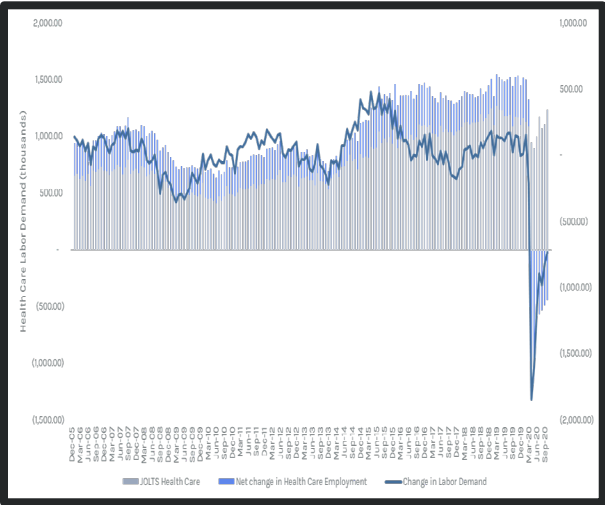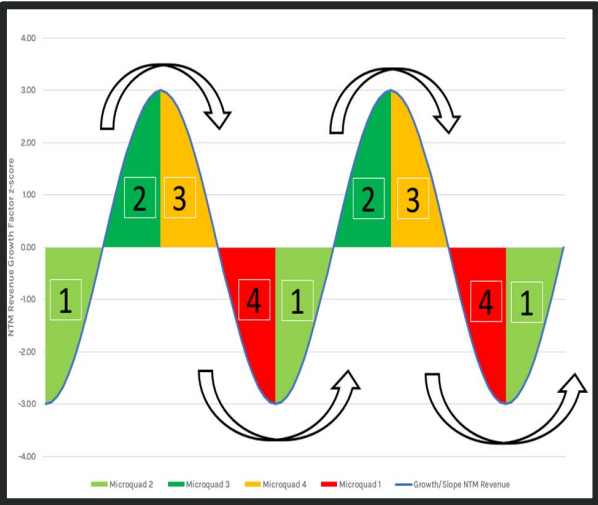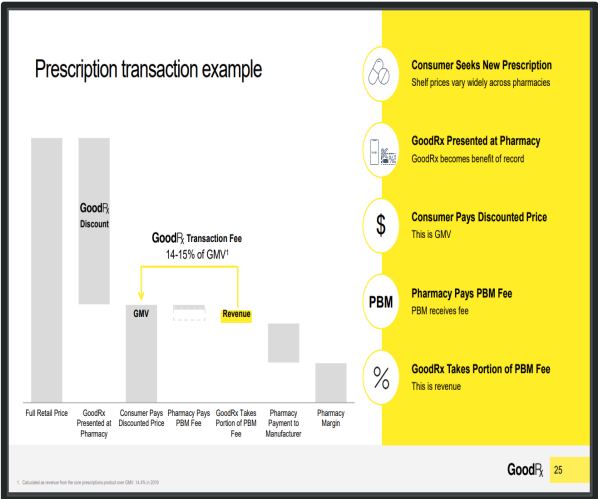# Health Care Position Monitor Update

GDRX Black Book Recap, AMN COVID Comp Positive, MicroQuad Update

December 14, 2020

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Legal

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Health Care Position Monitor

For Week of December 14, 2020

| Best Ideas - Longs LONG		Price	Mkt Cap ($B)	Trend	Tail	Best Ideas - Shorts SHORT		Price	Mkt Cap ($B)	Trend	Tail
Active Longs						**Active Shorts**					
ONEM	1Life Healthcare, Inc.	$ 38.58	$5.1B	√	√	EXAS	Exact Sciences Corporation	$ 132.43	$21.1B	×	×
AMN	AMN Healthcare Services, Inc.	$ 69.22	$3.3B	√	√						
GDRX	GoodRx Holdings, Inc. Class A	$ 43.08	$1.9B	√	√						
TXG	10x Genomics Inc Class A	$ 152.97	$12.3B	√	√						
GH	Guardant Health, Inc.	$ 126.19	$12.6B	√	√						
TDOC	Teladoc Health, Inc.	$ 200.27	$29.0B	√	√						
Long Bias						**Short Bias**					
ILMN	Illumina, Inc.	$ 348.42	$50.9B			HRC	Hill-Rom Holdings, Inc.	$ 97.39	$6.5B		
NTRA	Natera, Inc.	$ 102.50	$8.7B			MASI	Masimo Corporation	$ 269.42	$14.8B		
NEO	NeoGenomics, Inc.	$ 52.00	$5.8B			AMWL	American Well Corporation Class A	$ 32.39	$6.5B		
						NVTA	Invitae Corp.	$ 60.84	$10.8B		

Note

Active Longs/Shorts are high conviction ideas that we've either presented a Black Book for already or have one in the works (similar to other Hedgeye teams). Bench or Bias ideas are ones in which we've done the bulk of the work, but there may be another question we need to answer to move it over the line. All active positions are higher conviction than bench ideas. We rank active versus active and bench versus bench.

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.

MicroQuad | Model vs Actual

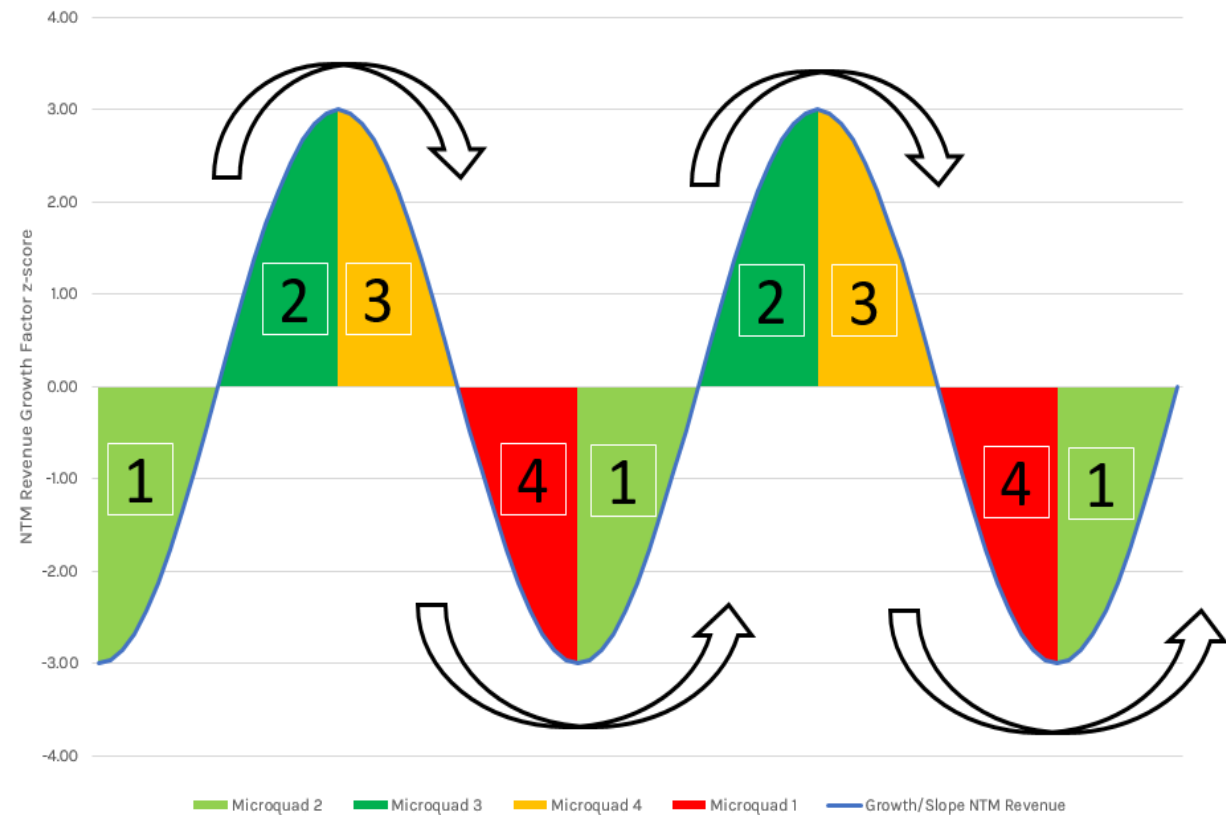## MicroQuad – Generic Growth Curve Progression
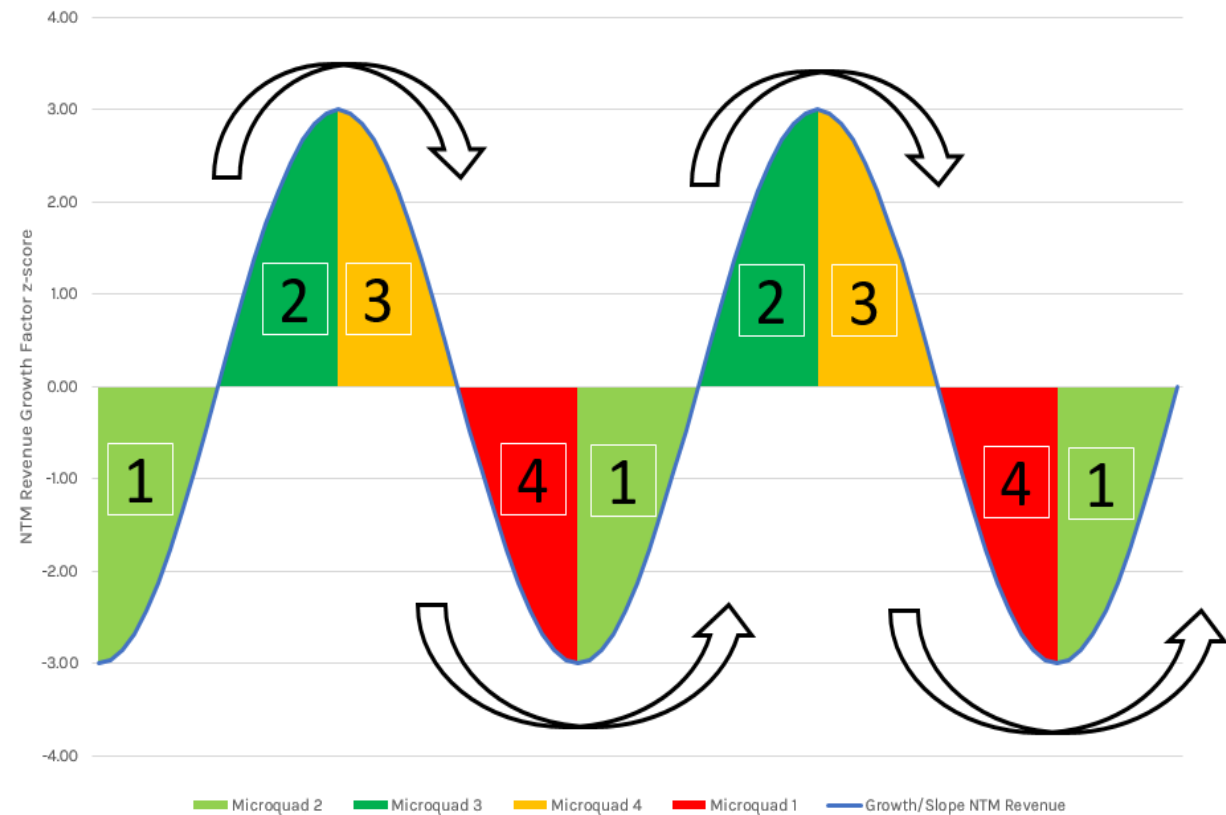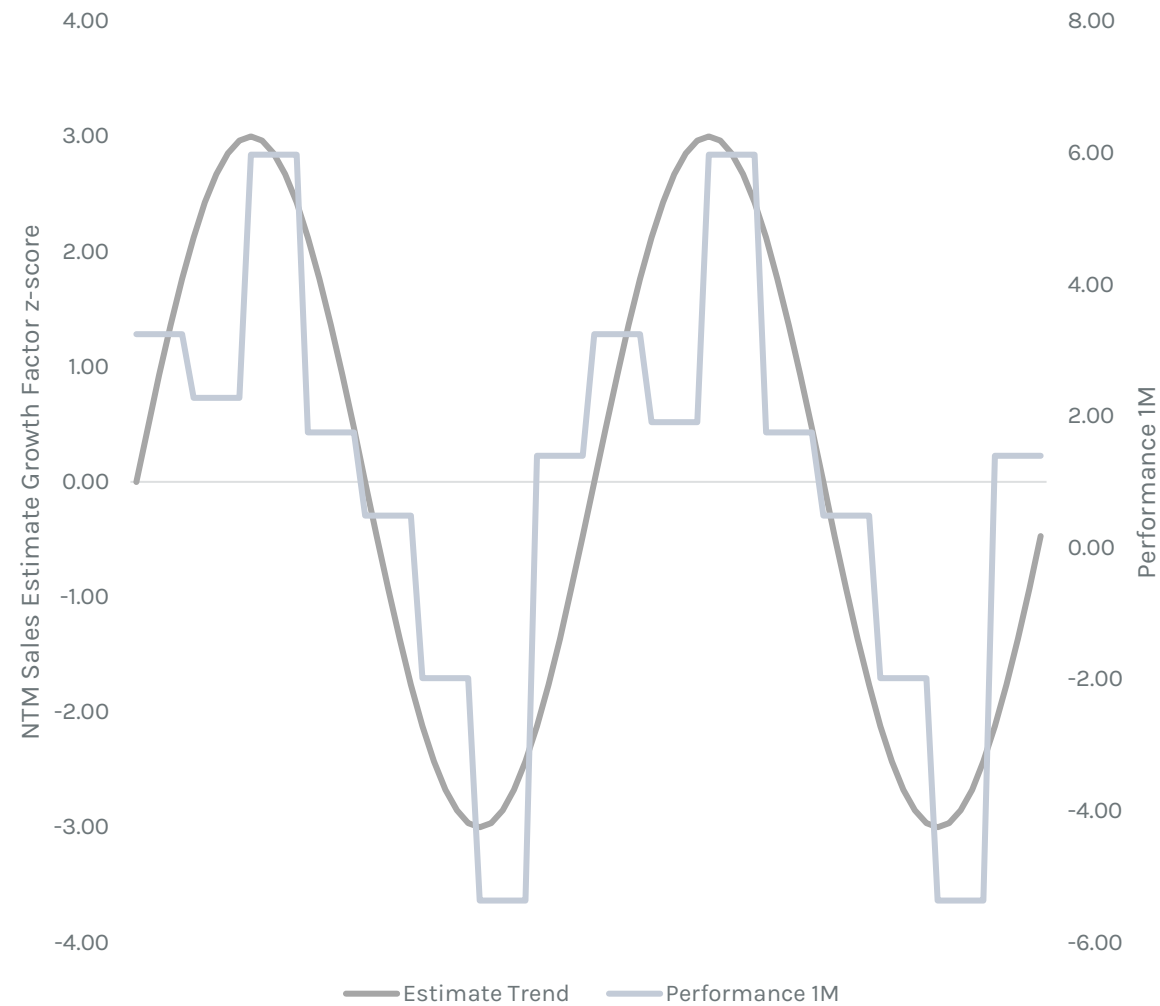

