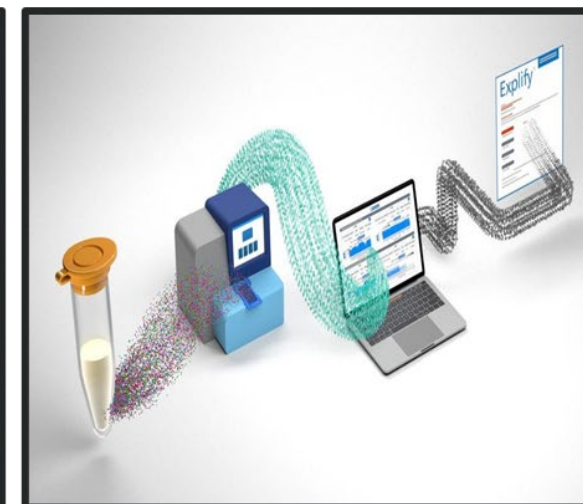# HEDGEYE

Health Care Position Monitor Update

NIH Data Update, Updated Forecast Algorithms, Weekly MicroQuad Update

December 28, 2020

Hedgeye Health Care

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Legal

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Health Care Position Monitor

For Week of December 28, 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**					
AMN	AMN Healthcare Services, Inc.	$ 69.58	$3.3B	√	√	**EXAS**	Exact Sciences Corporation	$ 140.33	$22.3B	×	×
GDRX	GoodRx Holdings, Inc. Class A	$ 45.33	$18.6B	√	√						
NTRA	Natera, Inc.	$ 110.69	$9.4B	√	√						
ONEM	1Life Healthcare, Inc.	$ 43.34	$5.8B	√	√						
TXG	10x Genomics Inc Class A	$ 149.42	$12.0B	√	√						
GH	Guardant Health, Inc.	$ 133.31	$13.3B	√	√						
TDOC	Teladoc Health, Inc.	$ 204.07	$29.6B	√	√						
Long Bias						**Short Bias**					
ILMN	Illumina, Inc.	$ 371.28	$54.2B			**HRC**	Hill-Rom Holdings, Inc.	$ 98.52	$6.6B		
NEO	NeoGenomics, Inc.	$ 55.07	$6.1B			**MASI**	Masimo Corporation	$ 266.69	$14.7B		
						AMWL	American Well Corporation Class A	$ 28.83	$5.8B		
						NVTA	Invitae Corp.	$ 48.09	$8.5B		

