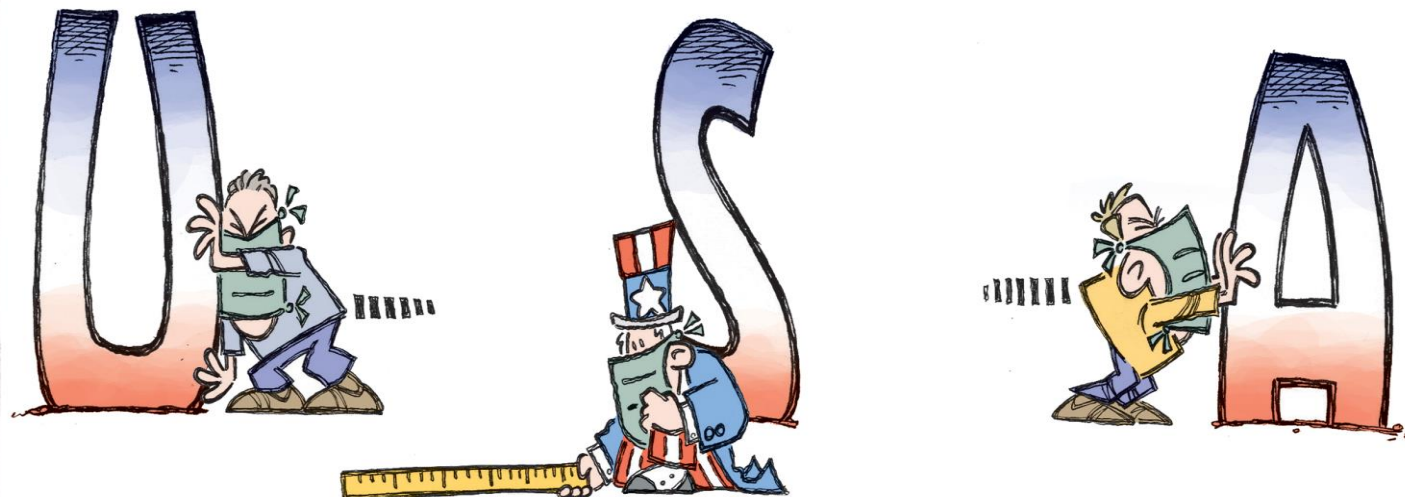


HEDGEYE

Health Care Position Monitor Update

2Q20 Health Care Themes Review, Fundamental Equity Quads, Elective Surgeries, & “Re-Opening” by State

April 27, 2020



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Please submit questions* to
qa@hedgeye.com

*Answered at the end of the call

Health Care Position Monitor

For Week of April 27, 2020

Best Ideas - Longs					Best Ideas - Shorts						
LONG		Price	Mkt Cap (\$B)	Trend	Tail	SHORT		Price	Mkt Cap (\$B)	Trend	Tail
Active Longs					Active Shorts						
TDOC	Teladoc Health, Inc.	\$ 196.95	\$14.6B	✓	✓	AMN	AMN Healthcare Services, Inc.	\$ 45.58	\$2.1B	×	×
						GH	Guardant Health, Inc.	\$ 77.52	\$7.3B	×	×
						EXAS	Exact Sciences Corporation	\$ 76.63	\$11.5B	×	×
						HQY	HealthEquity Inc	\$ 53.02	\$3.8B	×	×
						NVTA	Invitae Corp.	\$ 17.09	\$2.1B	×	×
Long Bias					Short Bias						
ONEM	1Life Healthcare, Inc.	\$ 24.90	\$3.1B			HCA	HCA Healthcare Inc	\$ 110.09	\$37.3B		
TXG	10x Genomics Inc Class A	\$ 75.23	\$4.2B			DVA	DaVita Inc.	\$ 76.52	\$9.6B		
						ILMN	Illumina, Inc.	\$ 313.08	\$46.0B		

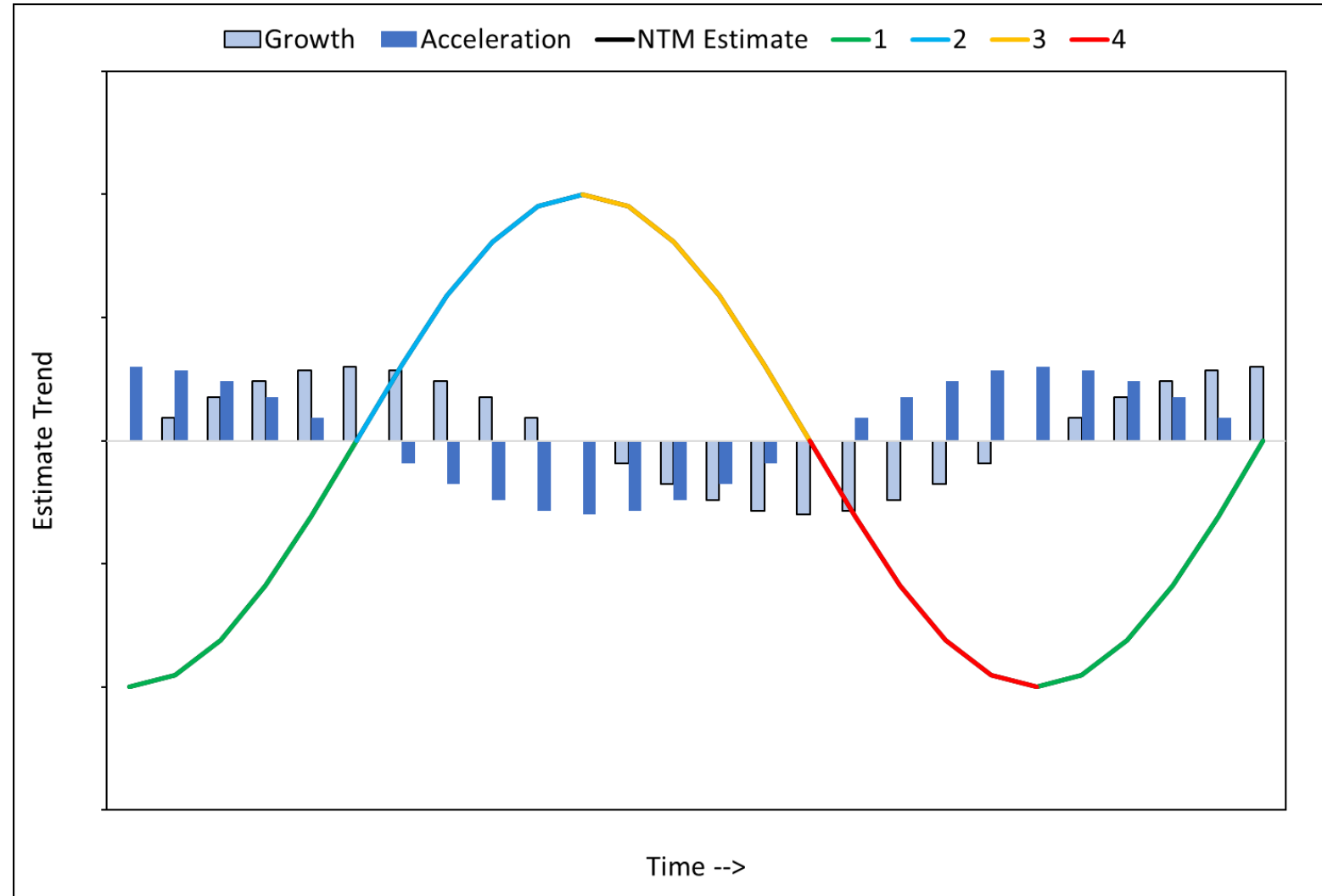
Disclaimer

Hedgeye’s “bias” represents Hedgeye’s outlook on companies currently under Hedgeye’s review, or for which timing is not right for greater coverage. Hedgeye may or may not provide further commentary on any or all companies represented on the bench and representation of a company on the bench does not forecast whether Hedgeye will or will not issue any additional material on that company.

Fundamental Equity Quadrants

Similar to Macro Quads, Stock Estimates follow a pattern of growth and acceleration

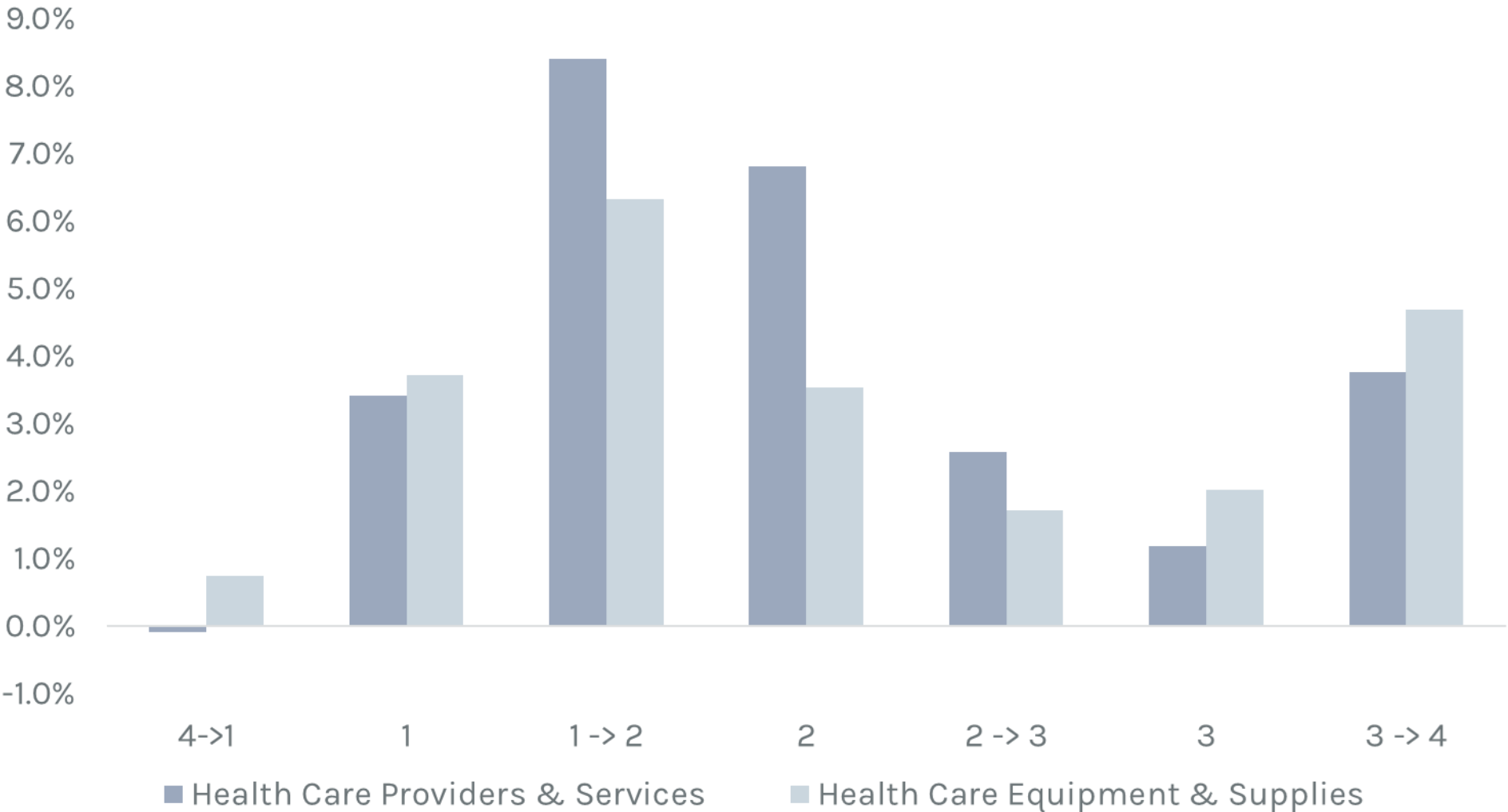
- We transformed consensus forward expectations, assigning each datapoint to one of 4 possible Fundamental Quadrants.
- Back tests show that companies that make the transition from Fundamental Quad 1 to Quad 2 are the best performers.
- We produce these values across our universe of companies for revenue, EBITDA, and EPS alongside a correlation of the price to the underlying estimate.
- Performance is weakest as companies in Fundamental Quad 2 transition into Quad 3 and 4.



