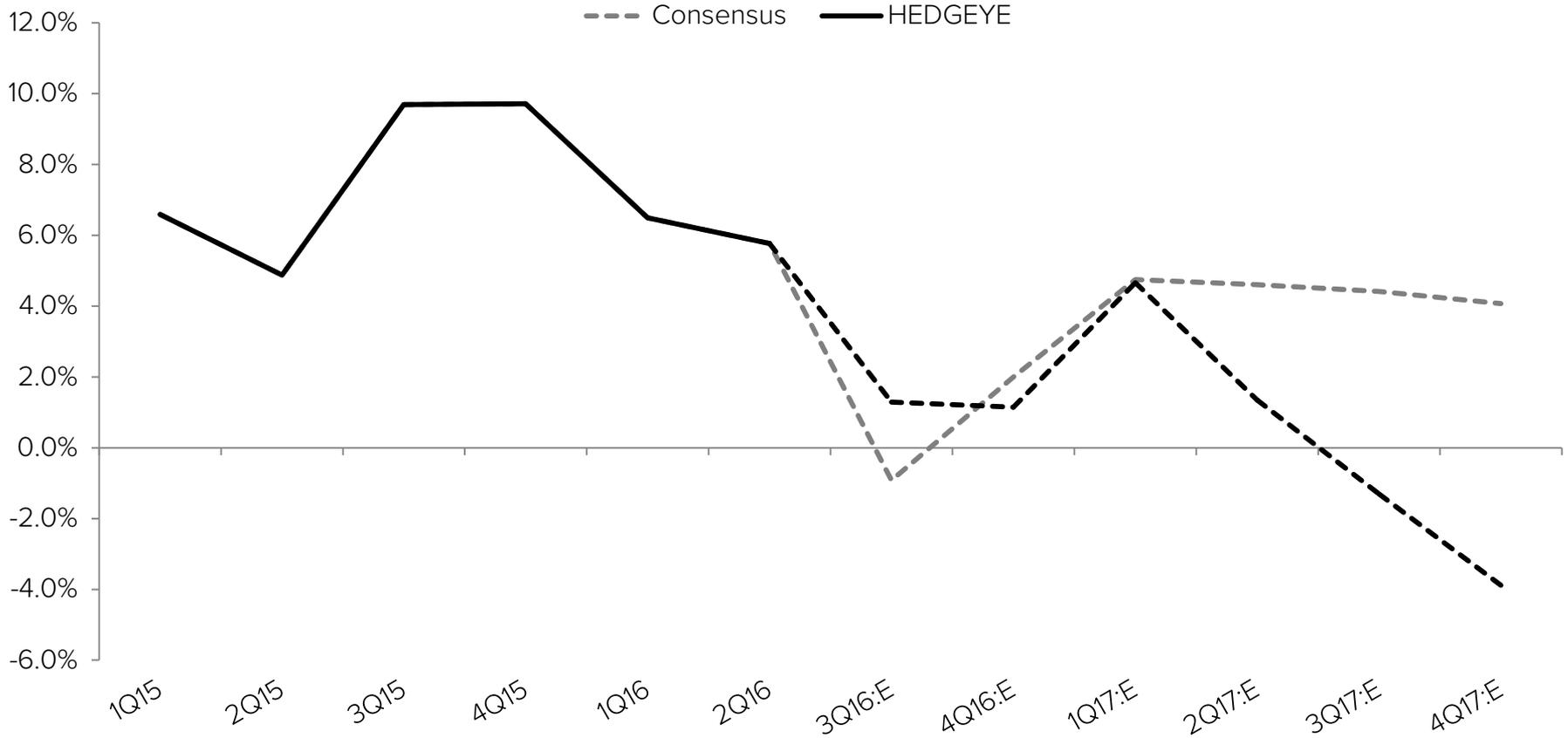
# HEADING TOWARD THE #TOMOCLIFF



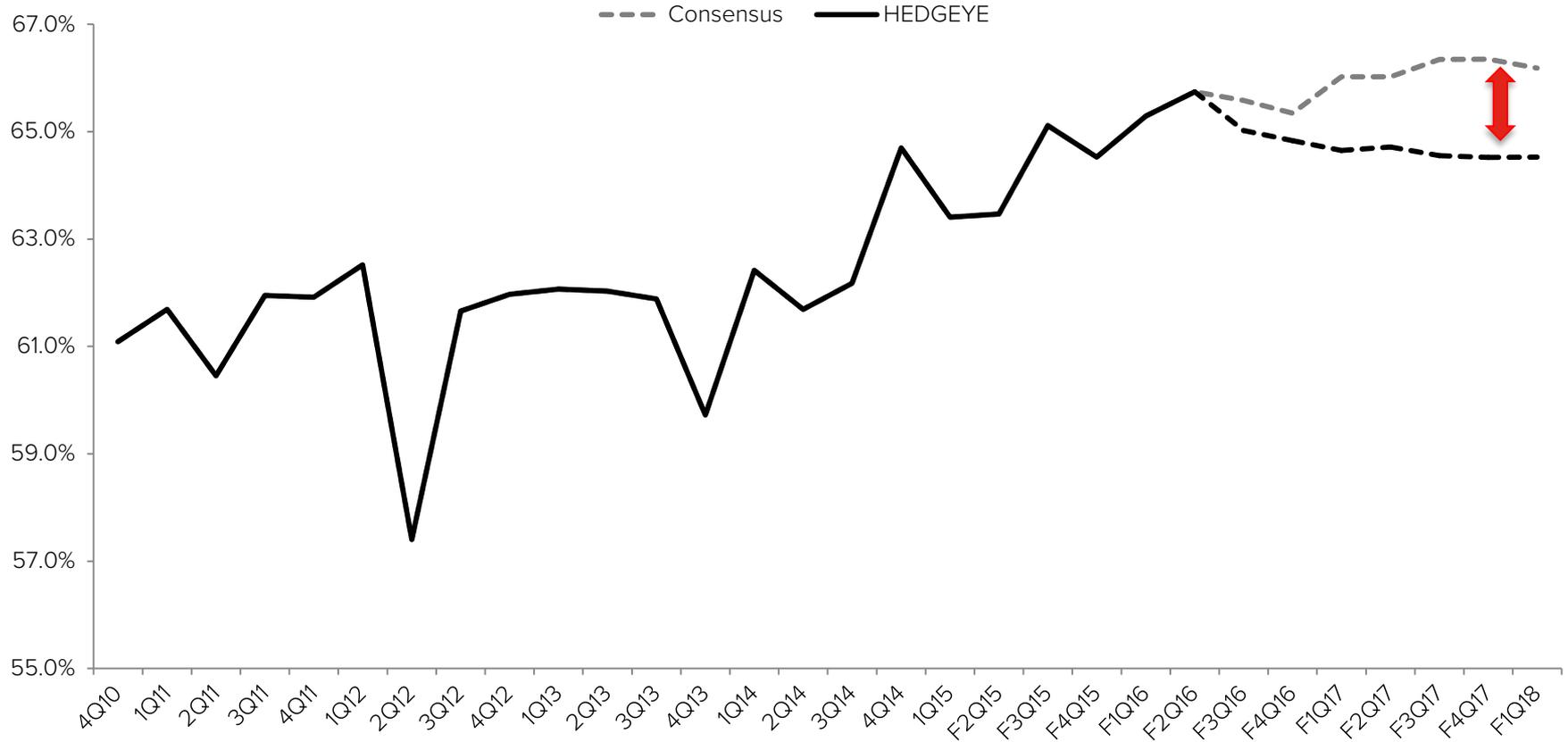
# BREAST HEALTH SALES GROWTH



# TOTAL SALES GROWTH



# GROSS MARGINS MOVE LOWER



# HOLX | MULTIPLE AND SHORT INTEREST

