

HEDGEYE

Position Monitor:

HC Employment, HCA, TDOC, DXCM

October 7, 2019



Hedgeye Health Care

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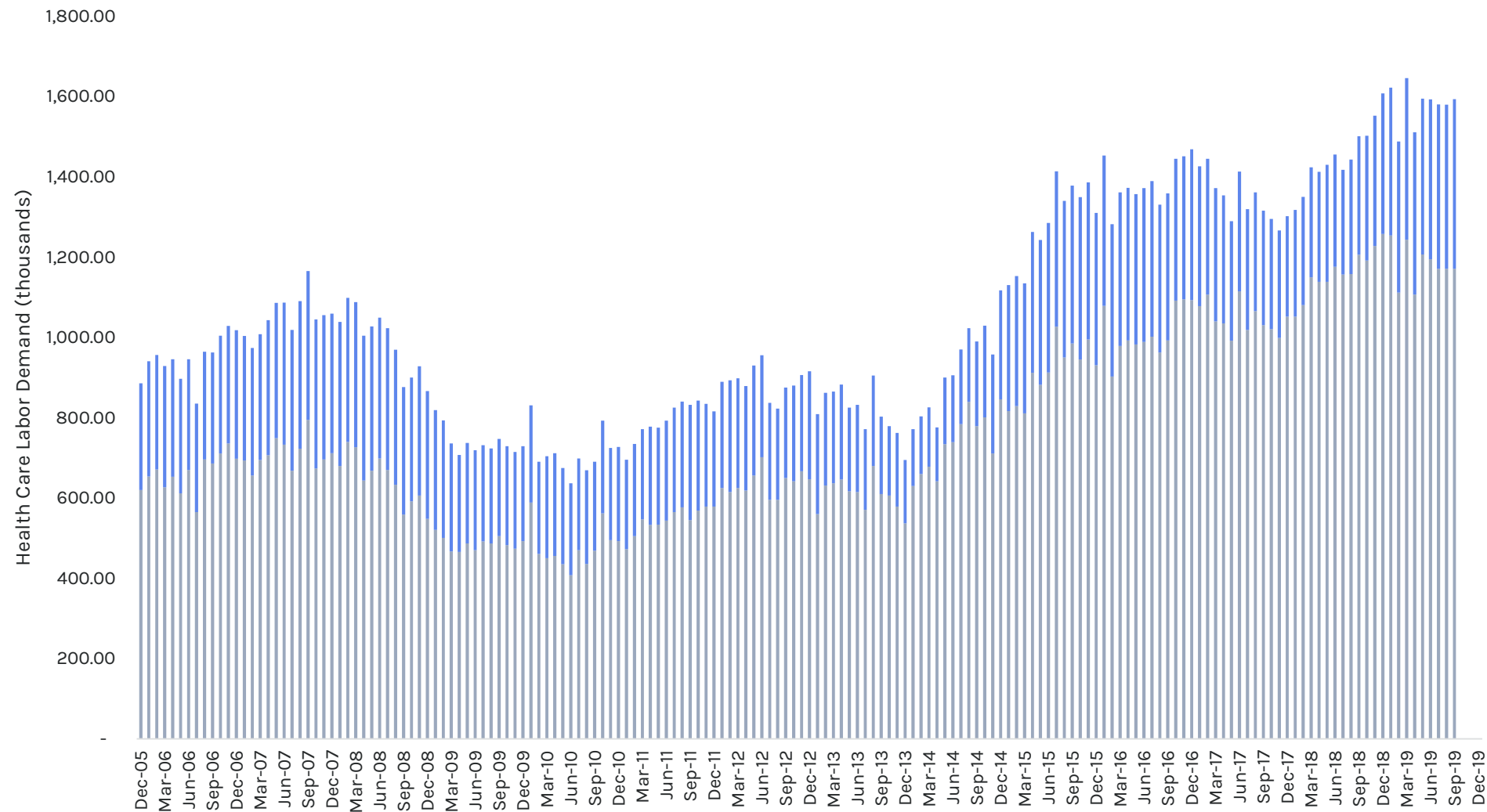
Health Care Position Monitor

For Week of October 7, 2019

Best Ideas - Longs						Best Ideas - Shorts					
LONG		Price	Mkt Cap (\$B)	Trend	Tail	SHORT		Price	Mkt Cap (\$B)	Trend	Tail
Active Longs						Active Shorts					
ANTM	Anthem, Inc.	\$ 254.98	\$65.2B	✓	✓	DVA	DaVita Inc.	\$ 61.40	\$9.8B	×	×
THC	Tenet Healthcare Corporation	\$ 25.93	\$2.7B	✓	✓	HQY	HealthEquity Inc	\$ 59.46	\$4.2B	×	×
AMN	AMN Healthcare Services, Inc.	\$ 56.07	\$2.6B	✓	---	DXCM	DexCom, Inc.	\$ 146.40	\$13.3B	×	×
ZBH	Zimmer Biomet Holdings, Inc.	\$ 142.53	\$29.3B	✓	✓						
TDOC	Teladoc Health, Inc.	\$ 69.39	\$5.0B	✓	✓						
ILMN	Illumina, Inc.	\$ 300.82	\$44.2B	✓	✓						
GH	Guardant Health, Inc.	\$ 76.33	\$7.1B	✓	✓						
Long Bias						Short Bias					
HCA	HCA Healthcare Inc	\$ 129.63	\$44.2B	---	✓	ABBV	AbbVie, Inc.	\$ 71.27	\$105.4B	---	---
UHS	Universal Health Services, Inc. Class B	\$ 154.06	\$12.5B	---	✓	MYGN	Myriad Genetics, Inc.	\$ 27.22	\$2.0B	---	---
MD	MEDNAX, Inc.	\$ 23.52	\$2.0B	---	✓	EXAS	Exact Sciences Corporation	\$ 108.45	\$14.0B	---	---
NVTA	Invitae Corp.	\$ 21.82	\$2.1B	---	✓	UNH	UnitedHealth Group Incorporated	\$ 234.28	\$222.0B	---	---
SGRY	Surgery Partners, Inc.	\$ 8.70	\$0.4B	---	✓						
GWPH	GW Pharmaceuticals PLC Sponsored ADR	\$ 141.95	\$4.4B	---	✓						
TXG	10x Genomics Inc Class A	\$ 51.00	\$4.9B	---	---						

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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.

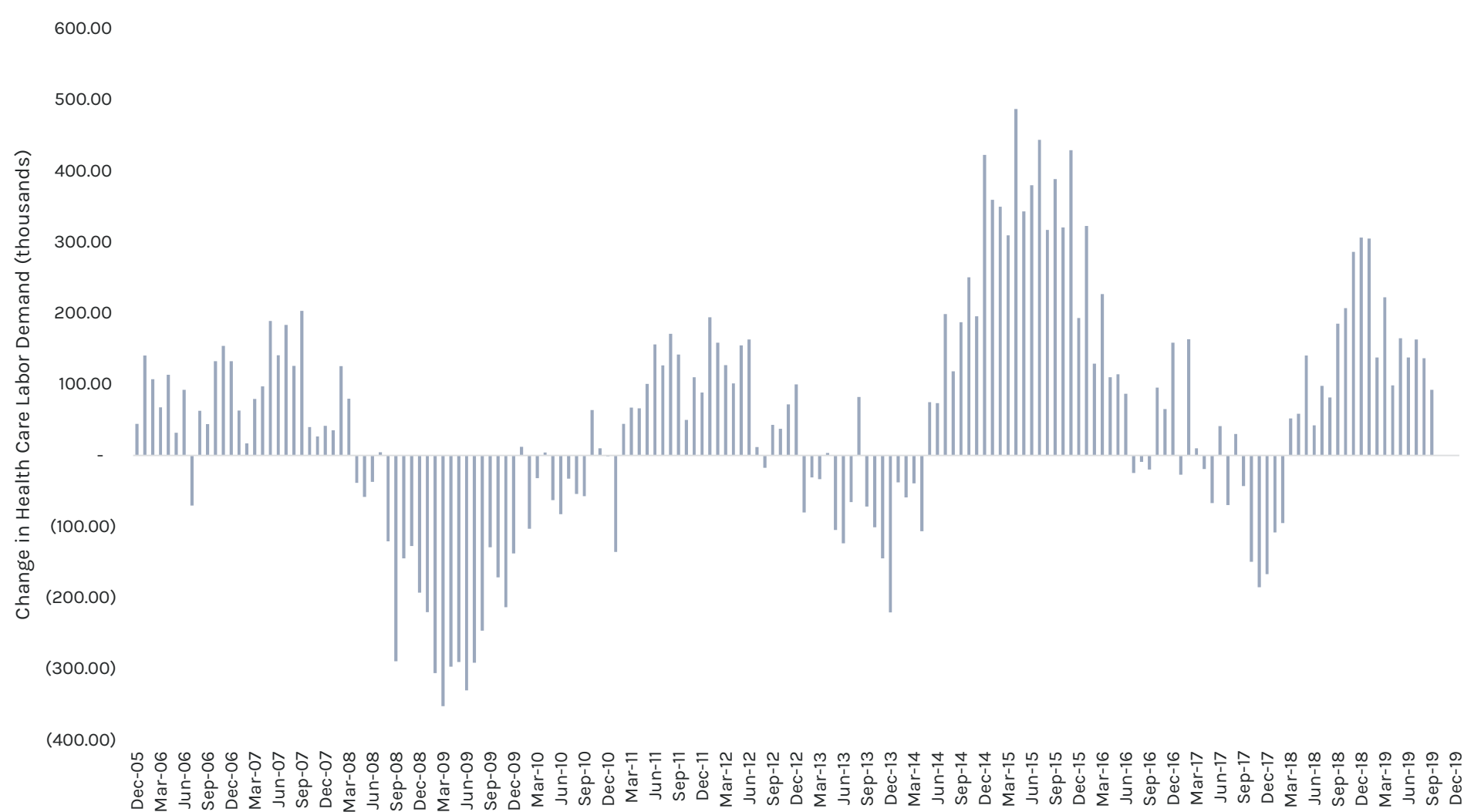
Health Care Labor Demand - September 2019



September 2019 Health Care Employment improved +422,000 year over year, the highest level in 15 years.