Stock Quadrant Back Test

Stock Cycles follow estimate trends through quadrants of growth and acceleration

- Forward estimate trends are transformed and used to sort tickers into four separate quadrants for growth and acceleration.
- Back tests show that companies that make the transition from Fundamental Quad 1 to Quad 2 are the best performers.
- Performance is weakest as Fundamental Quad 2 as companies transition into Quad 3 and 4.

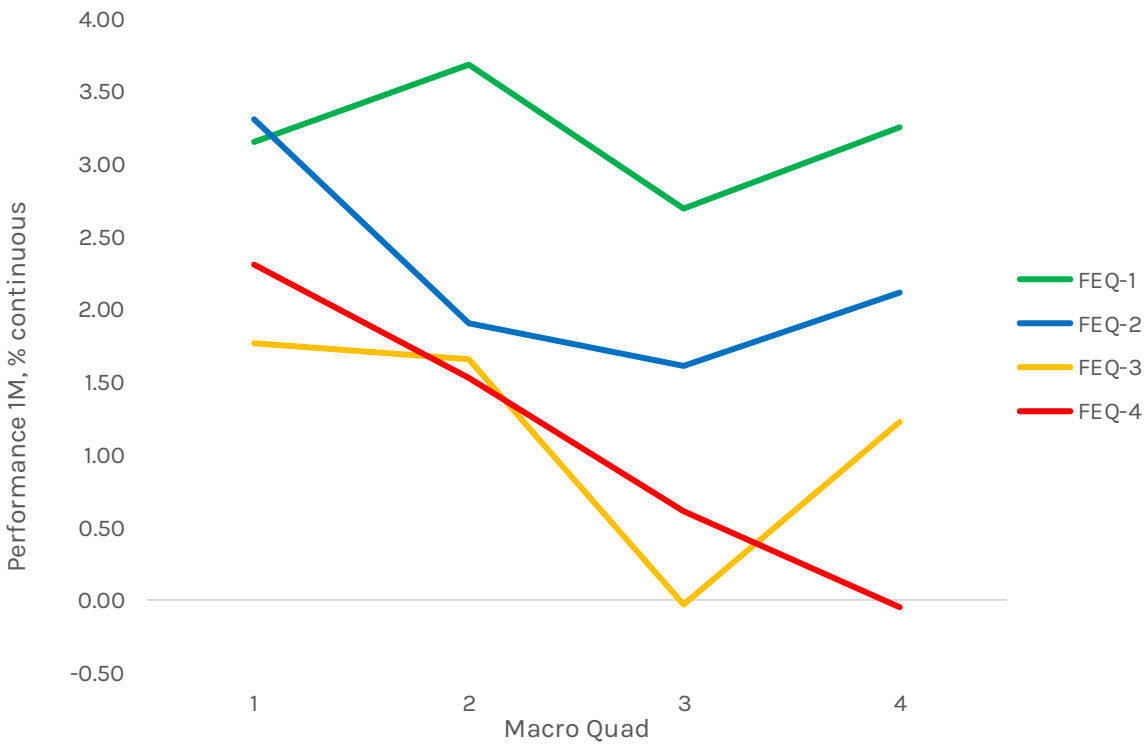


Macro with Fundamental Equity Quads

Equipment & Supplies, Providers & Services

Sector Healthcare
Factor Sales NTM
Metric Performance 1M, continuous
Correlation > 50%
Market Cap > 1000

		Macro Quad			
		1	2	3	4
Fundamental Equity Quad	1	3.15	3.68	2.69	3.25
	2	3.35	2.65	1.51	2.00
	3	1.64	1.46	0.21	1.23
	4	2.06	1.57	0.60	-0.14



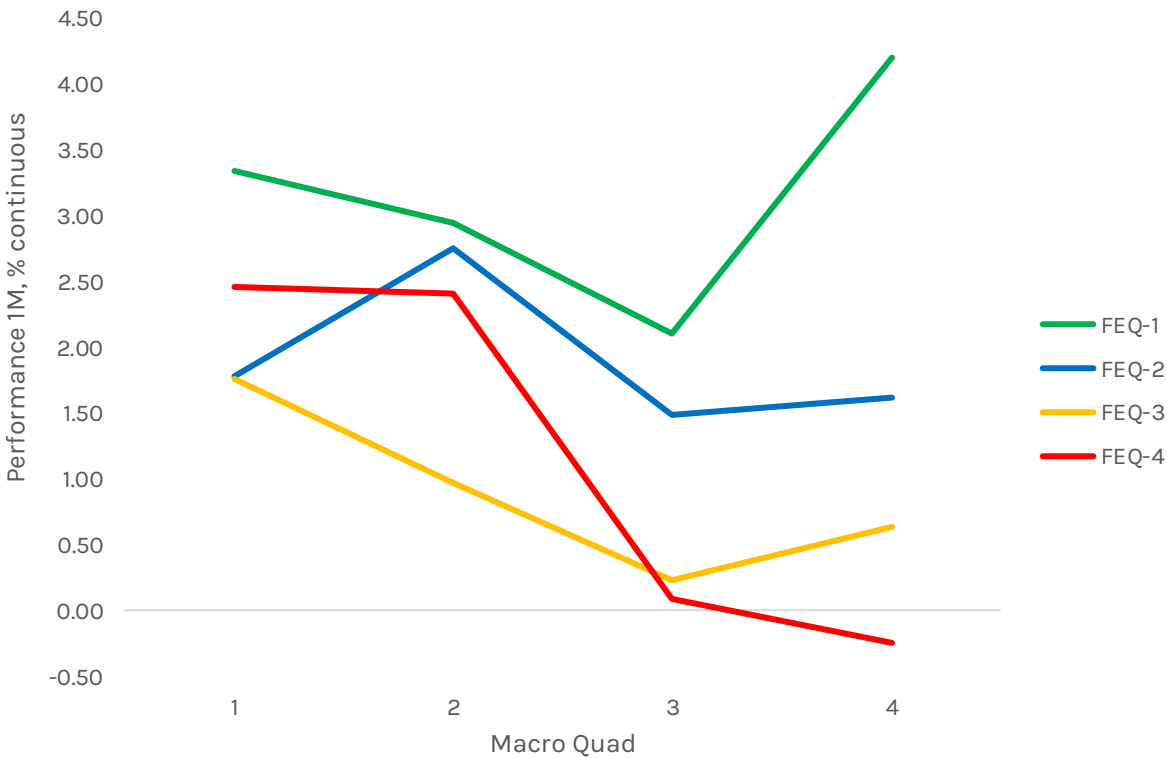
Fundamental equity quads help screen and monitor names based on a revision trend, not anchored to a point estimate and narrative. It elevates the importance of the consensus outlook and the timing of changes.

Macro with Fundamental Equity Quads

Equipment & Supplies

Sector Healthcare
Industry Health Care Equipment & Supplies
Factor ebitda NTM
Metric Performance 1M, continuous
Correlation > 50%
Market Cap > 1000