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
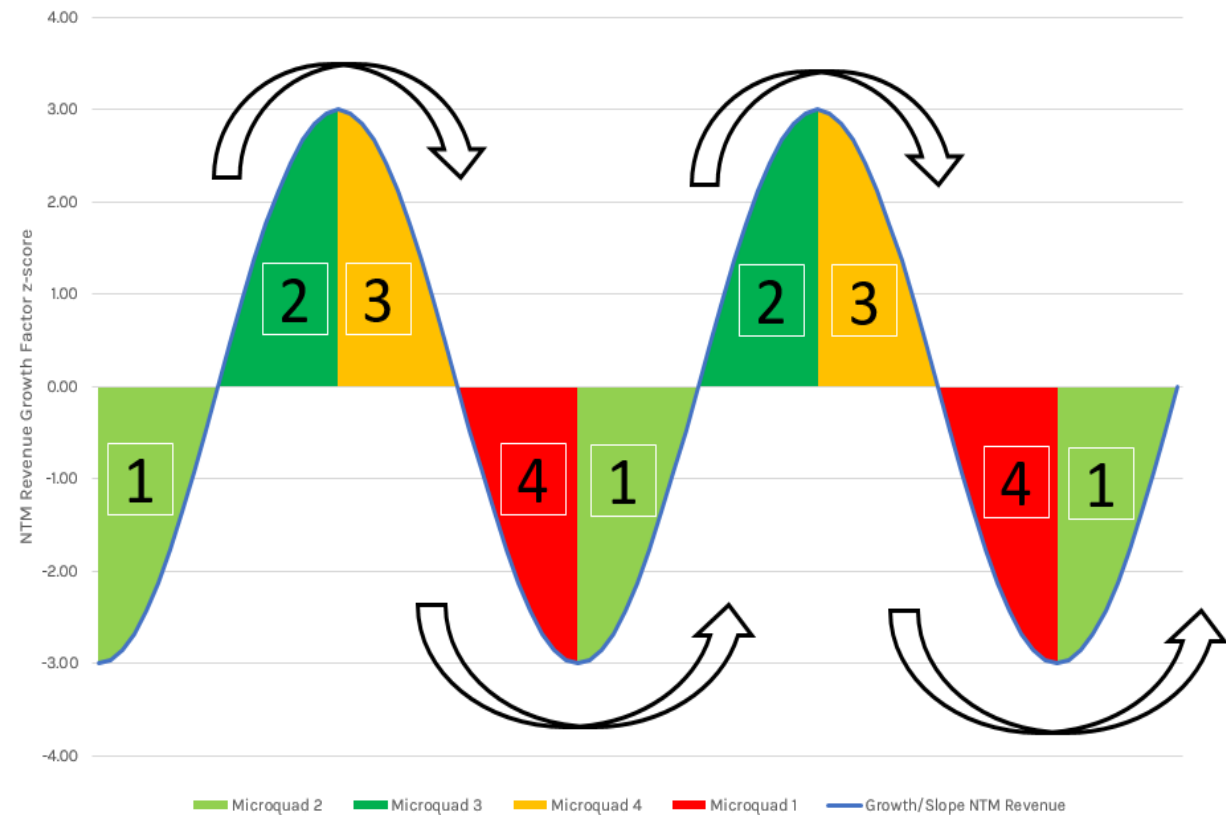
MicroQuad – Generic Growth Curve Progression
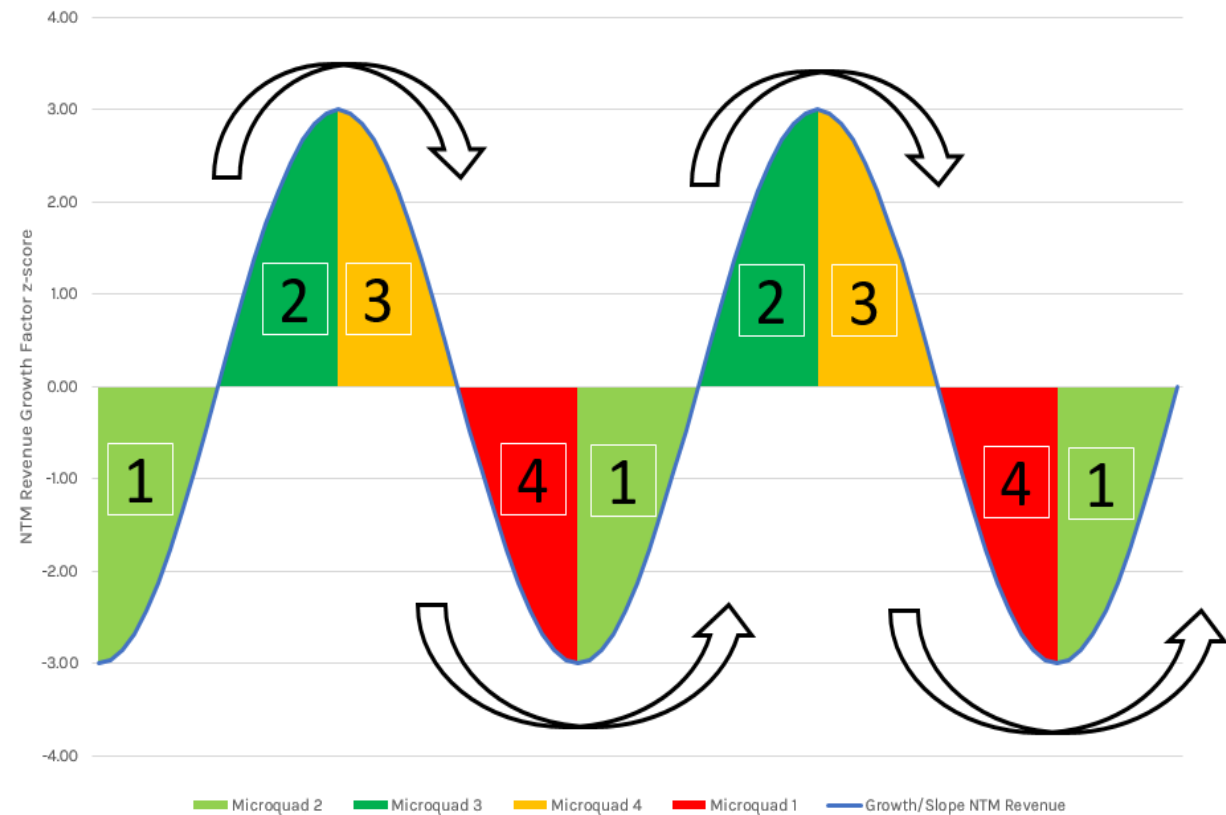
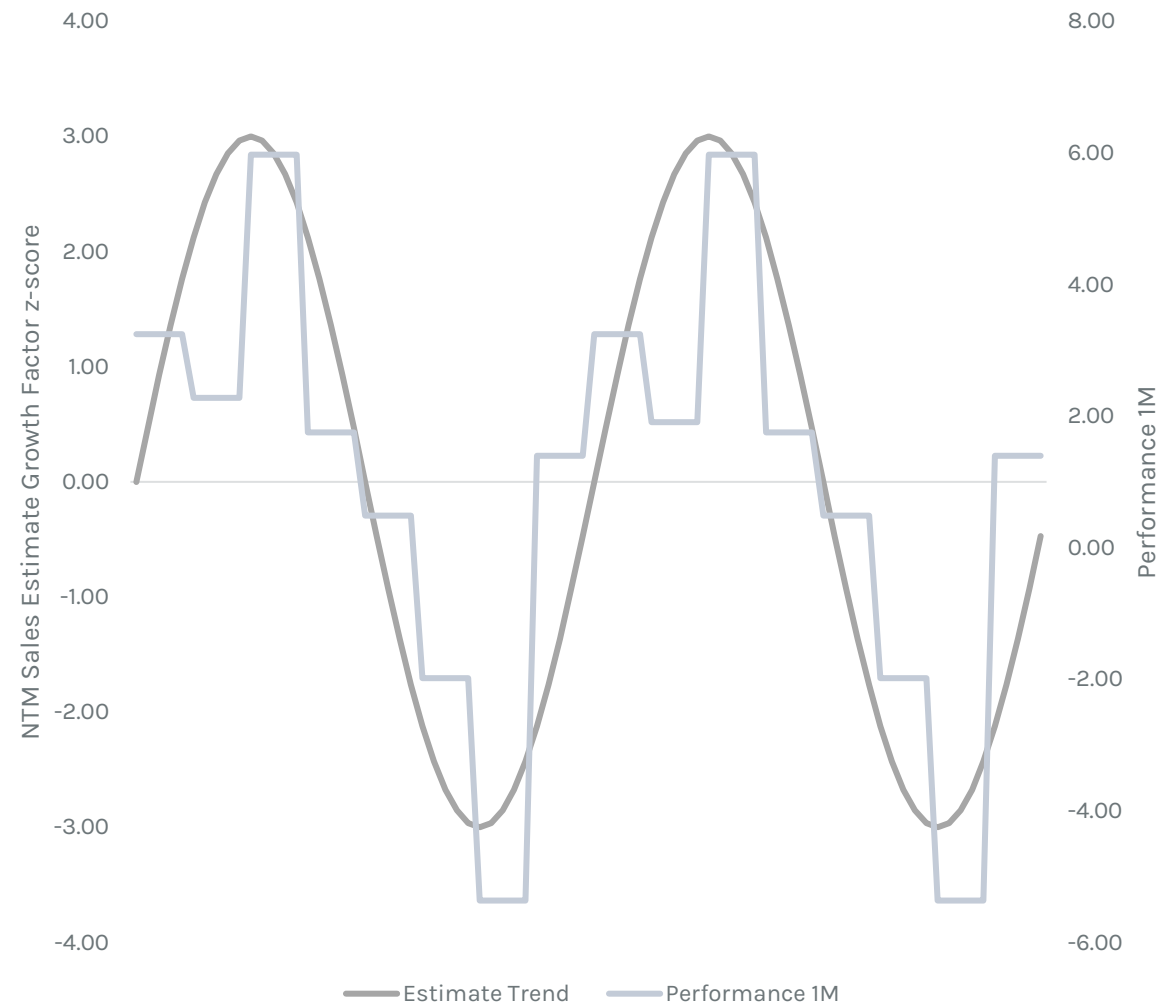## MicroQuad - The Four Quadrants
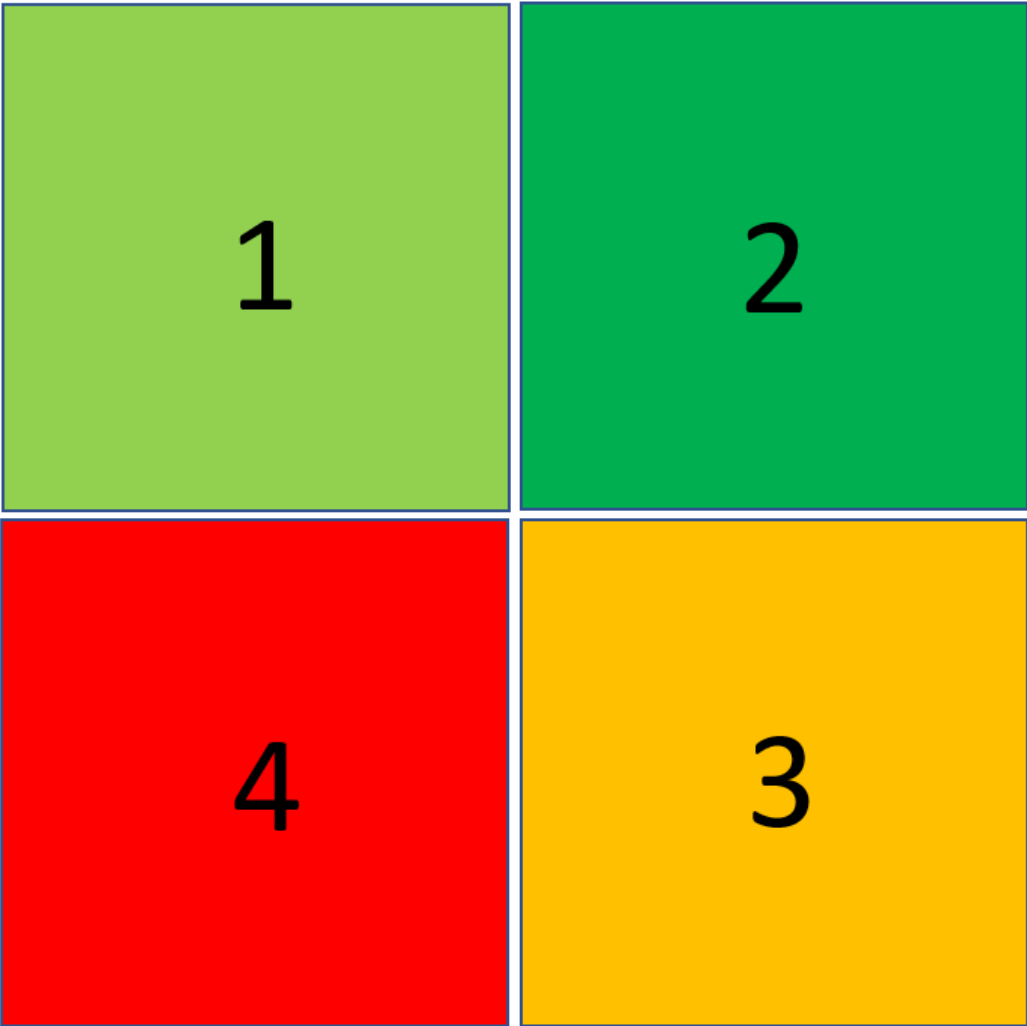
MicroQuad | Model vs Actual