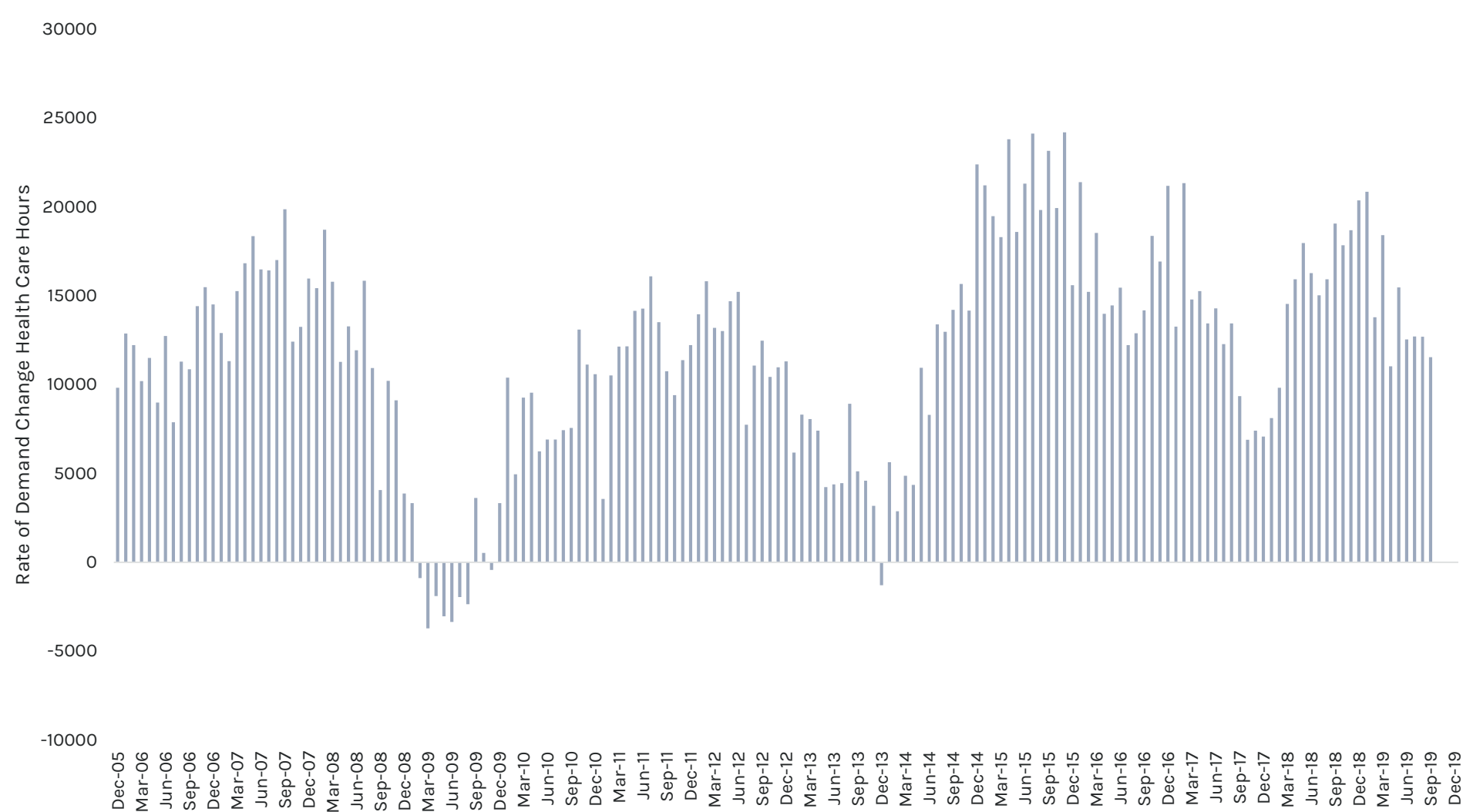
We define Health Care Labor Demand as the sum of net change in Health Care Employment plus Job Openings in Health Care. Absent technology that automates diagnosis and treatment, Health Care Labor trends should reflect underlying utilization.

Health Care Labor Demand – YoY Change



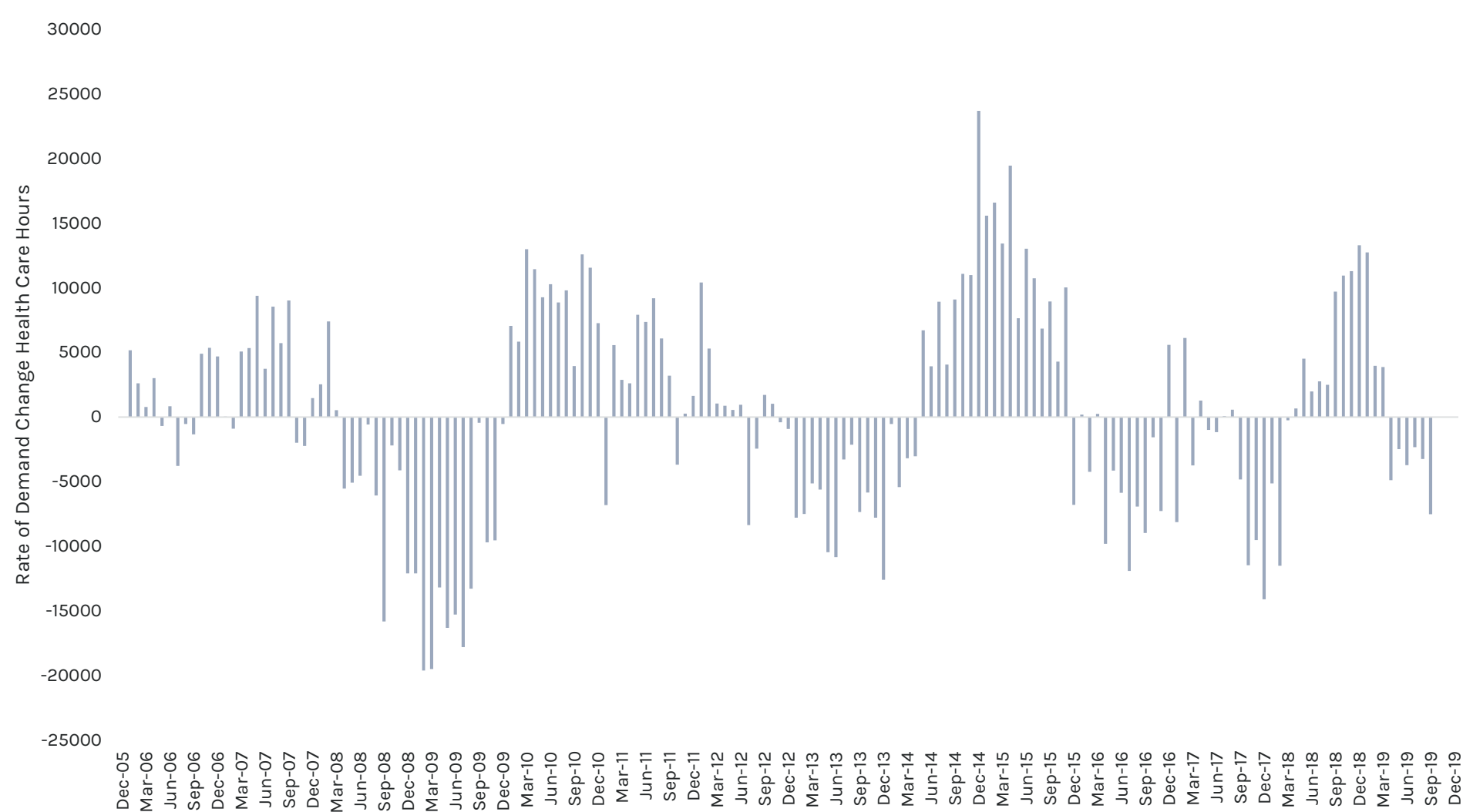
Inclusive of Job Openings, the change in Health Care Labor Demand slowed to 92K in September 2019.

Health Care Labor Hours – YoY Change



Year over year demand for Health Care Labor Hours decelerated sequentially in September. Compares steepen over the coming four months.

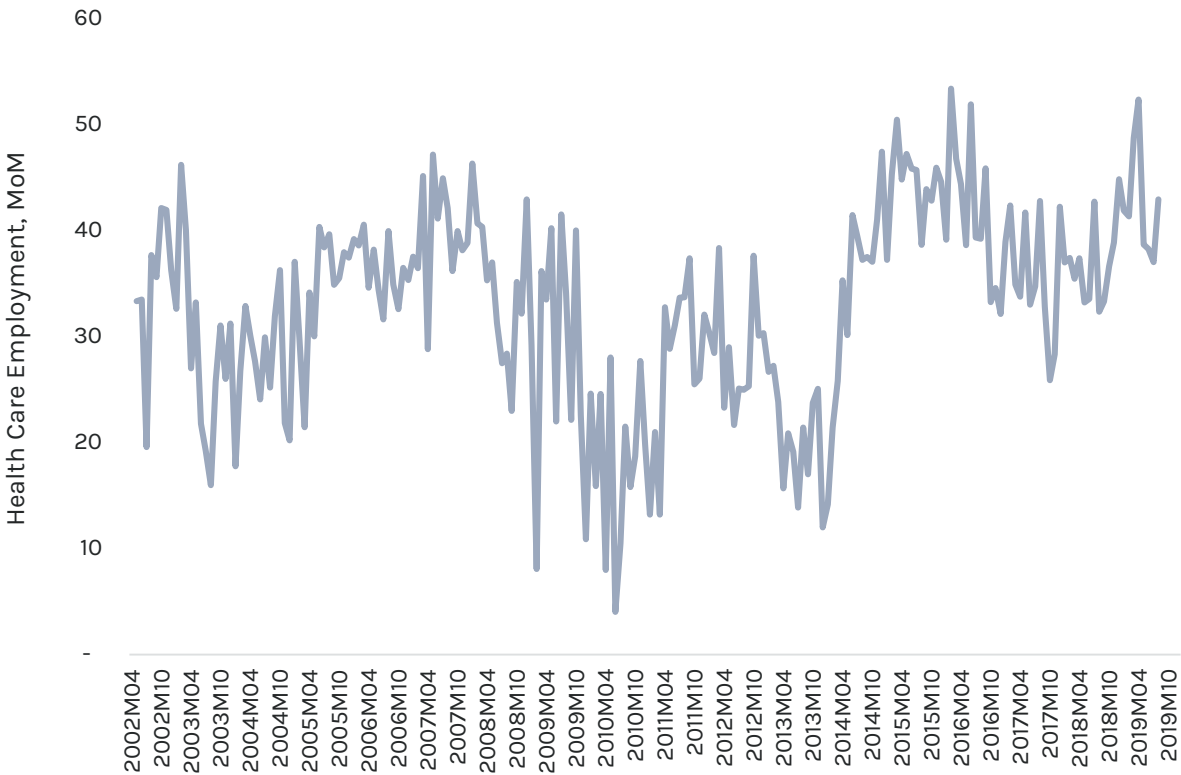
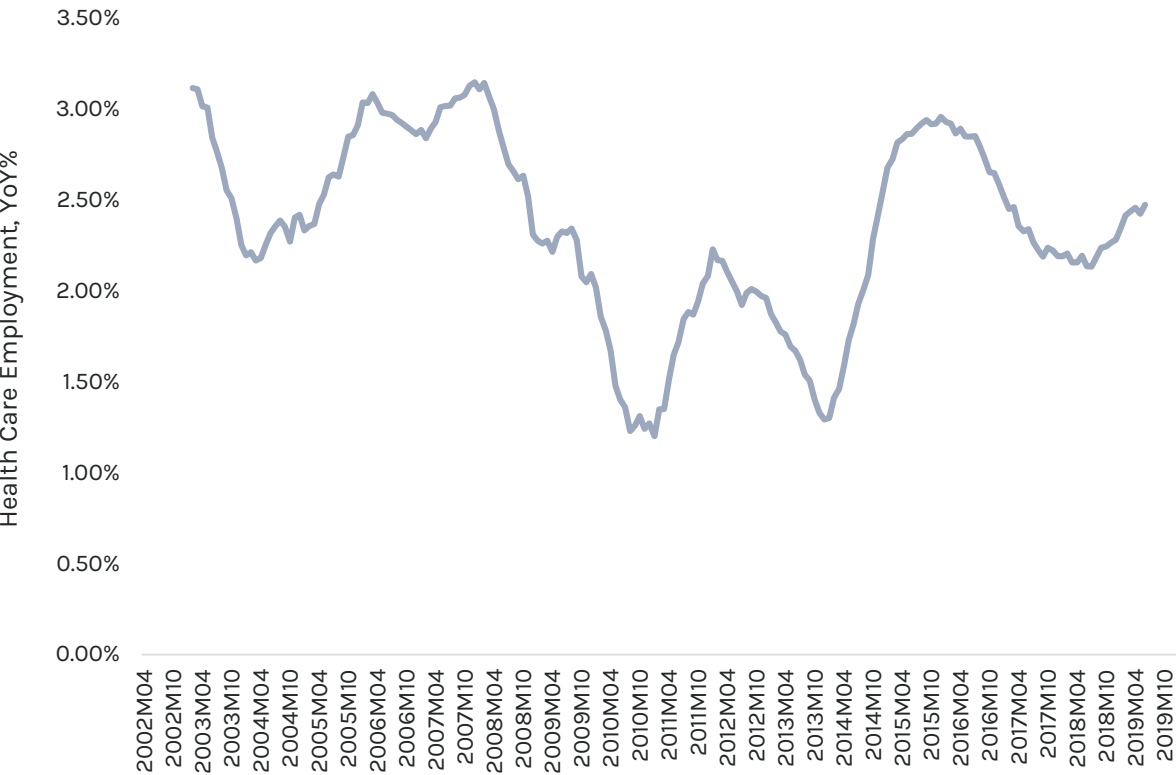
Health Care Labor Hours – Rate of Change



The second derivative Health Care Labor Hours, or the change in change, declined more sharply in September against a more difficult comparison. The level of deceleration is similar to prior.