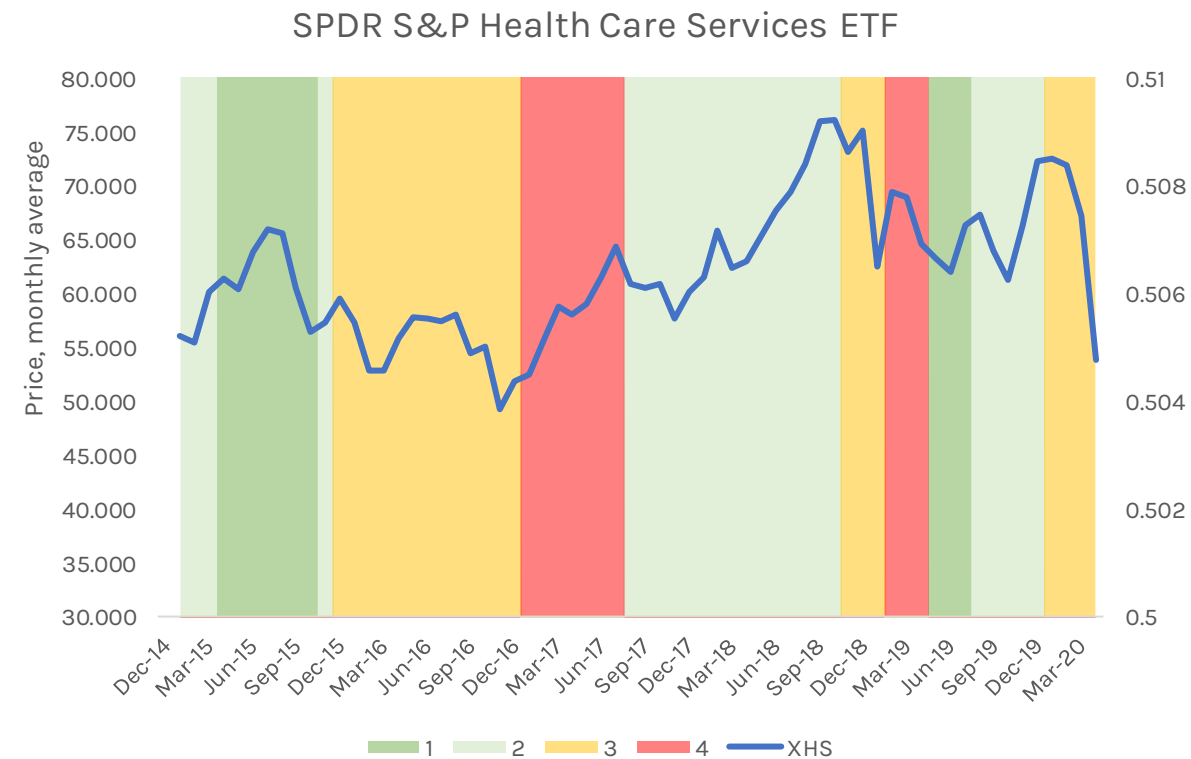
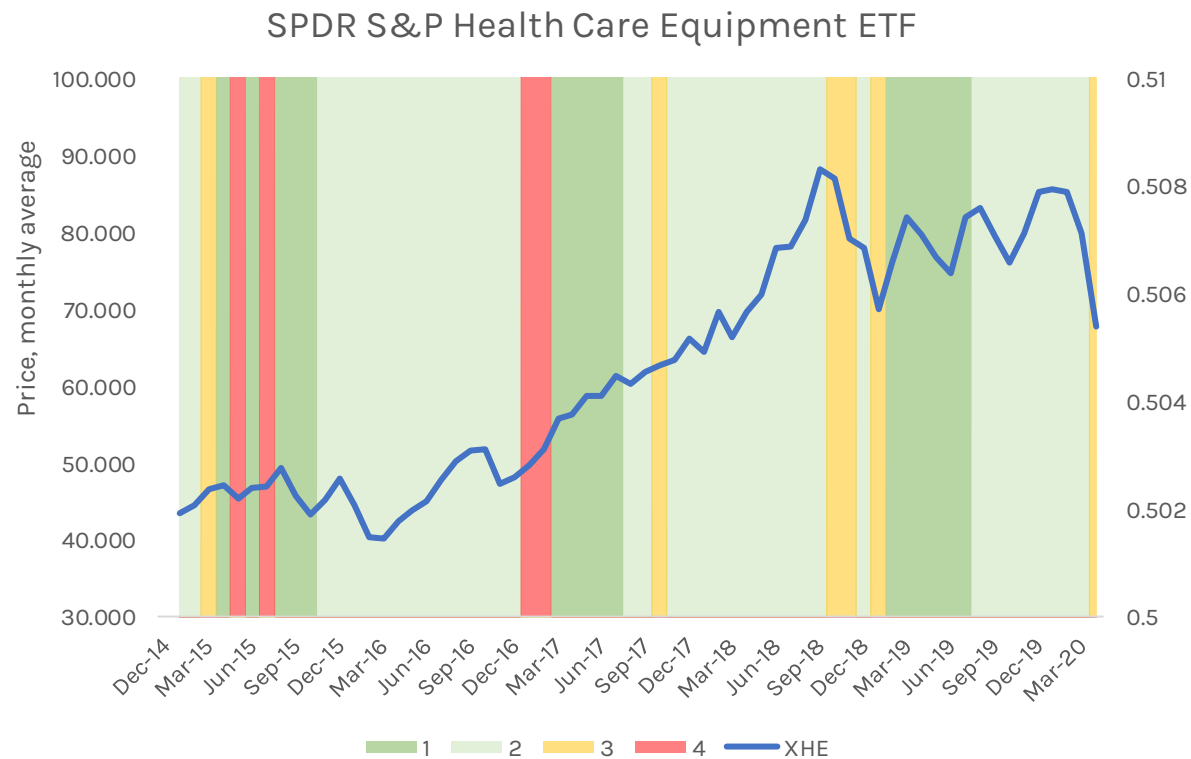
		Macro Quad			
		1	2	3	4
Fundamental Equity Quad	1	3.34	2.95	2.10	4.20
	2	1.78	2.75	1.49	1.62
	3	1.76	0.96	0.23	0.64
	4	2.45	2.40	0.08	-0.25



The method works at the Sector level as well as the subgroup and industry level.

Fundamental Equity Quads

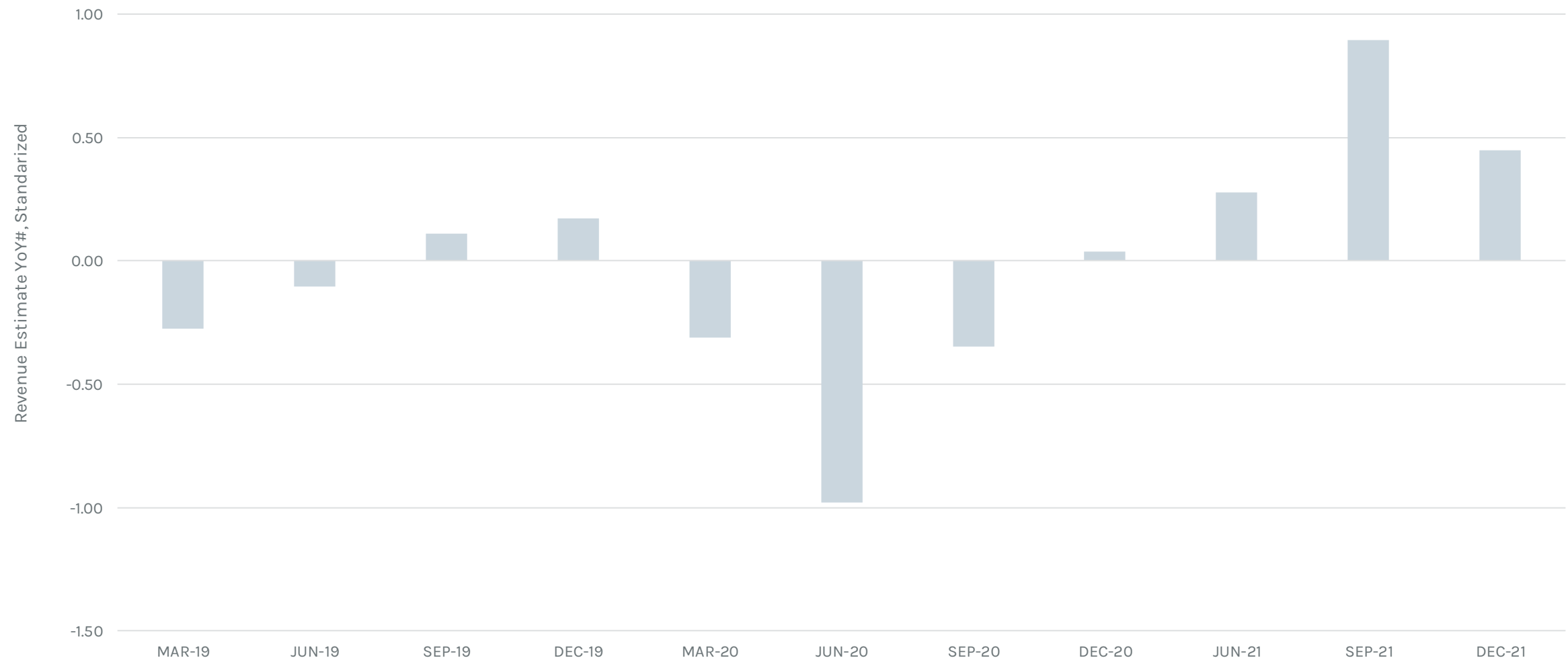
Health Care Equipment & Supplies and Providers & Services



At the subgroup level the fundamental equity quads for revenue is taken from the standardized estimate trend, first derivative (growth) and second derivative (acceleration) of the estimate trend. Here standardization allows us to group by subgroup, but we could group by style factors such as beta, market cap, short interest, etc.

