

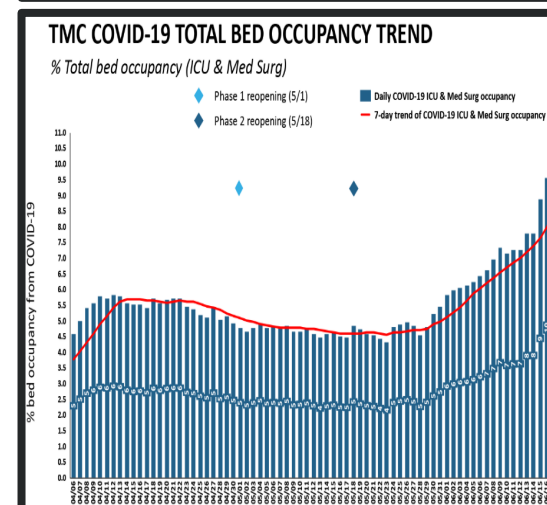
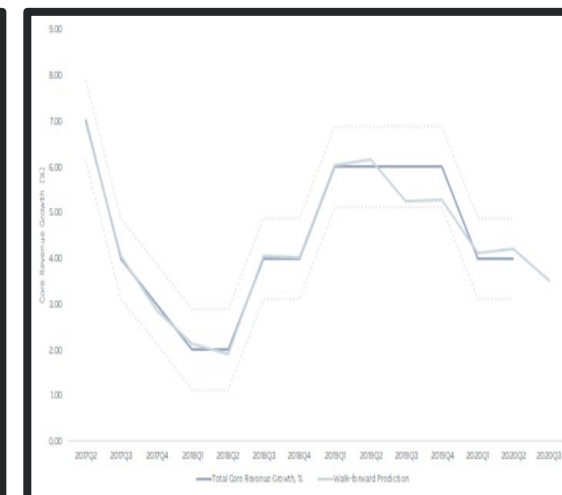
HEDGEYE



Health Care Position Monitor Update

Outlook for Post-COVID, HRC, GH, Hospital Trends, and TXG

June 22, 2020



Hedgeye Health Care

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Health Care Position Monitor

HEDGEYE

For Week of June 22, 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					
ONEM	1Life Healthcare, Inc.	\$ 34.44	\$4.3B	✓	✓	AMN	AMN Healthcare Services, Inc.	\$ 43.11	\$2.0B	×	×
TDOC	Teladoc Health, Inc.	\$ 202.12	\$15.0B	✓	✓	GH	Guardant Health, Inc.	\$ 79.09	\$7.5B	×	×
						EXAS	Exact Sciences Corporation	\$ 88.58	\$13.3B	×	×
						HQY	HealthEquity Inc	\$ 60.24	\$4.3B	×	×
Long Bias						Short Bias					
TXG	10x Genomics Inc Class A	\$ 86.95	\$5.0B			HRC	Hill-Rom Holdings, Inc.	\$ 101.00	\$6.7B		
						MASI	Masimo Corporation	\$ 226.93	\$12.3B		
						NVTA	Invitae Corp.	\$ 27.20	\$3.4B		
						HCA	HCA Healthcare Inc	\$ 97.24	\$32.8B		
						DVA	DaVita Inc.	\$ 77.25	\$9.4B		
						ILMN	Illumina, Inc.	\$ 359.53	\$52.9B		

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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.

10x Genomics: Exciting technology with hurdles to widespread adoption

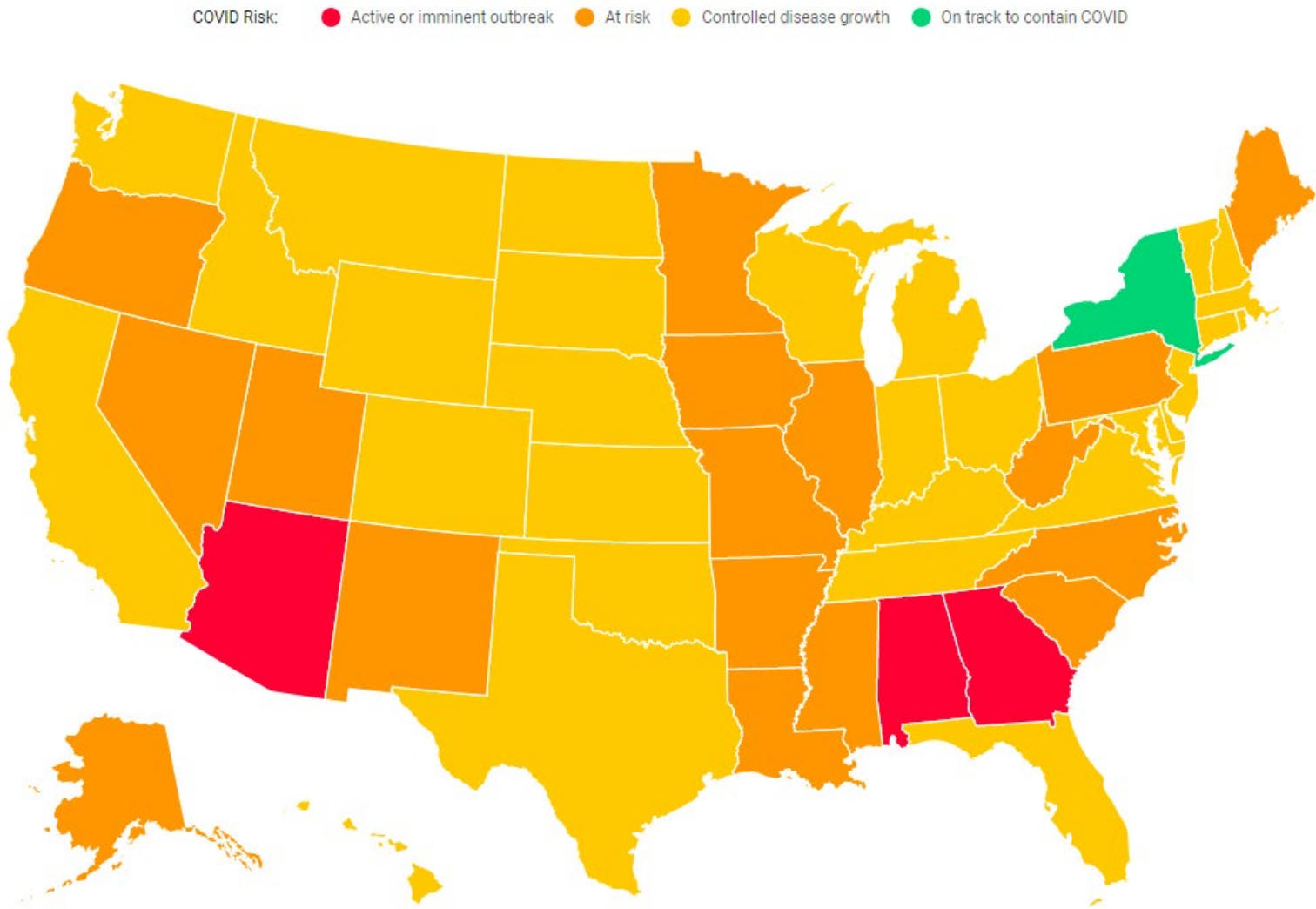
- 10x made single cell sequencing much easier with their system; easy to use, reagents, supply chain, bundled package
- **Knock off is not the hard part, but it will be hard to move away from them as they are increasingly the standard**
- Single cell sequencing allows needed resolution a typical sequencing experiment can't provide on a tumor sample, for example
- Expression profiling at the single cell level allows for tracing genetic changes over time
- Makes it possible to identify key genetic variants, compare across tumor types and individuals at the genetic level
- **Potential to expand existing therapies approved for one cancer type to others based on mutations present in the tumor**
- **Use cases of variant detection, tumor profiling, minimal residual disease monitoring**
- Not all labs have access, too expensive to do on a large scale
- "we are in the very early days of single cell sequencing"
- Cost may range around \$10K for a "chunk of tissue" down to \$2K for a smaller experiment, vs \$200-\$500 for sequencing
- **An experiment may take several months to generate data and several more to a result**
- **Medical policy for early detection of cancer is going to be a very difficult topic, access, interpretation, downstream costs**
- Employees are tested for COVID 2x per week
- **RT-PCR COVID test is~\$35 cost**
- 10x is "already in most university labs "around here"
- COVID has dominated lab work, but there is pressure to get back to "real science"
- **NIH is not expected to extend "Project End" dates which means there will be high pressure to spend before expiration**
- **"We will ramp back up quickly" post- COVID**