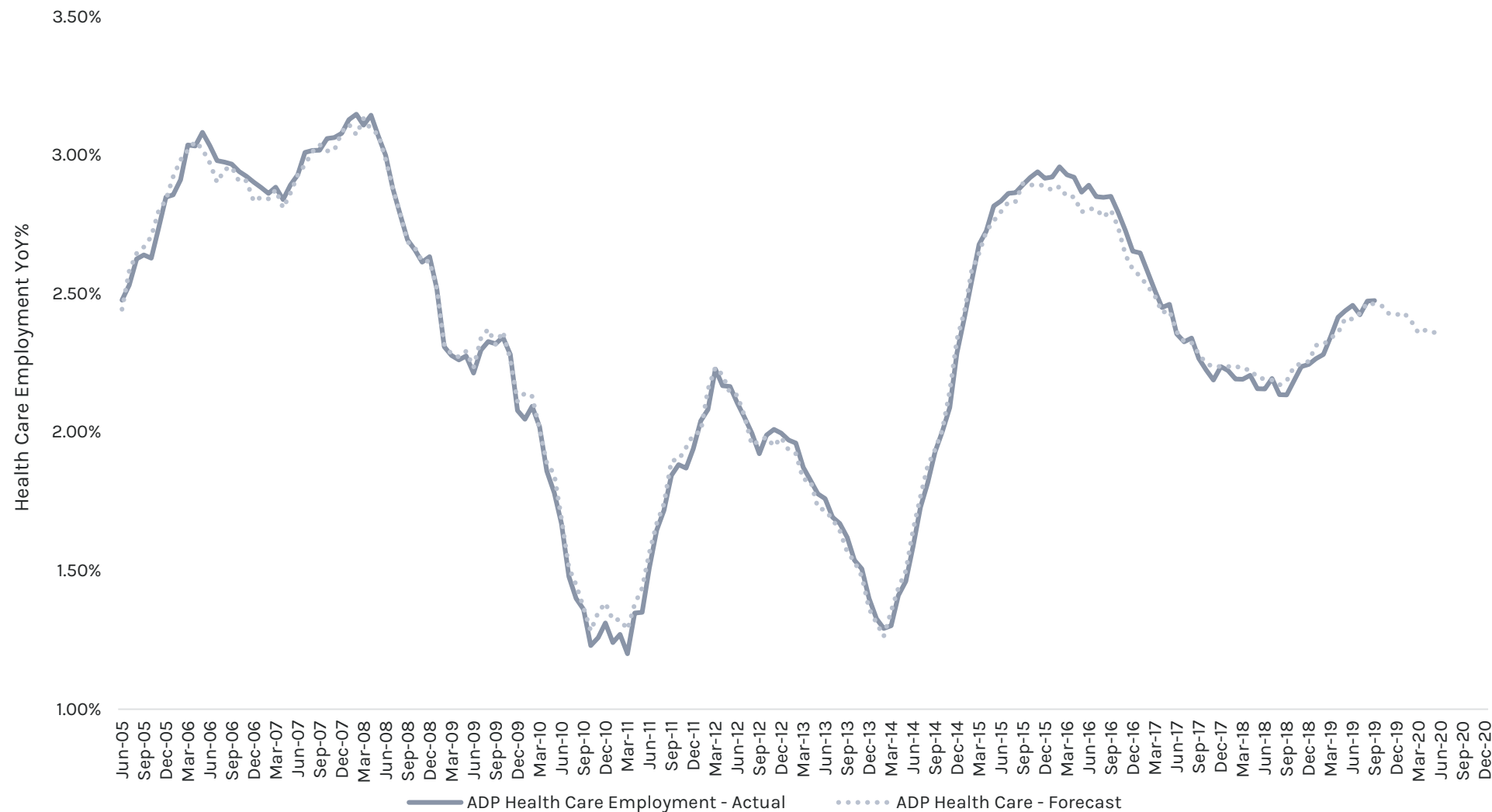
ADP Health Care Employment

YoY% and MoM



The year over year and month over month trend remain positive and near multi-year highs.

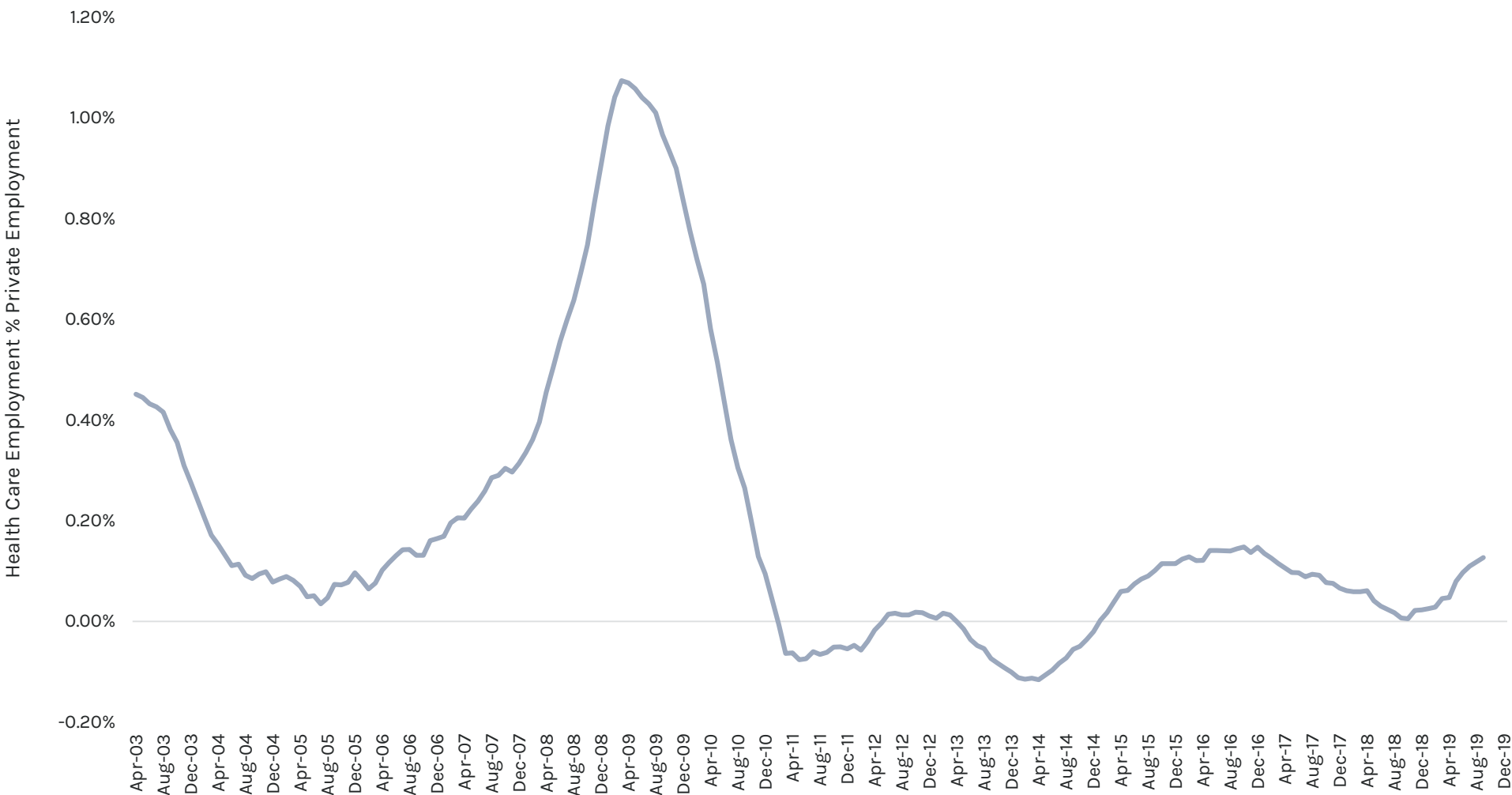
Health Care Employment



ADP Employment report shows Health Care grew 2.46% in September 2019, flat sequentially from August.

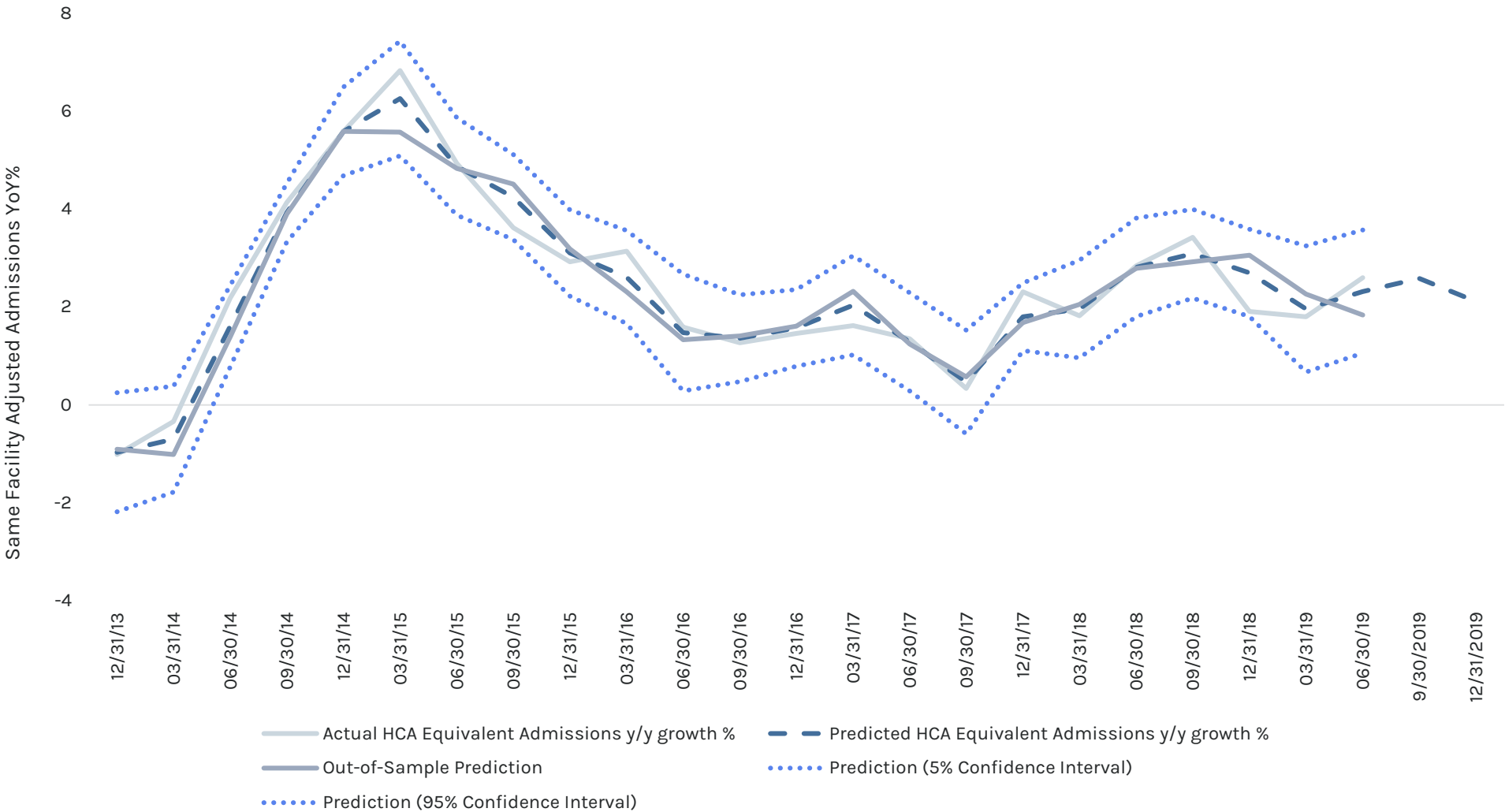
Comparisons begin to steepen as we roll into 2020, with the current forecast calling for only a modest deceleration.