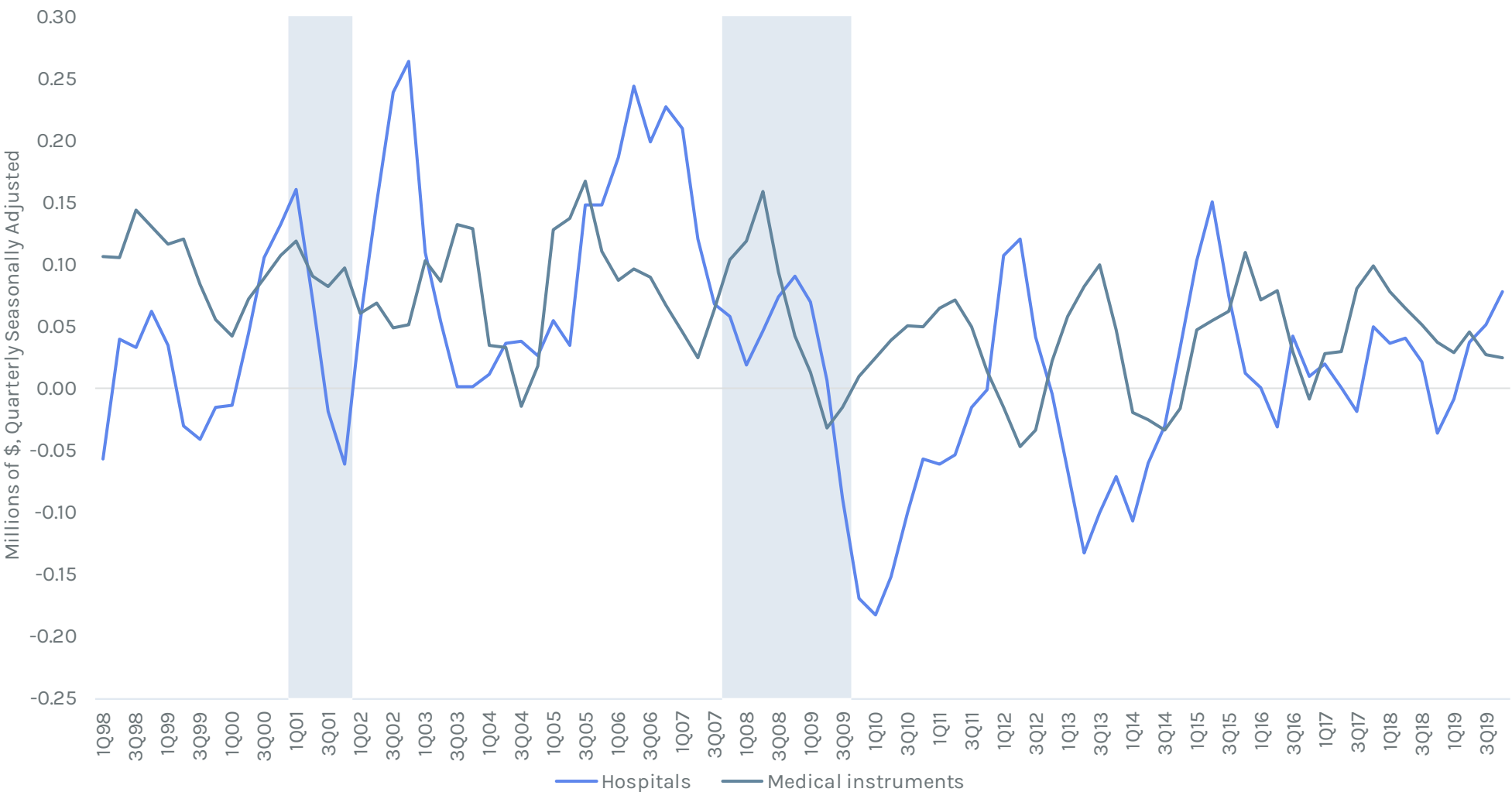
Health Care Estimate Revisions

While estimates have corrected, the expectation is for reacceleration beginning 3Q20



Private Fixed Investment in Structures by Type

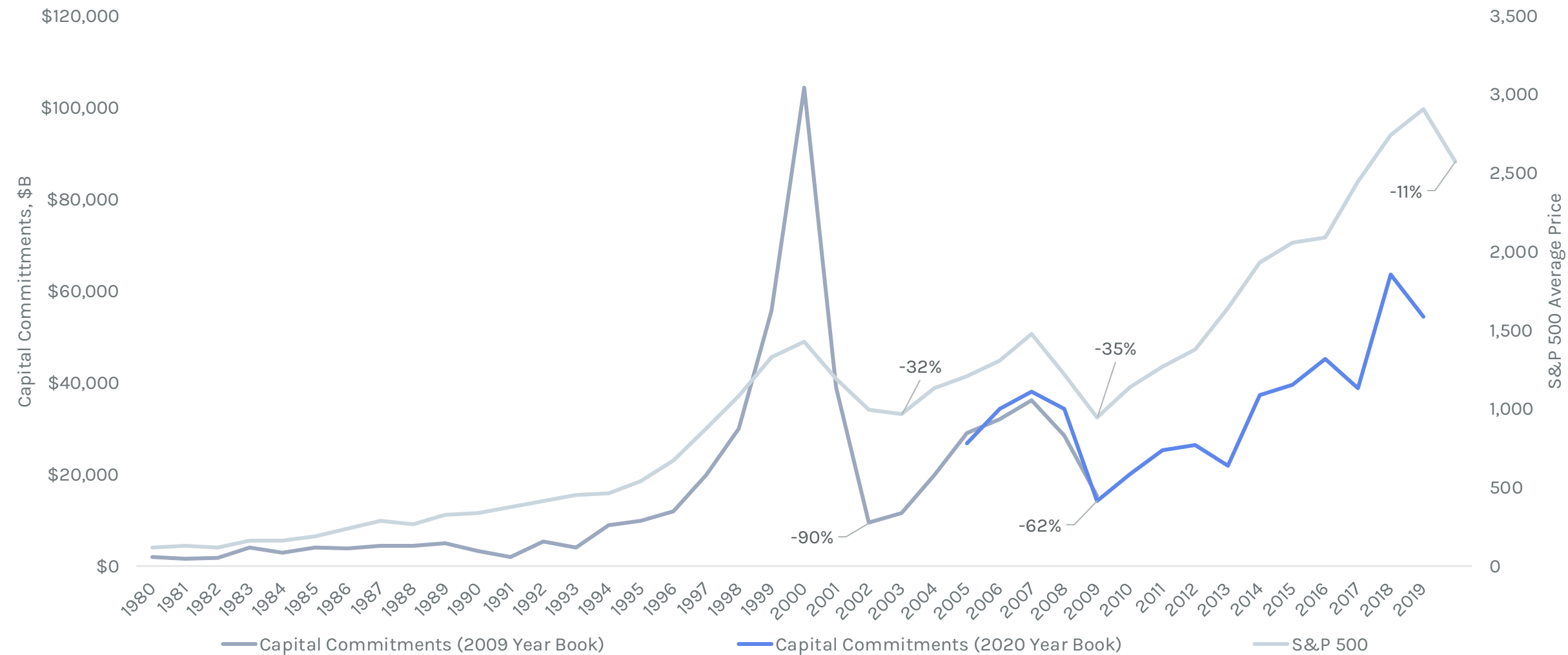
Decrease in utilization is likely to be permanent as patients grow accustomed to lower utilization



- According to the CFO at a large hospital system, the recovery for the US Medical Economy will be slow and tenuous.
- For our contact's hospital, their expectation is to be 75% to 85% by the end of 2020, that will not be complete until the middle of next year.
- Patient volumes are unlikely to ever fully recover, and habits change.
- Capital spending is likely weak for some time.
- Debt levels are high across the system, particularly among ambulatory surgery centers, which will make reopening non-economic as losses accumulate.

Venture Capital Fundraising versus the S&P 500

In 2008, funding declined by 62% and took 7 years to recover



Stocks by Revenue Quad

Quad 1

NEOG

Quad 2

AMN	LLY
EHC	ABBV
HUM	GILD
UNH	VRTX
ANTM	HUM
CVET	PRGO
DXCM	VEEV
MASI	TDOC
HRC	
MLAB	
UNH	
AMGN	

Quad 3

AMED	MRK
ATRC	PODD
BSX	QDEL
CHE	RMD
EW	SEM
EXAS	SYK
GH	ZTS
GKOS	
HCA	
HQY	
ISRG	
MGLN	

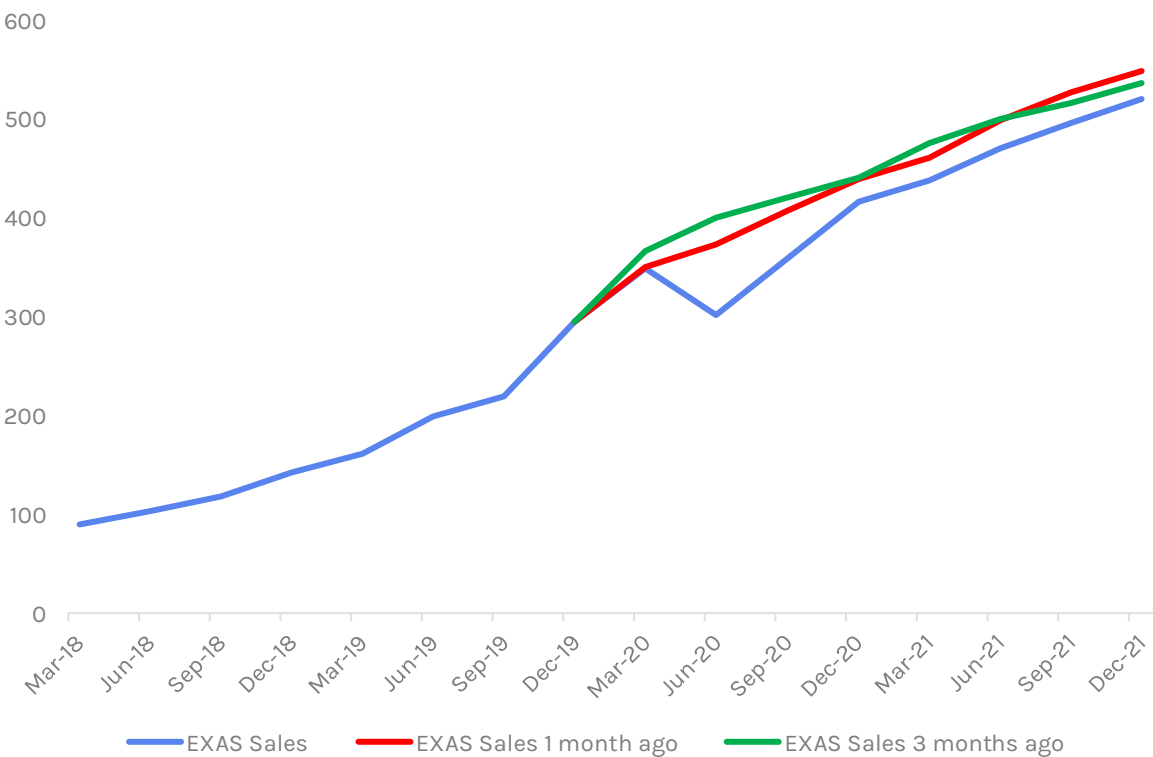
Quad 4

ABMD	HOLX	MTD
ABT	IART	PEN
AGN	ICUI	PKI
ALGN	IDXX	RCM
BDX	ILMN	STAA
BEAT	IQV	TFX
BKD	IRTC	TMO
CNMD	JNJ	TRHC
CSII	LH	USPH
DGX	LHCG	WAT
GMED	MDT	
HAE	MMSI	

