

HEDGEYE

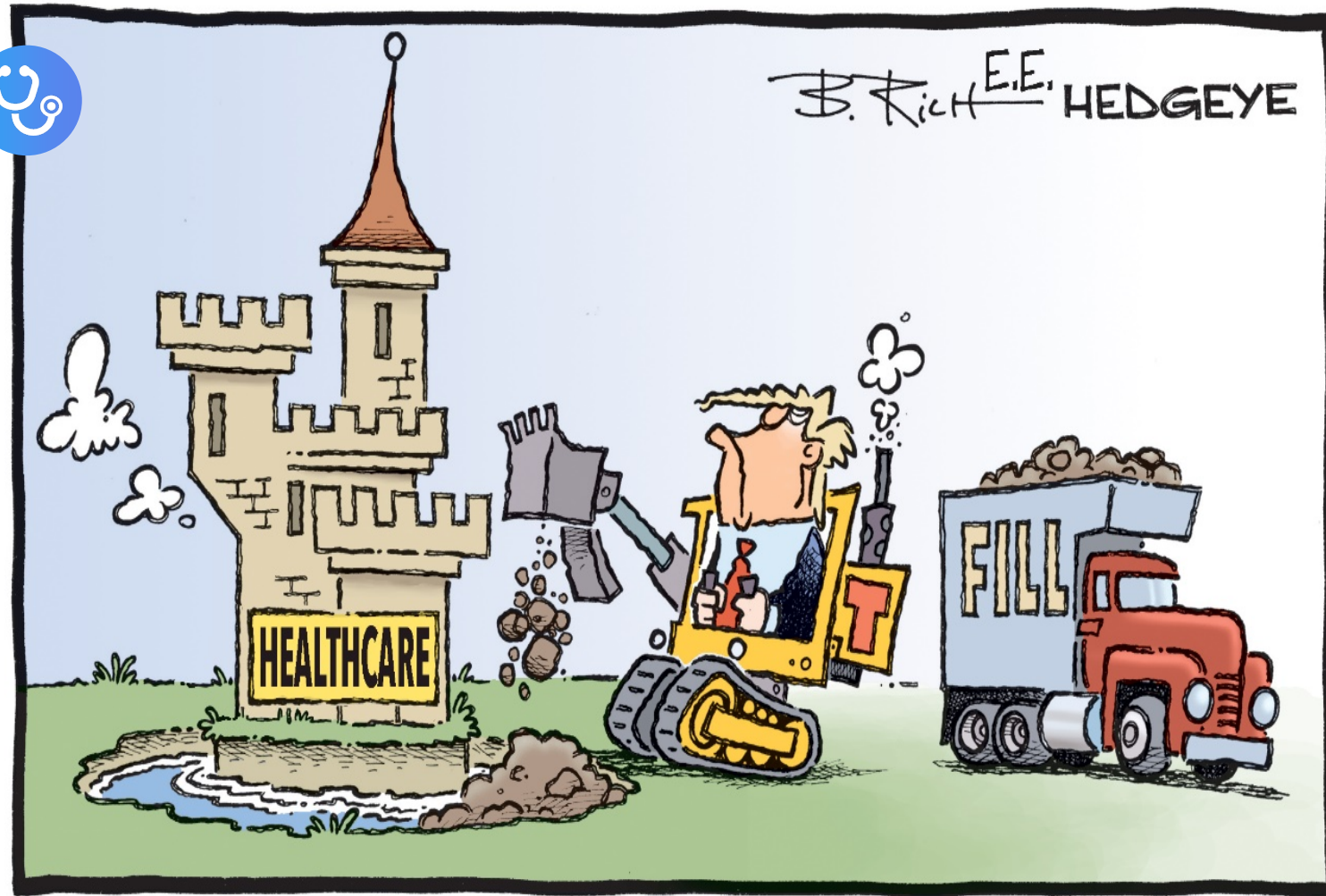
Hedgeye Health Care Q&A

DXCM TAM, Price Transparency, ACA
in court, when GDP slows do this

July 1, 2019



B. Rich^{E.E.} HEDGEYE



Health Care

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Health Care Position Monitor

Best Ideas - Longs						Best Ideas - Shorts							
LONG		Price	Mkt Cap (\$B)	Score	Trend	Tail	SHORT		Price	Mkt Cap (\$B)	Score	Trend	Tail
Active Longs						Active Shorts							
ANTM	Anthem, Inc.	\$ 282.21	\$72.6B	(16.27)	x	x	HQY	HealthEquity Inc	\$ 65.40	\$4.1B	(14.72)	x	x
THC	Tenet Healthcare Corporation	\$ 20.66	\$2.1B	(21.90)	x	x	DVA	DaVita Inc.	\$ 56.26	\$9.4B	(14.61)	x	x
AMN	AMN Healthcare Services, Inc.	\$ 54.25	\$2.5B	(5.02)	x	---	UNH	UnitedHealth Group Incorporated	\$ 244.01	\$231.9B	(8.84)	x	x
ZBH	Zimmer Biomet Holdings, Inc.	\$ 117.74	\$24.1B	(17.31)	x	x	MDRX	Allscripts Healthcare Solutions, Inc.	\$ 11.63	\$1.9B	(4.44)	x	x
TDOC	Teladoc Health, Inc.	\$ 66.41	\$4.8B	(46.25)	x	x	SYK	Stryker Corporation	\$ 205.58	\$76.7B	(9.60)	x	x
							DXCM	DexCom, Inc.	\$ 149.84	\$13.6B	(35.66)	x	x
Long Bias						Short Bias							
ILMN	Illumina, Inc.	\$ 368.15	\$54.1B	(10.09)	---	x	ABBV	AbbVie, Inc.	\$ 72.72	\$107.5B	(9.53)	---	---
HCA	HCA Healthcare Inc	\$ 135.17	\$46.3B	(9.73)	---	x	MYGN	Myriad Genetics, Inc.	\$ 27.78	\$2.0B	(21.90)	---	---
UHS	Universal Health Services, Inc. Class B	\$ 130.39	\$10.8B	(10.21)	---	x	EXAS	Exact Sciences Corporation	\$ 118.04	\$15.2B	(17.83)	---	---
MD	MEDNAX, Inc.	\$ 25.23	\$2.2B	(18.50)	---	x							
DGX	Quest Diagnostics Incorporated	\$ 101.81	\$13.7B	(12.95)	---	x							
LH	Laboratory Corporation of America Holdings	\$ 172.90	\$17.0B	(10.08)	---	x							
GWPH	GW Pharmaceuticals PLC Sponsored ADR	\$ 172.39	\$5.3B		---	x							