MicroQuad - The Four Quadrants
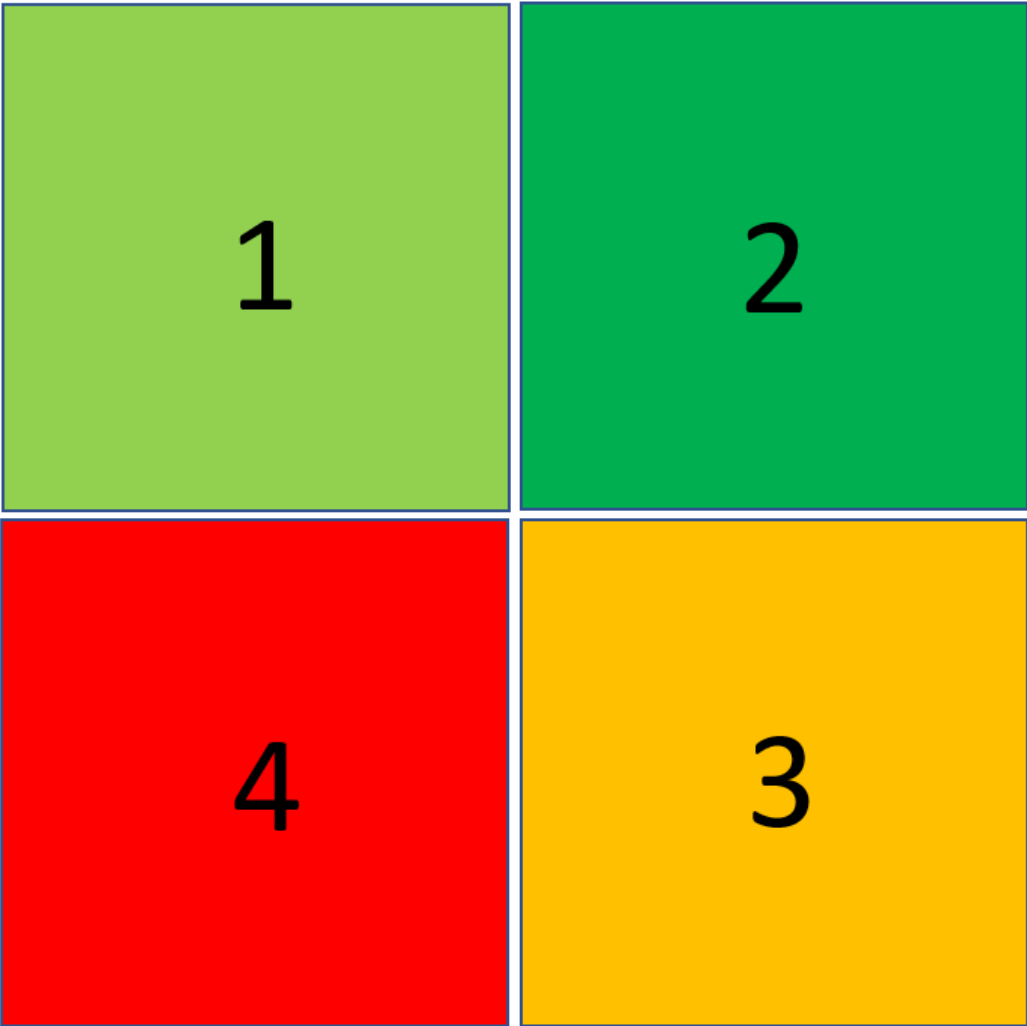
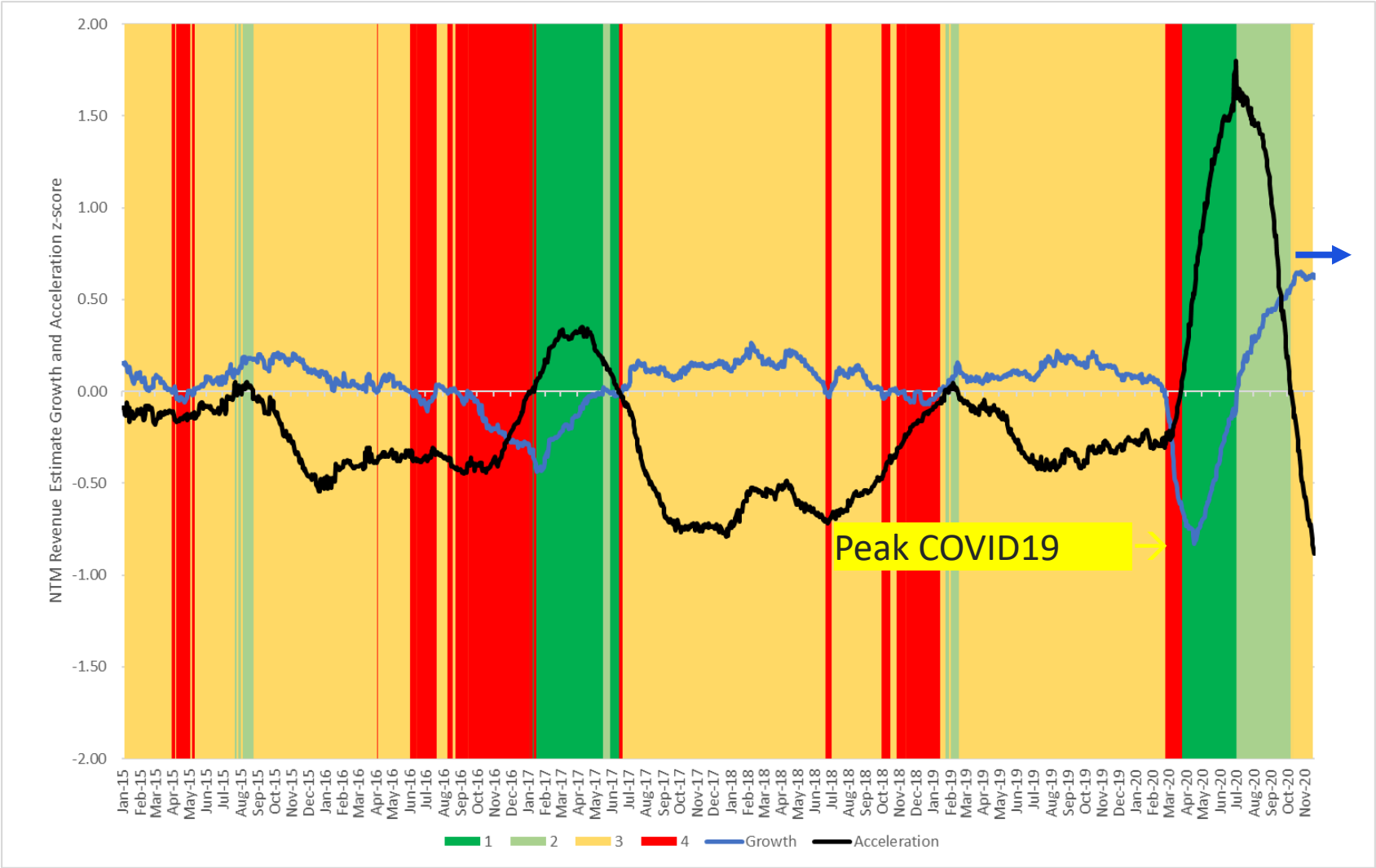# MicroQuad | Model vs Actual

MicroQuad – Generic Growth Curve Progression

MicroQuad – Actual Performance vs Growth Curve

 5

Estimate Revision Trend is Decelerating

Past the peak for the post-COVID19 recovery

As of 12/11/2020 the average trend continue to progress deeper into MicroQuad 3, lower probability of positive performance and lower average performance compared to MicroQuad 2. Estimate trend has been flat since 11/25/2020

COVID-19 vaccine deployment will release substantial deferred care and pent-up demand, lead to reacceleration, but evidence won't emerge until 1Q21.

We transform the next twelve-month revenue estimate (NTM) across our universe of Healthcare companies into 2 vectors that describe growth and acceleration.

This chart displays the average of the estimate trend across our Healthcare universe and assigns a one of 4 MicroQuads based on the +/- positioning of the two factors.

Price Index

Past the peak for the post-COVID19 recovery?

Microquad	Perf_12M	Perf_6M	Perf_3M	Perf_1M	Perf_1W
1	23.82	11.45	10.88	5.82	1.25
2	36.28	24.79	10.35	2.87	0.37
3	24.16	11.21	5.59	1.71	0.32
4	17.13	8.00	-0.42	-0.85	0.52
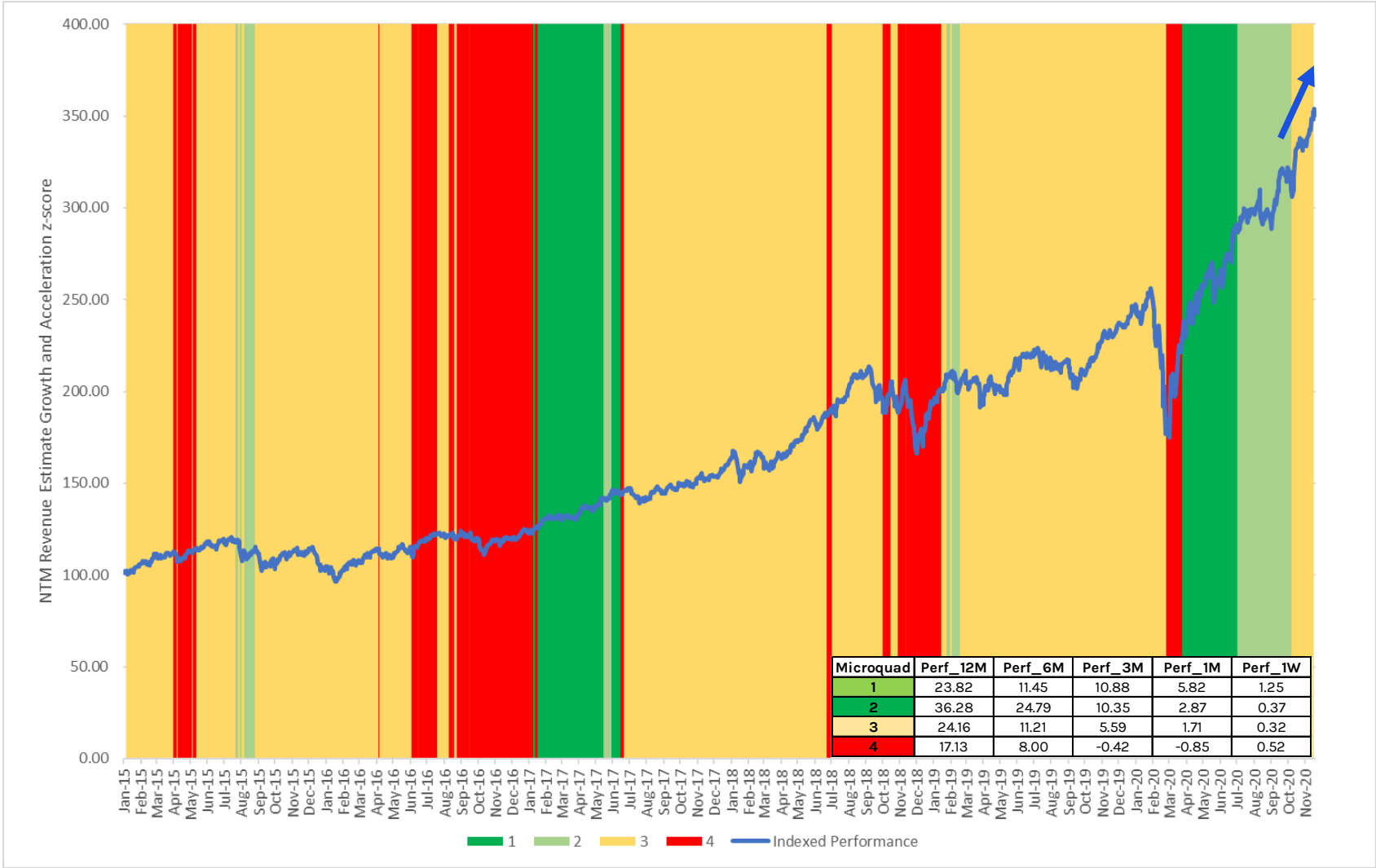
As of 12/11/2020 performance has been increasingly volatile but remains positive. On average, performance metrics, batting averages, deteriorate in MicroQuad 3, but at the same time will be overwhelmed by an emerging Macro Quad 2.

Despite Slowing estimates, performance has been driven by vaccine news, rather than the negative impact of rising COVID19 cases.

We transform the next twelve-month revenue estimate (NTM) across our universe of Healthcare companies into 2 vectors that describe growth and acceleration.

This chart displays the average of the estimate trend across our Healthcare universe and assigns a one of 4 MicroQuads based on the +/- positioning of the two factors.

After a sharp MicroQuad4 downturn, the impact from COVID19 peaked on 4/16/2020, marking the beginning of the fundamental recovery.

MicroQuad Screen | December 11, 2020

Active Long | Active Short
Bench Long | Bench Short

HEDGEYE

MicroQuad1

EHC
HMSY
HRC
HUM
LHCG
PRGO

MicroQuad2

ADPT
AMN
BAX
CERN
COO
ENSG
HAE
ICUI
ILMN
OMCL
RMD
UNH

MicroQuad3

A	EXAS	MOH	RGEN
ABMD	GKOS	MRK	SEM
ABT	GMED	MTD	STAA
ALGN	HCA	NEOG	STE
AMED	HOLX	NSTG	SYK
ATRC	IART	NTRA	TDOC
BEAT	IDXX	NVTA	TECH
BIO	IQV	OPK	TFX
BSX	IRTC	PDCO	TMO
CNMD	ISRG	PEN	TNDM
CRL	JNJ	PKI	TXG
CVET	LH	PODD	VEEV
DGX	LLY	PRAH	WAT
DHR	MDT	Q	WST
DXCM	MEDP	QDEL	ZTS
EW	MMSI	RCM	