Health Care vs Private Employment



Health Care Employment as a percentage of private has been trending higher since GDP growth peaked in 3Q18. The trend is inline with the previous growth scares of 2015 and 2016, and inline with 4Q06, more than a year prior to the Great Recession.

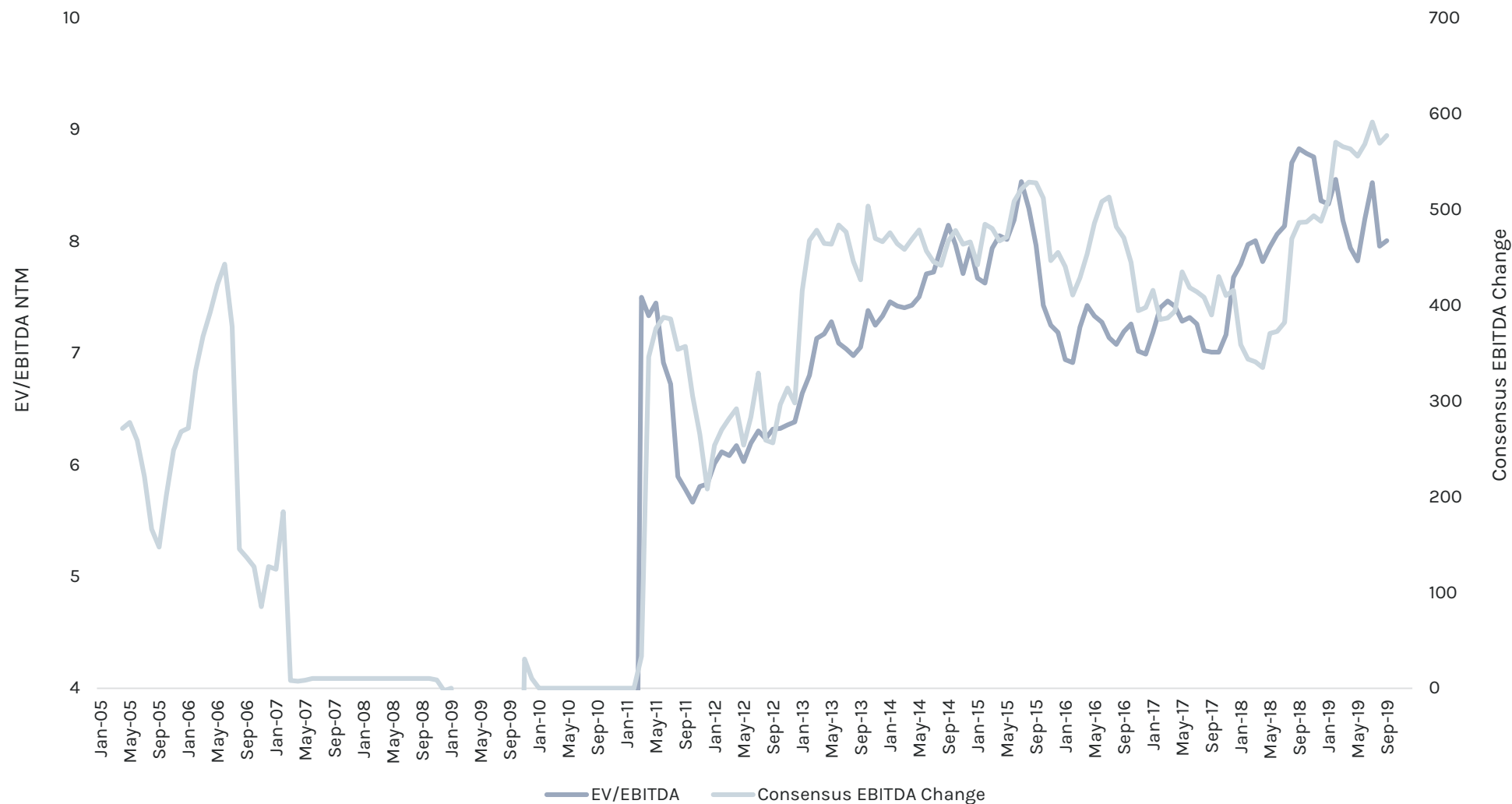
HCA Same Facility Adjusted Admissions



Drawing on publicly available data, we have constructed same-facility adjusted admission algorithm for HCA's same facility adjusted admission trend. The correlation is 0.89. The “walk forward” method tests how the method would have behaved ahead of the quarterly release.

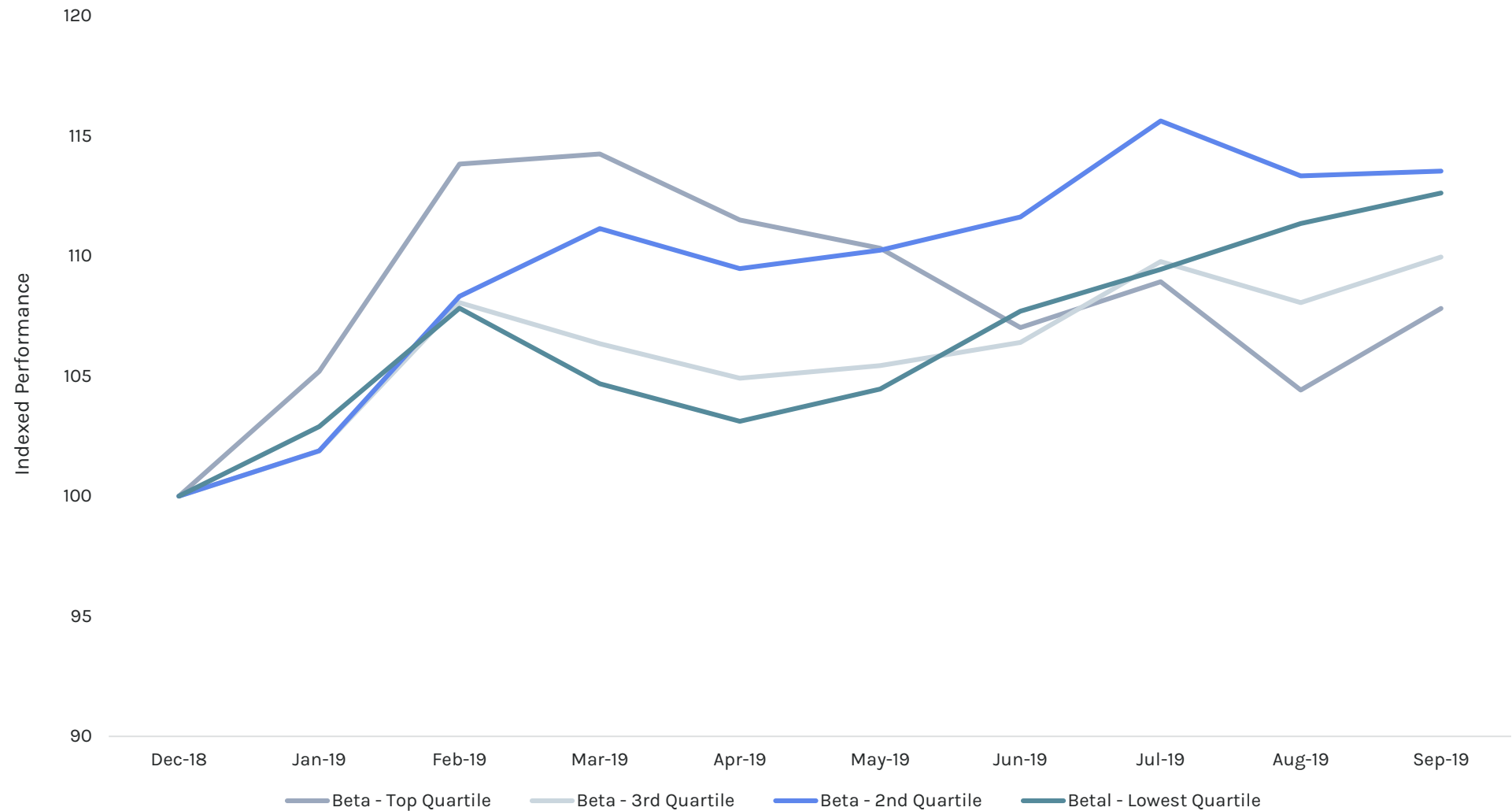
For 3Q19, the forecast is 2.6% versus consensus of 2.5%.