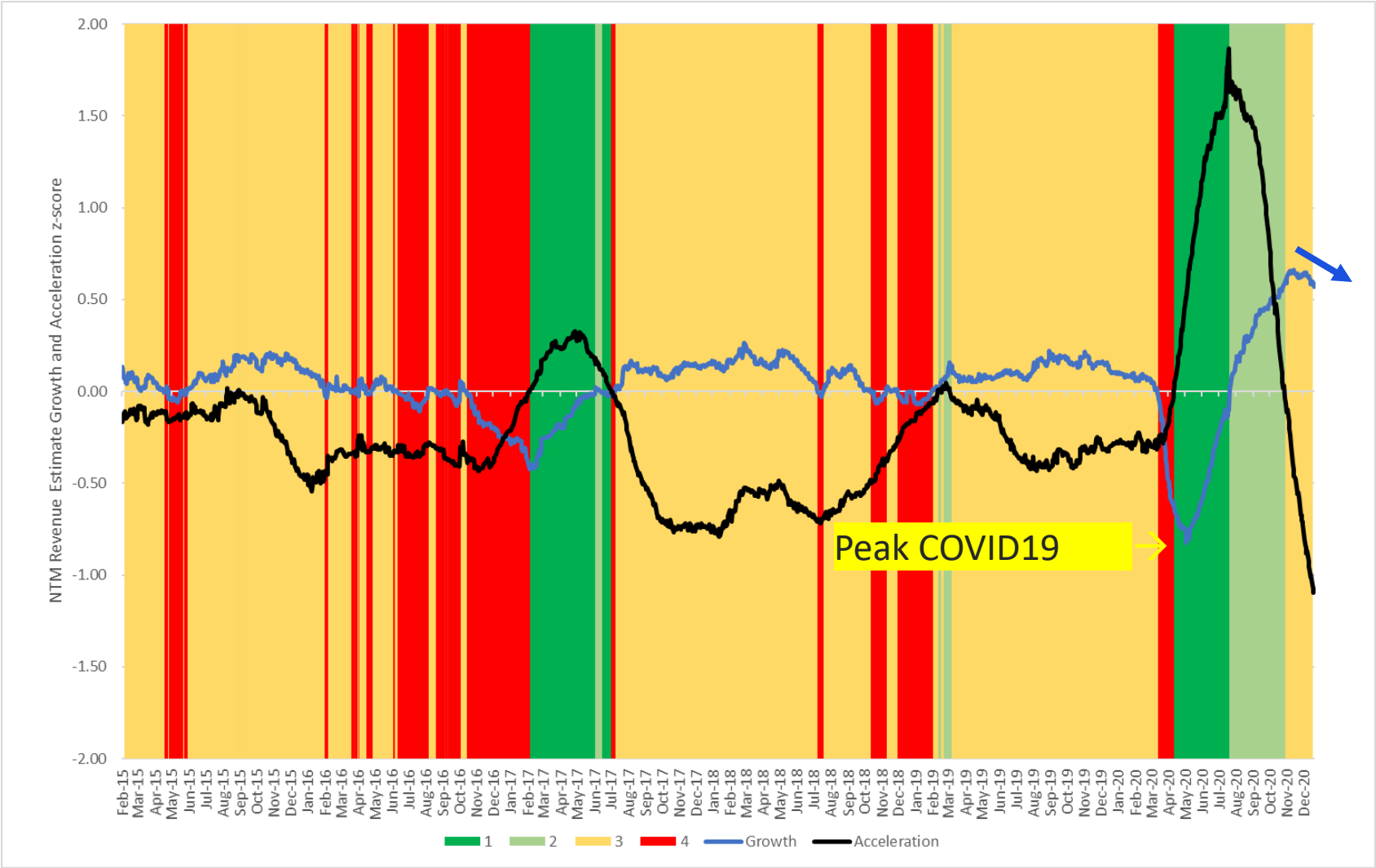## MicroQuad – Generic Growth Curve Progression

MicroQuad – Actual Performance vs Growth Curve

Estimate Revision Trend is Decelerating

Past the peak for the post-COVID19 recovery

As of 12/28/2020 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 will release substantial deferred care and pent-up demand, lead to reacceleration, but evidence won't emerge until the vaccine distribution is further into the at-risk population.

As of this morning the CDC is reporting that only 9.5M vaccine doses have ben deployed compared to forecasts of 20M by year end and 10-20M doses per week in 2021.

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

Legend: 1 2 3 4 — Indexed Performance
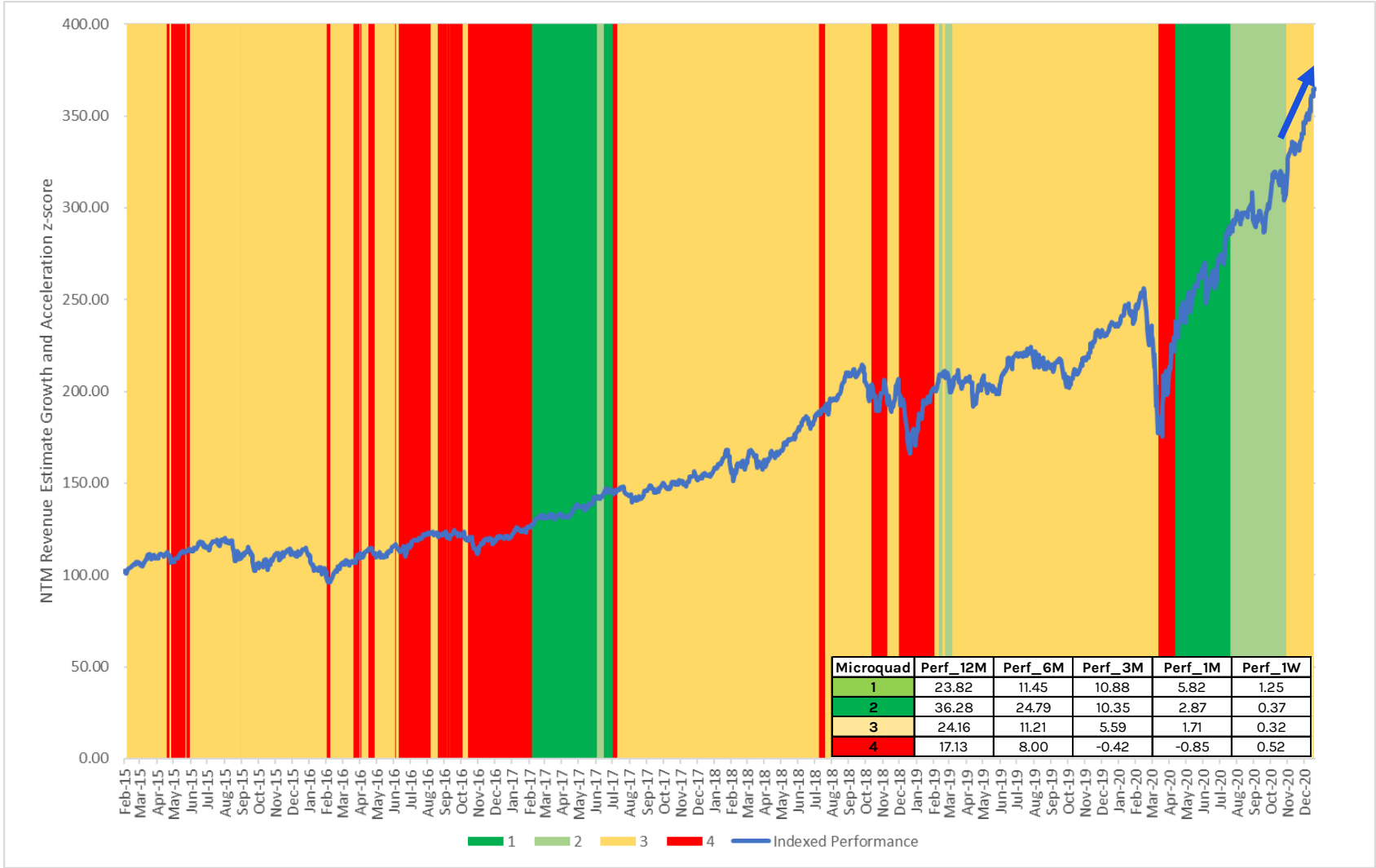
As of 12/28/2020 performance has been increasingly volatile but remains positive. On average, performance metrics, batting averages, deteriorate in MicroQuad 3, but at the same time will be overwhelmed by Macro Quad 2, forecast to extend through 2Q21.