MicroQuad4

ABBV
AMGN
ANTM
BDX
BIOS
CHE
GH
GILD
MASI
NEO
VRTX

Prospective Performance

MicroQuad average forward 1M performance in all Macro Quad environments

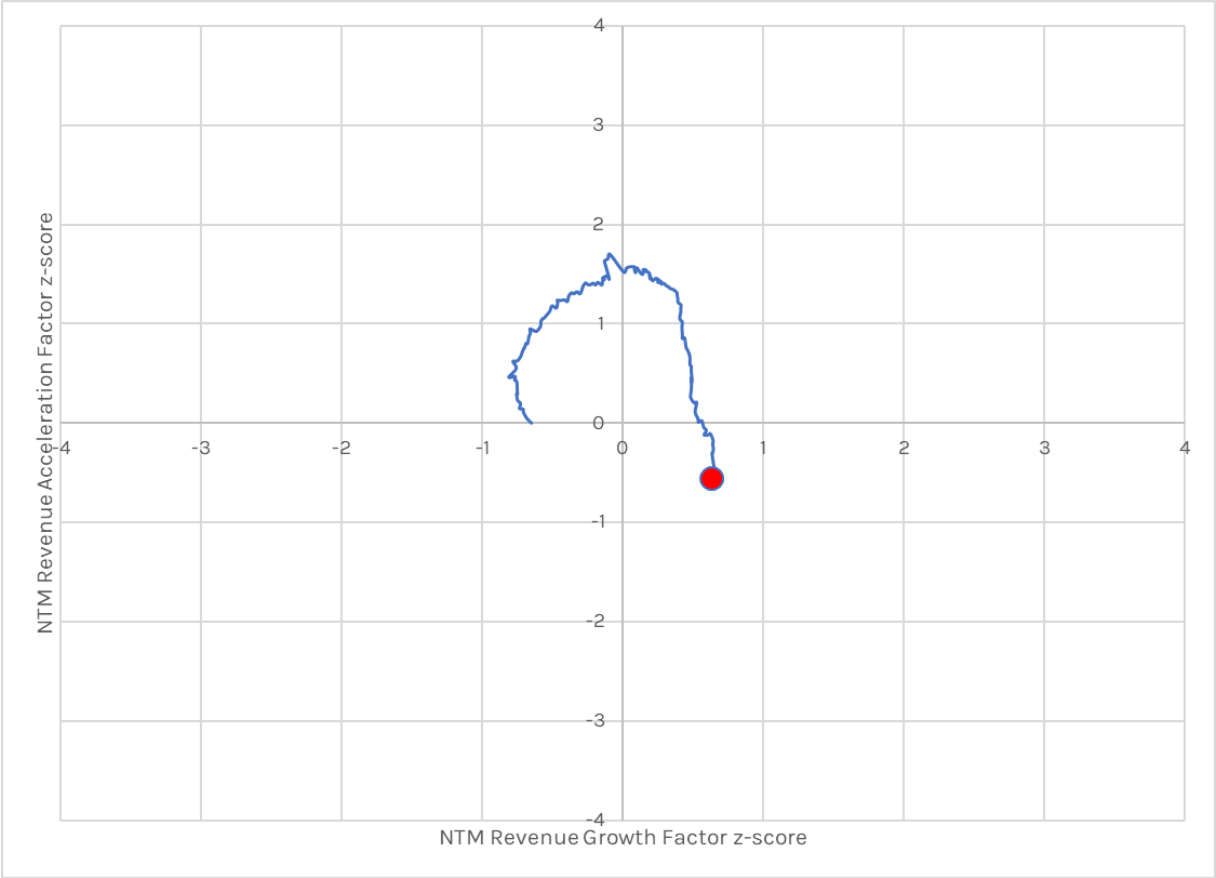| POSITION MONITOR		12/11/2020			Performance				Sales			
Ticker	Name	Price	EV	MCAP	Performance Trailing 1W Actual	Performance Trailing 1M Actual	Performance Trailing 1M Expected	Performance Forward 1M Expected	Correlation	Growth Factor z-score	Acceleration Factor z-score	Sales Quad
TDOC	Teladoc Health, Inc.	$200.00	16,546	28,992	2.75%	-13.44%	2.52%	4.12%	0.94	0.71	-3.58	3
HRC	Hill-Rom Holdings, Inc.	$97.49	8,211	6,514	-1.06%	4.87%	1.83%	3.62%	0.94	-0.94	2.85	1
TXG	10x Genomics Inc Class A	$139.72	13,393	11,199	9.36%	6.84%	2.91%	3.50%	0.89	0.72	-0.05	3
MASI	Masimo Corporation	$247.96	13,757	13,651	3.22%	8.91%	1.81%	2.96%	0.97	0.02	-0.57	3
ILMN	Illumina, Inc.	$300.80	43,099	43,917	6.03%	2.37%	3.36%	2.94%	0.93	0.52	3.32	2
AMN	AMN Healthcare Services, Inc.	$59.24	3,752	2,786	9.66%	3.34%	3.42%	2.28%	0.82	0.13	1.54	2
ONEM	1Life Healthcare, Inc.	$35.44	4,274	4,714	-0.36%	15.01%	0.31%	2.20%	0.41	0.59	-1.70	3
GH	Guardant Health, Inc.	$112.95	10,335	11,292	9.35%	7.38%	1.08%	2.18%	0.72	-0.45	-0.16	4
NTRA	Natera, Inc.	$85.40	6,378	7,291	6.36%	32.21%	3.33%	1.70%	0.93	1.89	-1.70	3
EXAS	Exact Sciences Corporation	$115.23	17,750	18,325	4.43%	-7.32%	2.13%	0.28%	0.81	0.09	-0.08	3
NVTA	Invitae Corp.	$48.00	6,330	8,482	7.03%	13.21%	5.79%	0.05%	0.84	2.33	-0.64	3

The sigma chart coordinates for growth/acceleration (1st and 2nd Derivative of the estimate trend) is associated with a forward price return over the following 1M and 3M. For each of our Position Monitor stocks, we've calculated the average forward return within 0.5 STDEV of the stocks most recent estimate growth(x) and acceleration(y) coordinates. We also compare the actual and expected stock performance over the trailing 1 month to look for instances of over or undershooting the probable outcome.

Position Monitor | December 11, 2020

Sigma Positioning – Current Position Monitor
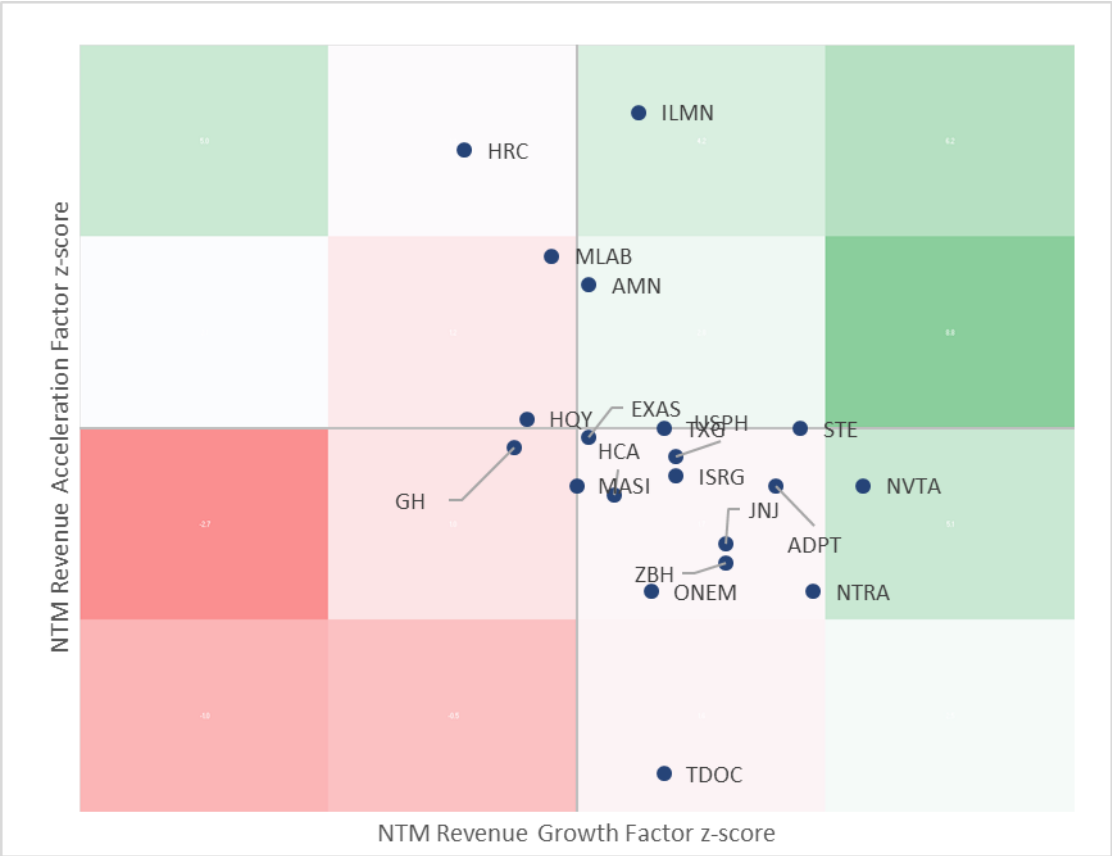
Sigma Positioning –Universe Average

MicroQuad | Watch List

## Forward performance based on MicroQuad coordinates and Macro Quad 2

Performance Forward 1M – Expected % is calculated by averaging the forward performance for the consensus estimate MicroQuad coordinates in a Macro Quad 2 and ranked high to low.

Ticker	Number of Estimates Total	Number Revision Positive 30D	Number Revision Negative 30D	Growth	Acceleration	Correl to Estimate	Performance Trailing 1M - Actual %	Performance Trailing 1M - Expected %	Performance Forward 1M - Expected %
STE	6	5	0	1.80	0.00	0.90	7.32	0.84	5.03%
NTRA	9	9	0	1.90	-1.70	0.90	32.21	0.87	4.45%
TDOC	14	14	0	0.70	-3.60	0.90	-13.44	0.40	4.18%
MLAB	5	2	1	-0.20	1.80	0.90	4.98	0.61	3.12%
TXG	6	6	0	0.70	0.00	0.90	6.84	0.63	2.65%
NVTA	6	6	0	2.30	-0.60	0.80	13.21	0.99	2.52%
MASI	8	8	0	0.00	-0.60	1.00	8.91	0.37	2.44%
HCA	19	11	1	0.30	-0.70	0.90	20.94	0.47	2.31%
USPH	4	3	0	0.80	-0.30	0.90	41.40	0.67	2.26%
ZBH	26	26	0	1.20	-1.40	0.20	12.48	0.69	2.19%
ONEM	11	10	0	0.60	-1.70	0.40	15.01	0.38	2.02%
GH	8	5	0	-0.50	-0.20	0.70	7.38	0.33	1.90%
AMN	9	8	0	0.10	1.50	0.80	3.34	0.79	1.82%
HQY	14	1	0	-0.40	0.10	0.40	39.21	0.41	1.79%
JNJ	15	10	0	1.20	-1.20	0.80	4.08	0.73	1.72%
ISRG	18	1	2	0.80	-0.50	0.90	6.11	0.65	1.29%
EXAS	14	11	0	0.10	-0.10	0.80	-7.32	0.47	0.78%
HRC	8	0	7	-0.90	2.90	0.90	4.87	0.92	0.77%
ADPT	8	5	2	1.60	-0.60	0.50	-7.83	1.15	0.06%
ILMN	16	10	2	0.50	3.30	0.90	2.37	1.44	-0.74%

Health Care Labor Demand Model

Health care employment negative year over year, but labor demand is flat

Health Care Labor Demand (thousands)

JOLTS Health Care   Net change in Health Care Employment   Change in Labor Demand
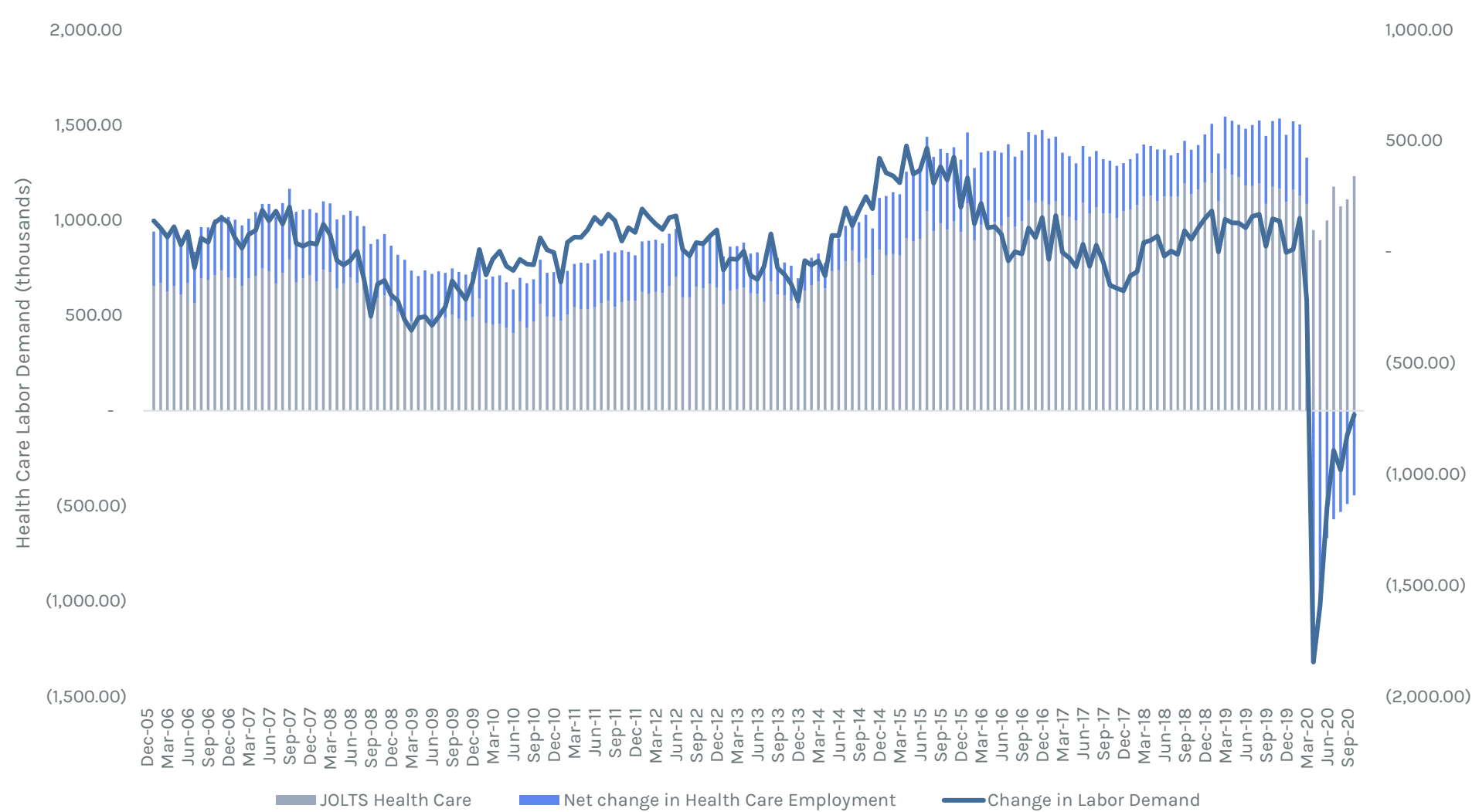
While pent-up demand hasn't begun to show up in the most recent JOLTS data, we do recognize a considerable snapback in demand for HC labor by October of 2020.

Going forward, we will use the HC Labor Demand model to monitor aggregate demand for employment, which is measured in terms of the sum of job openings and the net change in health care employment.
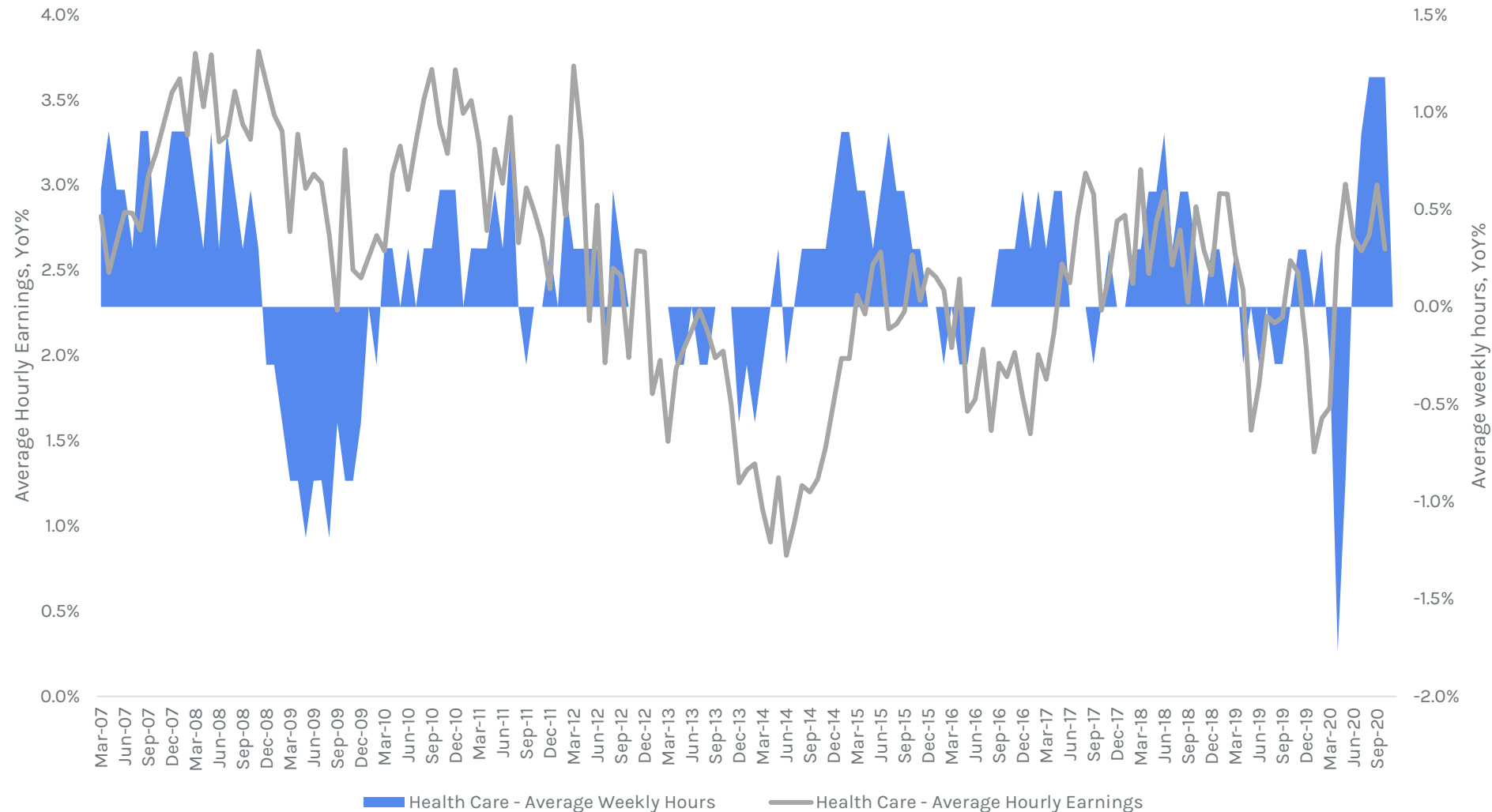
Job Openings and Labor Turnover Survey