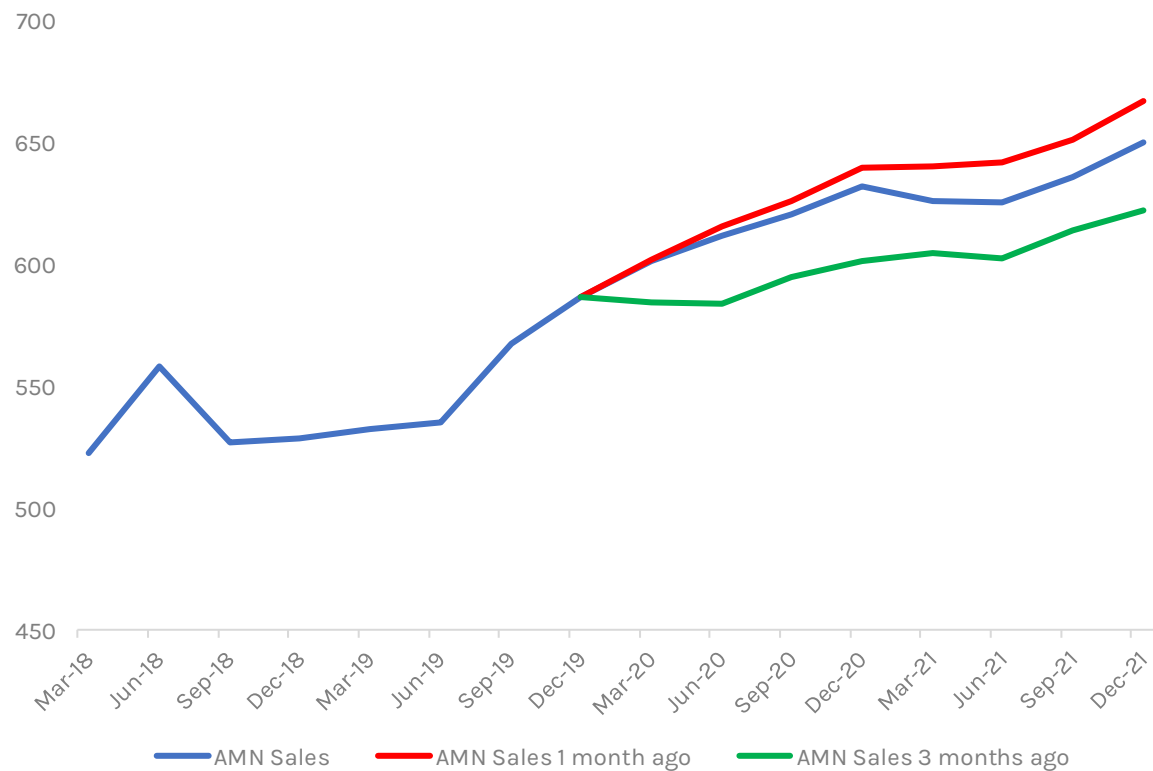
Revision cycles likely at AMN and EXAS

EXAS is Quad 3 heading into 4, while AMN is likely to deteriorate from here

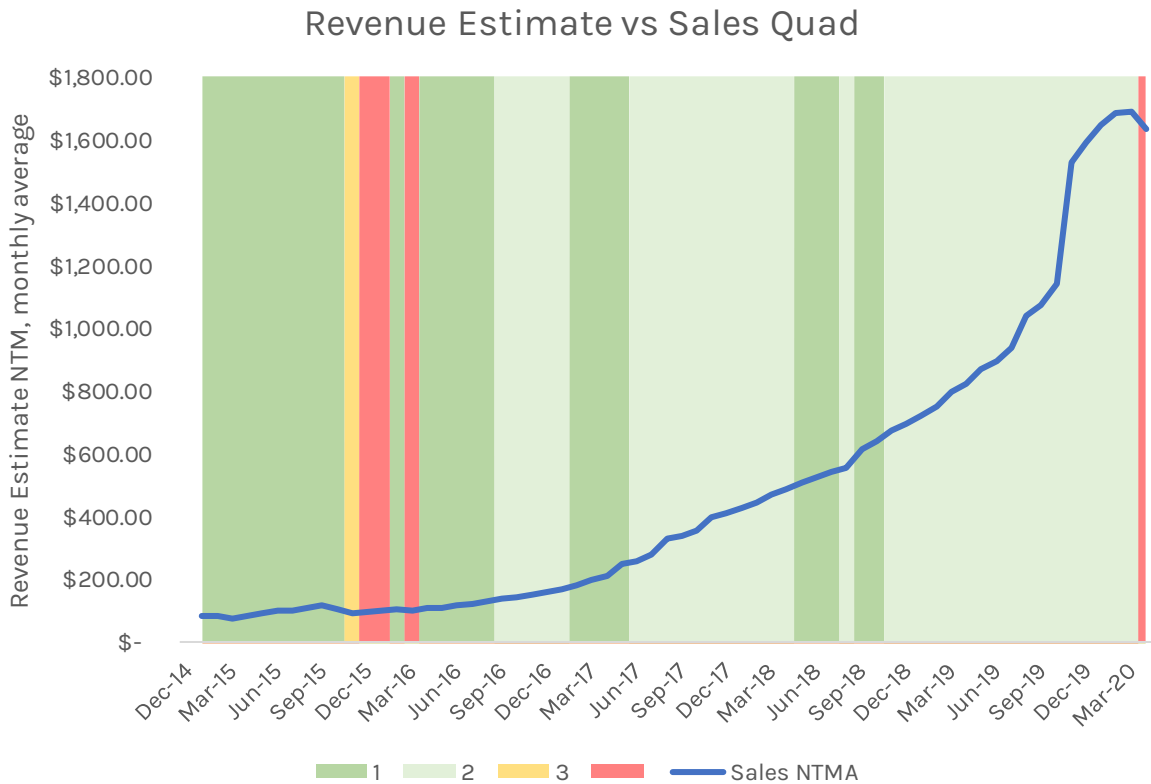
Ticker	Fundamental Quad	Fundamental Factor Correlation	Distribution		Z-score 3Y	
EXAS			Bin1	Bin2	1st derivative	2nd derivative
Sales	3	0.82	0	-1	-0.16	-3.37
EBITDA	4	0.62	-1	1	-0.60	0.87
EPS	4	0.41	0	1	-0.41	0.99



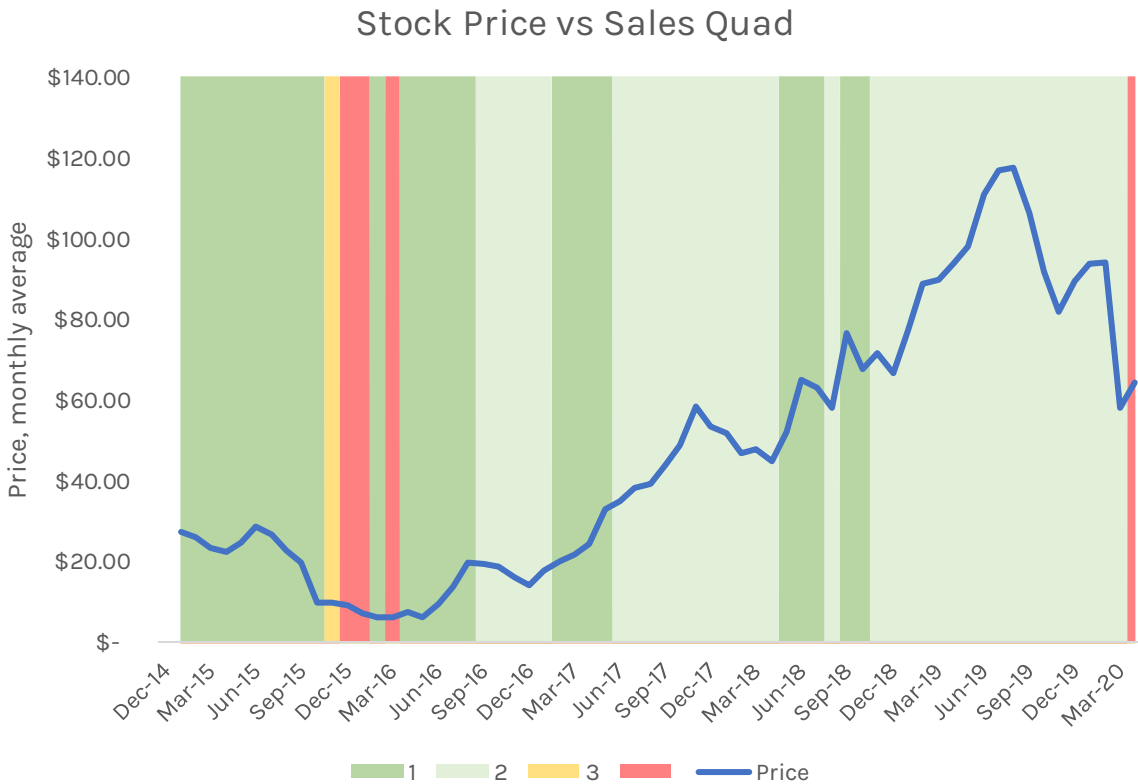
Ticker	Fundamental Quad	Fundamental Factor Correlation	Distribution		Z-score 3Y	
AMN			Bin1	Bin2	1st derivative	2nd derivative
Sales	2	0.84	1	0	0.62	-0.36
EBITDA	2	0.80	1	0	1.01	-0.38
EPS	1	0.89	0	0	0.20	0.09