We anticipate pressure on capital and operating budgets in the post-COVID recovery

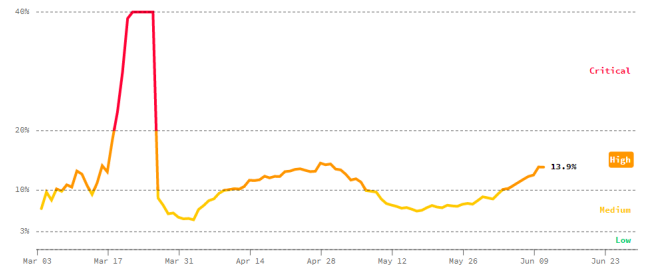
- Recovery is happening faster than expected, **expect to be at 95% of pre-COVID by the end of the year**
- Physicians choosing to stay with video and telemedicine
- We use **Epic MyChart for telemedicine**
- Average daily census is now 612 versus 620 pre-COVID
- **Outpatient visits are at 104% of pre-COVID**
- **10-20% of the current volume may be pent-up demand**
- Acuity and case mix is a "little higher"
- **Payor mix has moved +1.5% Medicaid and -1.5% Commercial, while Medicare is down 30bps**
- No signs at risk patients are avoiding care
- Procedures are back up and running, elective procedures like colonoscopy
- **Urgent Care is 50% of pre-COVID, although this has not hurt us financially**
- ED is where patients come into hospital, not Urgent Care
- **Ophthalmology has been the hardest hit**, close exam between patient and doctor, at risk population
- **Capital spending was initially put on hold** for review as COVID broke out
- **Capital projects have all restarted**, although that may be unique to our relationship to the university
- We have cut back labor and clinical staff only modestly
- Second wave won't change capital plans
- **Second wave would not cause us to buy more med-surg or ICU beds, much easier to re-deploy existing**
- **Mexican nationals** and COVID patients are crossing the border contributing to hospital COVID volume, could be a bigger problem elsewhere

COVID ActNow

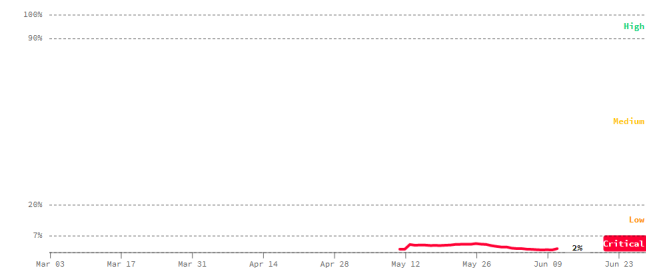
Seems to lean academic, non-political



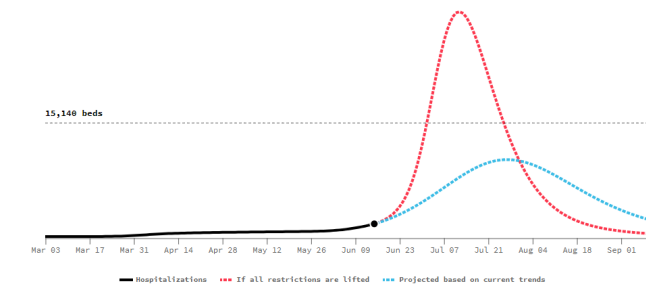
Percent Positive tests



Contacts Traced



Forecast Model



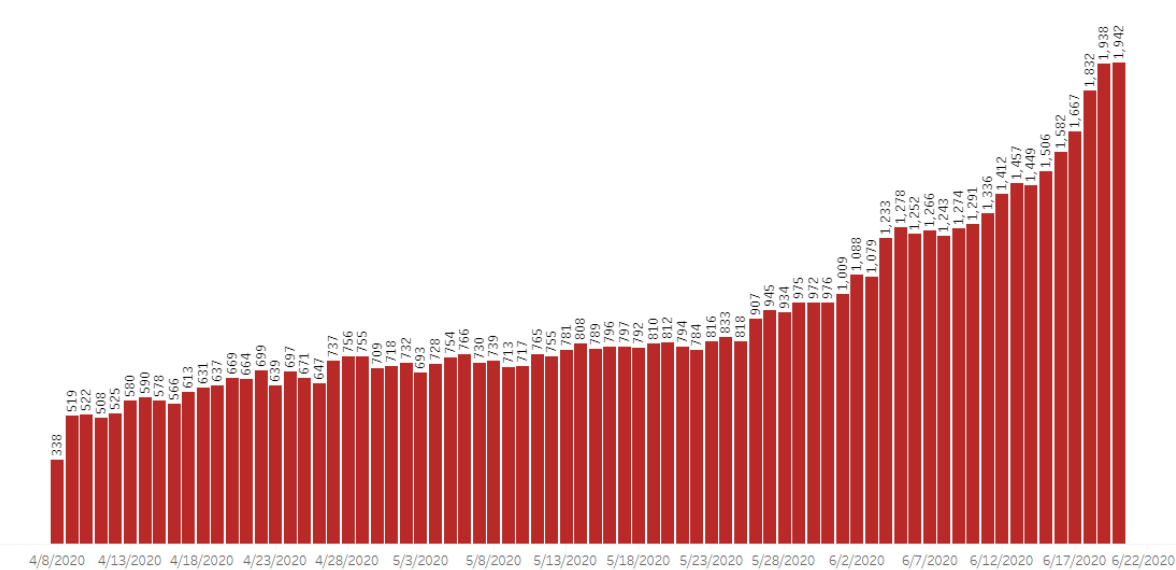
AZ | COVID-19 Rising after May 15 Re-Opening

Inpatient Cases Rising

Inpatient COVID-19 Ventilators in Use COVID-19 ICU Beds for COVID-19 COVID-19 Discharge COVID-19 ED Intubations COVID

Number of Positive or Suspected **Inpatient COVID-19 Patients**

Hover over the icon to get more information on the data in this dashboard.