JOLTS Openings for health care approaching all- time highs
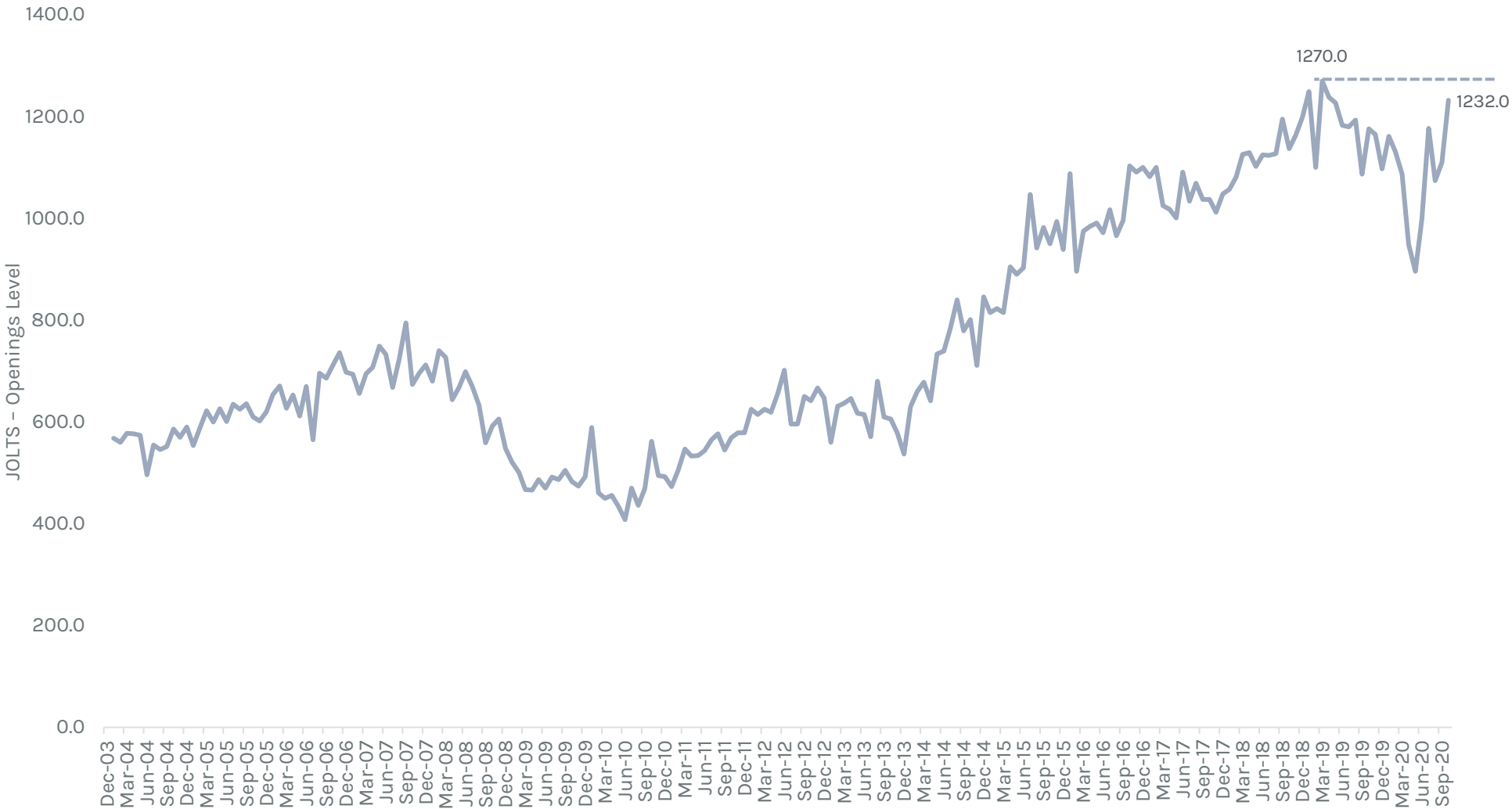
By October 2020, Health Care Job Openings have nearly returned to pre-COVID levels according to the most recent JOLTS data.
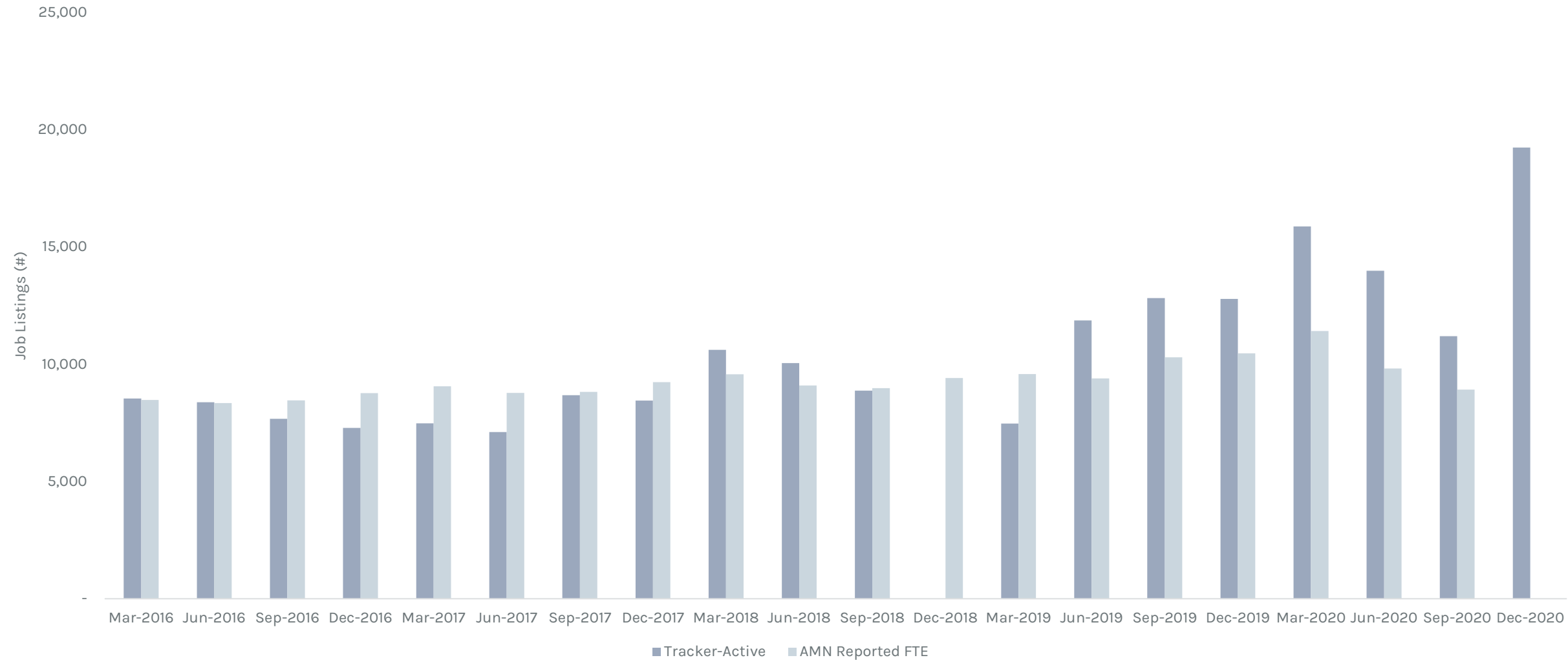
Wage Growth and Average Weekly Hours

Both average weekly hours and hourly earnings remain elevated

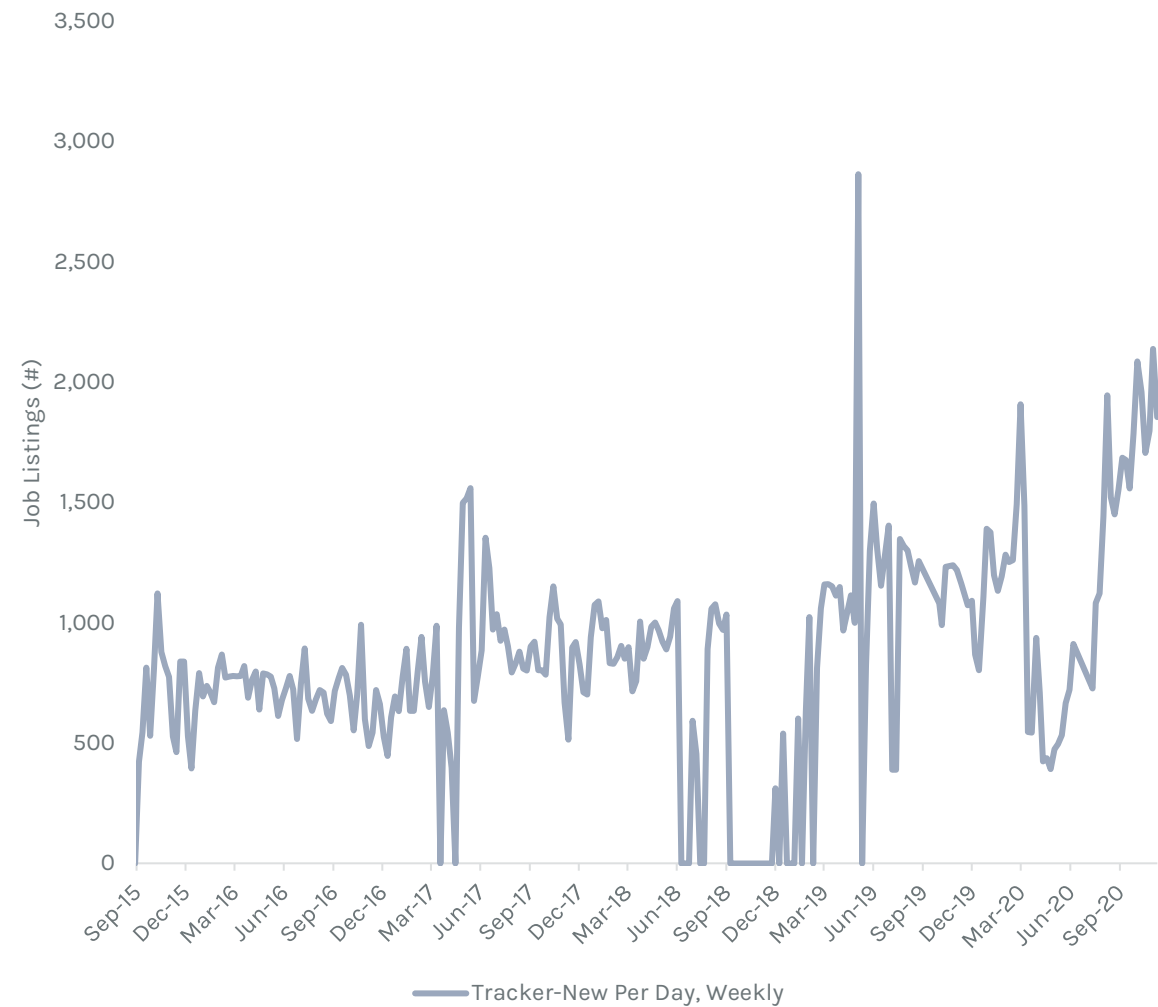Before the impact of COVID19, the US Medical Economy was showing signs of slowing.

Since the significant decline in average weekly hours and hourly earnings following the first national lockdown, both metrics have remained above pre-COVID levels through 2020.

AMN Tracker | December 2020

New Per Day, Weekly

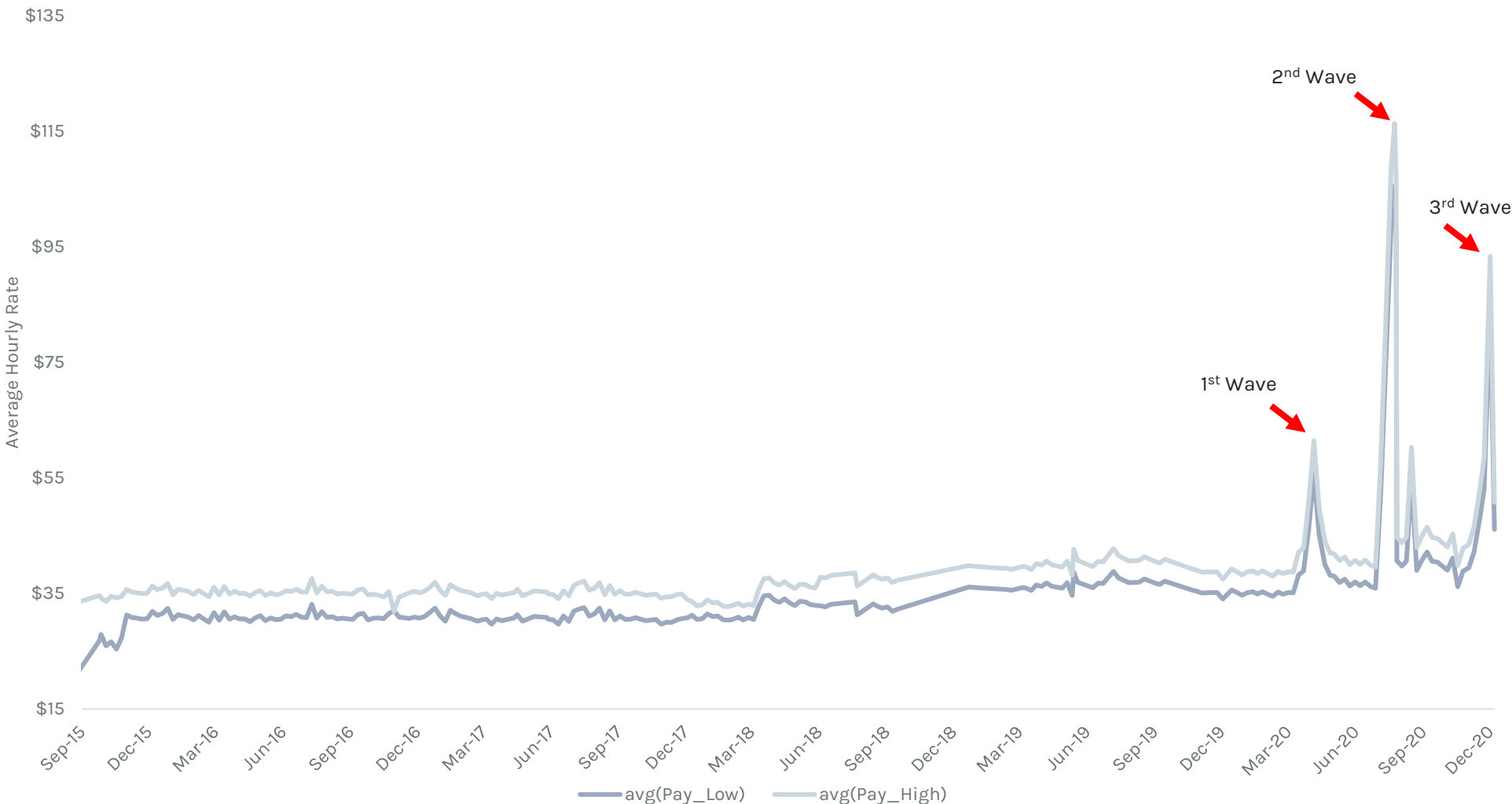Tracker-New Per Day, Weekly

New Per Day, Rolling 4 Week

Tracker-New Per Day, Weekly

AMN Tracker | December 2020

Hourly Wage Rate

Across the many topics we covered, the one our contact **highlighted as most pressing was staffing, nurses in particular.**

He recounted that nurses in his area are normally $35/hr. **During the first wave of COVID, that figure jumped to ~$75/hr and continued to rise to ~$100 ($120/hr in some areas).**

This has since moderated to the low $80s/hr, but supply remains tight, which should be **net positive for AMN.**

Hedgeye Write-Up

[1] **Background |** GoodRx (GDRX) is a consumer-focused digital healthcare platform that offers information and tools to help consumers compare prices for prescription drugs. It operates applications and websites that provide prices and discounts at local and mail-order pharmacies.