EXAS Forward Estimate Fundamental Equity Quad



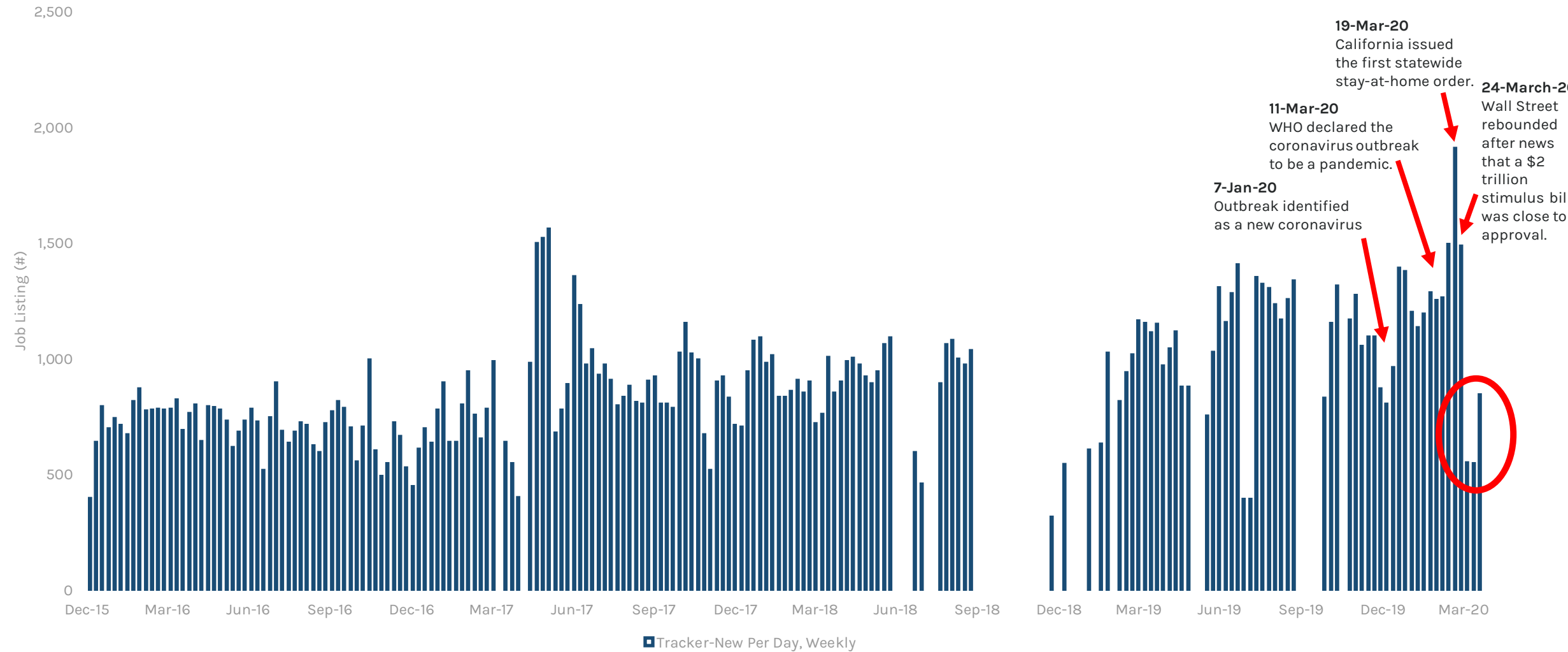
The acquisition of Genomic Health is not excluded from the forward estimate. We don't expect volume to recover as consensus anticipates and expect negative revisions and Quad 4.



The deceleration in Cologuard had already impacted the share price heading into COVID-19.

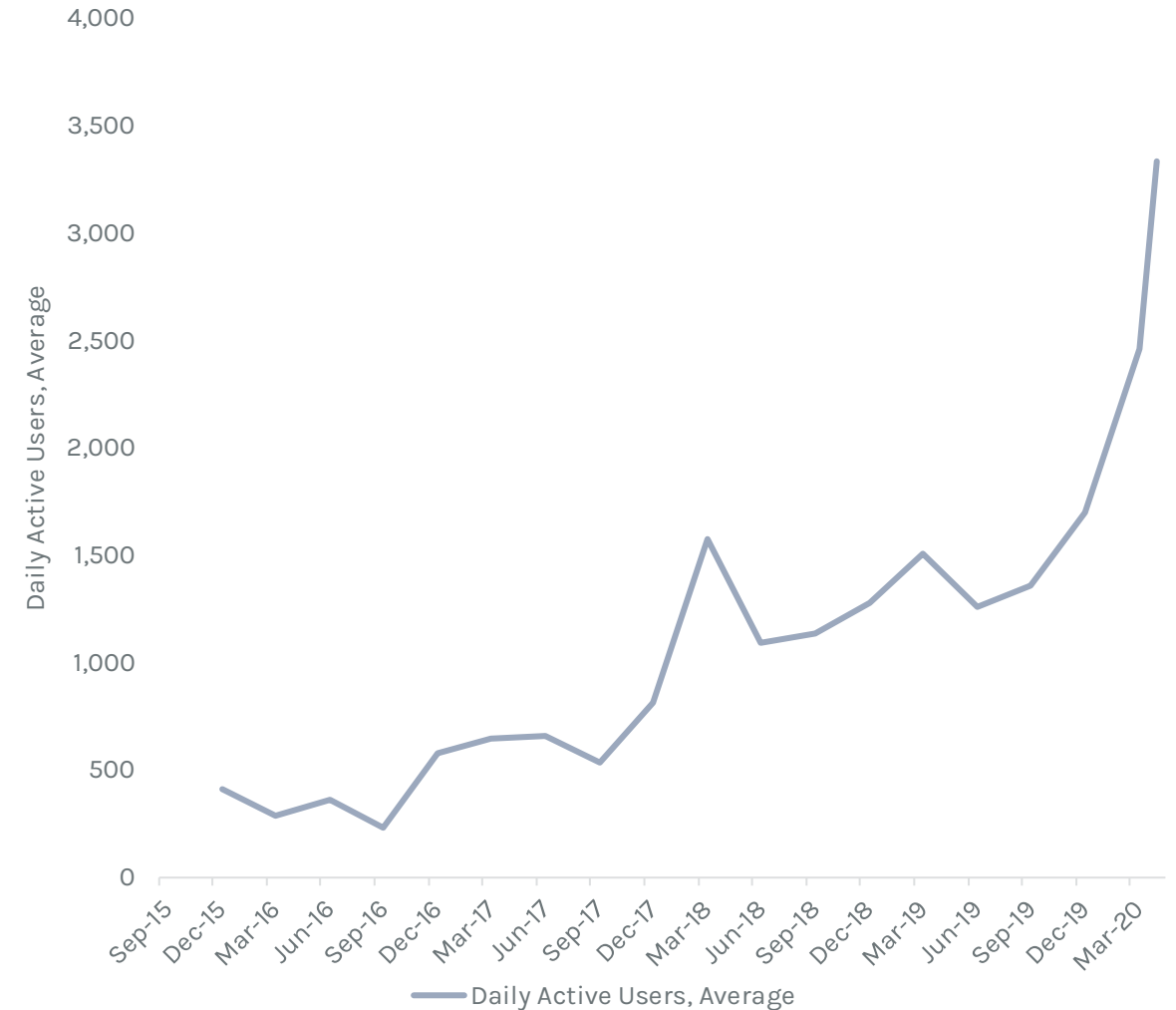
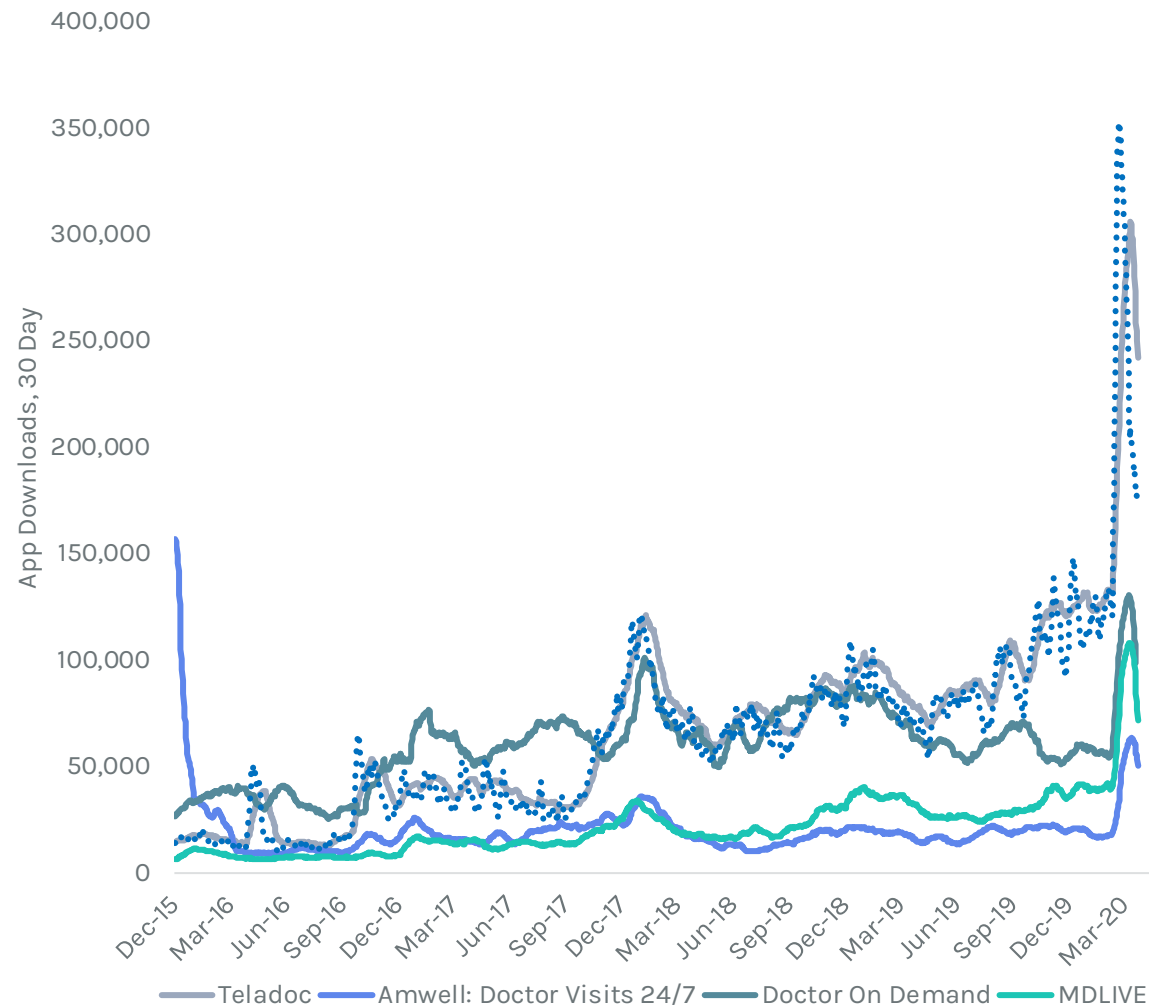
AMN Tracker | New Per Day, Weekly

Hospitals are going to open slowly and over several quarters, not recover in weeks or months



Telehealth App Downloads and Utilization

100% increase in active users per day in 2Q20



General Features of Phased “Opening” Plans

Gating Criteria

- Most states are electing to adopt some gating criteria such as those recommended by the White House Task Force
- Other states are moving onto phased “re-opening” without meeting specific requirements