We haven't made any changes to the Position Monitor this week

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 Bias list and representation of a company on the Bias list does not forecast whether Hedgeye will or will not issue any additional material on that company.

Risk score is an expression of the difference between out performance and under performance in stock price based on Hedgeye machine learning algorithm techniques that calculate the score by factoring a number of Hedgeye selected data inputs.

Medicare CGM guidelines

- The beneficiary has diabetes mellitus (Refer to the "ICD-10 Codes that are Covered" section of the LCD related Policy Article for applicable diagnoses); and,
- The beneficiary has been using a BGM and performing frequent (four or more times a day) testing; and,
- The beneficiary is insulin-treated with multiple (three or more) daily injections of insulin or a Medicare-covered continuous subcutaneous insulin infusion (CSII) pump; and,
- The beneficiary's insulin treatment regimen requires frequent adjustment by the beneficiary on the basis of BGM or CGM testing results; and,
- Within six (6) months prior to ordering the CGM, the treating practitioner has an in-person visit with the beneficiary to evaluate their diabetes control and determined that criteria (1-4) above are met; and,
- Every six (6) months following the initial prescription of the CGM, the treating practitioner has an in-person visit with the beneficiary to assess adherence to their CGM regimen and diabetes treatment plan.

The path to changing guidelines for CGM reimbursement beyond T2 insulin intensive patients is unclear. For G7, a disposable device, current guidelines are not in place. The direction the administration is heading in is to re-define DME at least as far as it applies to glucose monitors to include disposables like the G7, but that does not mean the guidelines for use expand.

T1 CGM Patient Use by Payor and Device

	T1					
	Medicare		Private Insurance		Overall	
	Low	High	Low	High	Low	High
Visits per year	3	4	3	4	3	4
CGM	8.0%	10.0%	12.0%	15.0%	20.0%	25.0%
Libre	0.4%	0.5%	0.6%	0.8%	1.0%	1.3%
Dexcom	7.6%	9.5%	11.4%	14.3%	19.0%	23.8%
Patients	589,636	589,636	589,636	589,636	1,179,271	1,179,271
CGM	94,342	117,927	141,513	176,891	235,854	294,818
Libre	4,717	5,896	7,076	8,845	11,793	14,741
Dexcom	89,625	112,031	134,437	168,046	224,062	280,077

National Ambulatory Medical Care Survey (NAMCS)

The NAMCS allows us to estimate the number of visits annually for the population of Type 1 (T1) diabetics, their payor class, and prescribed drugs. The table represents the breakdown of these patients by CGM use and manufacturer. Our estimate agrees with the consensus view that there are ~1.2M T1 diabetics in the United States.

T2 CGM Patient Use by Payor and Device

	T2 insulin intensive					
	Medicare		Private Insurance		Overall	
	Low	High	Low	High	Low	High
visits per year	3	4	3	4	3	4
CGM	6.5%	9.8%	3.5%	5.3%	10.0%	15.0%
Libre	4.6%	7.8%	2.5%	4.2%	7.0%	12.0%
Dexcom	2.0%	2.0%	1.1%	1.1%	3.0%	3.0%
Patients	631,652	631,652	265,348	265,348	897,000	897,000
CGM	58,305	87,458	31,395	47,093	89,700	134,550
Libre	40,814	69,966	21,977	37,674	62,790	107,640
Dexcom	17,492	17,492	9,419	9,419	26,910	26,910

National Ambulatory Medical Care Survey (NAMCS)

To define the T2 insulin intensive population we measured the population of Type 2 diabetics on both a short and long acting insulin, as would be the case for a patient taking both meal time and basal insulin. Visits to assess glucose control are similar in both the T1 and T2 patient population. According to physician comments, Medicare patients prefer the simplicity and lower cost of the Libre system.