Despite decelerating 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 28, 2020

HEDGEYE

MicroQuad1

EHC
HMSY
HRC
HUM
LHCG
MASI
PRGO

MicroQuad2

ADPT
AMN
BAX
CERN
ENSG
HAE
ICUI
ILMN
UNH

MicroQuad3

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

MicroQuad4

ABBV
AMGN
ANTM
BDX
CHE
GH
GILD
MEDP
NEO
VRTX

Position Monitor Prospective Performance

MicroQuad average forward 1M performance in all Macro Quad environments

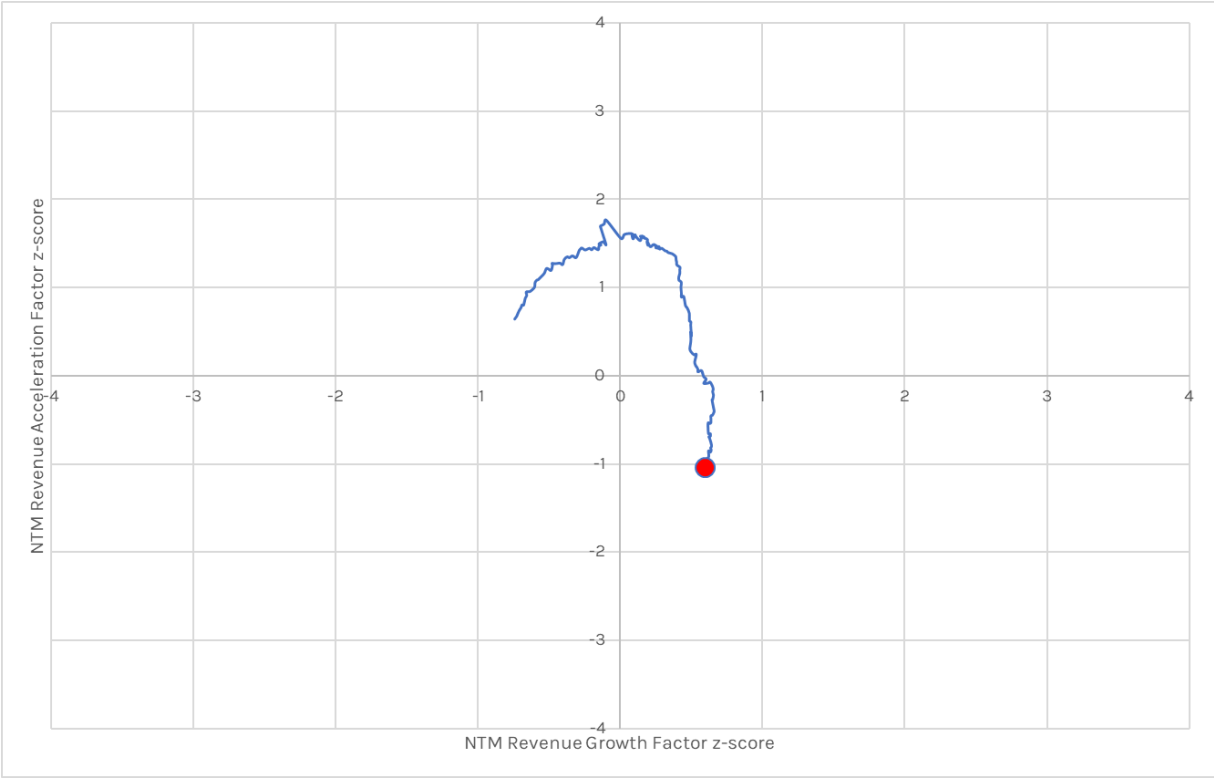| POSITION MONITOR		12/24/2020			Performance				Sales			
Ticker	Name	Price	EV	MCAP	Performance Trailing 1W Actual	Performance Trailing 1M Actual	Performance Trailing 1M Expected	Performance Forward 1M Expected	Correlation	Growth Factor z-score	Acceleration Factor z-score	Sales Quad
TDOC	Teladoc Health, Inc.	$196.34	16,240	28,462	5.66%	11.55%	2.96%	6.13%	0.92	2.02	-2.23	3
NVTA	Invitae Corp.	$47.56	6,272	8,404	-0.15%	0.90%	4.26%	5.03%	0.85	2.07	-1.44	3
EXAS	Exact Sciences Corporation	$137.05	21,026	21,795	2.59%	19.02%	2.20%	3.46%	0.82	0.07	-0.80	3
NTRA	Natera, Inc.	$101.67	7,694	8,680	10.25%	34.59%	2.38%	2.57%	0.94	1.63	-2.39	3
ONEM	1Life Healthcare, Inc.	$40.28	4,897	5,358	9.27%	30.80%	1.16%	2.51%	0.56	0.41	-1.69	3
AMN	AMN Healthcare Services, Inc.	$68.44	4,190	3,219	1.32%	5.10%	1.90%	2.19%	0.82	0.24	0.64	2
TXG	10x Genomics Inc Class A	$152.90	14,729	12,256	0.02%	11.15%	1.81%	2.19%	0.91	0.67	-0.37	3
GH	Guardant Health, Inc.	$127.30	11,763	12,726	5.73%	18.40%	1.16%	1.97%	0.74	-0.42	-0.14	4
MASI	Masimo Corporation	$265.66	14,789	14,626	-0.66%	8.97%	1.29%	1.70%	0.97	-0.35	0.03	1
HRC	Hill-Rom Holdings, Inc.	$100.45	8,410	6,711	-0.91%	0.95%	3.57%	1.00%	0.93	-0.53	3.30	1
ILMN	Illumina, Inc.	$366.06	52,758	53,445	1.66%	20.17%	2.32%	0.08%	0.93	0.73	2.04	2

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 28, 2020

Sigma Positioning – Current Position Monitor
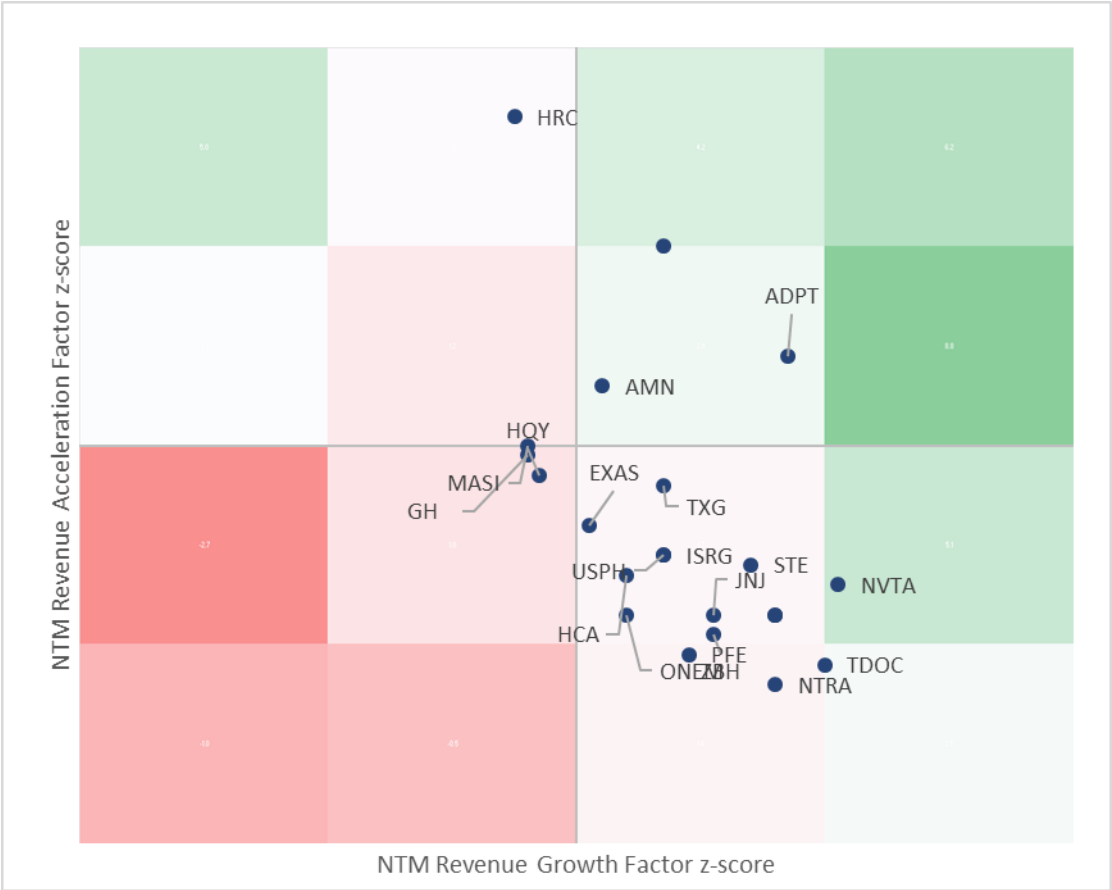
Sigma Positioning –Universe Average