Phase I

- Open restaurants and non-essential businesses with reduced occupant load and hygiene practices
- Open daycare centers and schools with social distancing and hygiene best practices in place
- Require voluntary self-isolation after travel to high prevalence areas
- Allow elective procedures to proceed on outpatient basis and determined by PPE availability
- Post-secondary education and bars remain closed.
- Aggressive testing and tracing
- Gatherings of no more than 10 people
- Strict limits on visits to nursing homes/assisted living centers

Phase II

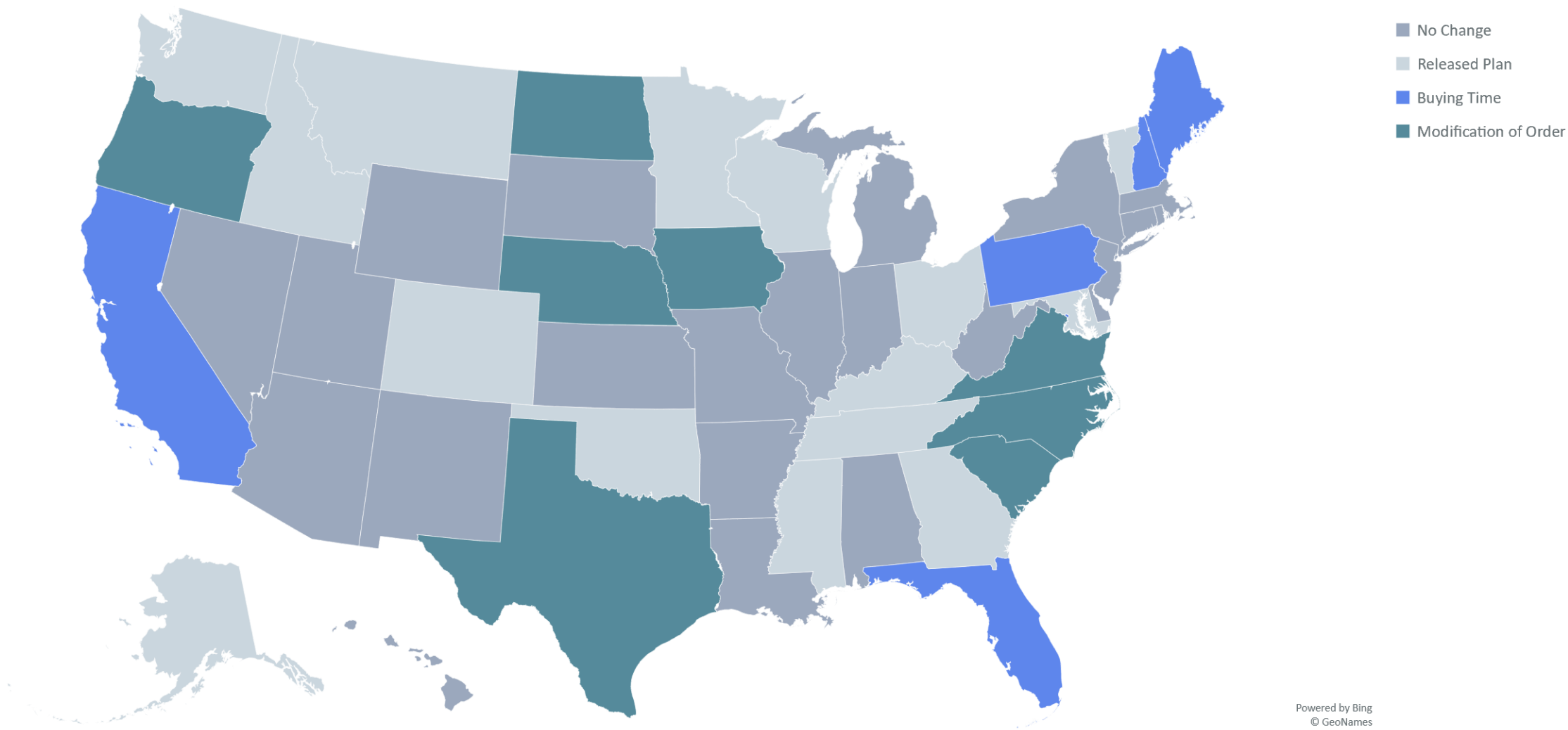
- Increase occupant load for restaurants and non-essential businesses; maintain other best practices
- Open bars with best practice such as no standing room and required social distancing
- Allow elective procedures to proceed on outpatient and inpatient basis
- Consider re-opening post-secondary educational institutions
- Aggressive testing and tracing
- Gatherings of no more than 50 people
- Strict limits on nursing homes/assisted living centers

Phase III

- All businesses and schools are open with requirements for social distancing and extreme hygiene
- Gatherings and events can proceed

State Planning For End To Executive Orders

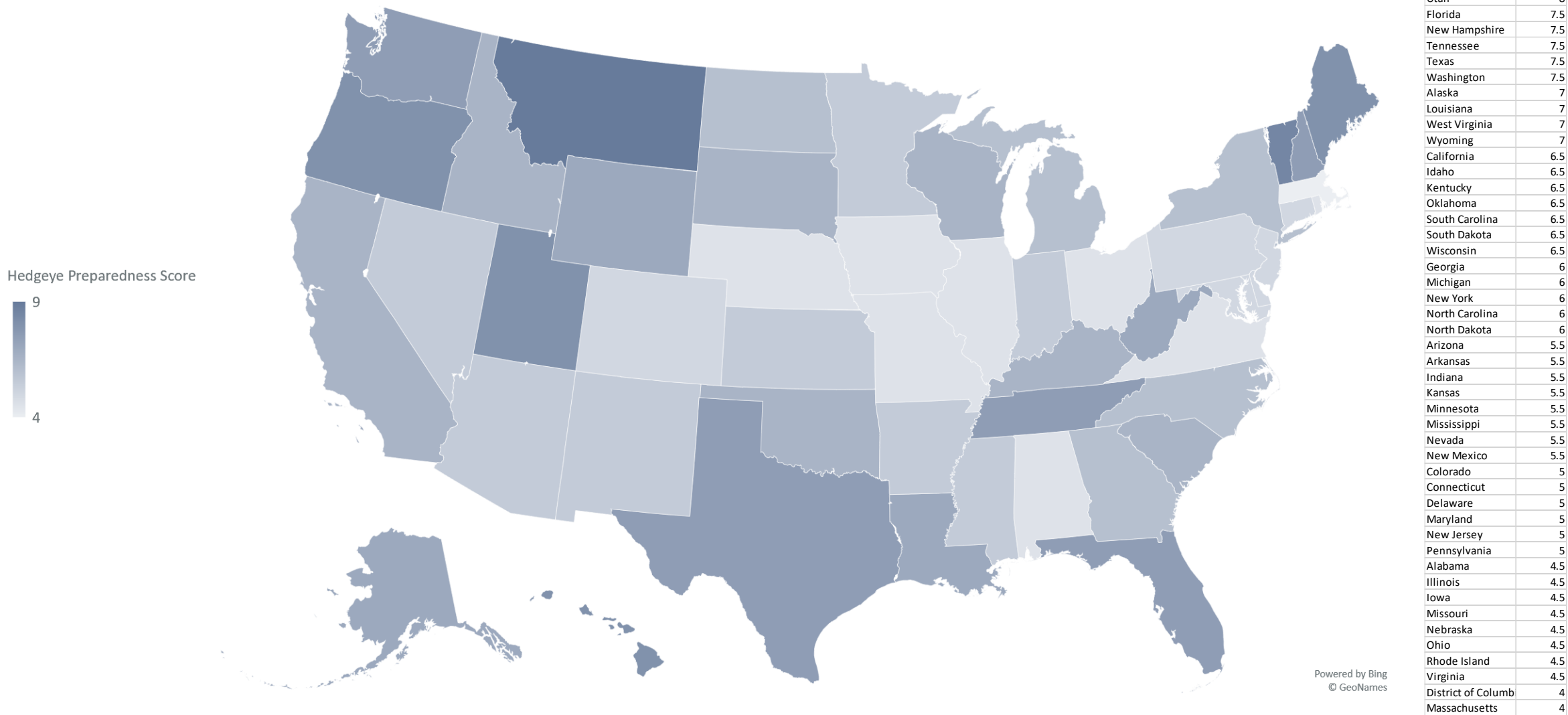
Mid-Atlantic and Northeast will lag behind rest of country