[2] **Thesis |** Our thesis has three major legs. The total addressable market (TAM) remains large and under-penetrated in drug coupons, the threat from Amazon is overblown, and the rebound in in-person care will drive upside to month average users (MAU) and revenue for 2021 and 2022. Longer term, GDRX's tight relationship with the consumer provides a well-liked platform for added services, the HeyDoctor telemedicine acquisition likely the first of many. We see a path back to the previous highs on better-than-expected results and a revitalized belief in the GDRX platform narrative, or 30% to 50% higher from here.

[3] **Valuation |** The sudden decline following AMZN's drug coupon product announcement seems overdone. We don't believe the customer overlap between Amazon Prime and GoodRx is going to be high enough to put GoodRx membership at risk. As of December 10, 2020, the stock was trading at just below ~21x Consensus 2021 Revenue, but we believe the multiple could improve significantly should user growth return to its pre-COVID trend.
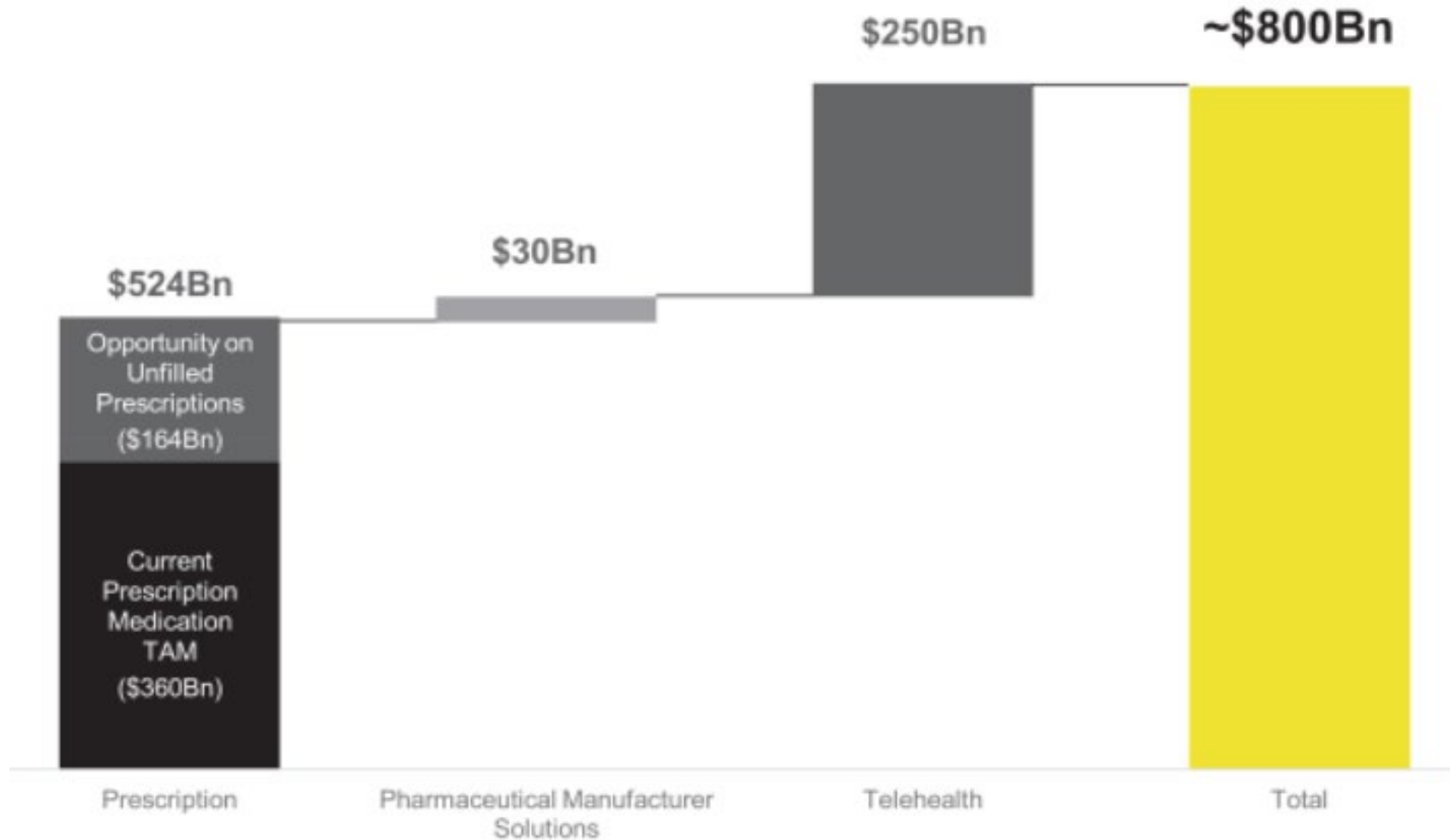
[4] **Catalysts |** We can see any number of headlines having a positive or negative impact on GDRX. Something as technical as the 180-day lock-up expiry (3/22/21) is within our investment horizon, and there's always the potential for GDRX to become an acquisition target. Amazon had been speculated as a potential buyer, and we've heard Walmart too. Regardless, the positive catalysts could include M&A or a transformative partnership, better than expected MAU and/or subscription growth, a positive development or surprise on the pharma manufacturer side, and an accelerated return to in-person care on efficient vaccine distribution (i.e., the COVID-19 curve flattens again).

[5] **Risks |** There are a variety of risks that could impact GDRX over the long-term, including structural and/or regulatory changes that impact the PBM-Pharmacy relationship and flow of money in that complicated, opaque chain. GDRX is reliant on its [solid] relationships with PBMs (for access to the MAC lists/pricing data), so anything that introduces friction there could be an issue. Near-term, a further acceleration of COVID or a delay of the return to in-person care could weigh on results. Also, it's no secret that GDRX must spend aggressively on marketing/advertising (it can't take its foot off the gas), and while there's no obvious competitive threat today (now that Amazon has been deemed "not a huge threat for the time being"), there are tons of well-funded digital health startups, some of which play in the pharmacy benefits space.

GoodRx's Total Addressable Market

While we are confident in a large TAM, ~$800Bn looks "optimistic"

Chart: Waterfall chart

- **Prescription** — **$524Bn**
  - Opportunity on Unfilled Prescriptions ($164Bn)
  - Current Prescription Medication TAM ($360Bn)
- **Pharmaceutical Manufacturer Solutions** — **$30Bn**
- **Telehealth** — **$250Bn**
- **Total** — **~$800Bn**

- GoodRx describes their TAM to be all of the prescription drug purchases made in the United States each year.

  - While 100% adoption is technically possible, we are becoming incrementally more cautious of the feasibility of it. For this reason, we began our own evaluation.

- **Note:** "Approximately 90% of the total prescription volume and 26% of prescription spending in the United States was for generic forms of medication in 2018, with the remainder being brand medications, or medications on patent, according to a report by the IQVIA Institute."

  - In order to expand their opportunity, GoodRx will need to successfully expand into branded drug coupons as well.
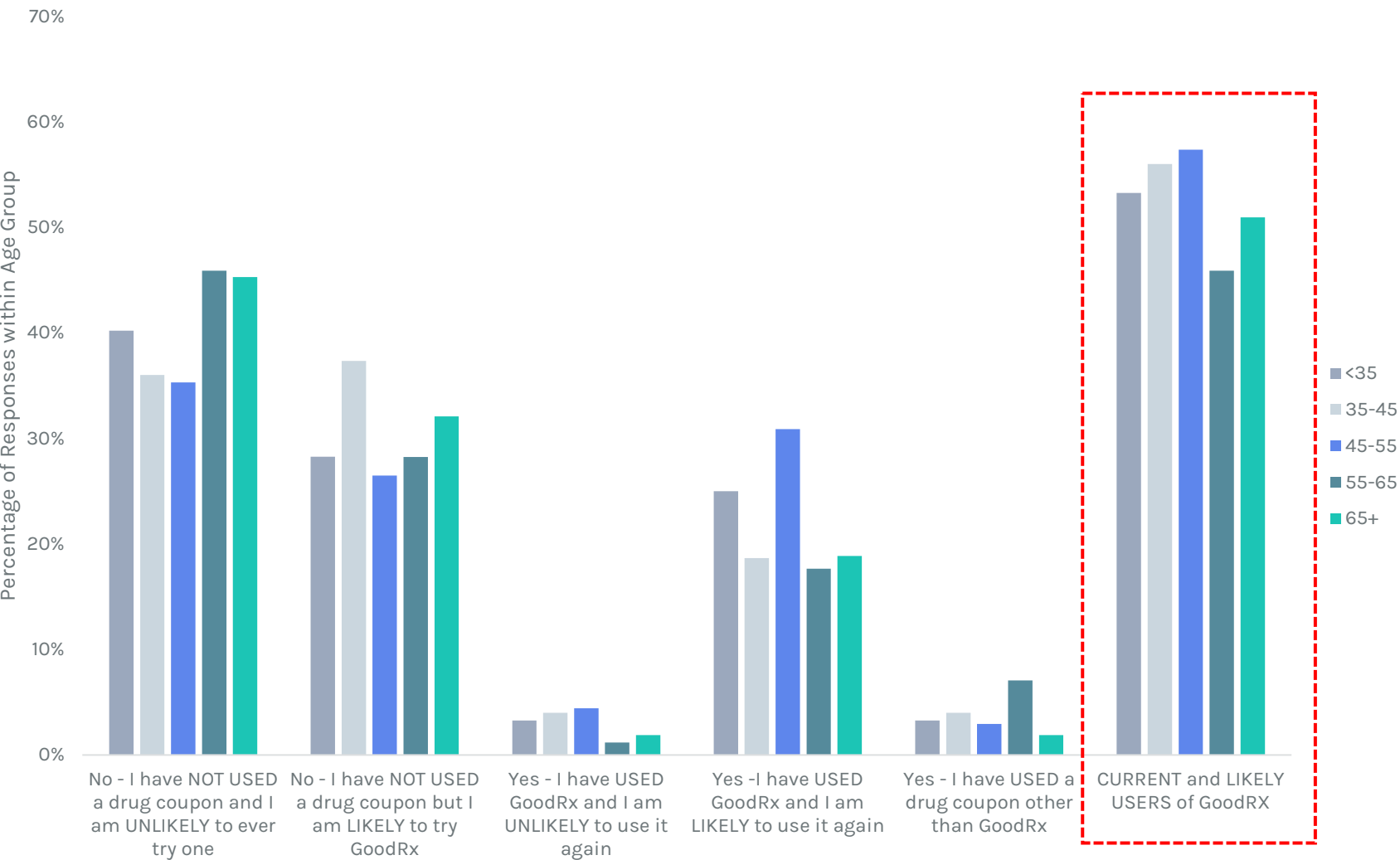
Consumer Survey Results | December 2020

Have you ever used a drug coupon to purchase prescriptions?
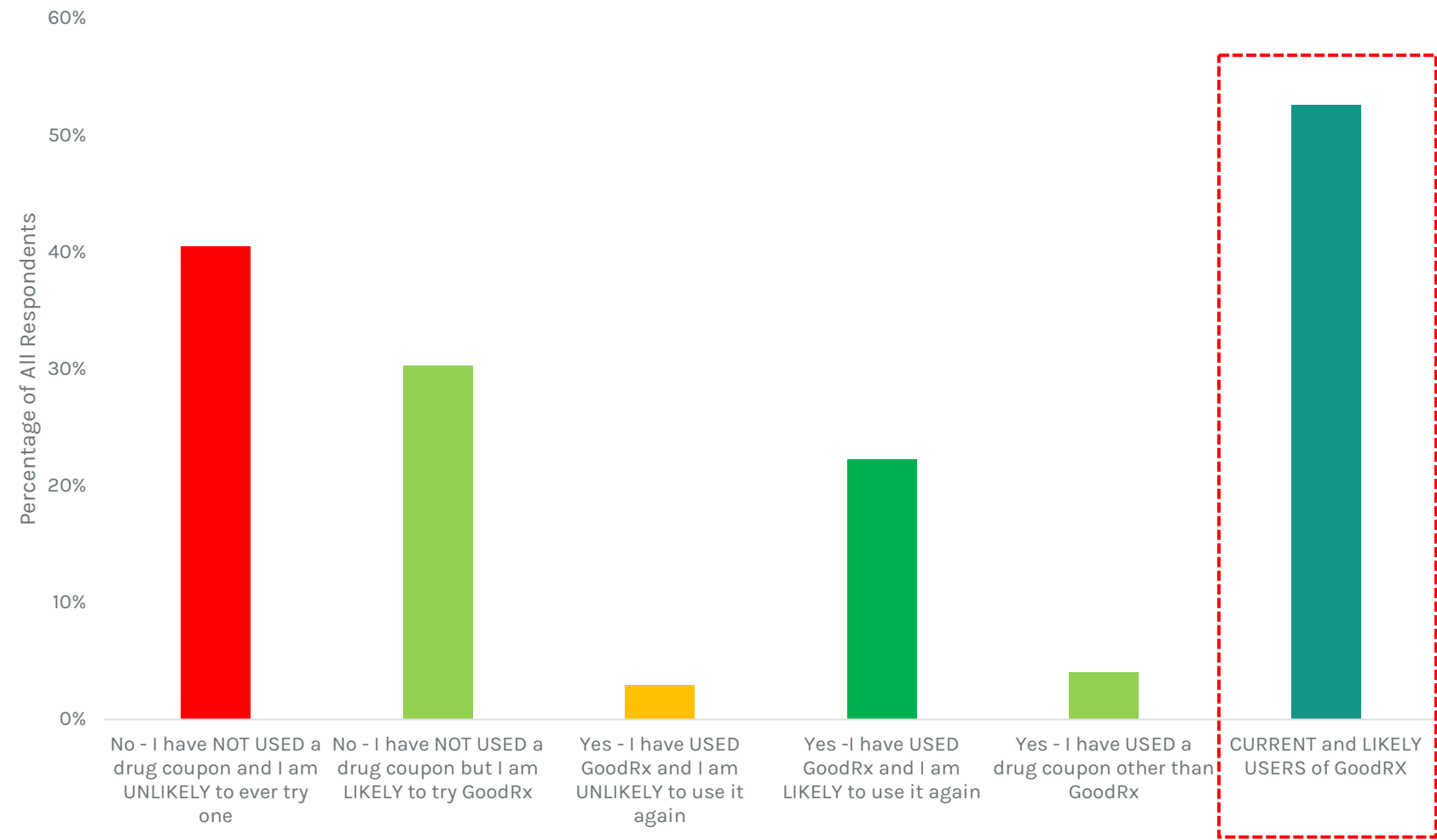
- Over 50% of respondents who are either current or likely users of GoodRx.