MicroQuad | Watch List

Forward performance based on MicroQuad coordinates and Macro Quad 2

Ticker	Number of Estimates Total	Number Revision Positive 30D	Number Revision Negative 30D	MicroQuad Growth	MicroQuad Acceleration	Correl to Estimate	Performance Trailing 1M - Actual %	Performance Trailing 1M - Expected %	Performance Forward 1M - Expected %	Probability Postitive Performance - Current Macro Quad
NVTA	7	1	0	2.10	-1.40	0.80	0.90	0.79	3.38%	71.19%
TDOC	15	7	0	2.00	-2.20	0.90	0.12	0.01	4.24%	68.49%
EXAS	14	2	0	0.10	-0.80	0.80	19.02	0.44	3.00%	64.59%
ILMN	16	7	1	0.70	2.00	0.90	20.17	1.01	2.21%	62.82%
STE	6	2	0	1.40	-1.20	0.80	-2.33	0.87	2.66%	62.72%
ONEM	11	8	0	0.40	-1.70	0.60	30.80	0.45	1.62%	61.81%
GH	8	3	1	-0.40	-0.10	0.70	18.40	0.37	1.67%	60.42%
MASI	8	1	0	-0.40	0.00	1.00	8.97	0.40	1.78%	60.25%
HRC	8	0	2	-0.50	3.30	0.90	0.95	0.72	0.89%	59.86%
HQY	12	0	0	-0.30	-0.30	0.40	-7.32	0.35	1.77%	59.63%
JNJ	15	7	0	1.10	-1.70	0.80	5.98	0.58	0.93%	59.60%
NTRA	9	4	0	1.60	-2.40	0.90	34.59	0.73	1.92%	58.99%
AMN	9	4	0	0.20	0.60	0.80	5.10	0.60	1.57%	58.39%
HCA	20	2	1	0.40	-1.30	0.90	5.92	0.49	1.56%	58.12%
ADPT	8	1	0	1.70	0.90	0.60	38.92	1.19	1.81%	57.97%
PFE	12	4	1	0.90	-2.10	0.10	1.83	0.54	0.73%	57.96%
TXG	7	1	0	0.70	-0.40	0.90	11.15	0.64	1.75%	57.73%
ISRG	18	4	1	0.70	-1.10	0.90	11.33	0.51	1.52%	57.32%
USPH	5	2	0	0.70	-1.10	0.90	9.44	0.51	1.52%	57.32%
ZBH	26	8	1	1.10	-1.90	0.20	-1.21	0.61	-0.11%	55.17%
GDRX	12	5	0	1.60	-1.70	-0.60	21.75	1.14	0.80%	51.42%
AMWL	9	3	0	1.60	-1.70	-0.50	27.30	1.14	0.80%	51.42%

- 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.

- ONEM app downloads continue to support member growth upside and the long case.

Revenue Revision | Top 20

Trailing 30 day change in consensus NTM revenue estimates

Rank	Ticker	Market Cap	Sales Correlation	Sales Estimate Change	Growth	Acceleration	Microquad Forward Performance - Expected	1W-Return	1M-Return	3M-Return	1Y-Return
1	QDEL	8,300.39	83%	45%	0.48	-3.72	1.76%	1%	13%	0%	169%
2	PDCO	3,715.27	60%	21%	1.60	-1.48	0.86%	-3%	12%	35%	56%
3	MYL	21,087.08	-7%	6%	2.07	-1.81	3.32%	0%	5%	23%	-9%
4	ADPT	7,217.14	56%	6%	1.72	0.89	2.10%	9%	39%	29%	111%
5	TXG	14,728.55	91%	5%	0.67	-0.37	1.21%	0%	11%	22%	103%
6	NSTG	2,606.30	73%	4%	1.81	-1.18	2.57%	6%	54%	66%	160%
7	RGEN	10,086.12	94%	4%	1.42	-2.16	0.73%	3%	9%	36%	110%
8	HSTM	551.55	33%	4%	0.62	-0.07	1.31%	3%	12%	9%	-22%
9	ONEM	4,896.55	56%	4%	0.41	-1.69	1.17%	9%	31%	60%	0%
10	CMD	4,076.75	-26%	4%	0.52	-0.61	1.26%	3%	34%	77%	11%
11	VEEV	43,053.92	96%	3%	0.52	-0.60	1.25%	3%	8%	5%	103%
12	MDT	173,686.59	51%	3%	1.14	-1.33	1.45%	-1%	0%	11%	1%
13	ADUS	1,770.97	97%	3%	0.20	-1.13	1.28%	2%	20%	24%	21%
14	HSKA	1,296.16	65%	3%	0.40	-1.02	1.17%	-2%	15%	50%	53%
15	GKOS	3,108.71	73%	3%	0.50	-0.82	1.27%	1%	11%	51%	34%
16	EXAS	21,026.32	82%	3%	0.07	-0.80	0.71%	3%	19%	43%	46%
17	CUTR	368.16	59%	2%	0.89	-1.11	2.30%	-2%	-8%	20%	-39%
18	ATRS	650.11	67%	2%	0.59	-1.64	1.40%	-5%	22%	41%	-20%
19	ILMN	52,757.88	93%	2%	0.73	2.04	1.60%	2%	20%	22%	11%
20	PNTG	2,201.32	80%	2%	0.36	-0.12	1.21%	-2%	27%	64%	75%

- ONEM on the revision list I checked the app downloads, and they look fine/good.

- We will hit on TXG and ILMN in this week's Position Monitor presentation and the NIH grant data update, which continues to look positive.

Revenue Revision | Bottom 20

Trailing 30 day change in consensus NTM revenue estimates

| Rank	Ticker	Market-Cap	Sales Correlation	Sales Estimate Change	Growth	Acceleration	Microquad Forward Performance - Expected	1W-Return	1M-Return	3M-Return	1Y-Return
1	CODX	301.26	77%	-9.26%	-0.99	-0.27	1.57%	0%	3%	-24%	1065%
2	PEN	6,396.59	93%	-4.08%	0.06	-1.16	1.02%	4%	-20%	-3%	14%
3	IRTC	6,307.51	77%	-2.87%	0.72	-2.23	1.80%	1%	7%	7%	261%
4	LIVN	3,809.03	-27%	-2.02%	0.75	-1.06	1.92%	0%	26%	60%	-10%
5	CHE	8,840.09	98%	-1.49%	-1.51	-0.59	2.04%	3%	16%	11%	22%
6	HOLX	22,233.41	86%	-1.45%	0.47	-3.63	1.35%	0%	10%	16%	43%
7	MD	3,447.17	32%	-1.45%	-0.10	1.75	0.81%	0%	16%	48%	-13%
8	BIIB	43,480.56	26%	-1.43%	-1.23	3.34	1.84%	-1%	3%	-9%	-18%
9	GILD	78,854.88	63%	-1.22%	-0.39	-1.90	1.56%	-3%	-5%	-8%	-14%
10	MDRX	3,256.98	17%	-0.84%	0.11	0.60	1.00%	0%	0%	77%	44%
11	CSLT	151.93	9%	-0.66%	0.58	0.96	1.53%	5%	6%	19%	-1%
12	EVH	1,292.53	-46%	-0.56%	-0.69	0.91	1.84%	7%	10%	34%	86%
13	HQY	5,872.43	36%	-0.35%	-0.29	-0.33	1.08%	4%	-7%	44%	-9%
14	CCRN	408.06	65%	-0.20%	1.01	1.74	1.90%	-5%	2%	48%	-22%
15	AMN	4,190.25	82%	-0.06%	0.24	0.64	1.34%	1%	5%	21%	14%
16	FLGT	972.00	88%	0.00%	0.77	-3.41	1.90%	5%	24%	16%	216%
17	SGRY	5,536.51	-27%	0.00%	0.72	-1.64	1.70%	-3%	9%	43%	79%
18	NVTA	6,271.59	85%	0.00%	2.07	-1.44	2.92%	0%	1%	5%	192%
19	VIVO	913.75	47%	0.00%	0.59	-1.23	1.47%	4%	21%	27%	113%
20	NTRA	7,694.02	94%	0.00%	1.63	-2.39	1.66%	10%	35%	63%	231%

- The attention that physician practices are getting within the group of high multiple hybrid practices is worth noting for MD.

- Can we slap an app on MD and generate a few turns higher for the multiple?