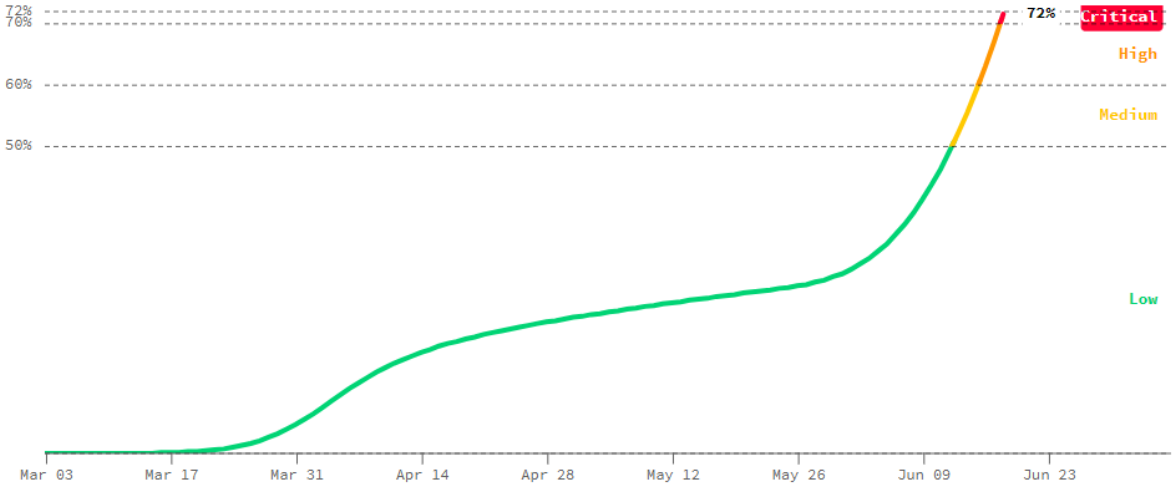
ICU Capacity Use

ICU headroom used Beta

Save Share

ARIZONA

Arizona has about 1,479 ICU beds. We estimate that 54% (798) are currently occupied by non-COVID patients. With 681 ICU beds remaining, we estimate 487 are needed by COVID cases, or 72% of available beds. This suggests hospitals cannot absorb a wave of new COVID infections without substantial surge capacity. Aggressive action urgently needed.



Sales Estimate Micro Quad Set Up

Quad 1 (long)

A	EHC	MDT	STAA
ABMD	EW	MEDP	SYK
ABT	EXAS	MGLN	TCMD
ADUS	GKOS	MMSI	TECH
ALGN	GMED	MTD	TFX
AMN	HAE	NVTA	TMO
ATRC	HCA	OMCL	TRHC
BDX	HOLX	PEN	USPH
BEAT	IART	PKI	WAT
BIO	IDXX	PODD	
BIOS	ILMN	PRAH	
BSX	IQV	Q	
CHE	IRTC	RCM	
CNMD	ISRG	RGEN	
CRL	LH	RMD	
CSII	LHCG	SEM	

Quad 2 (long)

BAX
CVET
DGX
ICUI
NEOG
NSTG
NTRA

Quad 3 (short)

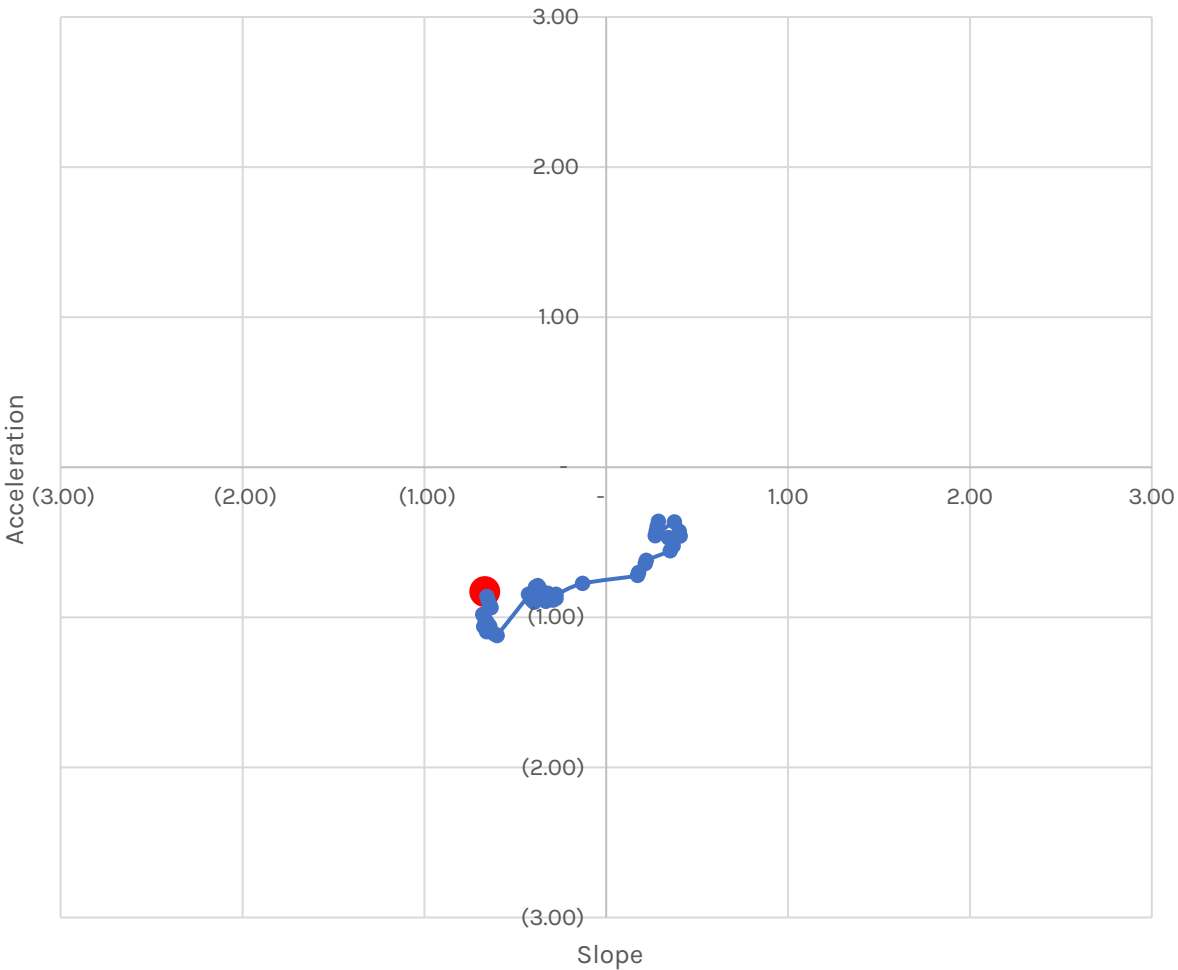
ANTM
DXCM
ENSG
HMSY
HRC
HUM
LVGO
MASI
QDEL
TDOC
VEEV

Quad 4 (short)