Total T1 and T2 CGM Patient Use by Payor and Device

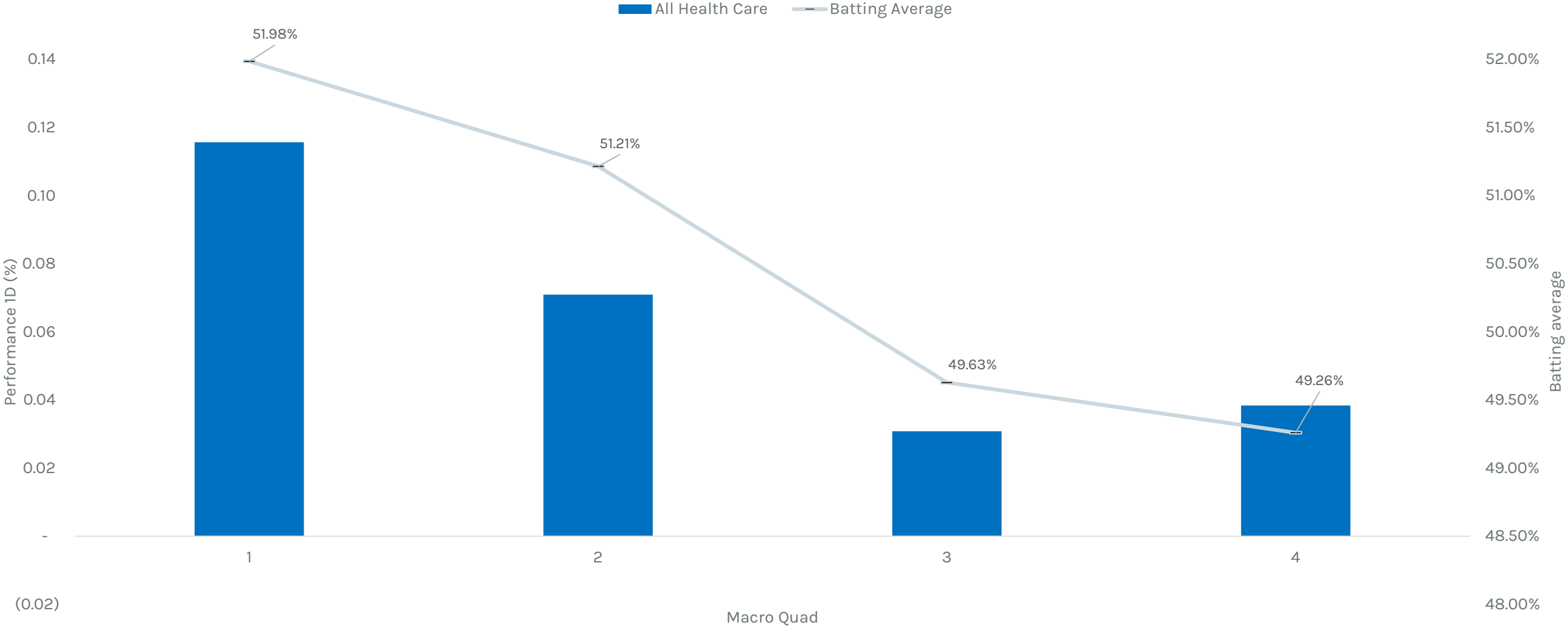
	Total T1 and T2 insulin intensive					
	Medicare		Private Insurance		Overall	
	Low	High	Low	High	Low	High
Patients	1,221,287	1,221,287	854,984	854,984	2,076,271	2,076,271
CGM	152,647	205,385	172,908	223,983	325,554	429,368
Libre	45,531	75,862	29,052	46,519	74,583	122,381
Dexcom	107,116	129,522	143,855	177,465	250,972	306,987

National Ambulatory Medical Care Survey (NAMCS)

Applying estimates for CGM use overall, by payor, and device manufacturer suggests the addressable market will be predominantly Dexcom, but a subset of the overall available ~2M patients in the TAM.