## Consensus and Hedgeye Forecast Algorithm Forecast 4Q20 Organic US Growth of 5.6%

The Reopening should benefit JNJ across most of their businesses, in particular corrective vision and surgical related revenue lines. The outlook in the near term appears to have reverted to trend without anticipating much rebound effect.
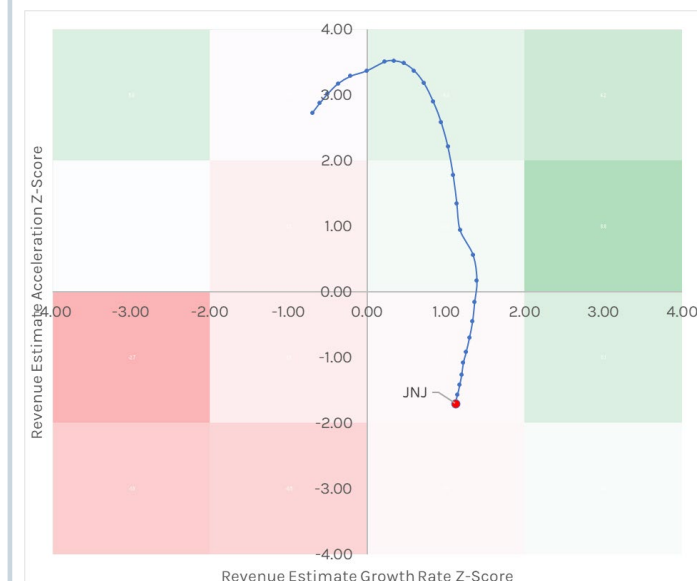
JNJ | US Adjusted Operational Sales Growth

## Guidance: 2020 adjusted operational sales growth of 0.5% to 1.5%
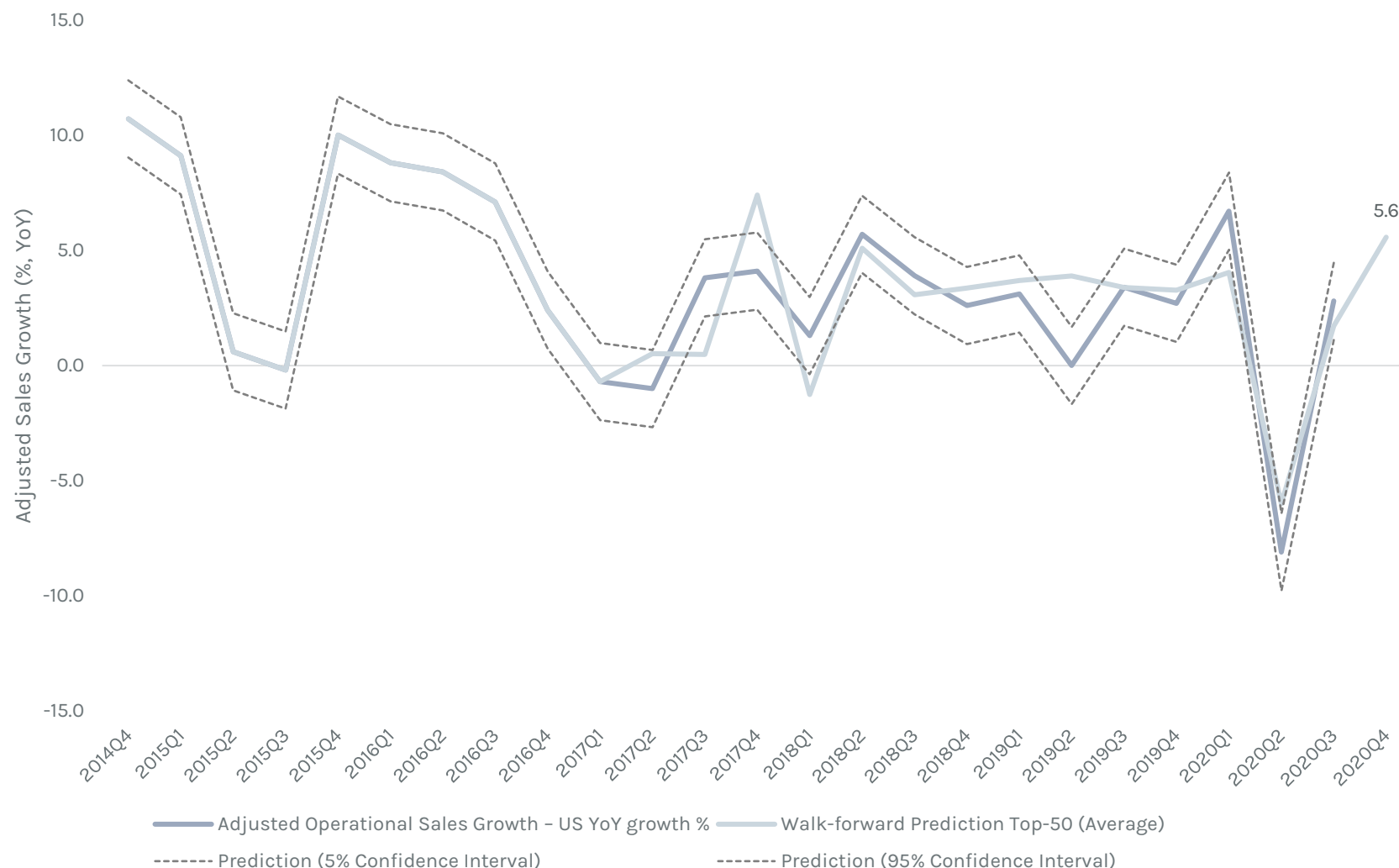

Quotes from the 3Q20 Earnings Call

- "While COVID dynamics continue to make the outlook fluid and perhaps not linear, we are encouraged by this progress and believe that we will continue to see improvement through the end of the year."

- "As I noted, based on our third quarter results across the enterprise and the continued progress we saw in procedure volumes, we are confident to increase our guidance."

- "Taking the qualitative factors related to each of our segments into account, and based on recent developments, **we are making the following adjustments to our 2020 guidance. Adjusted operational sales growth of 0.5% to 1.5%.** Moving on to operational sales, our guidance is $82 billion to $82.8 billion or flat to growth of 1% versus 2019."