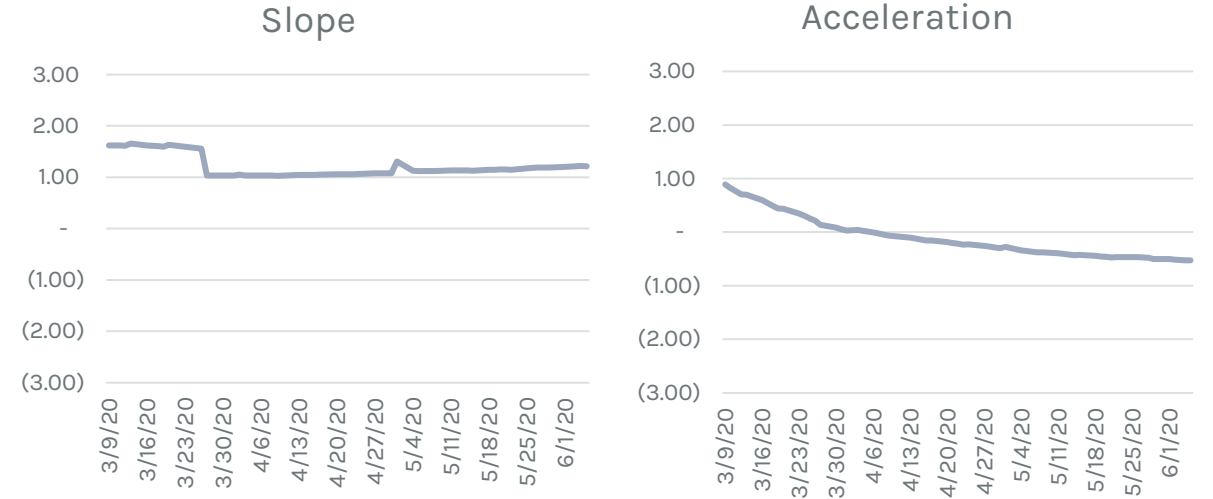
AMED
GH
MLAB
NEO
UNH

HRC Short Bench

Estimates decelerating versus the upper end of its range



Ticker		HRC				
Date		6/19/2020				
					z-score trailing 3Y	
Factor	Quad	Correlation	bin	bin2	Growth Factor	Acceleration
Sales	3	0.66	1.00	-1.00	1.32	-0.56
Ebitda	2	0.78	1.00	1.00	1.22	1.17
EPS	3	0.95	0.00	0.00	0.24	-0.10



Population by Payor and Health Status

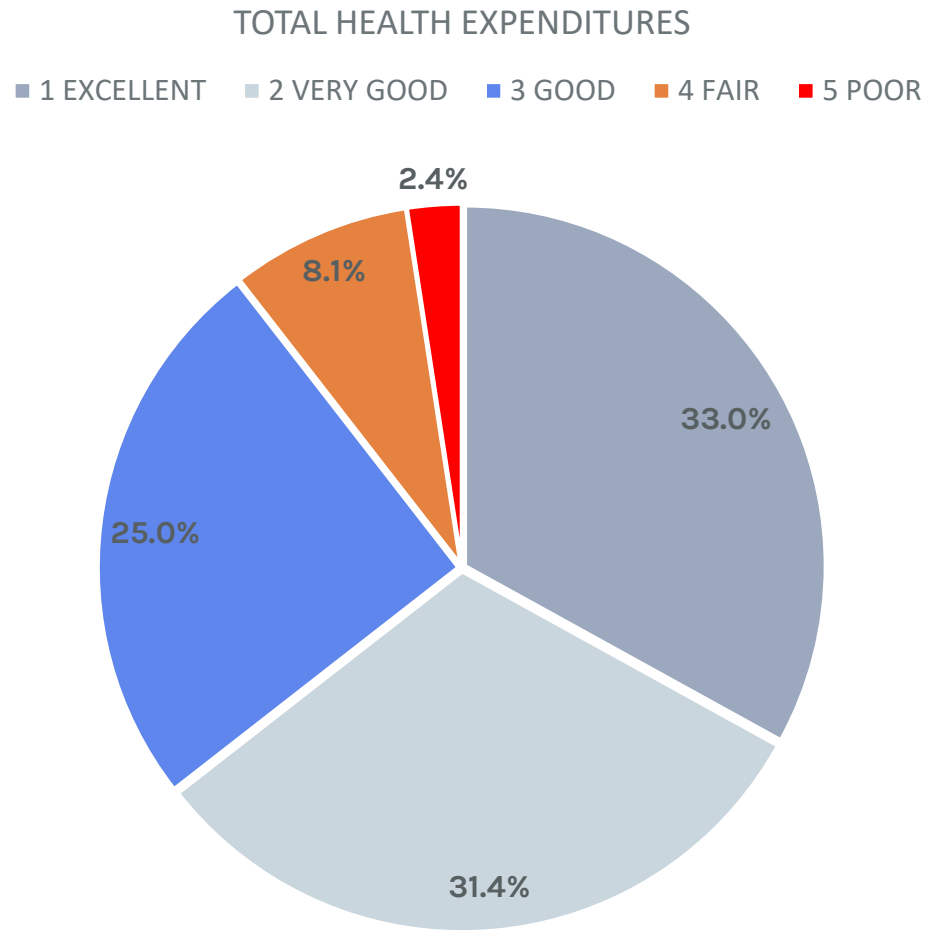
HEDGEYE

Fair/Poor Health ~10% of the population

Population by Health Status and Payor		TOTAL	<65, ANY PRIVATE	<65, ANY PUBLIC	<65, UNINSURED	65+ MEDICARE ONLY	65+ MEDICARE AND PRIVATE	65+ MEDICARE AND OTHER PUBLIC	65+, UNINSURED
PERCEIVED HEALTH STATUS	TOTAL	100.0%	58.2%	18.3%	8.1%	5.1%	8.4%	1.7%	0.2%
	1 EXCELLENT	33.0%	21.5%	6.4%	2.5%	0.8%	1.6%	0.1%	0.0%
	2 VERY GOOD	31.4%	20.0%	4.5%	2.3%	1.4%	2.8%	0.3%	0.1%
	3 GOOD	25.0%	13.1%	4.7%	2.3%	1.7%	2.6%	0.5%	0.1%
	4 FAIR	8.1%	2.9%	2.0%	0.8%	0.8%	1.0%	0.5%	0.0%
	5 POOR	2.4%	0.6%	0.7%	0.2%	0.3%	0.3%	0.2%	0.0%

Total Health Expenditure for “At Risk”

Fair/Poor ~30% of Total



CDC criteria for the “At Risk” population

COVID-19 is a new disease and there is limited information regarding risk factors for severe disease. Based on currently available information and clinical expertise, **older adults and people of any age who have serious underlying medical conditions** might be at higher risk for severe illness from COVID-19.

Based on what we know now, those at high-risk for severe illness from COVID-19 are:

- [People 65 years and older](#)
- People who live in a nursing home or long-term care facility
- People of all ages with [underlying medical conditions, particularly if not well controlled](#), including:
 - People with chronic lung disease or moderate to severe asthma
 - People who have serious heart conditions
 - People who are immunocompromised: Many conditions can cause a person to be immunocompromised, including cancer treatment, smoking, bone marrow or organ transplantation, immune deficiencies, poorly controlled HIV or AIDS, and prolonged use of corticosteroids and other immune weakening medications
- People with severe obesity (body mass index [BMI] of 40 or higher)
- People with diabetes
- People with chronic kidney disease undergoing dialysis
- People with liver disease

Total Spending by Health Status

Fair/Poor Health ~30% of spending

Total Health Care Expenditure		TOTAL	<65, ANY PRIVATE	<65, ANY PUBLIC	<65, UNINSURED	65+ MEDICARE ONLY	65+ MEDICARE AND PRIVATE	65+ MEDICARE AND OTHER PUBLIC	65+, UNINSURED
PERCEIVED HEALTH STATUS	TOTAL	100.0%	47.9%	16.1%	1.9%	10.1%	18.9%	4.9%	0.2%
	1 EXCELLENT	14.1%	9.4%	1.6%	0.3%	0.8%	1.8%	0.3%	0.0%
	2 VERY GOOD	21.7%	12.1%	1.7%	0.4%	2.0%	5.0%	0.4%	0.1%
	3 GOOD	31.5%	15.8%	4.2%	0.5%	3.5%	6.3%	1.1%	0.1%
	4 FAIR	19.4%	6.7%	4.4%	0.4%	2.2%	3.9%	1.7%	0.0%
	5 POOR	12.8%	3.9%	4.2%	0.3%	1.3%	1.8%	1.3%	0.0%