- Of the respondents who have ever used a drug coupon, 85% of the use was with GoodRx.
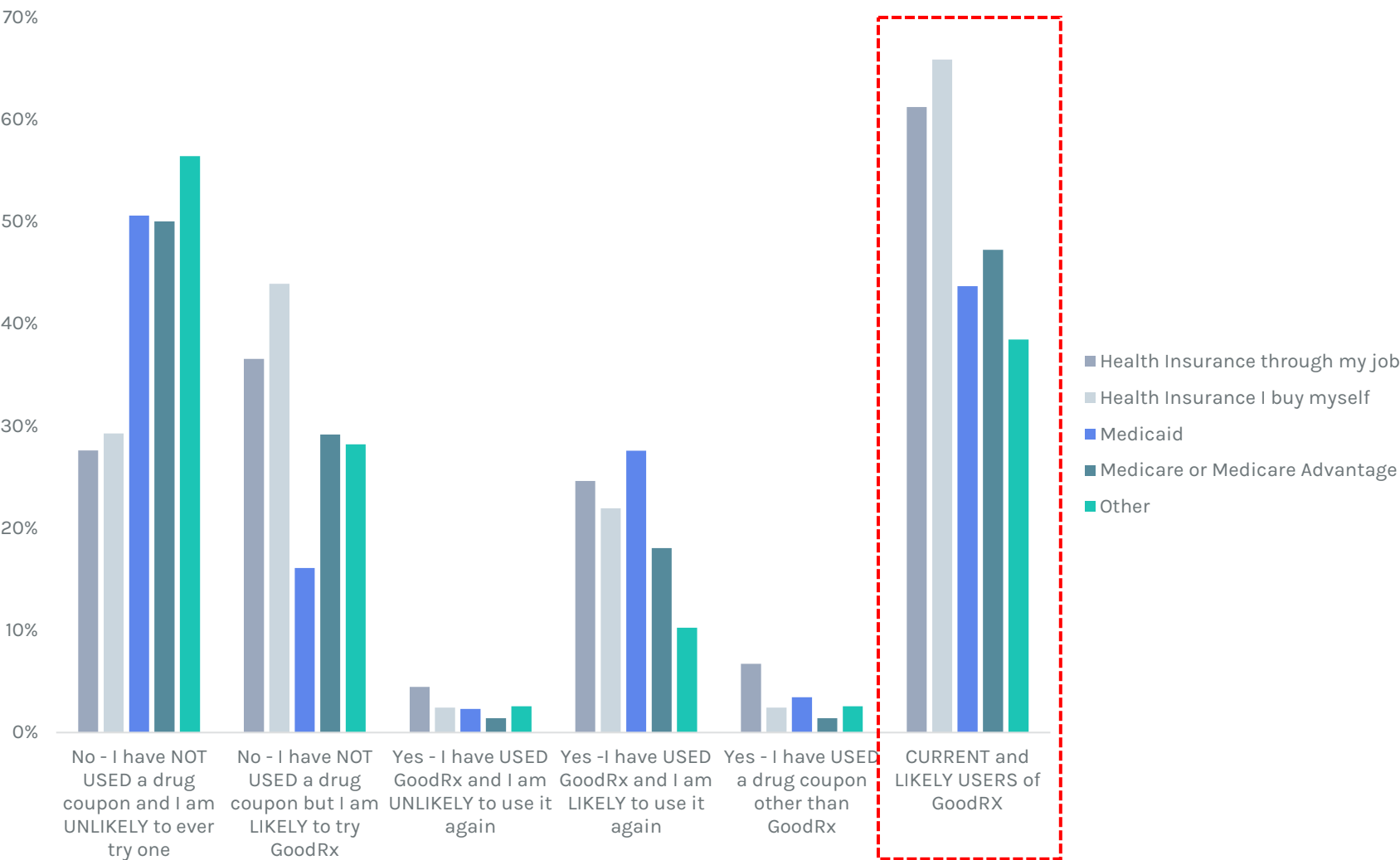
Consumer Survey Results | December 2020

Have you ever used a drug coupon to purchase prescriptions? Results by age group

- We were not able to normalize our results to a general population, but rather compared responses within each grouping.

- Similar to the overall results, there is a small percentage of responses that are either not using GoodRx or have tried it and won't return.

Consumer Survey Results | December 2020

Have you ever used a drug coupon to purchase prescriptions? Results by Payor

Legend:
- Health Insurance through my job
- Health Insurance I buy myself
- Medicaid
- Medicare or Medicare Advantage
- Other

X-axis categories:
- No - I have NOT USED a drug coupon and I am UNLIKELY to ever try one
- No - I have NOT USED a drug coupon but I am LIKELY to try GoodRx
- Yes - I have USED GoodRx and I am UNLIKELY to use it again
- Yes - I have USED GoodRx and I am LIKELY to use it again
- Yes - I have USED a drug coupon other than GoodRx
- CURRENT and LIKELY USERS of GoodRX

- Respondents with Employer Sponsored commercial insurance or insurance they purchase themselves have a higher affirmative response rate compared to the Medicare or Medicaid.

- Over 60% of respondents in the commercial insurance category are current or likely users of GoodRx.
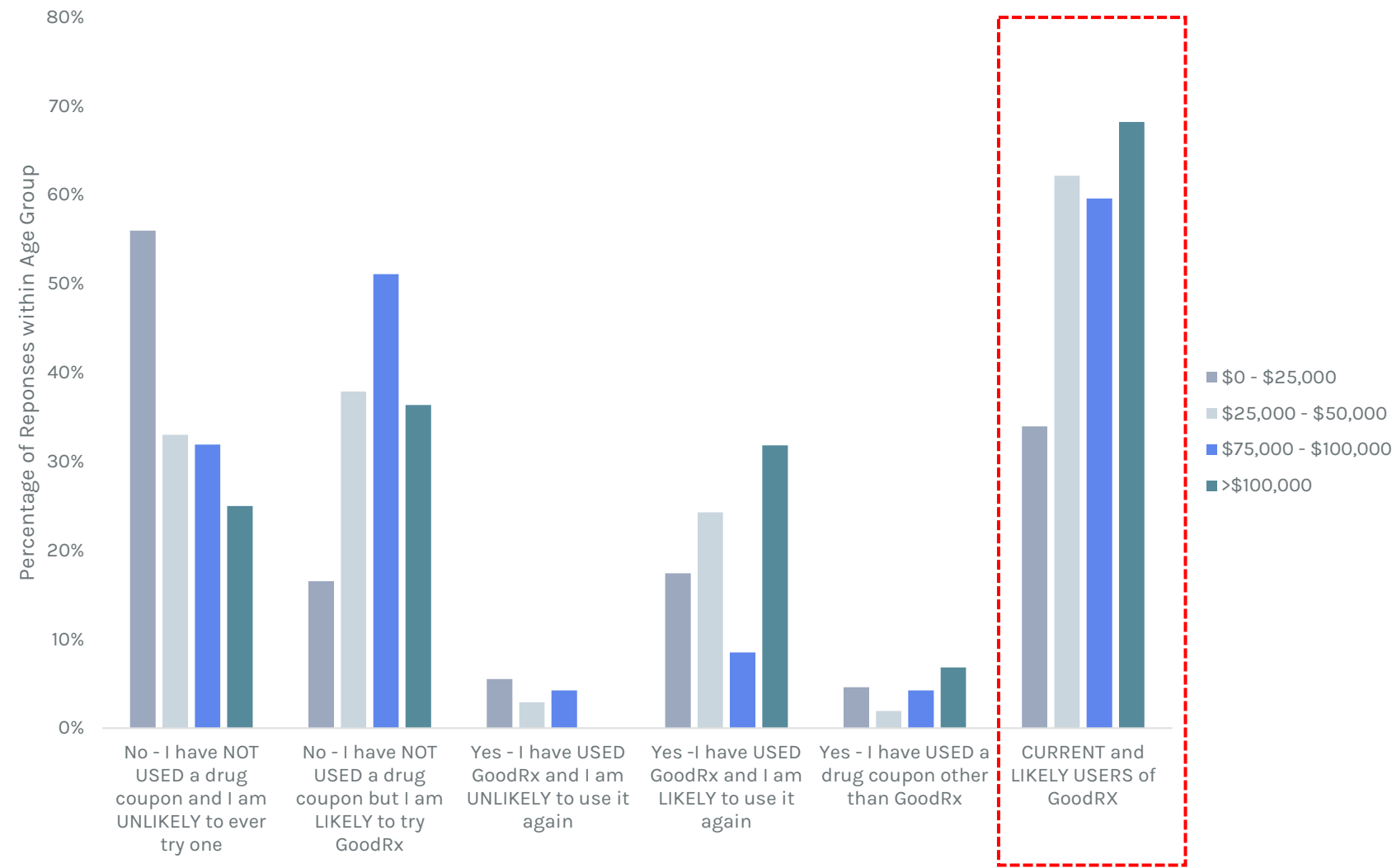
Consumer Survey Results | December 2020

Have you ever used a drug coupon to purchase prescriptions? Employment Status
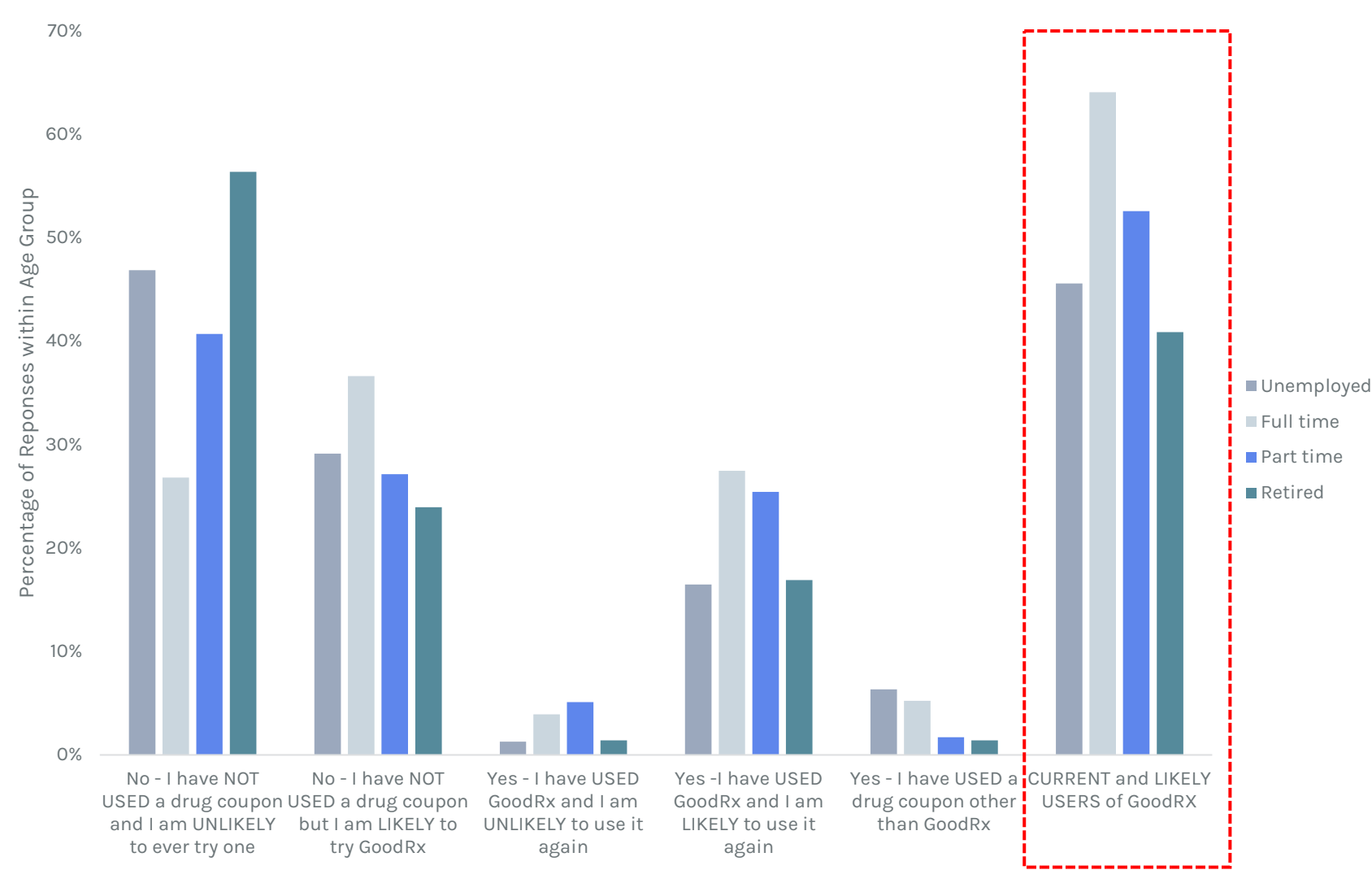
- Respondents employed Full Time were most likely to respond as a current or likely user of GoodRx.

- We would have expected the percentage of GoodRx users to be highest in the Unemployed category, but that may be a question of access to a physician in the first place.
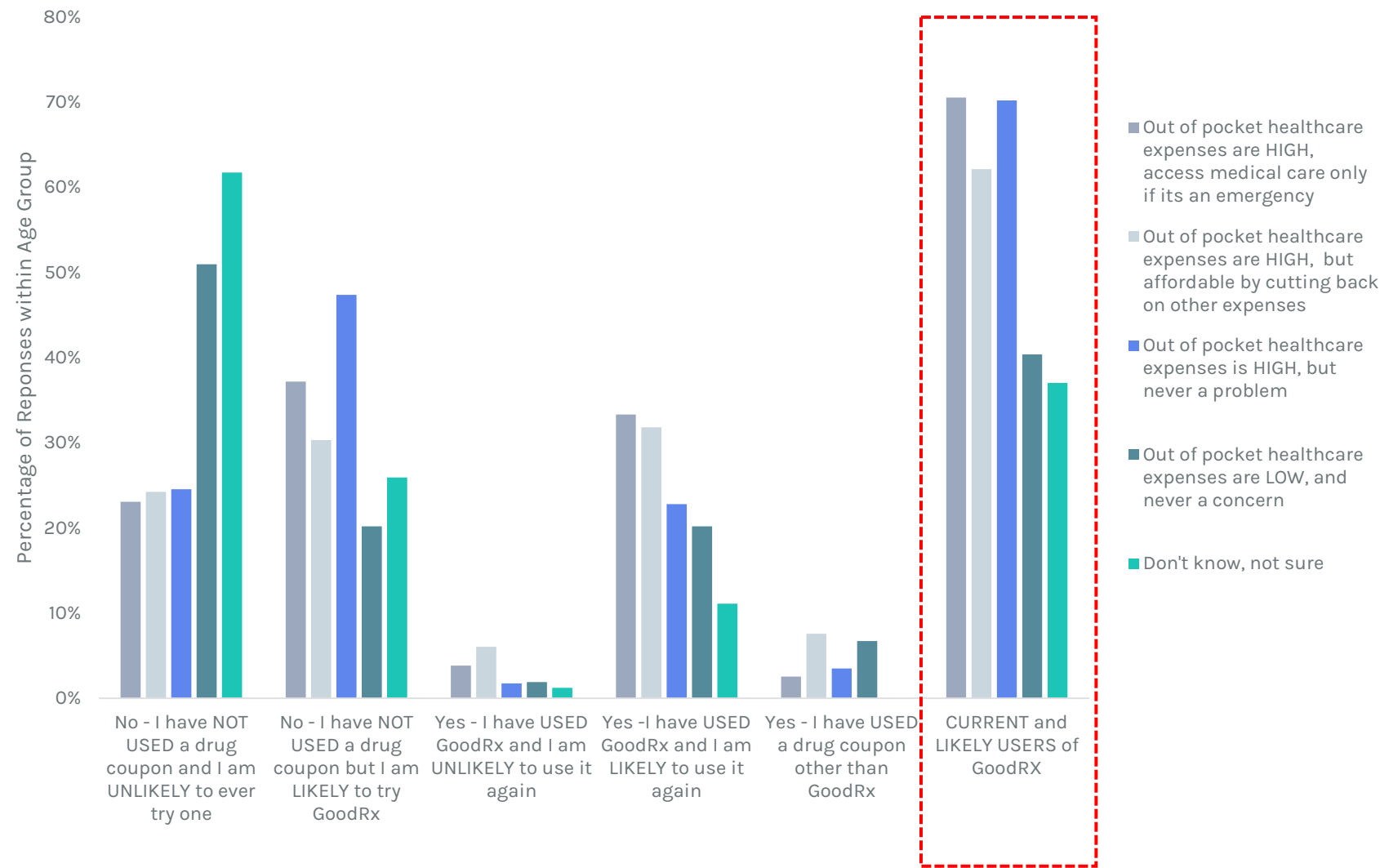
Consumer Survey Results | December 2020

Have you ever used a drug coupon to purchase prescriptions? Income Level

- Very low-income response rates are much lower than responses for higher incomes.