TXG | A Very Shallow MicroQuad 3

Slowing modestly from MicroQuad 2 into MicroQuad 3 with a positive fundamental backdrop
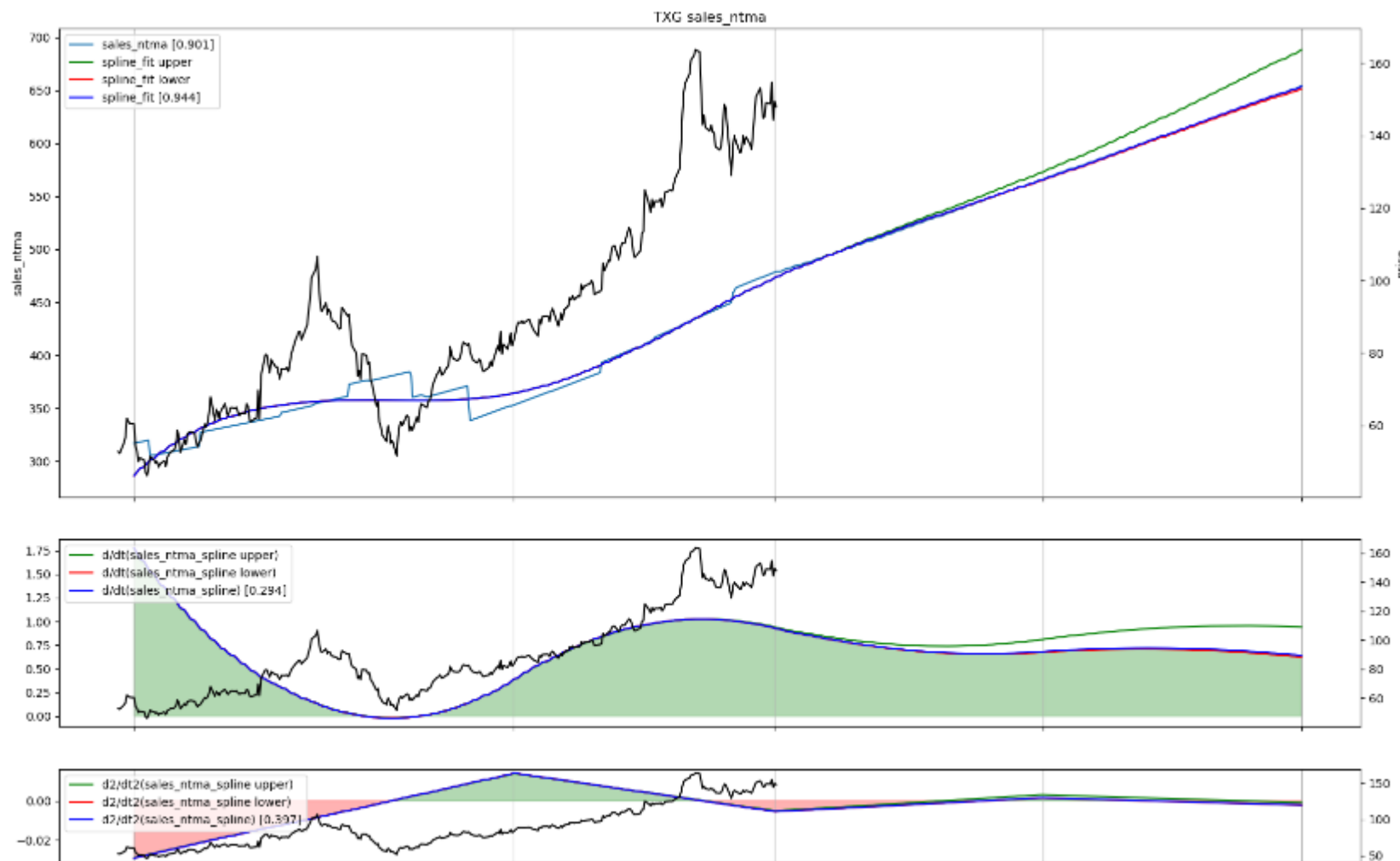
TXG has only a brief history, but one that has been consistently up and to the right, both in terms of the stock price and estimate trend. The current estimate trend (left) remains positive albeit slowing modestly into MicroQuad 3 in the sigma chart (below). While MicroQuad 3 has a lower average performance and batting average, we remain positive based on the tracking data and other fundamental inputs.
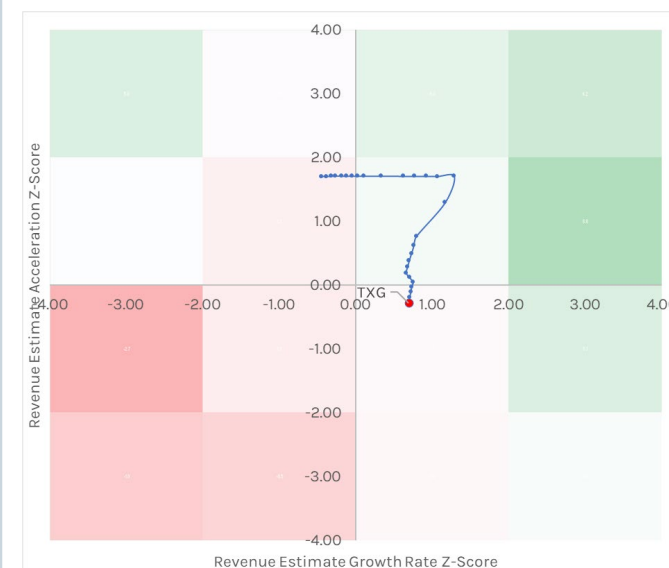
TXG | NIH Single Cell Sequencing Grants

NIH Total Grants Trailing 12M

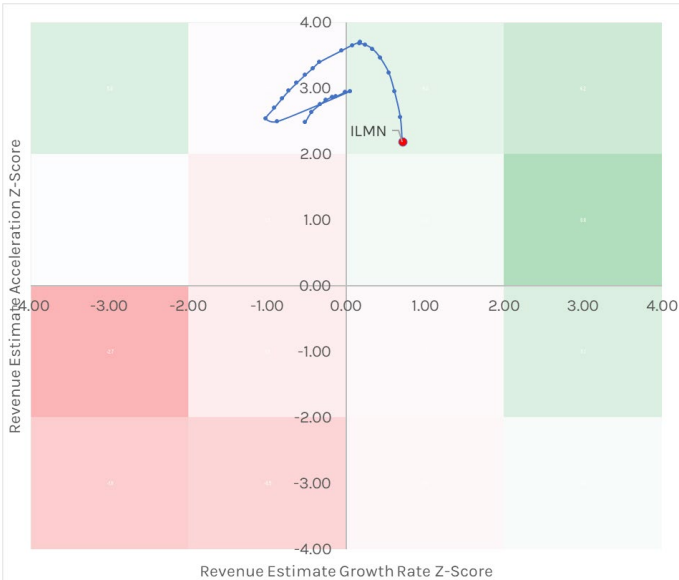## "Single Cell Sequencing" Grants Trailing 12M
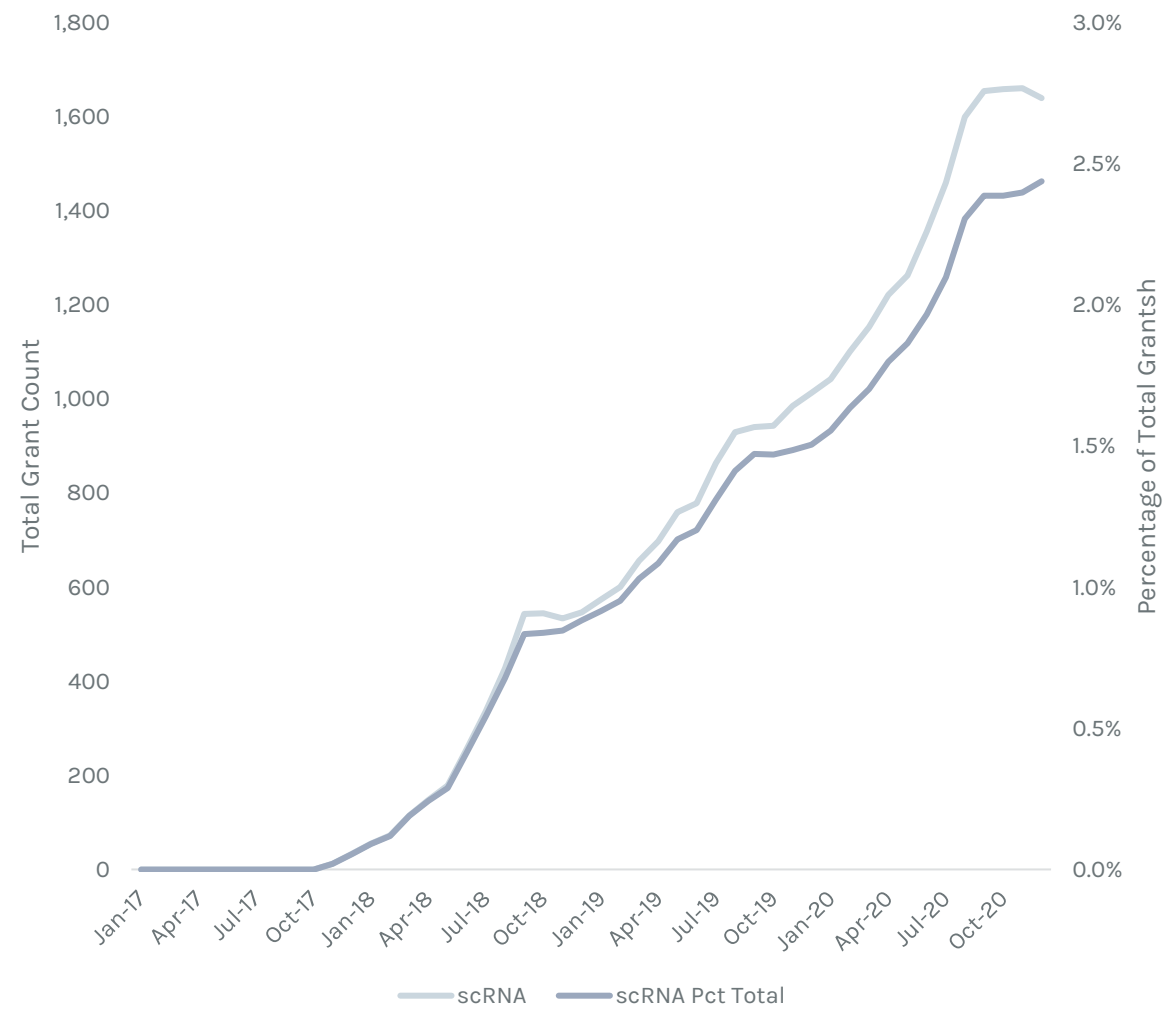
ILMN | MicroQuad Outlook