General Dentist Visit by Health Status

Fair/Poor Health ~9% of General Dentist Visits

GENERAL DENTIST VISITS		TOTAL	<65, ANY PRIVATE	<65, ANY PUBLIC	<65, UNINSURED	65+ MEDICARE ONLY	65+ MEDICARE AND PRIVATE	65+ MEDICARE AND OTHER PUBLIC	65+, UNINSURED
PERCEIVED HEALTH STATUS	TOTAL	100.0%	63.0%	13.2%	2.6%	5.8%	14.0%	1.1%	0.3%
	EXCELLENT	32.3%	22.6%	4.8%	0.6%	1.2%	2.9%	0.2%	0.0%
	VERY GOOD	34.0%	22.2%	3.2%	0.8%	2.1%	5.2%	0.2%	0.2%
	GOOD	24.8%	14.1%	3.5%	0.7%	1.8%	4.6%	0.2%	0.0%
	FAIR	7.0%	3.5%	1.3%	0.2%	0.5%	1.1%	0.4%	0.1%
	POOR	1.8%	0.6%	0.5%	0.1%	0.2%	0.3%	0.1%	0.0%

Physician Office Visits by Health Status

Fair/Poor Health ~20% of volume

# OFFICE-BASED PHYSICIAN VISITS		TOTAL	1 <65, ANY PRIVATE	2 <65, ANY PUBLIC	3 <65, UNINSURED	4 65+ MEDICARE ONLY	5 65+ MEDICARE AND PRIVATE	6 65+ MEDICARE AND OTHER PUBLIC	7 65+, UNINSURED
PERCEIVED HEALTH STATUS	TOTAL	100.0%	48.2%	16.3%	2.6%	10.4%	18.8%	3.3%	0.2%
	1 EXCELLENT	19.5%	12.2%	3.1%	0.5%	1.1%	2.4%	0.2%	0.0%
	2 VERY GOOD	27.6%	15.8%	3.0%	0.6%	2.7%	5.1%	0.4%	0.1%
	3 GOOD	30.5%	13.4%	4.5%	0.8%	3.9%	6.8%	1.0%	0.1%
	4 FAIR	15.9%	5.3%	3.8%	0.6%	1.8%	3.3%	1.2%	0.0%
	5 POOR	6.4%	1.6%	1.9%	0.2%	0.9%	1.2%	0.6%	0.0%

Number of Nights in Hospital by Health Status

Fair/Poor Health ~50% of volume

# NIGHTS IN HOSPITAL		TOTAL	1 <65, ANY PRIVATE	2 <65, ANY PUBLIC	3 <65, UNINSURED	4 65+ MEDICARE ONLY	5 65+ MEDICARE AND PRIVATE	6 65+ MEDICARE AND OTHER PUBLIC	7 65+, UNINSURED
PERCEIVED HEALTH STATUS	TOTAL	100.0%	21.6%	25.6%	2.4%	17.9%	24.1%	8.2%	0.3%
	1 EXCELLENT	5.9%	2.7%	1.7%	0.2%	0.5%	0.7%	0.1%	0.0%
	2 VERY GOOD	12.6%	3.9%	2.7%	0.2%	1.5%	4.2%	0.1%	0.0%
	3 GOOD	27.3%	6.4%	4.9%	0.5%	5.3%	8.3%	1.7%	0.1%
	4 FAIR	29.2%	4.2%	8.7%	1.1%	5.4%	7.0%	2.6%	0.2%
	5 POOR	22.7%	4.3%	7.3%	0.4%	3.9%	3.4%	3.5%	0.0%

Number of Hospital Discharges by Health Status

Fair/Poor Health ~40% of spending

# HOSPITAL DISCHARGES		TOTAL	1 <65, ANY PRIVATE	2 <65, ANY PUBLIC	3 <65, UNINSURED	4 65+ MEDICARE ONLY	5 65+ MEDICARE AND PRIVATE	6 65+ MEDICARE AND OTHER PUBLIC	7 65+, UNINSURED
PERCEIVED HEALTH STATUS	TOTAL	100.0%	32.1%	20.1%	3.1%	14.9%	23.9%	5.6%	0.3%
	1 EXCELLENT	9.8%	5.2%	2.3%	0.3%	0.8%	1.1%	0.1%	0.0%
	2 VERY GOOD	17.5%	7.9%	2.8%	0.4%	2.4%	3.8%	0.2%	0.0%
	3 GOOD	31.1%	10.5%	4.9%	0.9%	4.9%	8.3%	1.4%	0.2%
	4 FAIR	23.5%	4.6%	5.7%	1.2%	3.3%	6.8%	1.8%	0.1%
	5 POOR	16.9%	3.8%	4.3%	0.3%	2.8%	3.7%	1.9%	0.0%

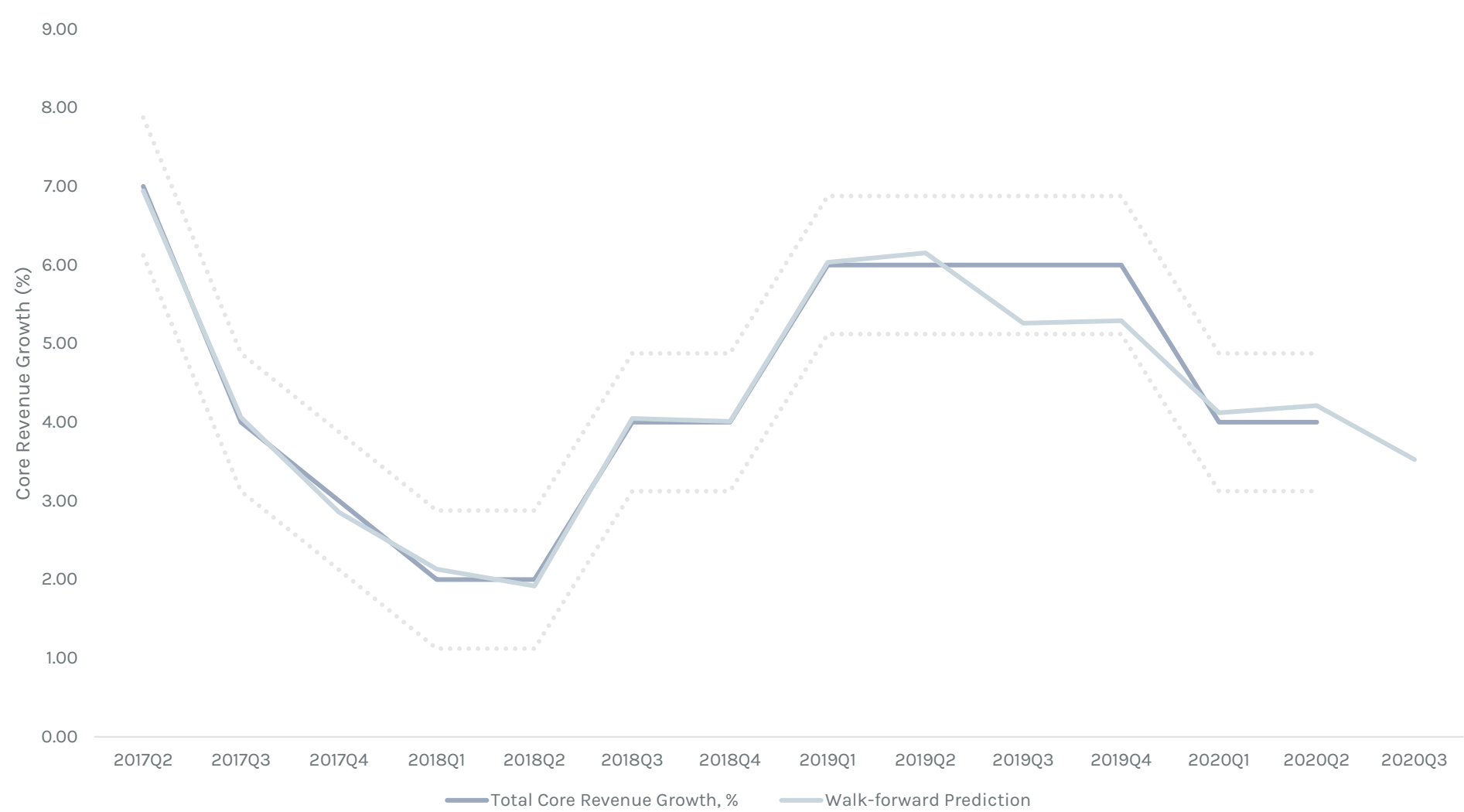
Number of ER Visits by Health Status and Payor