- As with the Unemployed, we would have expected the percentage of GoodRx users to be higher in the low-Income category, but that may be a question of access to a physician in the first place.

Consumer Survey Results | December 2020

Have you ever used a drug coupon to purchase prescriptions? Out of Pocket Expenses

Legend:
- Out of pocket healthcare expenses are HIGH, access medical care only if its an emergency
- Out of pocket healthcare expenses are HIGH, but affordable by cutting back on other expenses
- Out of pocket healthcare expenses is HIGH, but never a problem
- Out of pocket healthcare expenses are LOW, and never a concern
- Don't know, not sure

Y-axis: Percentage of Reponses within Age Group (0% – 80%)

X-axis categories:
- No - I have NOT USED a drug coupon and I am UNLIKELY to ever try one
- No - I have NOT USED a drug coupon but I am LIKELY to try GoodRx
- Yes - I have USED GoodRx and I am UNLIKELY to use it again
- Yes -I have USED GoodRx and I am LIKELY to use it again
- Yes - I have USED a drug coupon other than GoodRx
- CURRENT and LIKELY USERS of GoodRX

- Out of pocket expenses, and the respondent's perception of them, appear to be the most relevant factor. Where expenses are considered HIGH, current and likely use of GoodRx was ~70% of the category.

- Where expenses are considered LOW, or "Don't Know, Not Sure" we see the interest in drug coupon to be half the response rate at ~40%
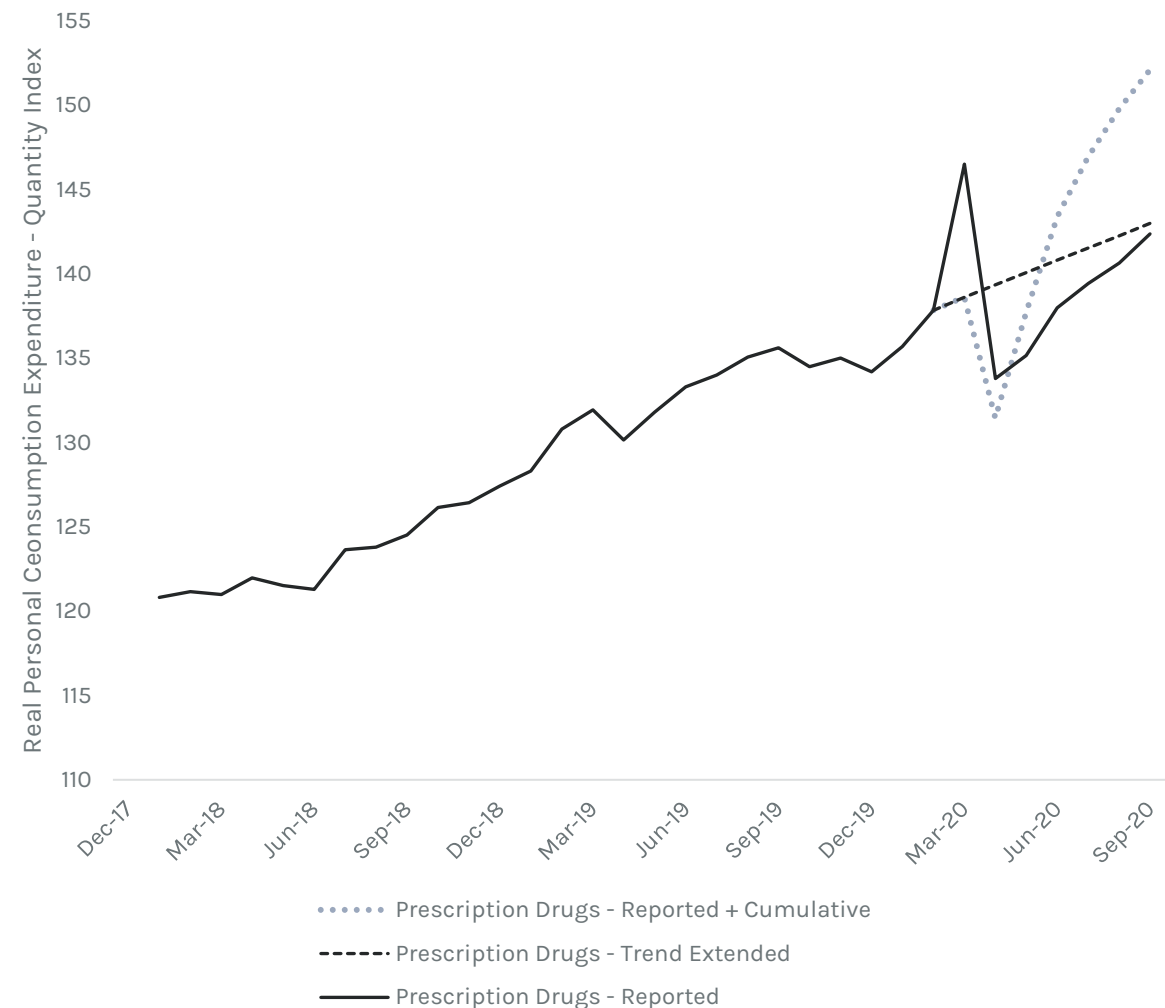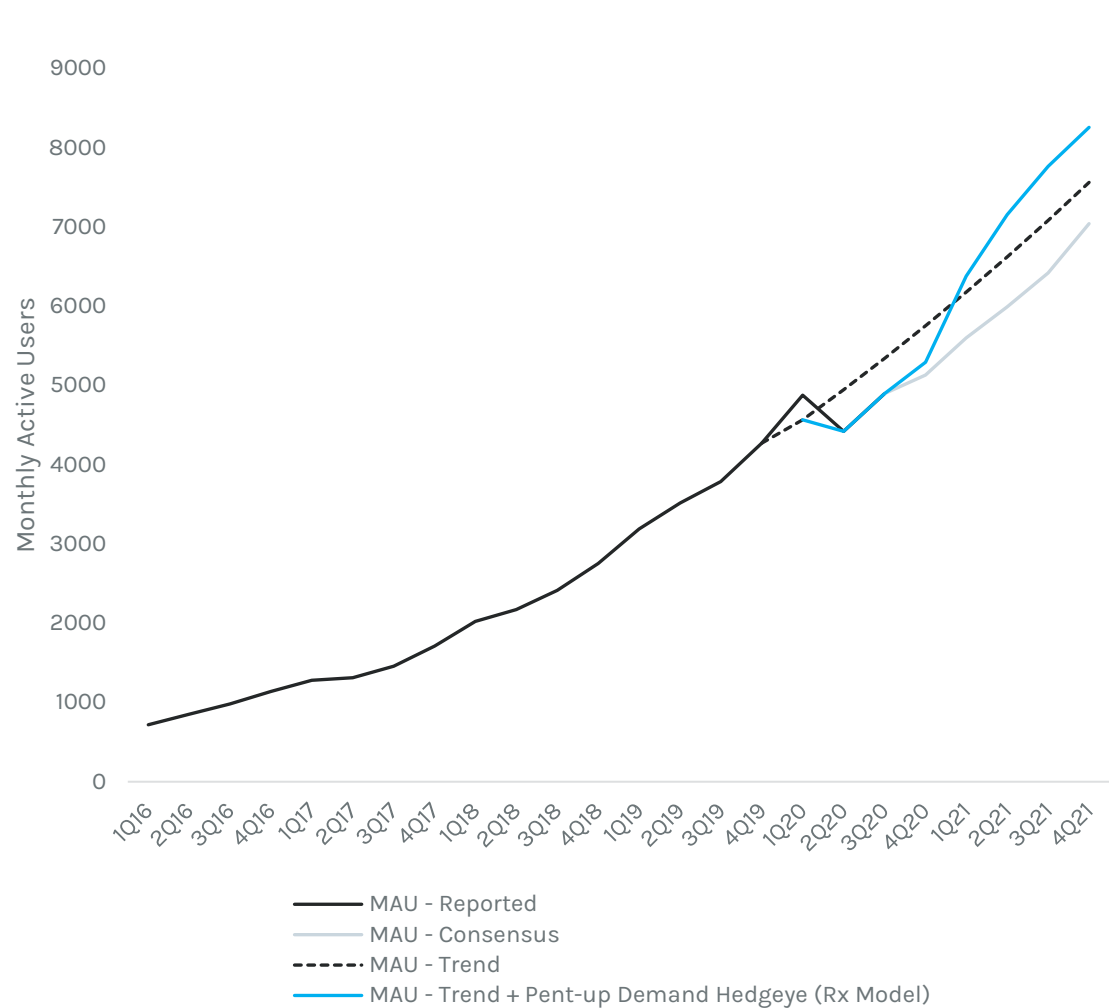
TAM in Terms of Potential Users

Hedgeye: Drug coupon TAM to be approximately 74M active consumers and 768M scripts/year
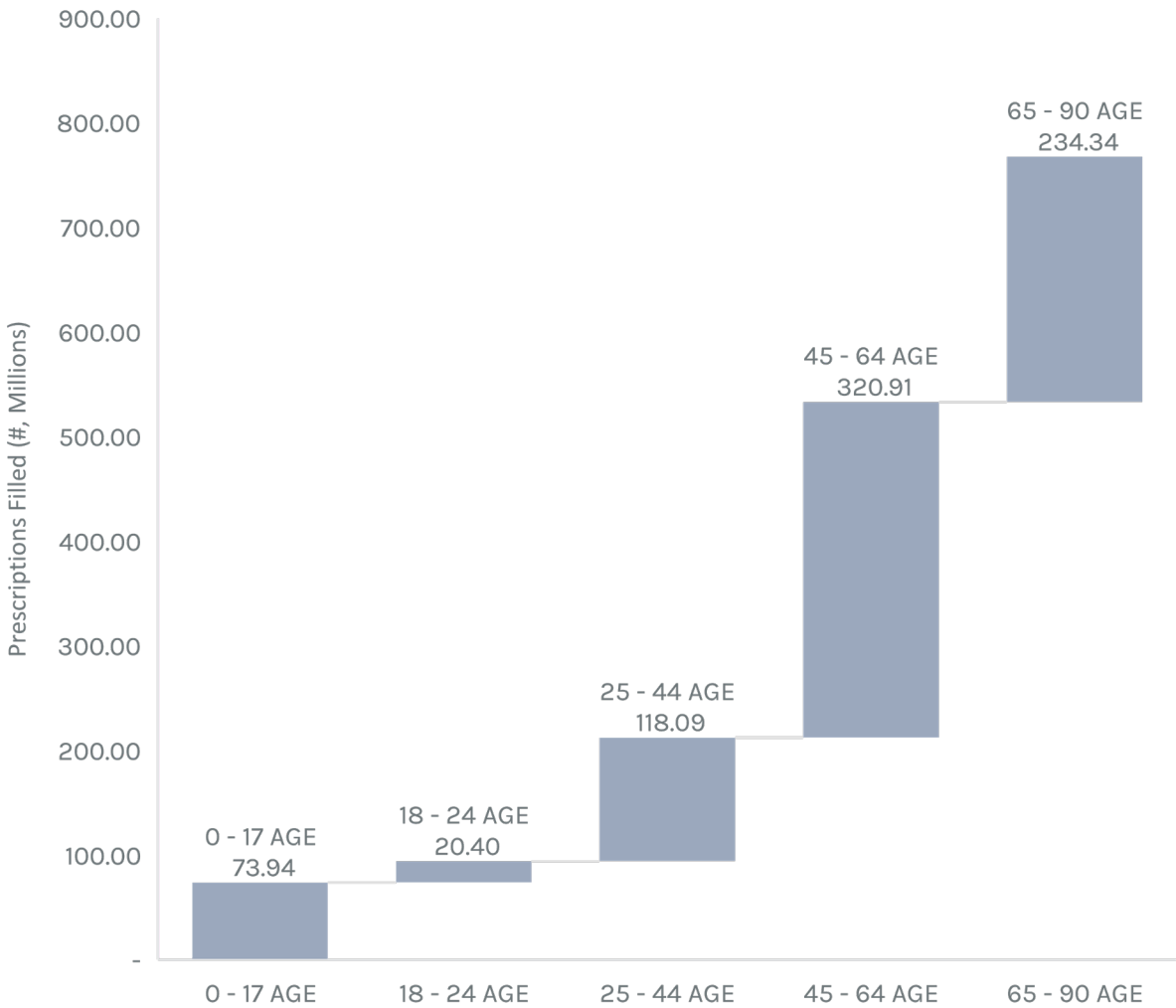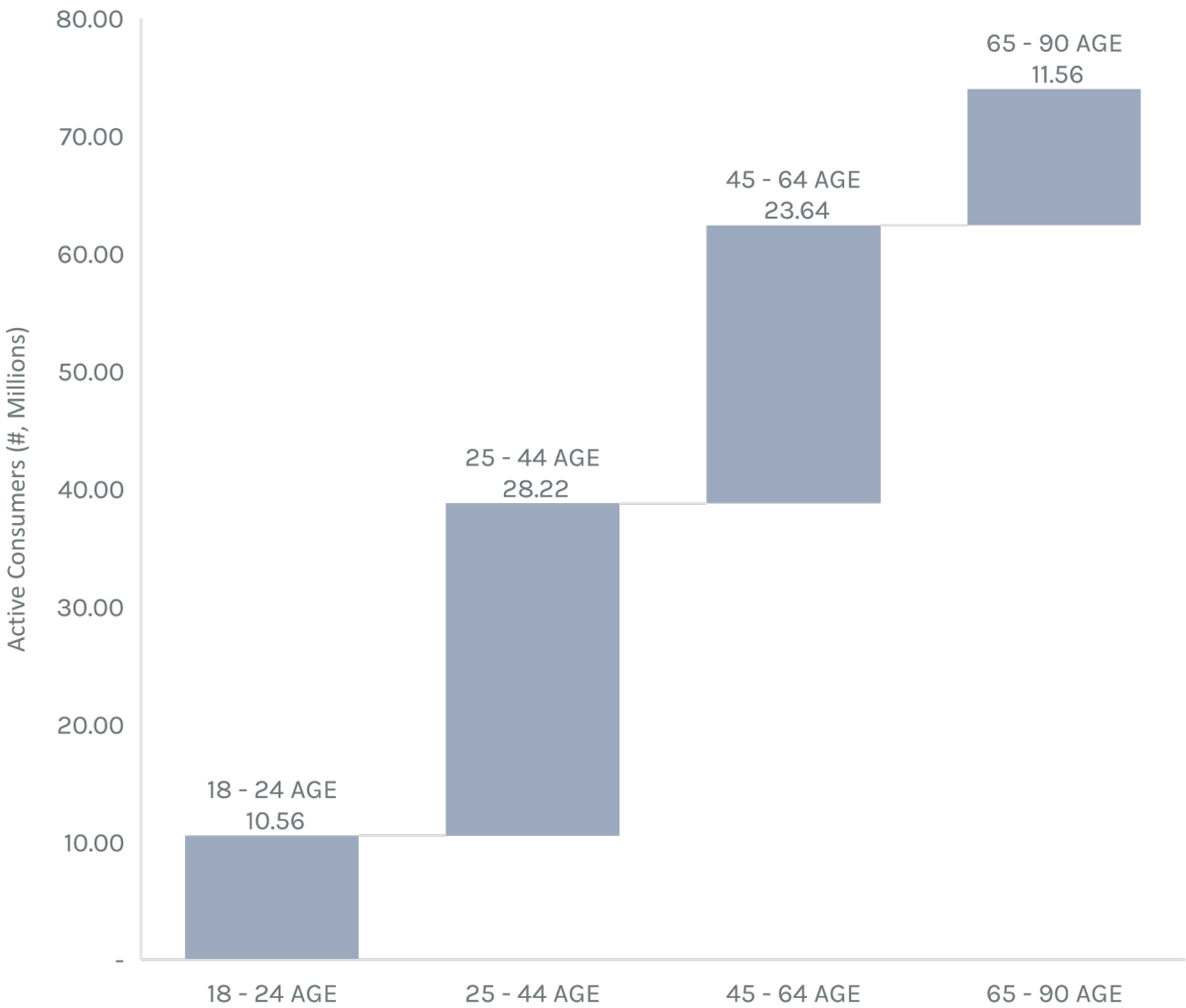
In Person Care -> Physician Visit -> Rx