HCA EV/EBITDA Multiple vs YoY EBITDA Delta



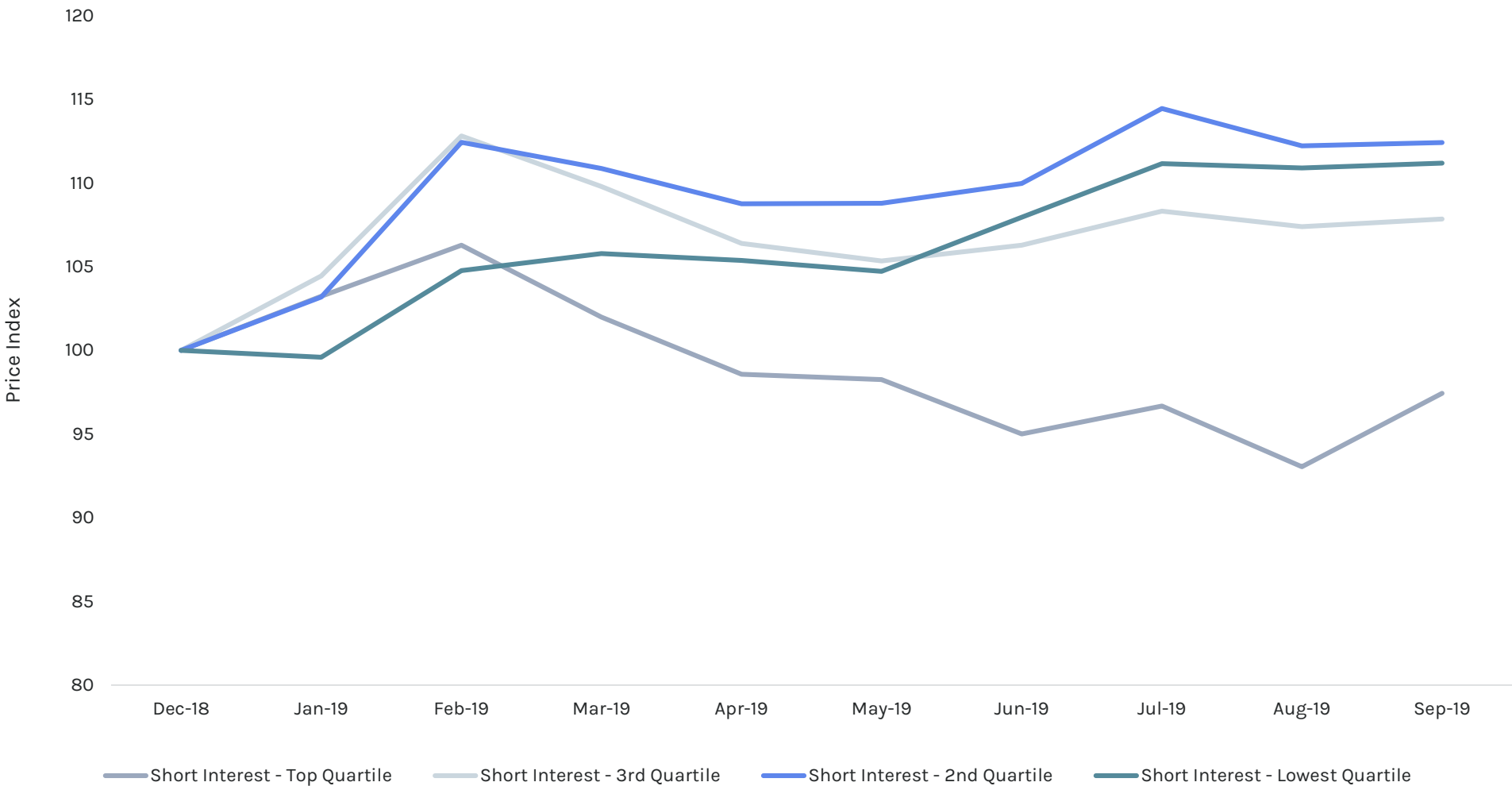
Growth comparisons remain difficult next few quarters while the EV/EBITDA multiple has come in from 2018 peak.

Beta – Performance by Quartile



We've been combing through both style and fundamental factors to enrich our screening process. YTD performance across all Health Care stocks by beta quartile show a pronounced leadership change from high beta to lower quartile beta over the last 6 months.

Short Interest – Performance by Quartile



YTD performance across all Health Care stocks by short interest quartile.

TDOC | CVS vs Medicare Advantage

CVS added more states in 3Q19, so far no announcements

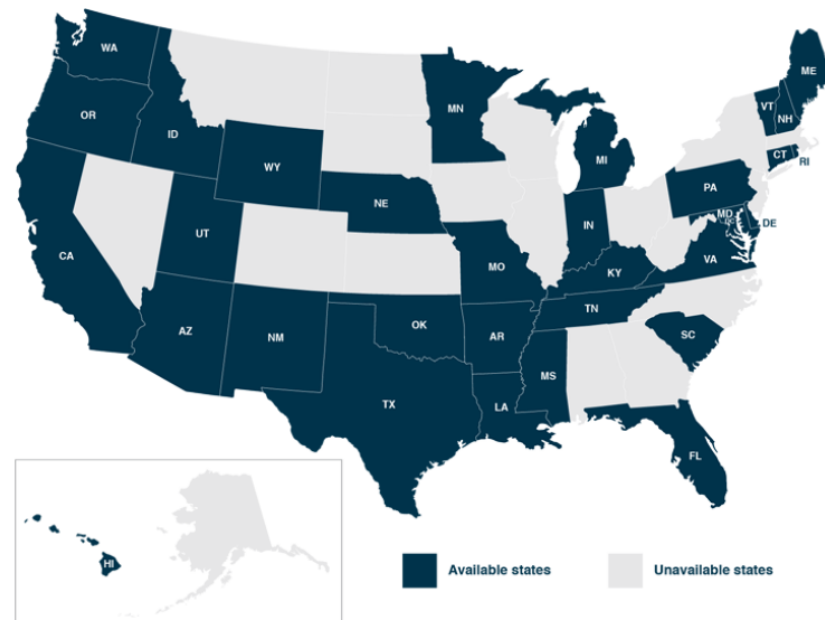
Availability & pricing

Video Visit serves 32 states and D.C., always at one low price.¹

Availability by state

We're adding new states all the time. If yours isn't listed, check back later.

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Just
\$59
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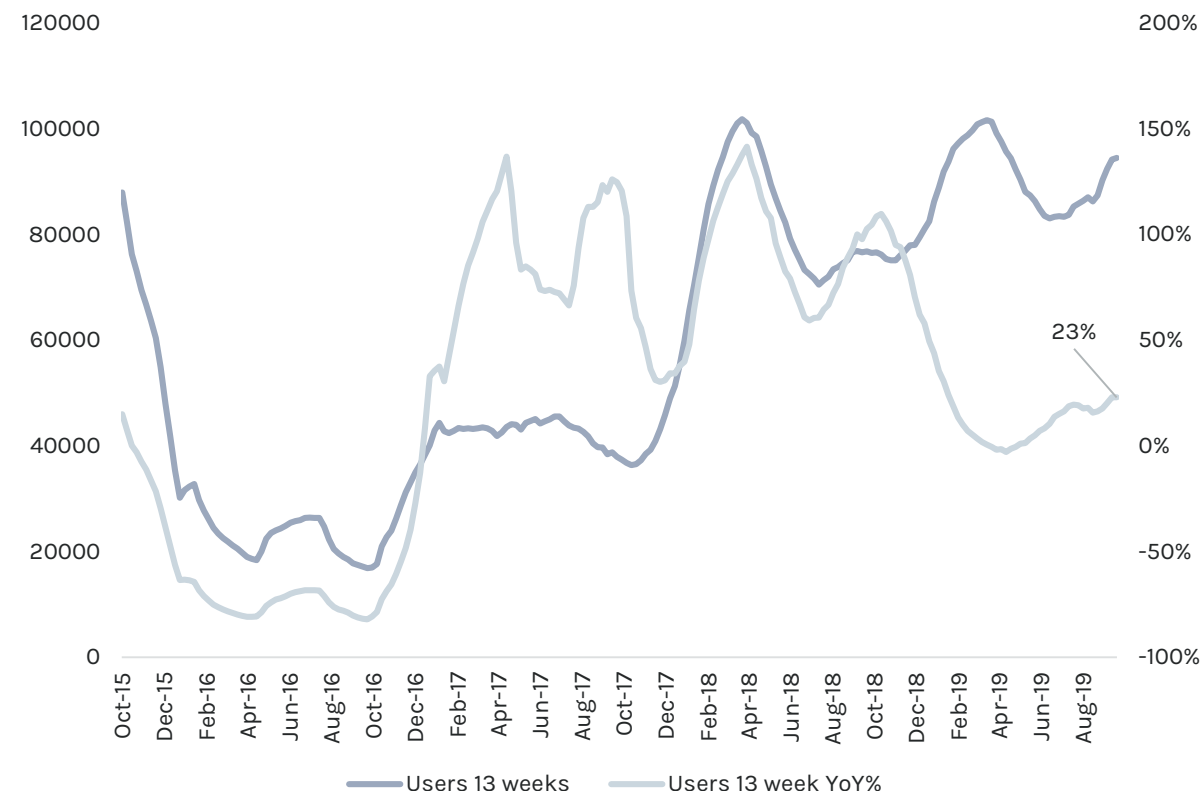
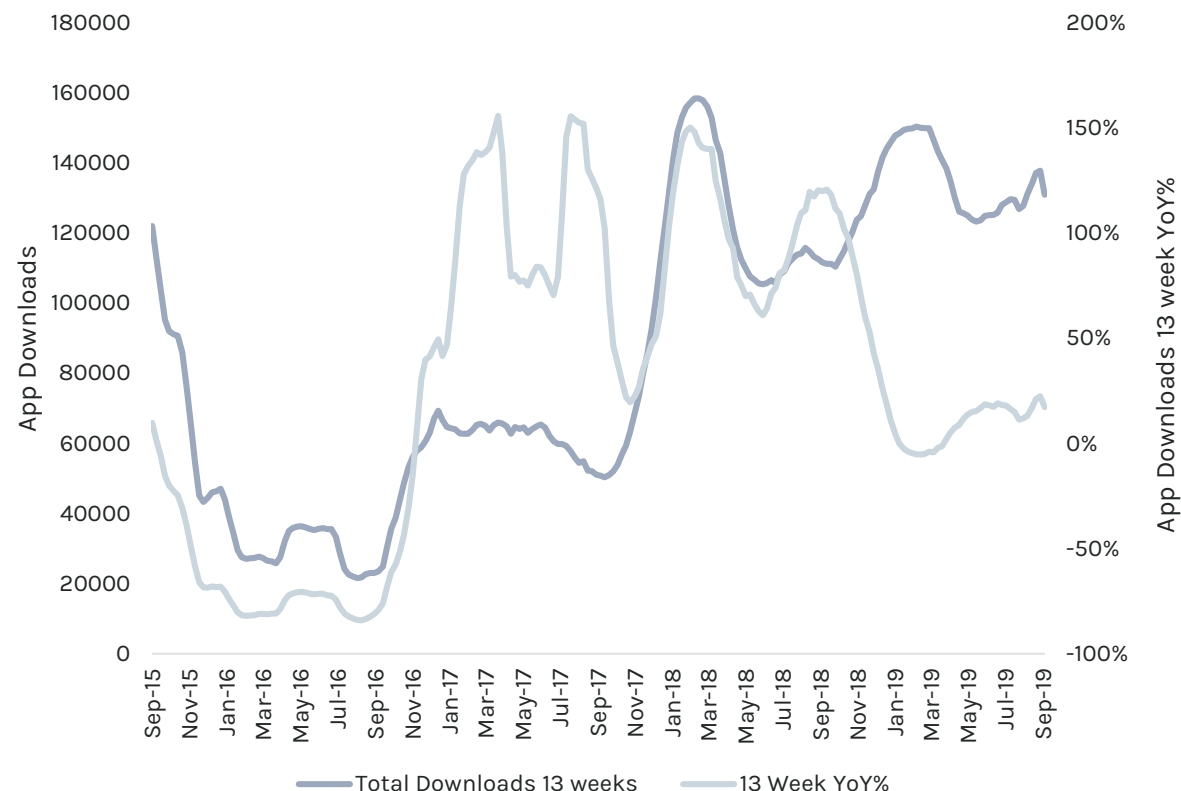
No matter your symptoms, a Video Visit with a qualified health care provider is the same low price every day.

- Pay at the time of visit
- Accepts debit/credit, FSA and HSA cards
- Insurance coverage coming soon

Initially CVS's roll out has been slow. We are more optimistic about the CVS opportunity for TDOC versus Medicare Advantage given the long tail of related patient revenue, after speaking with experts. To offset the cost of telemedicine, MA plans need to either increase reimbursement through higher STAR ratings or reduce costs, neither of which seem likely by offering telemedicine to their beneficiaries. The president's recent Executive Order may help...but probably not until 2022.