Fair/Poor Health ~30% of volume

# ER VISITS		TOTAL	1 <65, ANY PRIVATE	2 <65, ANY PUBLIC	3 <65, UNINSURED	4 65+ MEDICARE ONLY	5 65+ MEDICARE AND PRIVATE	6 65+ MEDICARE AND OTHER PUBLIC	7 65+, UNINSURED
PERCEIVED HEALTH STATUS	TOTAL	100.0%	40.0%	30.0%	5.6%	7.9%	13.1%	3.2%	0.1%
	1 EXCELLENT	15.7%	7.7%	5.3%	0.8%	0.6%	1.2%	0.1%	0.0%
	2 VERY GOOD	23.7%	12.1%	5.7%	1.1%	1.7%	2.7%	0.3%	0.0%
	3 GOOD	30.2%	12.3%	8.0%	1.8%	2.8%	4.4%	0.9%	0.0%
	4 FAIR	18.5%	5.3%	6.6%	1.5%	1.3%	2.9%	0.9%	0.0%
	5 POOR	11.5%	2.5%	4.3%	0.4%	1.4%	1.9%	1.1%	0.0%

HRC Total Core Revenue

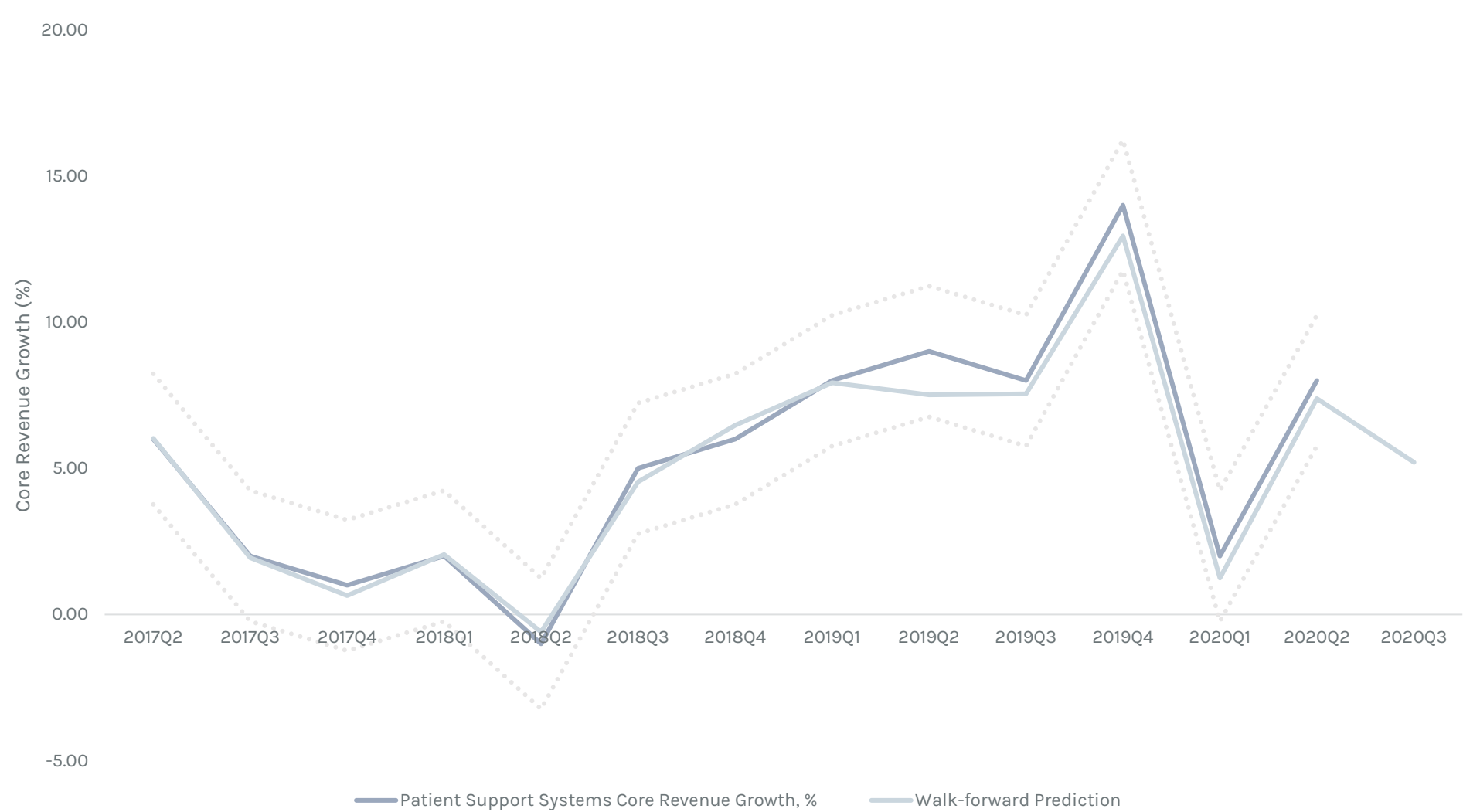
Prolonged Recovery in Elective Surgeries May Constrain Core Revenue Growth in 2H20



- Despite a roughly 2% tailwind from COVID-19 “pull forward” demand, Surgical Solutions experienced a -3% decline in core revenue growth.
- Our forecast identified this incremental demand in 2Q20 and predicts a deceleration in 3Q20.
- We consolidate a number of time series to generate our forecast algorithm which we will be monitoring for deterioration into the Fall as we watch for signs of economic trend and COVID-19’s second wave.