## Estimates don't appear to anticipate a reopening tailwind

We hear a similar negative narrative on ILMN across the buyside; that their acquisition of Grail is an uncertain gamble to outrun deflationary pressure in their core sequencing business. We see ample private funding for clinical test development, public funding for research, and reopening as credible offsets.
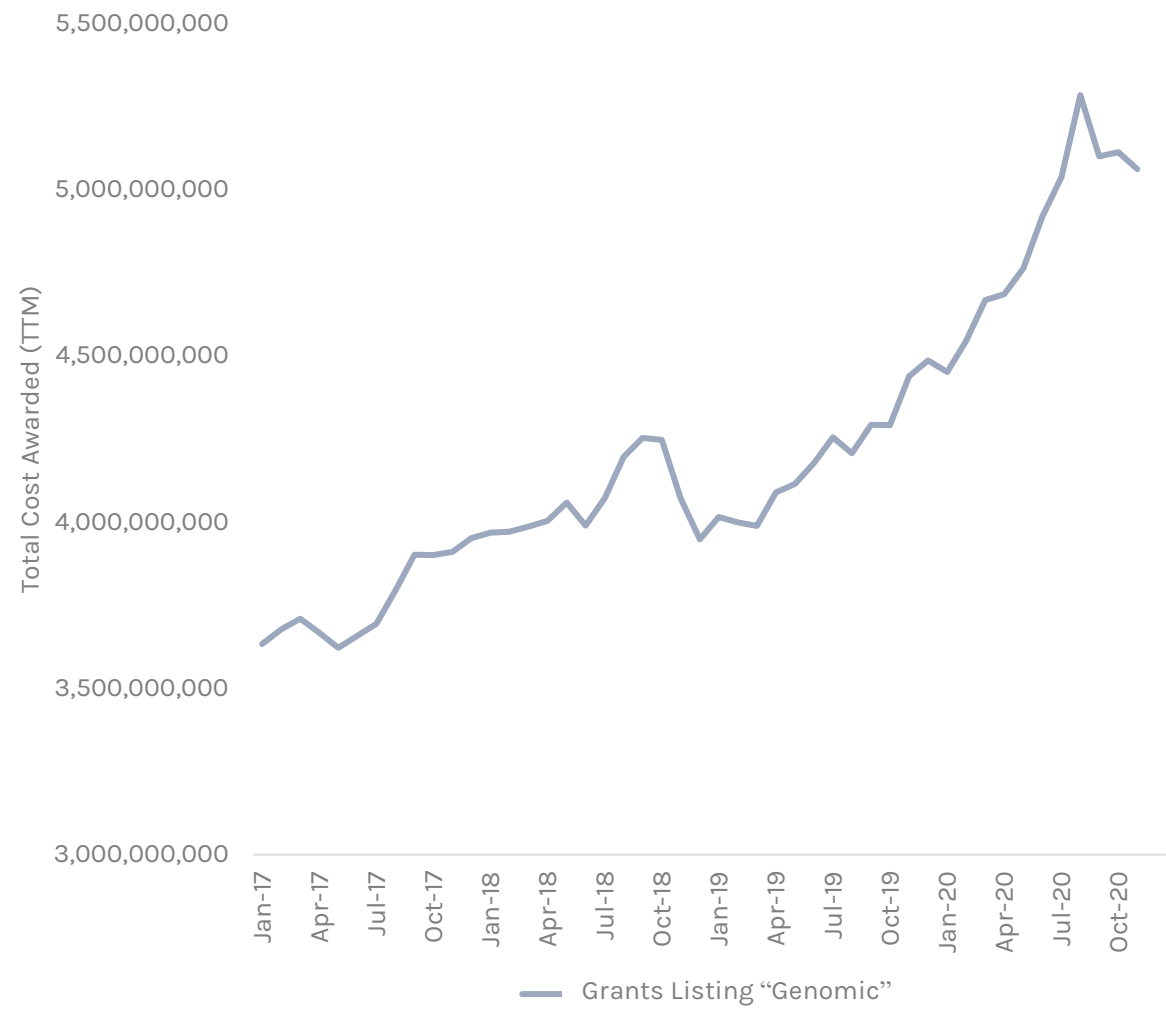
ILMN | ClinVar and NIH update

Variants submitted to ClinVar

Legend: No minimum standard — Criteria provided — Reviewed by expert panel
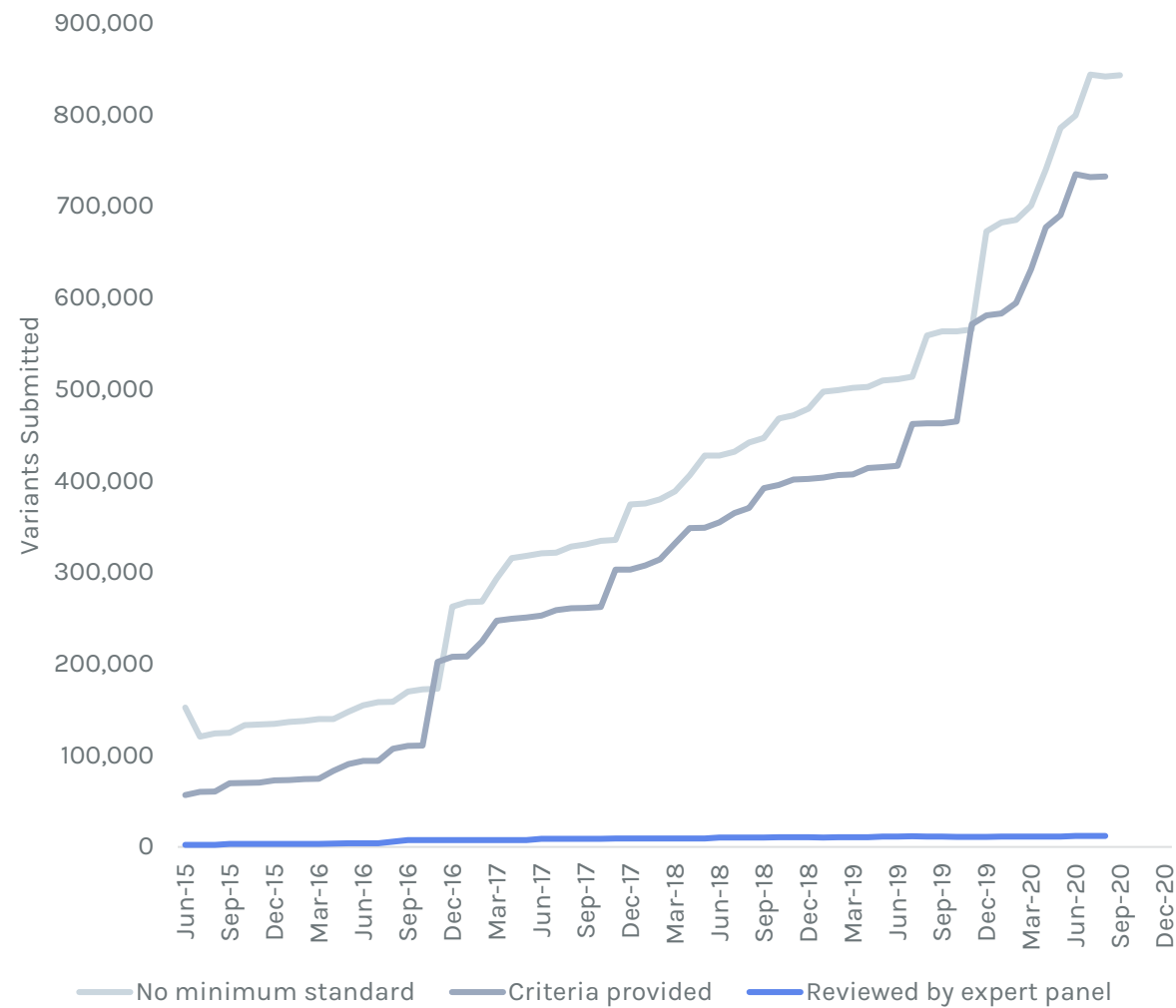
NIH 'Genomic' Grant Funding

Legend: Grants Listing "Genomic"

For more information, contact us at:

support@hedgeye.com