TDOC App Downloads and Active Users

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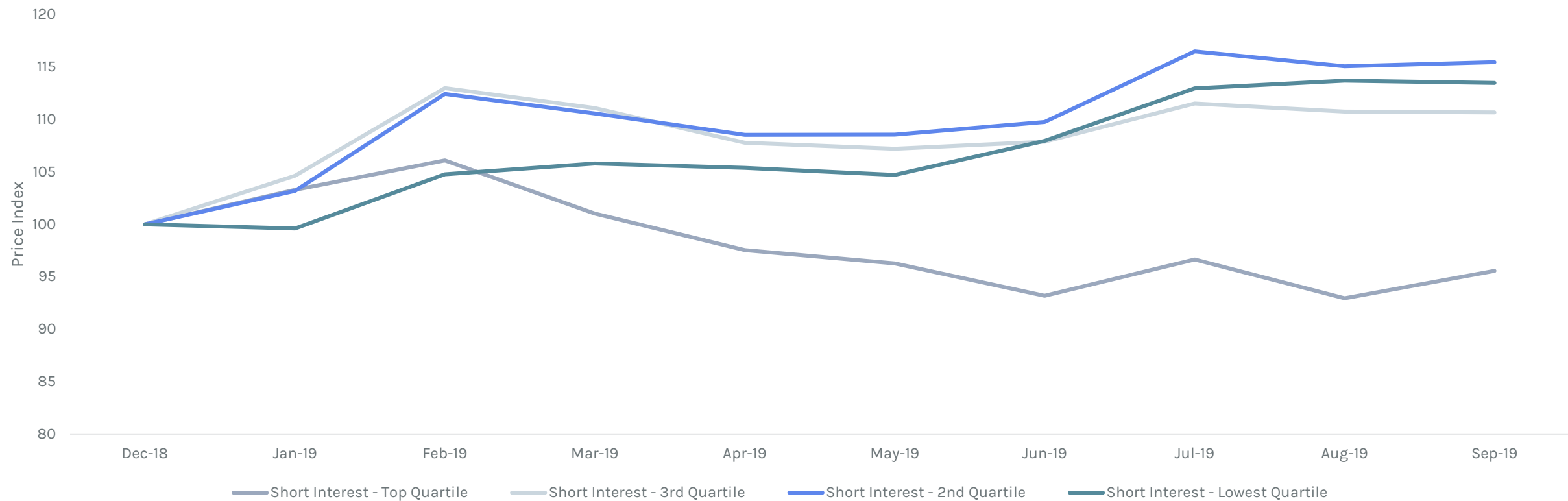


Downloads were impacted by a tougher compare and a weak flu season early in 2019. MDLive and American Well do not show the same uptick in users and downloads in September 2019.

User growth on a trailing 13-week basis through September 2019 was +23%, well above the negative trend in April 2019 and above June 2019.

Performance by Short Interest Quartile

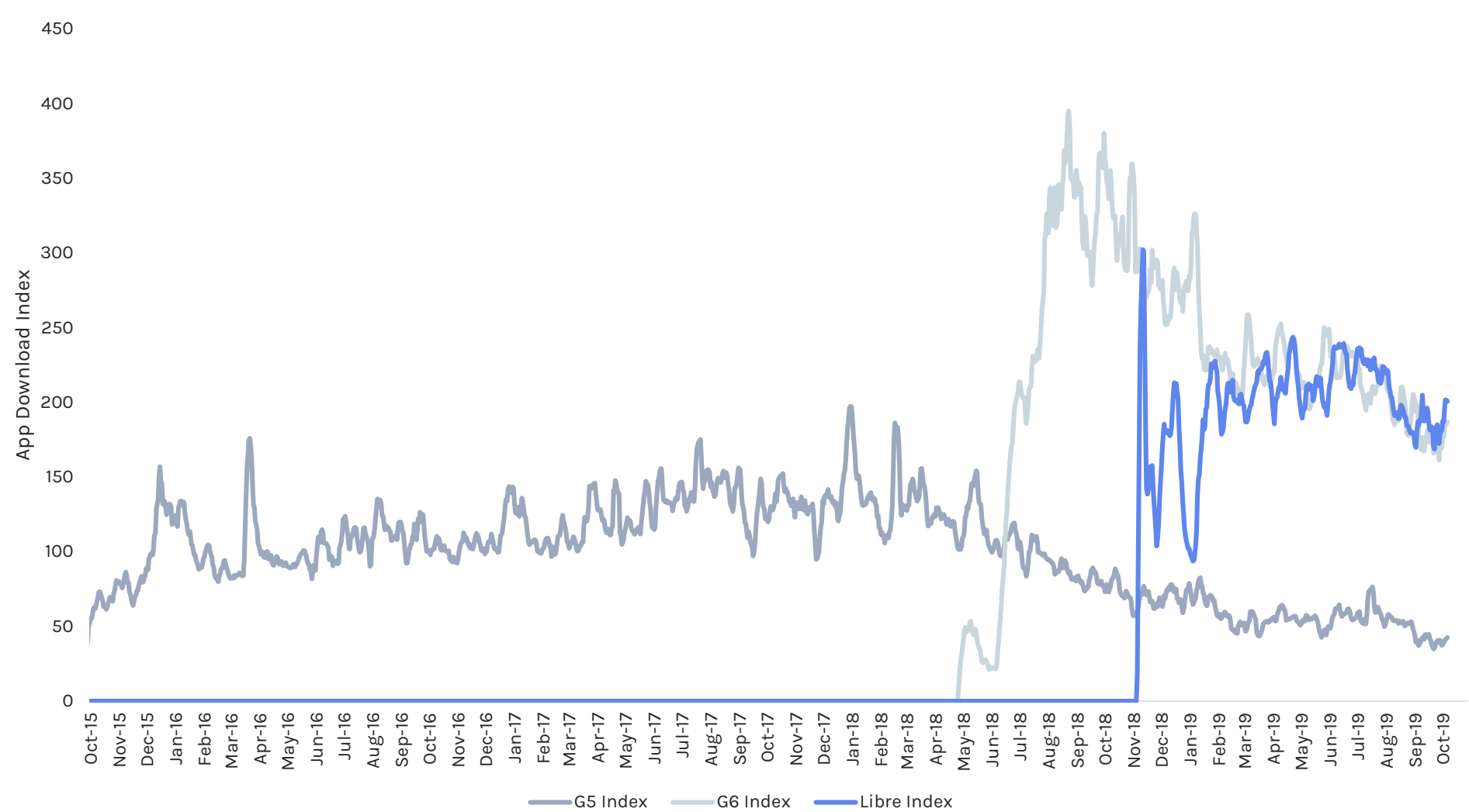
High Short interest is underperforming low short interest by 17% YTD.



Among Health Care stocks, performance by Short Interest Quartile has been a useful factor in 2019. TDOC performance had largely ignored its 34% short interest this year. Shares are down 10% to start the quarter. While it could be beta, mean reversion, or the threat of Amazon (which we doubt), it seems more likely to be short interest. In Quad 4 (growth slowing) high short Interest historically underperforms by a wide margin, and with weak ISM data, TDOC may just be catching up.

DXCM | App Downloads

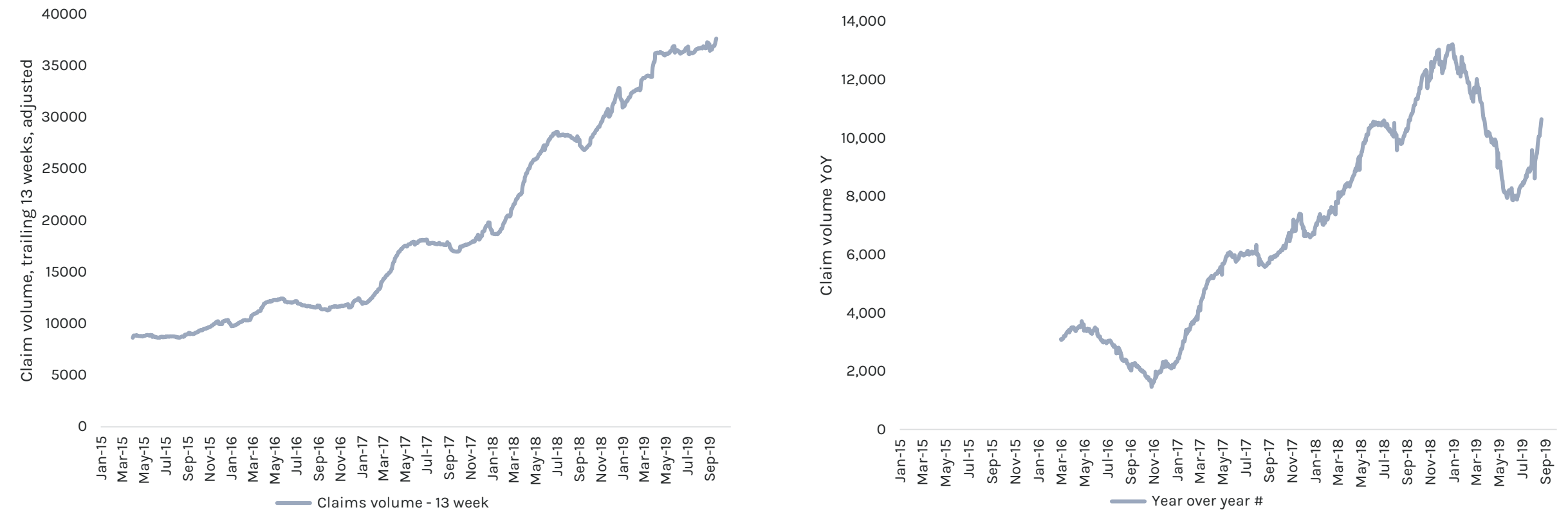
G5/G6 and Freestyle Libre



Dexcom G5/G6 and Abbott's Libre downloads have been slowing through the summer months. Anecdotally, physicians report patient reluctance to start or use CGM in warmer months. As a percentage of cumulative G5 downloads, G6 is at ~70%.