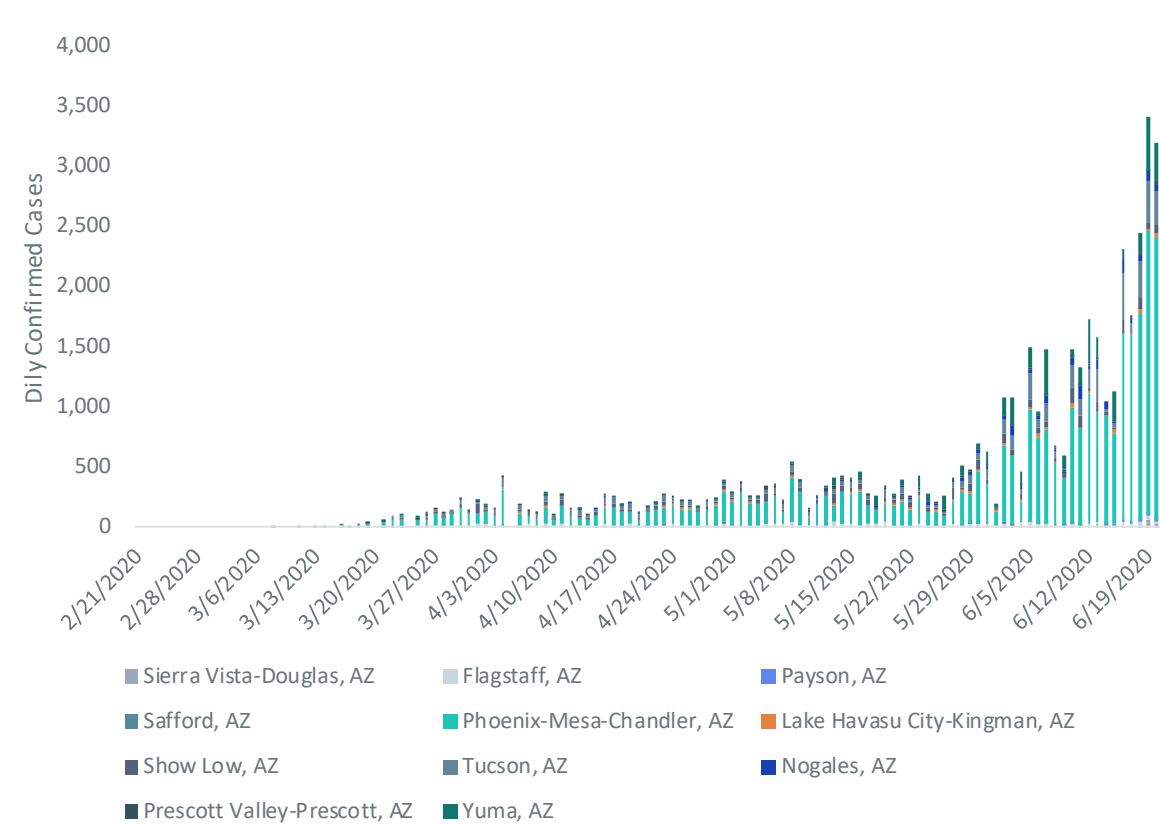
HRC Patient Support Systems Core Revenue

Forecast Points to Organic Deceleration Following Incremental COVID Demand

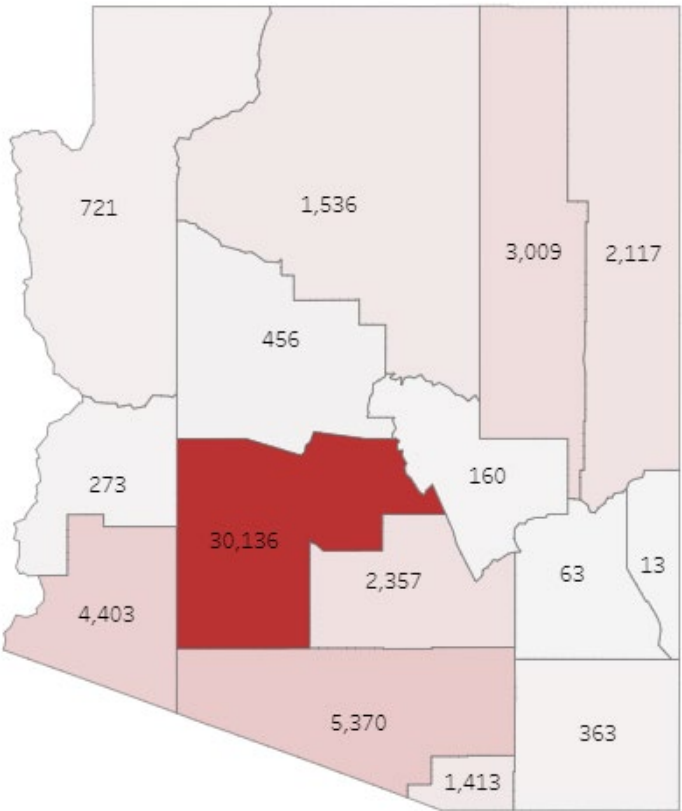


- Following a net tailwind of approximately \$15 million resulting from incremental COVID-19 demand in 2Q20, our forecast points to a deceleration in Patient Support Systems Core Revenue for 3Q20.

Arizona | A Border Problem?

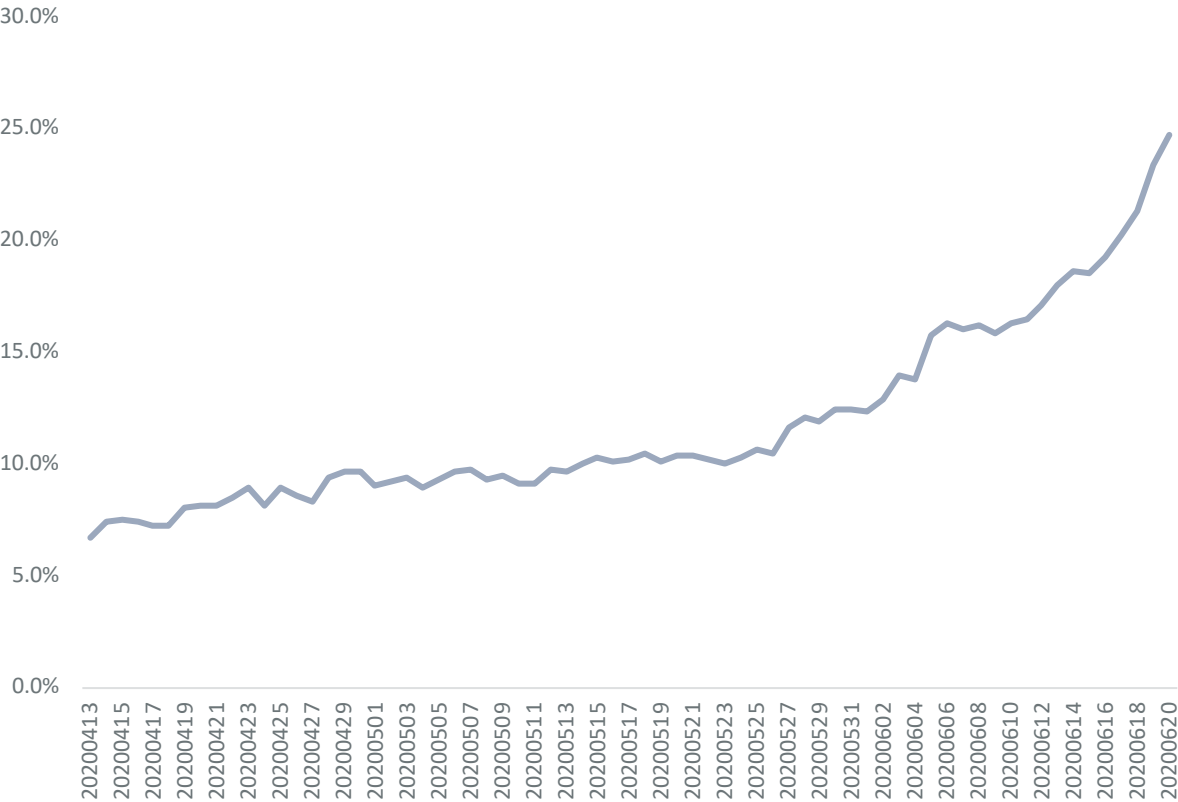


Beginning the first week of June, case growth exploded, primarily in three counties