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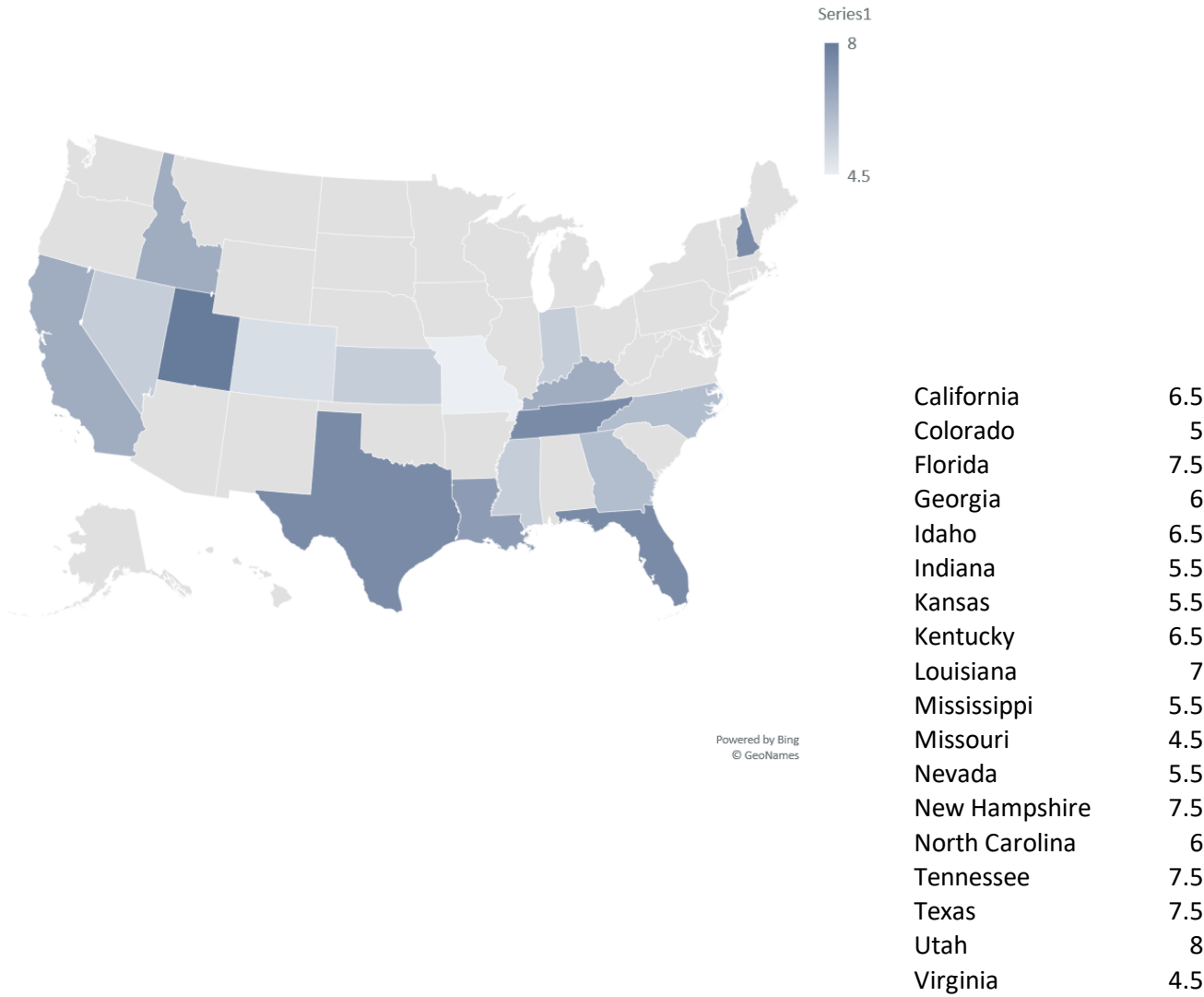
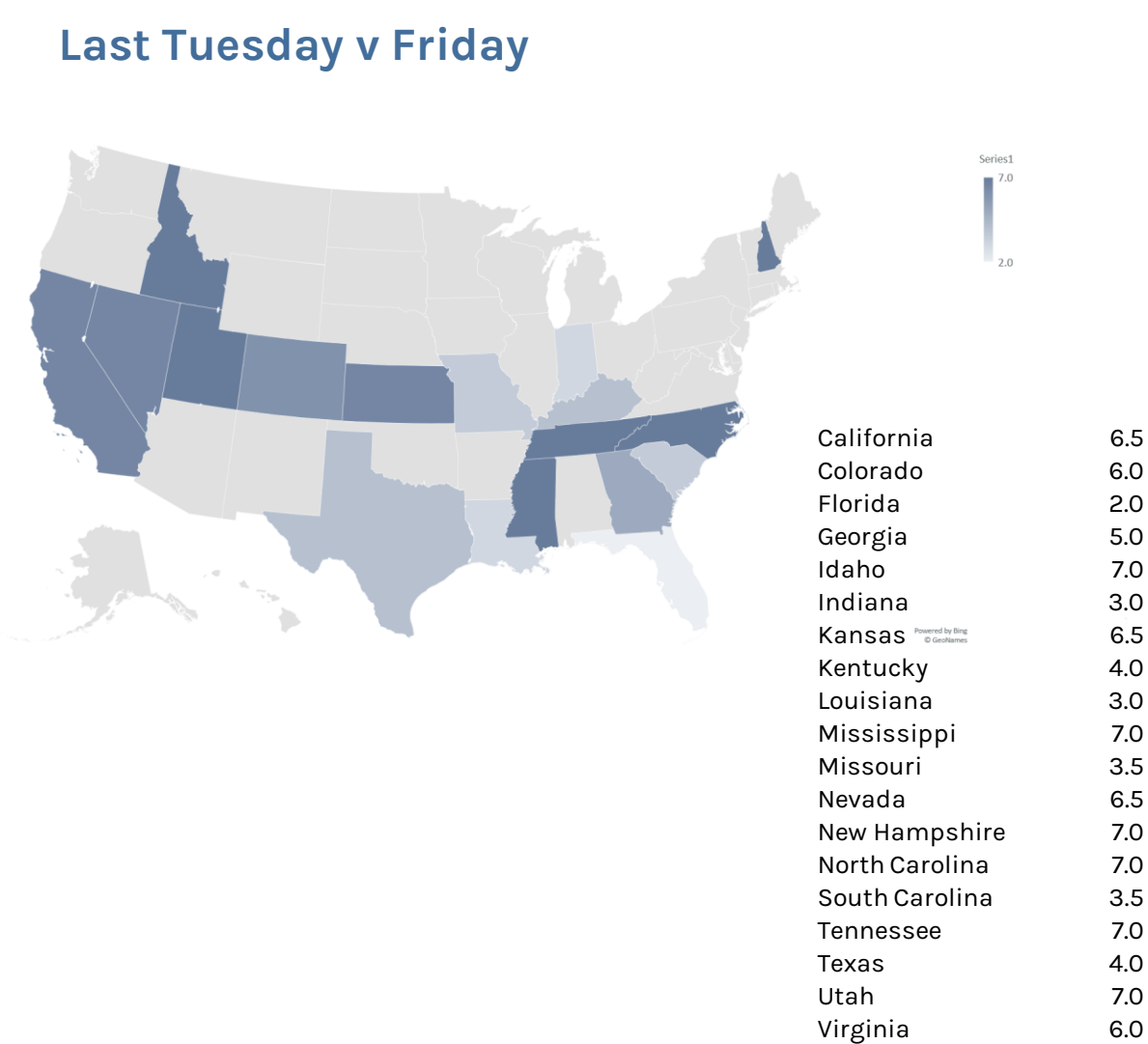
Hedgeye Preparedness Score

Most States Moving Forward Are Close to Meeting Gating Criteria



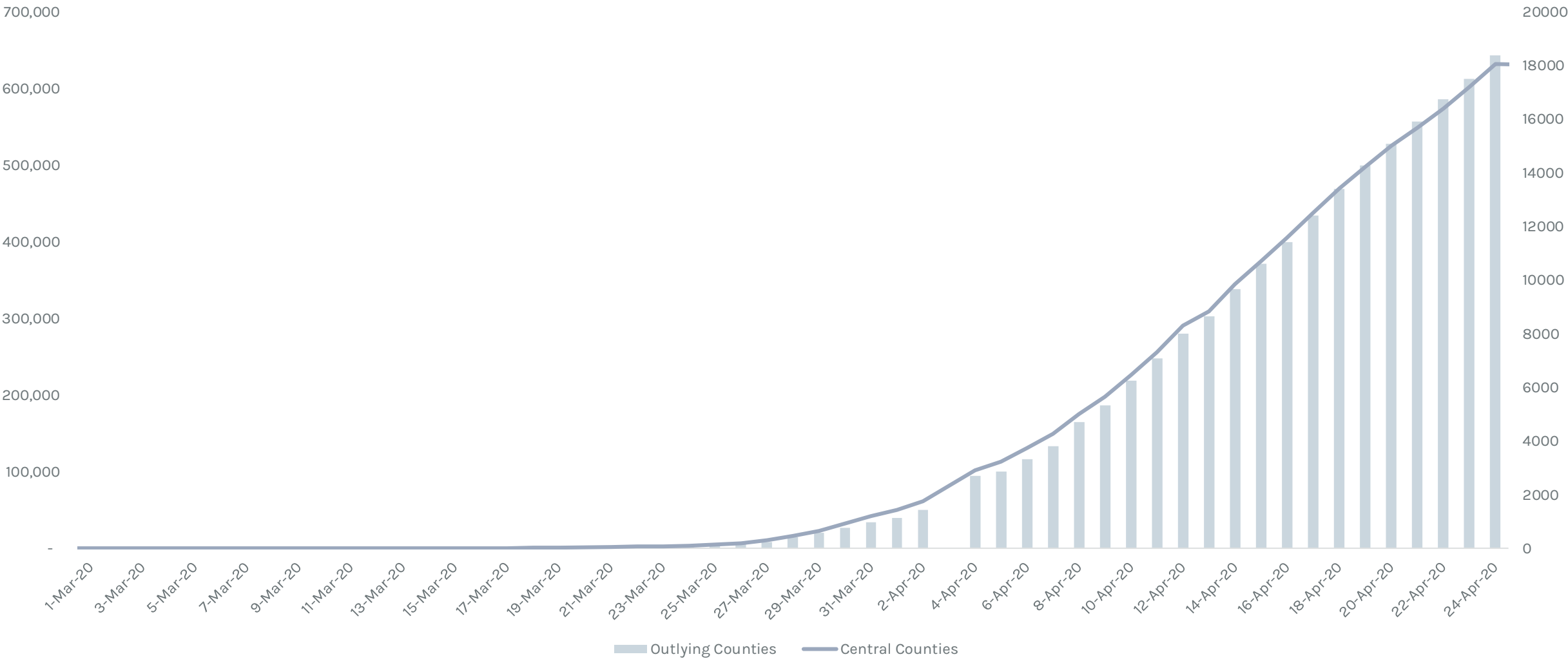
HCA Inpatient Beds/ASC ORs in Affected States

Last Tuesday v Friday



Rural Counties “Outperforming” Urban Counterparts

Largely driven by mass testing of prison populations and meat packing outbreaks



States with Five Highest DoD ROC on April 24

Rural States in top five; Massachusetts continues to struggle



Themes – A Few Ideas

Influence of >65

- How interested are boomers going to be in nursing homes and assisted living centers?
- Will their considerable political influence wane as a result of not being fully engaged in public life, limiting political support for changes to Medicare system?
- Acceleration of remote monitoring, telemedicine
- Changes or an end to post acute system?

Power Vacuum

- Boomers get sidelined, Gen X moves in but their size is nothing compared to Millennials. To keep their spot do they cease mimicking boomer priorities and take up millennials'?
- Medicare for All becomes more viable not less?
- Support for traditional Medicare silos erodes?
- Skepticism of globalization drives certain parts of the supply chain home?

Different View Of HC

- Distrust of pharma and other medical interventions
- The GOOP culture
- Emphasis on diet, exercise and other things that keep people away from system

Comfort w/Threat

- Does everyone just get comfortable living with threat as we did in 1950s?
- Living with threat makes authoritative government and regulation more attractive so health care offers more limited choices?

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