DXCM | CGM Claims

CGM Data interpretation medical claims volume and YoY

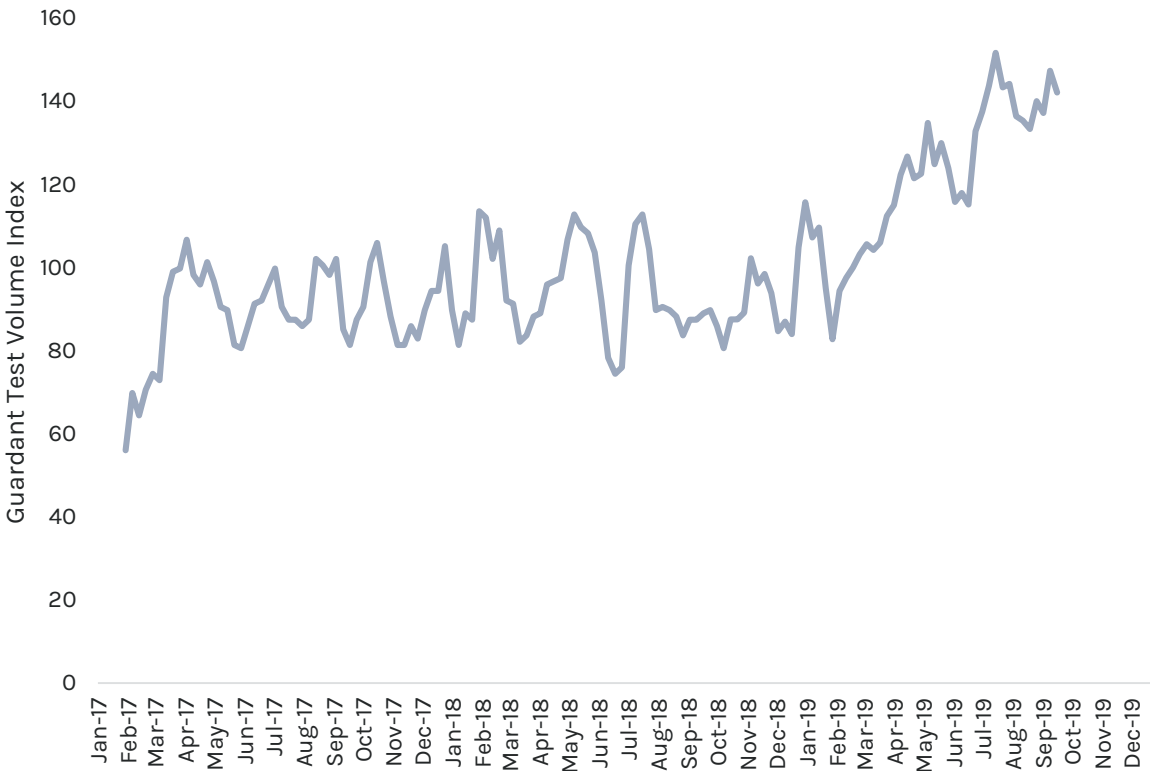


When a diabetic patient using CGM sees a physician, the CGM data is downloaded and reviewed, and the office submits a medical claim. That claims volume demonstrates patient utilization of CGM device across all products.

Guardant Index and Volume by Diagnosis Code

Data based on claims submitted

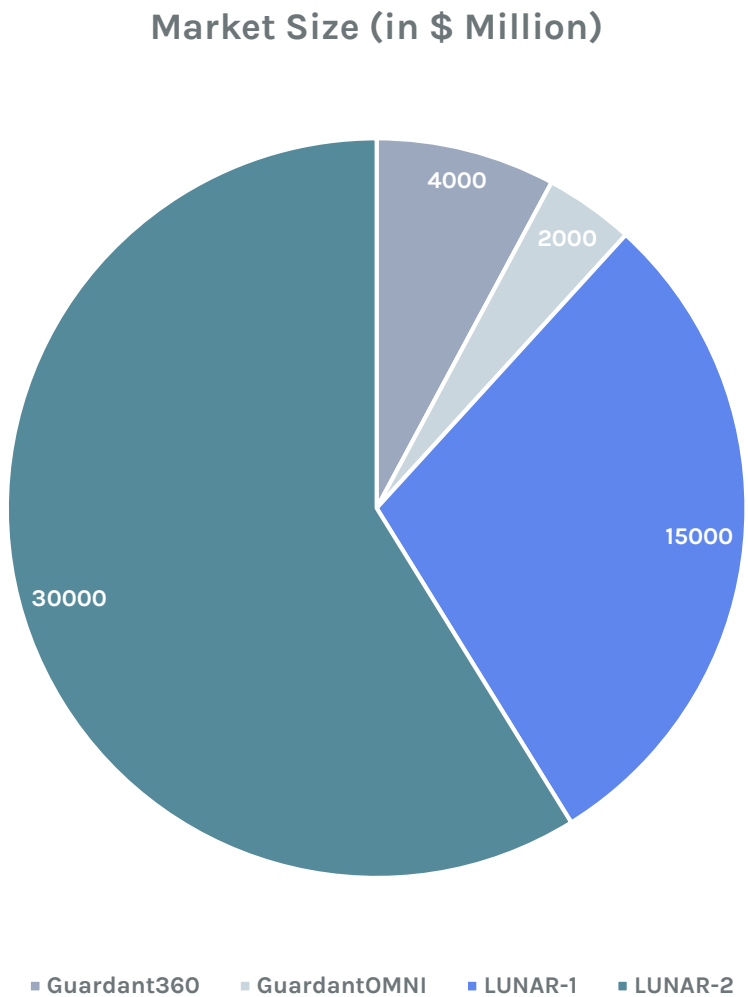
Tissue	Diagnosis Code	Count
Lung	C34	45%
Breast	C50	9%
Colon	C18	7%
Prostate	C61	6%
Pancreas	C25	4%
Intrahepatic bile ducts	C22	3%
Stomach	C16	3%
Unspecified	C80	3%
Rectum	C20	2%
Esophogus	C15	2%
Ovary	C56	2%



Over half the use of Guardant tests is for something other than lung cancer.

The Promise of a Large TAM

Has suspicion of the SoftBank TAM crept into GH?



Product	Market Size (Patients in Millions)	Expected number of test per patient	Market Size (in \$ Million)
Guardant360	0.7	2	4000
GuardantOMNI		3	2000
LUNAR-1	15	1	15000
LUNAR-2	35		30000
			51000

Upside to Consensus 2H19

TAM fatigue or no, we can model upside to volume and revenue 3Q19

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	2019
Clinical Customers Test Volume, # of tests	7,246	6,369	7,027	8,596	9,521	11,875	13,190	15,332	49,918
Biopharmaceutical Customers Test Volume, # of tests	2,234	2,622	2,505	3,009	3,762	5,285	5,000	5,000	19,047
Total Test Volume, # of tests	9,480	8,991	9,532	11,605	13,283	17,160	18,190	20,332	68,965
Clinical Revenue	7.3	9.6	9.6	17.3	17.2	21.8	24.2	28.1	91.4
Biopharmaceutical Revenue	6.9	8.2	8.7	10.8	11.6	20.3	19.2	19.2	70.2
Development Services	2.5	1.6	3.4	4.8	7.8	11.9	7.0	7.0	33.7
Total Revenue	16.7	19.4	21.7	32.9	36.7	54.0	50.4	54.3	195.3
Clinical revenue per test	1,006	1,507	1,359	2,007	1,807	1,836	1,836	1,836	1,830.2
Biopharma revenue per test	3,089	3,136	3,491	3,603	3,093	3,834	3,834	3,834	3,687.9

An additional 5,000 tests at \$1836.00 adds \$9.1M to the topline above the \$180-190M guidance. We backed into Biopharmaceutical testing and Development Service revenue. Consensus revenue for 3Q19 and 4Q19 is \$45.7M and 50.2M, respectively.

Key Thesis Points

1 On pace for 49,000 Clinical Tests

Current guidance is 44,000-46,000 tests for 2019. Based on our Index, volume for 2019 will beat volume.

2 2019 Revenue forecast of \$195M

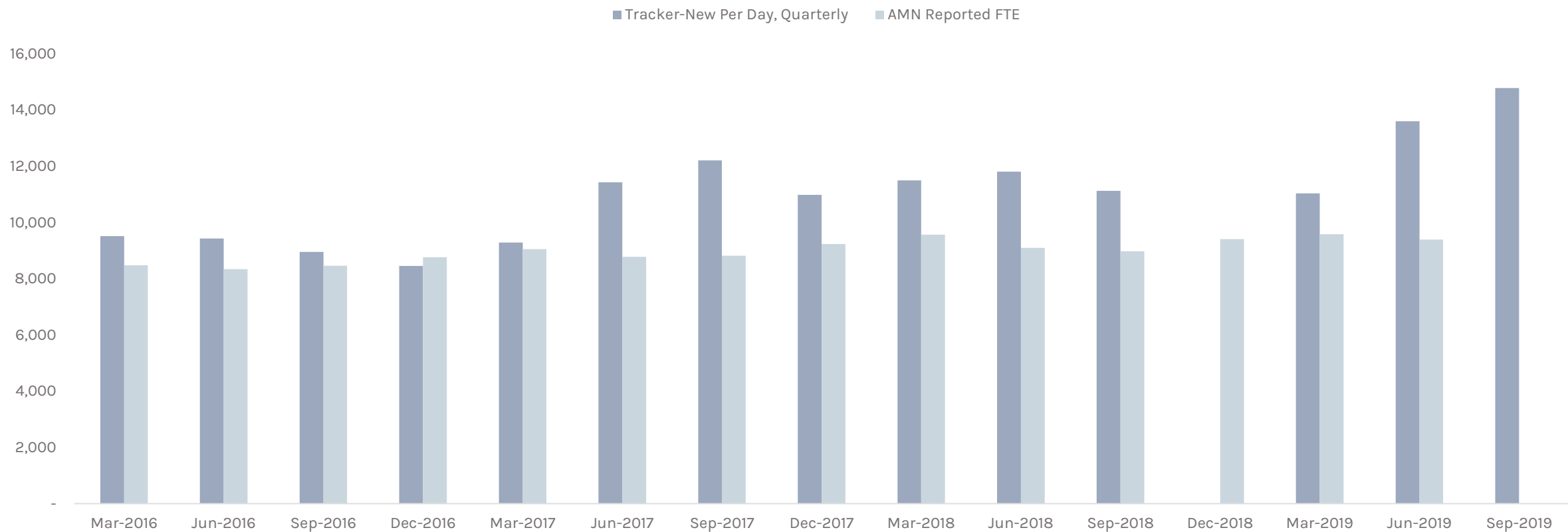
All else being equal, the additional clinical testing volume adds \$10M to revenue compared to 2019 guidance of \$180M to \$190M.

3 Assume a Large TAM

Investor appetites for audacious TAM forecasts, such as GH's \$50B outlook, have soured in 2019. For GH, this has meant a 43% decline in shares from the peak to an EV of \$5.6B. Any positive update along any of the clinical development programs could dramatically reverse sentiment.

AMN | Accelerating postings

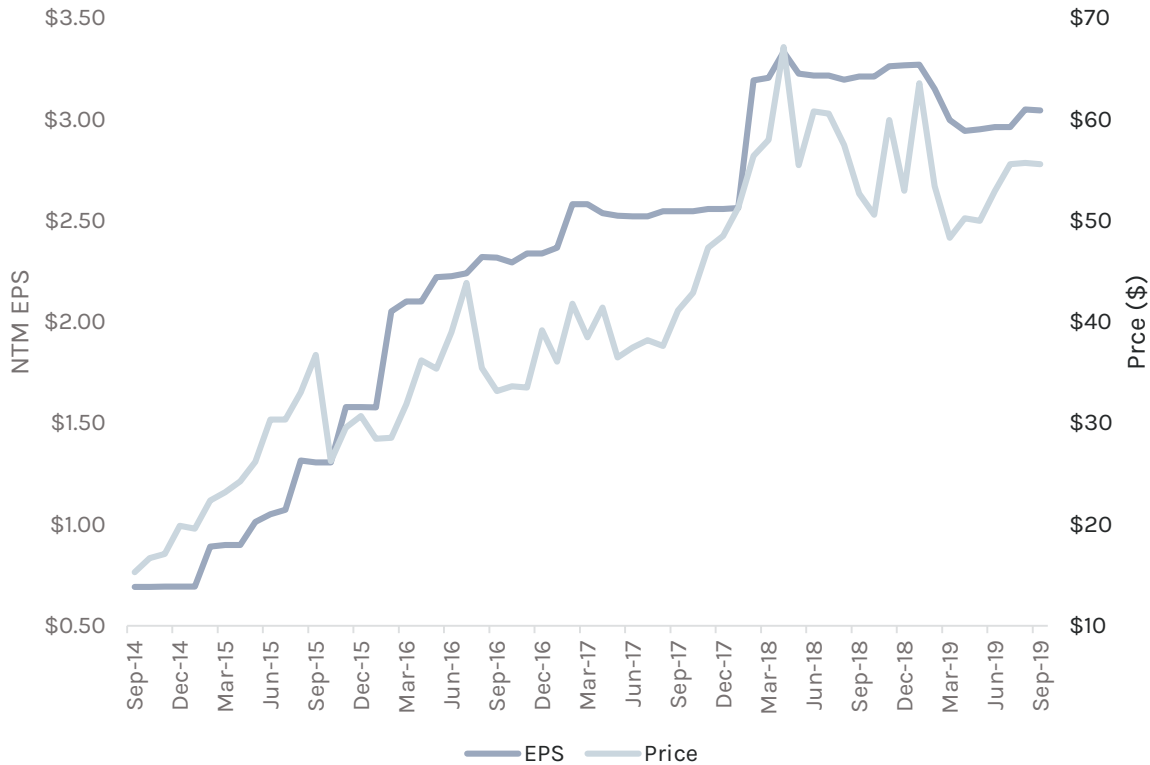
Tracker – New Per Day (Quarterly) v AMN Reported FTE



We've had less success regressing to reported FTE counts, but activity appears to be accelerating. This data is updated weekly.