Daily Performance by Macro Quad

Results change when limit set between 5th and 95th percentiles



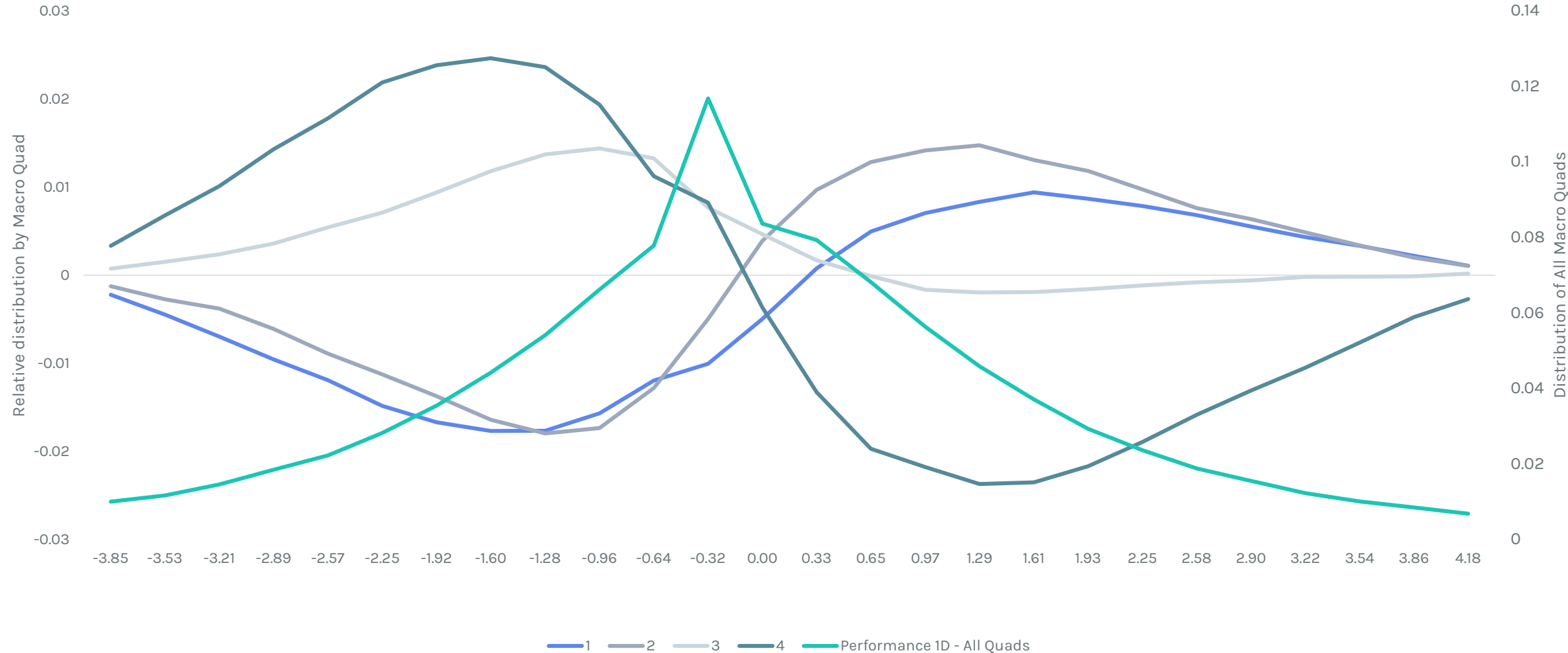
Daily Performance by GICS Industry

Identifying sector with highest probability of success

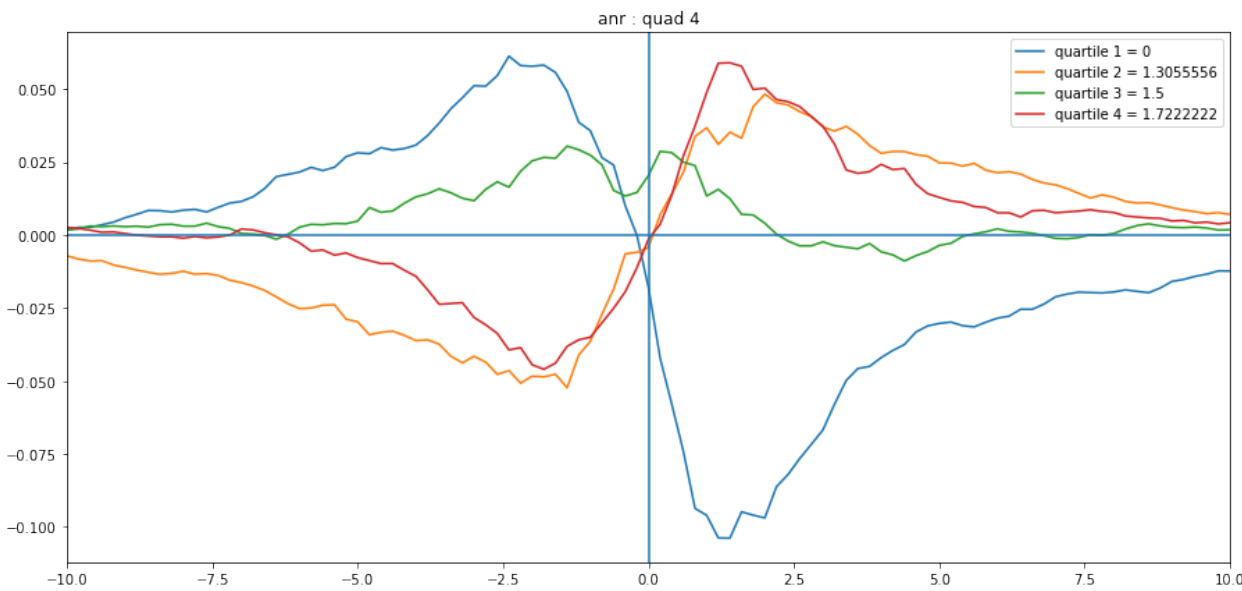
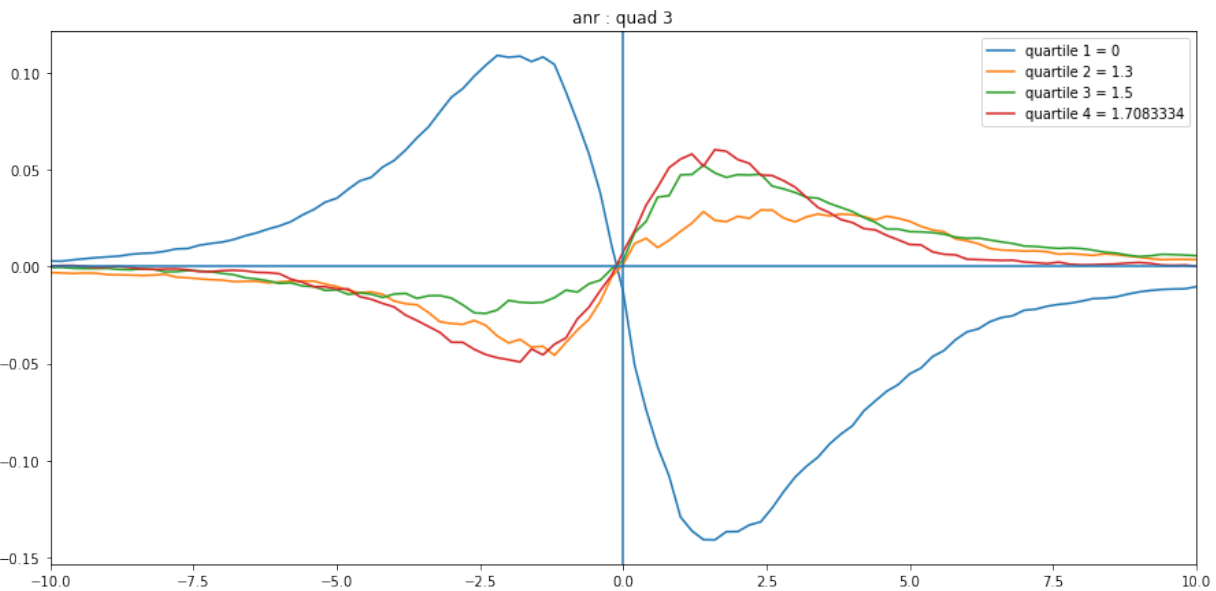
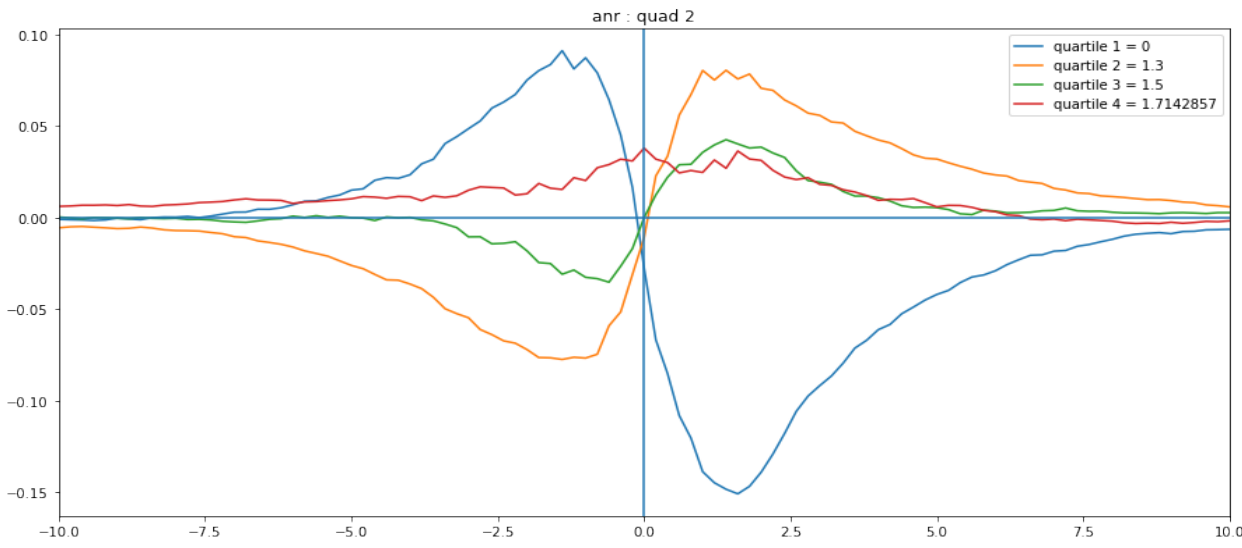
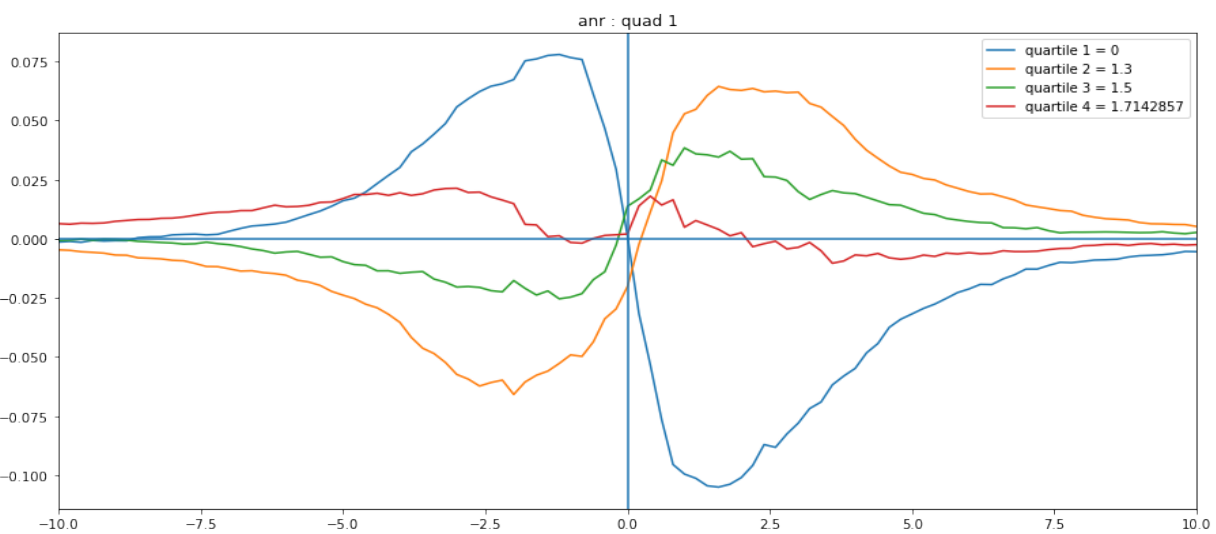
GICS	Count	All	Performance_1D				Batting Average			
			1	2	3	4	1	2	3	4
All Health Care	171	0.06	0.12	0.07	0.03	0.04	51.98%	51.21%	49.63%	49.26%
Life Sciences Tools & Services	14	0.07	0.16	0.06	0.05	0.00	53.60%	52.40%	50.59%	49.28%
Biotechnology	26	0.05	0.11	0.06	0.01	(0.01)	50.91%	49.72%	48.41%	47.29%
Health Care Providers & Services	46	0.08	0.12	0.08	0.04	0.08	52.40%	51.46%	50.10%	50.25%
Health Care Equipment & Supplies	50	0.07	0.10	0.09	0.04	0.05	52.21%	52.04%	50.09%	49.76%
Pharmaceuticals	26	0.04	0.11	0.05	0.01	(0.01)	51.18%	50.31%	48.41%	48.26%
Health Care Technology	9	0.07	0.11	0.06	0.04	0.05	51.26%	50.17%	49.69%	49.29%