We estimate greater than 70 million people in the GDRX+AMZN TAM

Legend (left chart):
- MAU - Reported
- MAU - Consensus
- MAU - Trend
- MAU - Trend + Pent-up Demand Hedgeye (Rx Model)

Legend (right chart):
- Prescription Drugs - Reported + Cumulative
- Prescription Drugs - Trend Extended
- Prescription Drugs - Reported

Physician Services Pent Up Demand → Rx Rebound

HEDGEYE

74% of Physician visits include at least 1 Prescription

Table 22. Medication therapy and number of medications mentioned at office visits, by patient sex: United States, 2016

Medication therapy[1]	Number of visits in thousands (standard error in thousands)	Both sexes	Female[2]	Male[3]
		Percent distribution (standard error of percent)		
All visits	883,725 (30,070)	100.0 ...	100.0 ...	100.0 ...
Visits with mention of medication[4]	653,490 (25,938)	73.9 (1.4)	73.6 (1.7)	74.4 (1.4)
Visits without mention of medication	215,644 (12,308)	24.4 (1.2)	24.5 (1.5)	24.3 (1.3)
Blank	*14,592 (5,742)	1.7 (0.6)	1.9 (0.8)	1.3 (0.5)
Number of medications provided or prescribed				
All visits	883,725 (30,070)	100.0 ...	100.0 ...	100.0 ...
0	215,644 (12,308)	24.4 (1.2)	24.5 (1.5)	24.3 (1.3)
1	175,340 (9,840)	19.8 (0.9)	20.5 (1.0)	18.9 (1.0)
2	111,254 (6,975)	12.6 (0.6)	12.2 (0.7)	13.1 (0.7)
3	80,972 (5,379)	9.2 (0.5)	8.8 (0.5)	9.6 (0.7)
4	57,188 (4,476)	6.5 (0.4)	6.8 (0.6)	6.1 (0.5)
5	45,653 (3,626)	5.2 (0.4)	5.1 (0.4)	5.3 (0.4)
6	32,645 (2,590)	3.7 (0.3)	3.4 (0.3)	4.1 (0.4)
7	26,329 (2,360)	3.0 (0.3)	2.6 (0.2)	3.5 (0.4)
8	25,993 (2,376)	2.9 (0.3)	2.9 (0.3)	3.0 (0.3)
9	15,778 (1,705)	1.8 (0.2)	1.5 (0.2)	2.1 (0.3)
10	20,431 (2,273)	2.3 (0.3)	2.4 (0.3)	2.2 (0.3)
11	12,160 (1,411)	1.4 (0.2)	1.4 (0.2)	1.3 (0.2)
12	10,794 (1,400)	1.2 (0.2)	1.4 (0.2)	1.0 (0.2)
13	7,835 (1,052)	0.9 (0.1)	1.0 (0.2)	0.7 (0.1)
14	8,044 (1,175)	0.9 (0.1)	0.9 (0.1)	1.0 (0.2)
15 or more	23,073 (2,592)	2.6 (0.3)	2.7 (0.3)	2.5 (0.3)
Blank	*14,592 (5,742)	1.7 (0.6)	1.9 (0.8)	1.3 (0.5)

Physician Services volume fell -41% at the lows

Data Source: NAMCS, BEA, Hedgeye Estimates   © Hedgeye Risk Management LLC.   **28**
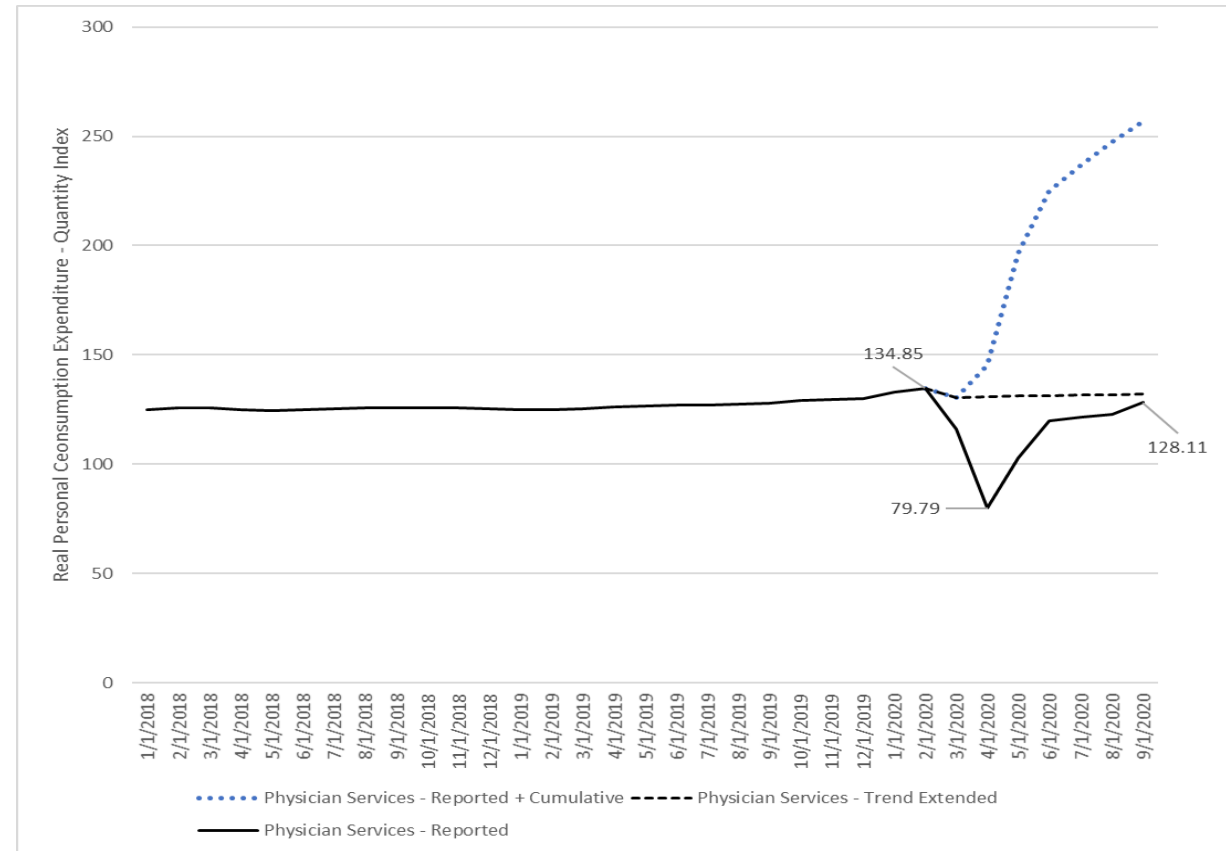
In Person Care -> Physician Visit -> Rx

The magnitude of the cumulative deficit in Physician Services quantity is significant
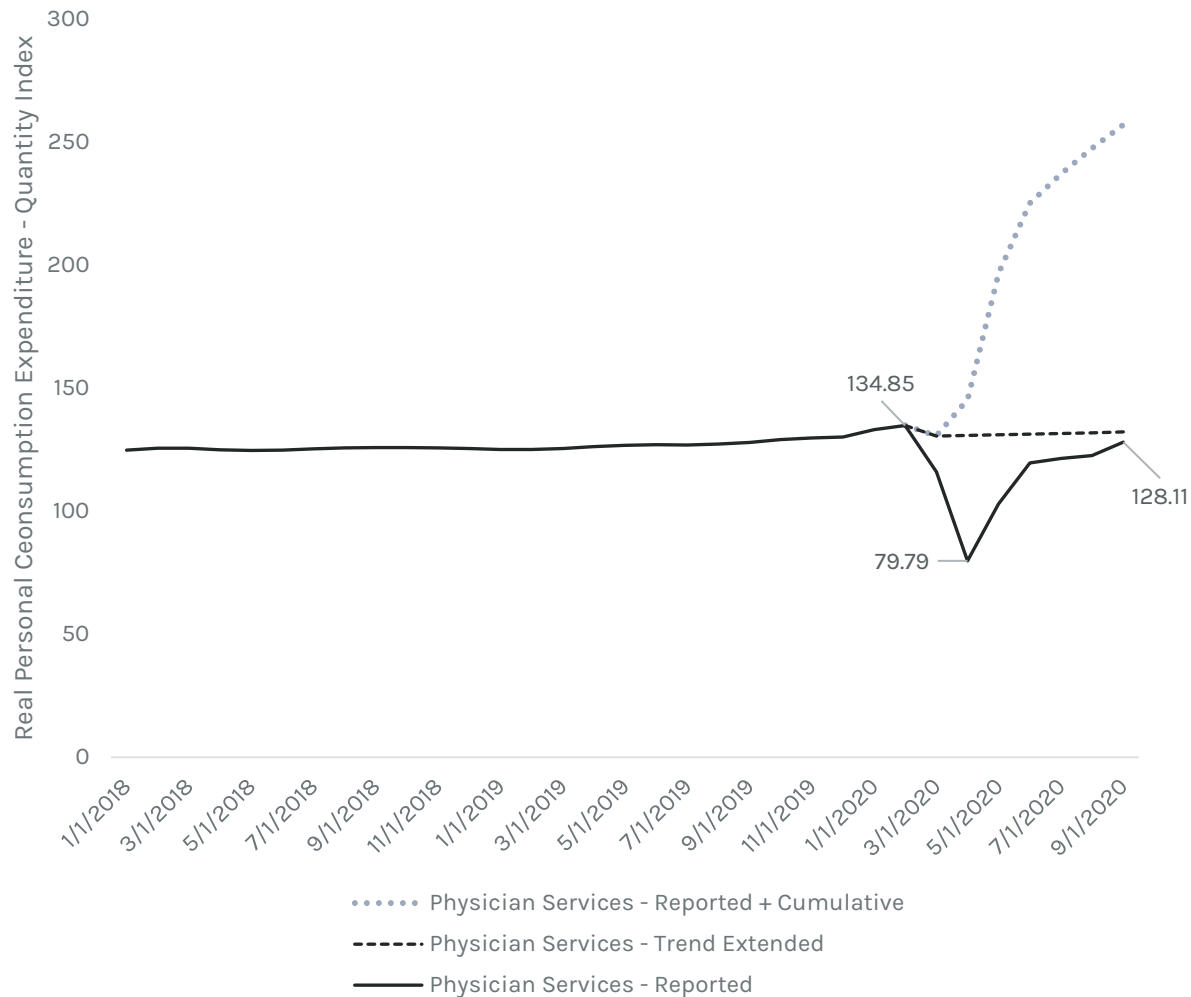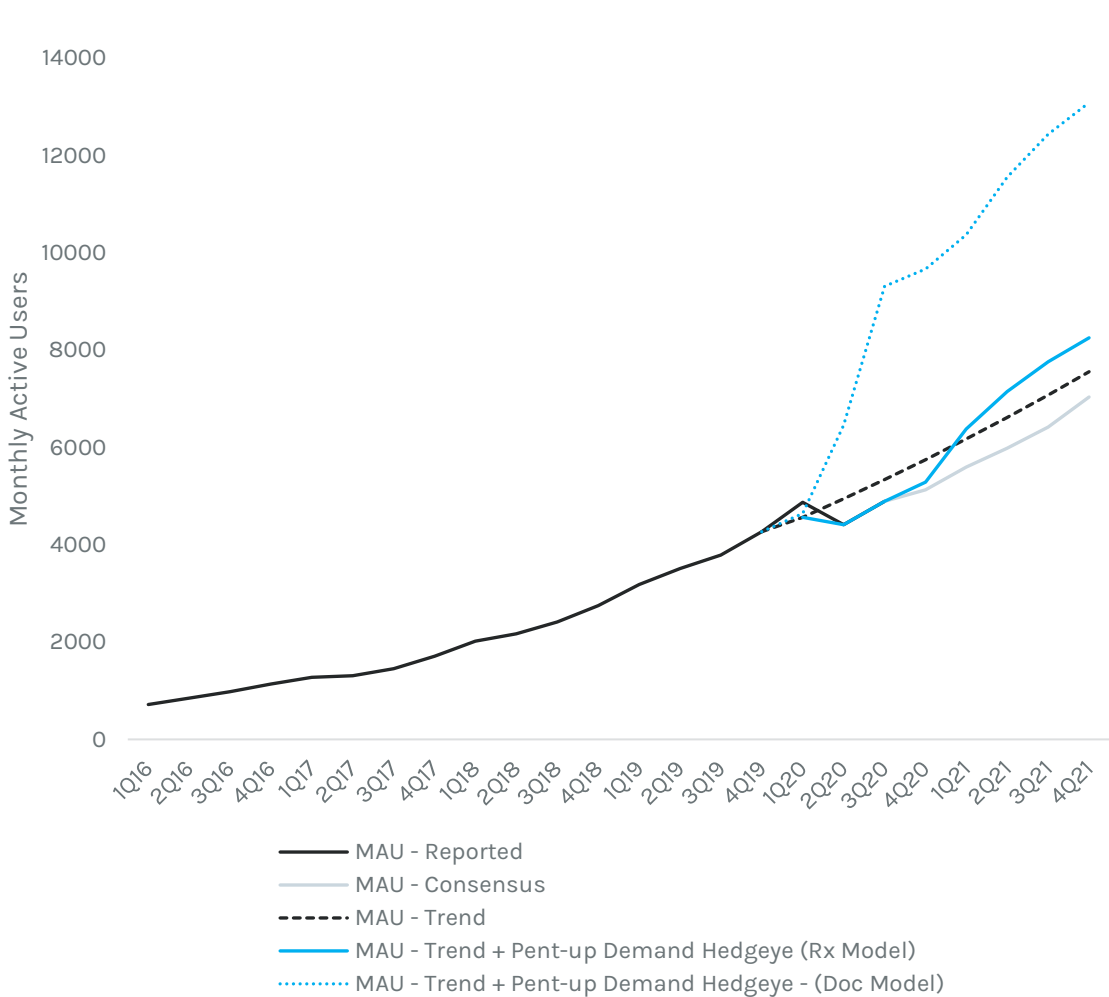
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