AMN Correlates to EPS

Correlation Between	5Y	3Y	1Y
NTM EBITDA and EV	0.891	0.831	0.692
NTM Sales and EV	0.912	0.881	0.616
NTM Sales and Price	0.888	0.839	0.452
NTM EPS and Price	0.933	0.934	0.784



Formerly, AMN was most reliably valued on an EV/Sales basis likely due to the high incremental margin swings in business from a lower base.

Upside to consensus

AMN Health Care Services, Inc.

Financial and Valuation Summary							Key Statistics	
	1Q19	2Q19	3Q19:E	4Q19:E	2019:E	2020:E	Market Value (\$MM)	2,245.9
Hedgeye Sales (\$MM)	532	535	564	588	2,220	2,397	(-) Cash	40
Consensus (\$MM)	532	535	563	584	2,214	2,377	(+) Total Debt	441
Nurse and Allied Staffing							(+) Preferred Equity	-
Locum Tenens Staffing							(+) Minority Interest	-
Other Workforce Solutions							(+) Pension Liabilities	-
							Enterprise Value	3,158.0
Hedgeye EPS	\$ 0.75	\$ 0.77	\$ 0.79	\$ 0.82	\$ 3.13	3.87	52 week High	65.81
Consensus (\$MM)	0.75	0.77	0.73	0.80	3.05	3.43	Current Price	\$ 55.59
Hedgeye EBITDA	66.0	66.7	69.5	73.0	275.2	301	52 week Low	45.04
Consensus (\$MM)	66.0	66.7	67.0	72.0	271.7	300	Avg Daily Vol (3 mo)	316,214
							Shares Out (000)	47.4
							Short Interest	5.02%
Multiples								
EV/EBITDA					11.6x	10.5x		
P/E					18.5x	16.4x		

Our upside case is based solely on Nurse & Allied growth in the mid- single digits generating a high incremental gross margin contribution. OWS should benefit through ShiftWise, but we have not explicitly modeled the impact due to headwinds elsewhere in that business unit.

Valuation

\$70 Appears In Reach

		2019 EV/EBITDA					
19 EBITDA		7.5x	8.5x	9.5x	10.5x	11.5x	12.5x
	\$ 260	32.7	38.2	43.6	49.1	54.6	60.1
	\$ 270	34.3	39.9	45.6	51.3	57.0	62.7
	\$ 267	33.8	39.5	45.1	50.7	56.4	62.0
	\$ 290	37.4	43.5	49.6	55.8	61.9	68.0
	\$ 300	39.0	45.3	51.7	58.0	64.3	70.6
	\$ 310	40.6	47.1	53.7	60.2	66.7	73.3
		\$32.7		\$50.3			\$73.3
		-41.9%		-10.5%			30.3%

		2019 P/E					
19 EPS		15.5x	16.5x	17.5x	18.5x	19.5x	20.5x
	\$ 2.80	43.4	46.2	49.0	51.8	54.6	57.4
	\$ 2.90	45.0	47.9	50.8	53.7	56.6	59.5
	\$ 3.05	47.2	50.2	53.3	56.3	59.4	62.4
	\$ 3.10	48.1	51.2	54.3	57.4	60.5	63.6
	\$ 3.20	49.6	52.8	56.0	59.2	62.4	65.6
	\$ 3.30	51.2	54.5	57.8	61.1	64.4	67.7
		\$43.4		\$55.3			\$67.7
		-22.8%		-1.7%			20.3%

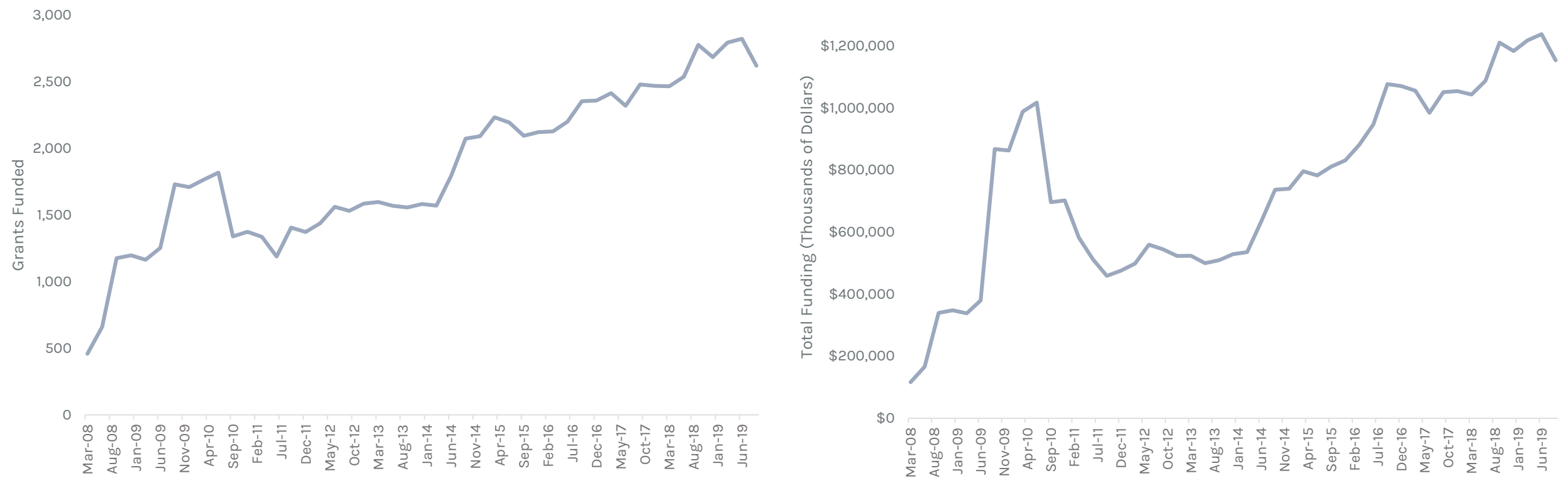
		2020 EV/EBITDA					
20 EBITDA		7.5x	8.5x	9.5x	10.5x	11.5x	12.5x
	\$ 280	35.8	41.7	47.6	53.6	59.5	65.4
	\$ 290	37.4	43.5	49.6	55.8	61.9	68.0
	\$ 300	39.0	45.3	51.6	57.9	64.3	70.6
	\$ 310	40.6	47.1	53.7	60.2	66.7	73.3
	\$ 320	42.2	48.9	55.7	62.4	69.2	75.9
	\$ 330	43.7	50.7	57.7	64.6	71.6	78.5
		\$35.8		\$55.9			\$78.5
		-36.3%		-0.7%			39.6%

		2020 P/E					
20 EPS		15.5x	16.5x	17.5x	18.5x	19.5x	20.5x
	\$ 3.65	56.6	60.2	63.9	67.5	71.2	74.8
	\$ 3.75	58.1	61.9	65.6	69.4	73.1	76.9
	\$ 3.85	59.7	63.5	67.4	71.2	75.1	78.9
	\$ 3.95	61.2	65.2	69.1	73.1	77.0	81.0
	\$ 4.05	62.8	66.8	70.9	74.9	79.0	83.0
	\$ 4.15	64.3	68.5	72.6	76.8	80.9	85.1
		\$56.6		\$70.2			\$85.1
		0.6%		24.8%			51.2%

Labor Disruption appears likely to accelerate, but we have not modeled that in either.

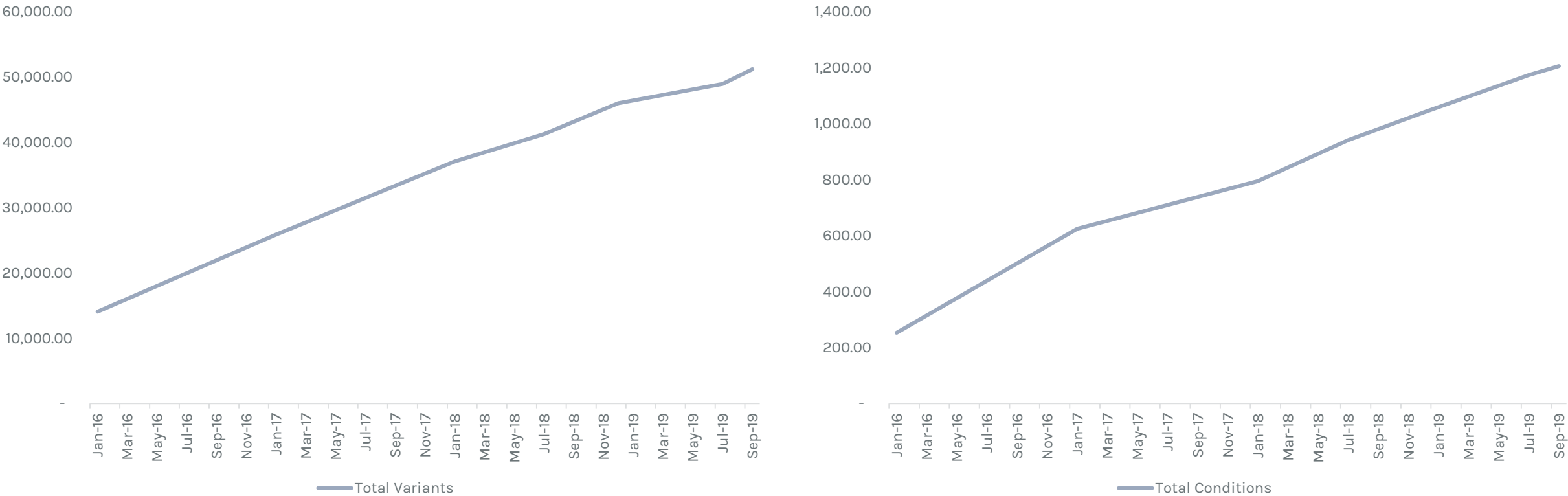
ILMN | NIH Funding Rolling 12 months

Funding for Genomic Research



NIH funding is highly seasonal, weighted toward the last months of the federal government’s September fiscal year end. 2018 was one of the best years on record for NIH due to 21st Century Cures and grant activity for fiscal 2019 was down substantially for the first half of the year. Through the second half of the fiscal year, these charts show a dramatic improvement on a rolling 12 month basis to flat as of 9/14/2019.

Submissions continue to increase



ClinVar variant and condition submissions by gene continue to increase through 9/2/2019.

For more information, contact us at:

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(203) 562-6500