Comparing Quads

Relative cumulative distribution by quad

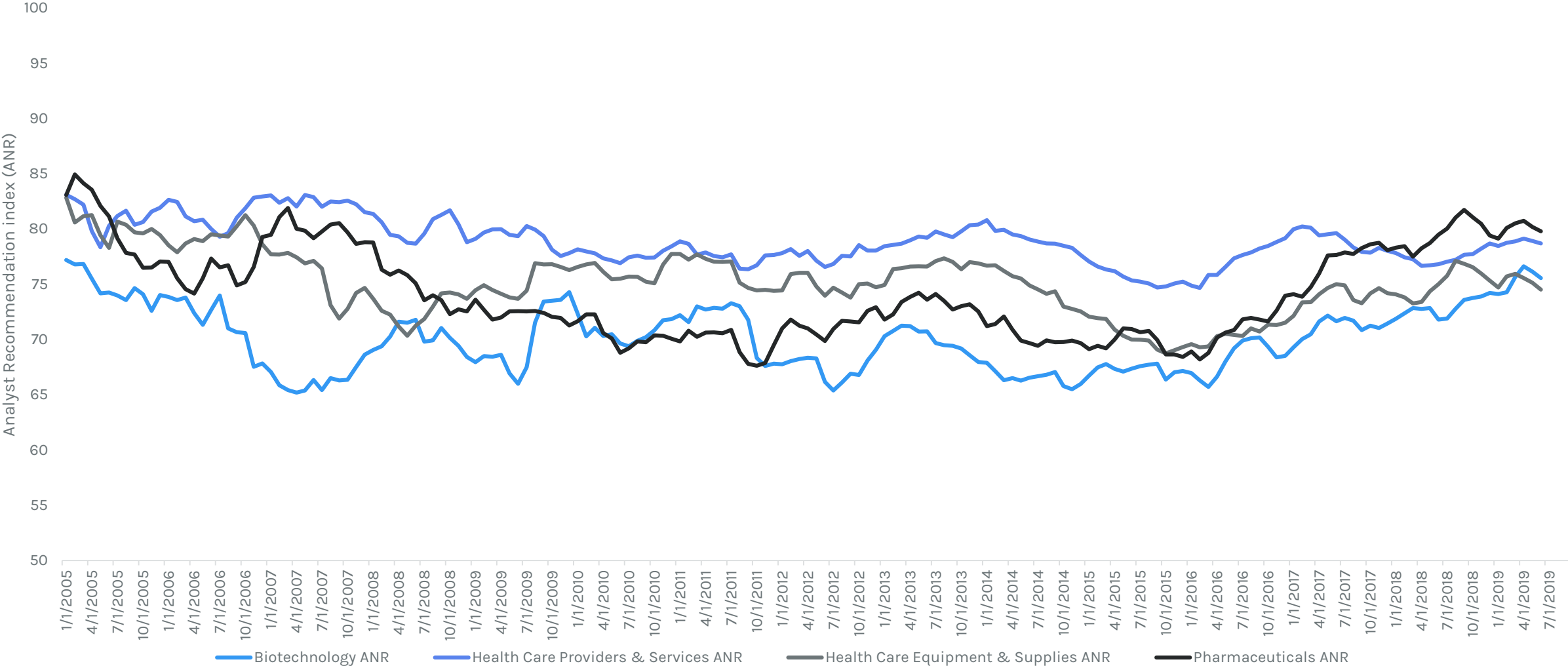


Sellside Rating Quartiles by Quad



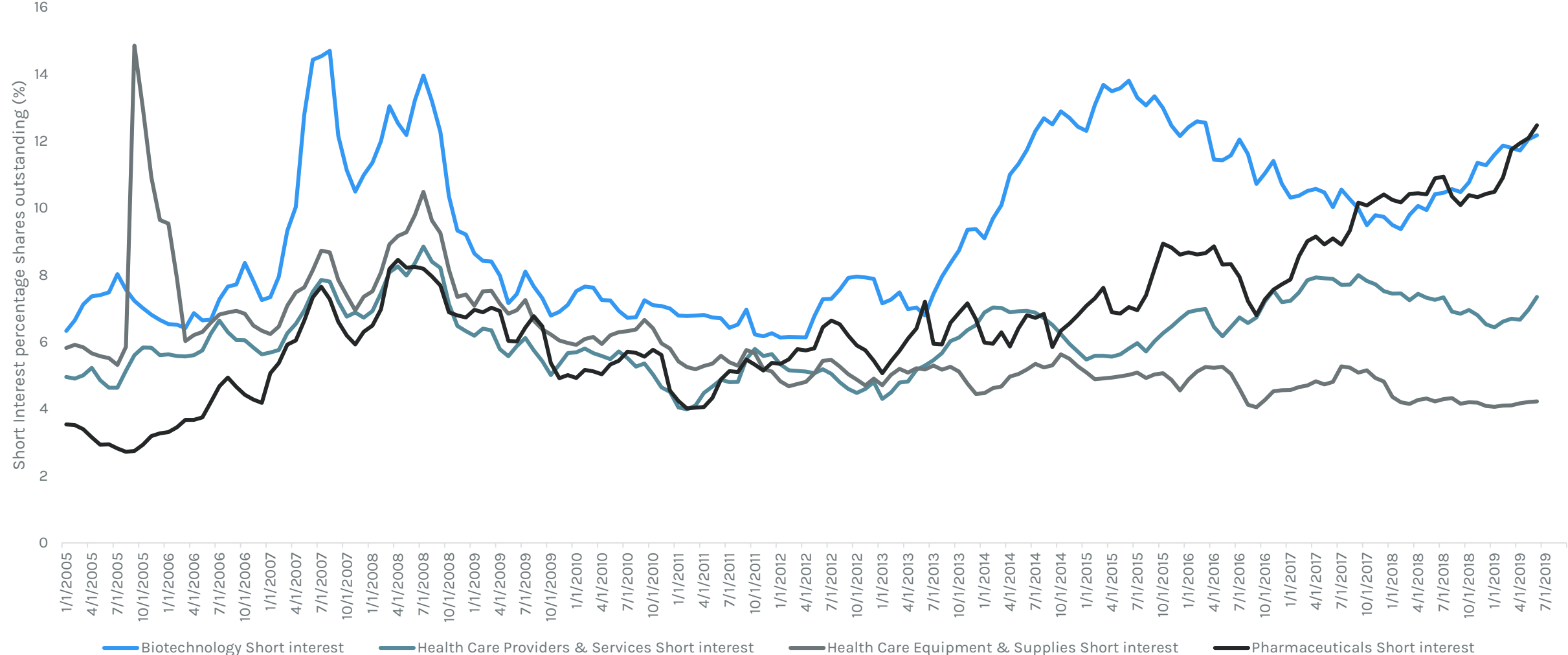
Sentiment

Sellside rating by GICS 100= buy, 50 = neutral, 0 = sell



Short Interest

Average short interest by GICS sector



A Tale of Two Chargemasters: Detroit, MI



DDR	DMC Detroit Receiving Hospital	VAGINAL DELIVERY	\$7,617.00
DDR	DMC Detroit Receiving Hospital	LABOR AND DELIVERY OUTPATIENT	\$296.00
DDR	DMC Detroit Receiving Hospital	LABOR ROOM FALSE LABOR/DISCHAR	\$190.00
DDR	DMC Detroit Receiving Hospital	CESAREAN SECTION DELIVERY ONLY	\$12,492.00



Henry Ford Hospital	774	VAGINAL DELIVERY W COMPLICATING DIAGNOSES	\$ 16,292.82
Henry Ford West Bloomfield	774	VAGINAL DELIVERY W COMPLICATING DIAGNOSES	\$ 13,928.02
Henry Ford Hospital	775	VAGINAL DELIVERY W/O COMPLICATING DIAGNOSES	\$ 11,118.81
Henry Ford West Bloomfield	775	VAGINAL DELIVERY W/O COMPLICATING DIAGNOSES	\$ 11,868.10

Henry Ford Hospital	786	CESAREAN SECTION W/O STERILIZATION W MCC	\$ 36,597.84
Henry Ford West Bloomfield	786	CESAREAN SECTION W/O STERILIZATION W MCC	\$ 26,535.46
Henry Ford Hospital	787	CESAREAN SECTION W/O STERILIZATION W CC	\$ 23,666.34
Henry Ford West Bloomfield	787	CESAREAN SECTION W/O STERILIZATION W CC	\$ 19,984.12
Henry Ford Hospital	788	CESAREAN SECTION W/O STERILIZATION W/O CC/MCC	\$ 24,185.69
Henry Ford West Bloomfield	788	CESAREAN SECTION W/O STERILIZATION W/O CC/MCC	\$ 17,482.31

[1] Price Transparency

- Within 90 days to require the availability of information on out-of-pocket costs before care is delivered
- A roadmap developed within 180 days to improve data and quality reporting measures across all federal programs
- Increased access within 180 days to de-identified claims data from all taxpayer funded programs.

[2] Anti-Trust

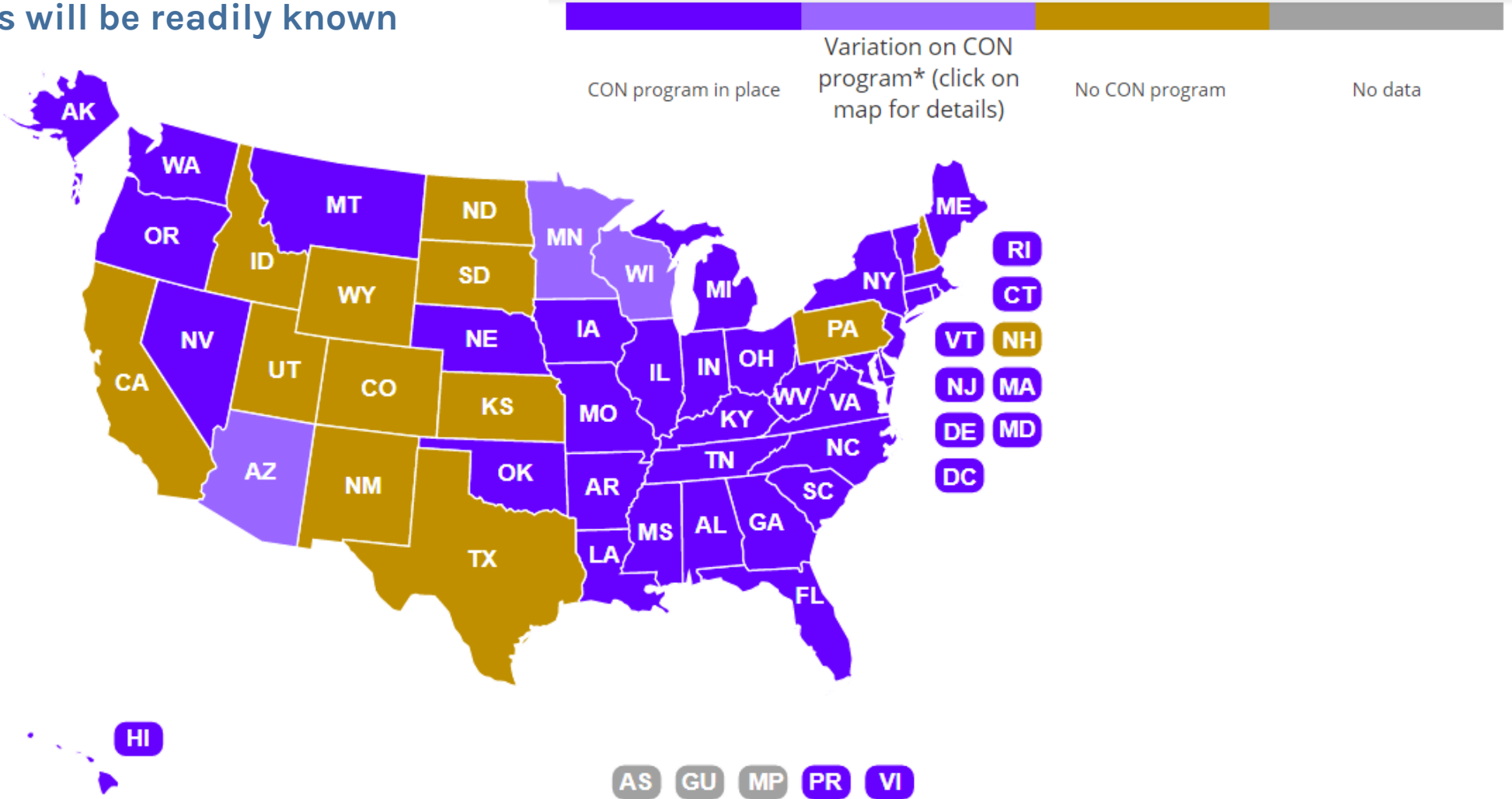
- A report within 180 days from the FTC describing ways in which the Federal government or the private sector impede price and quality transparency

[3] Financing

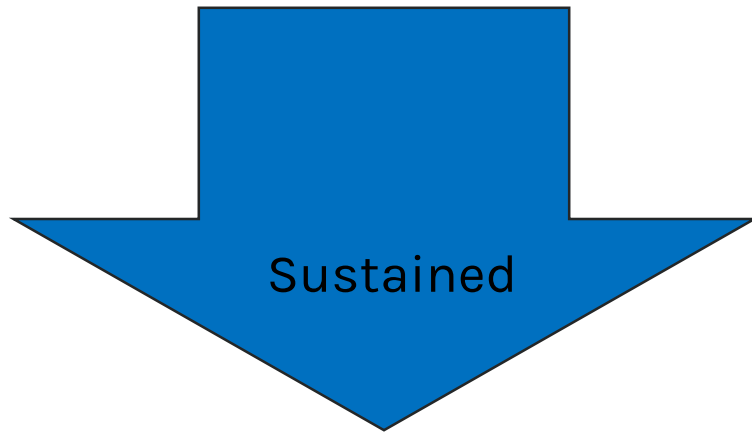
- Guidance issued within 120 days to expand the ability of patients to select high deductible plans that can be used with HSAs.
- Regulations proposed within 180 days that would expand the definition of eligible medical expenses permitted for health savings accounts, medical savings accounts and flexible savings accounts and would include healthcare sharing ministries and direct primary care.
- Guidance issued within 180 days to increase the amount of funds that can carry over without penalty in a flexible spending account

What Does Price Disclosure Mean to CON Laws?

Effects of CON laws will be readily known

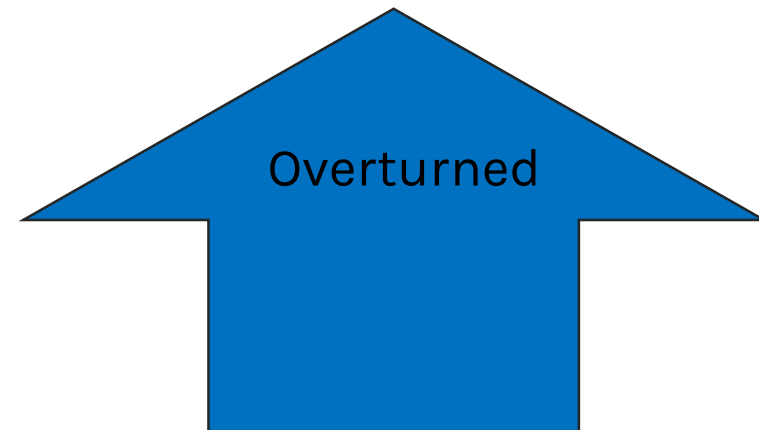


Prognostications on Fifth Circuit Decision



- SCOTUS provided “instructions” on preserving constitutionality; individual mandate = tax; yet Congress still eliminated penalty
- ACA does not include severability clause
- Court does not want to pick which sections of the law should remain and which should go

- One or more parties does not have standing
- If Congress wanted the law repealed they would have done so in 2017
- Individual Mandate provision is severable from rest of law



Is Effective Repeal All Bad?

The Bad

- Disrupts Medicaid funding
- Eliminates premium subsidies and waivers in individual market
- Eliminates insurance coverage mandates

The Good

- Eliminates Medicare reimbursement cuts to providers ~50-60bps
- Eliminates taxes on devices, health insurance, tanning, etc. ~
- Creates more flexibility in pricing insurance coverage
- Eliminates DSH payment cuts

The Unknown

- Eliminates innovation waivers used by both parties
- Access to intervention strategies by states

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