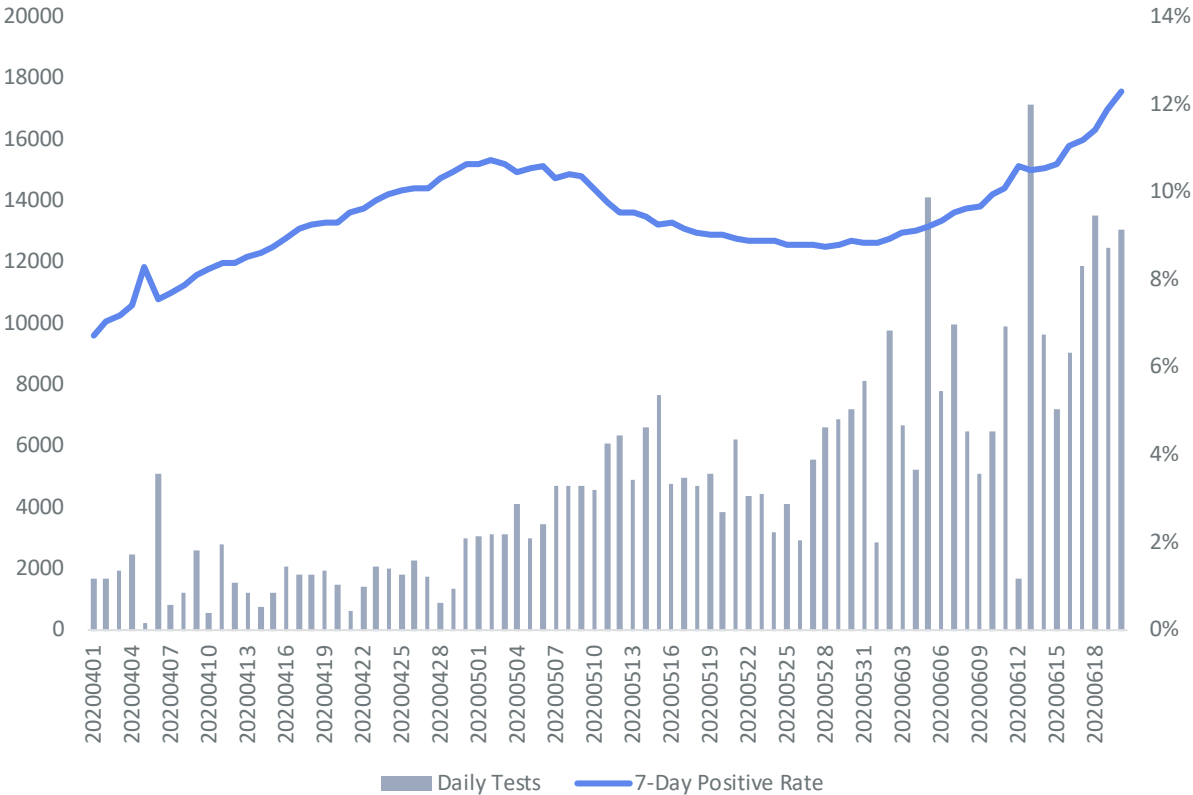


Maricopa (4.5 million pop) , Yuma (98k) and Pima (1 million populations) counties most affected by caseload

Arizona | A Border Problem?



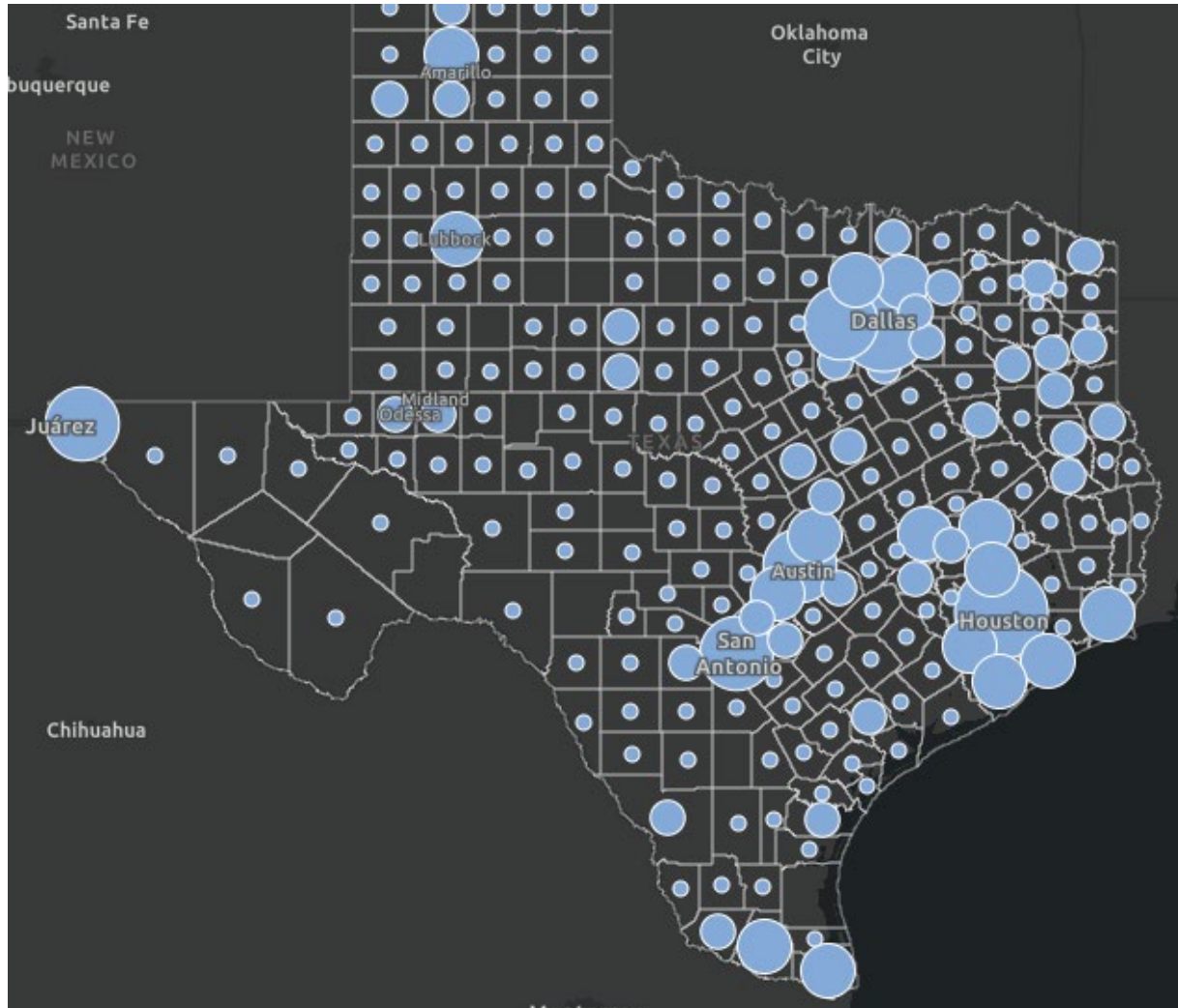
COVID-19 Inpatient occupancy began increasing dramatically in first week of June suggesting positive cases are associated with hospitalization (i.e. patient is presenting quite ill)



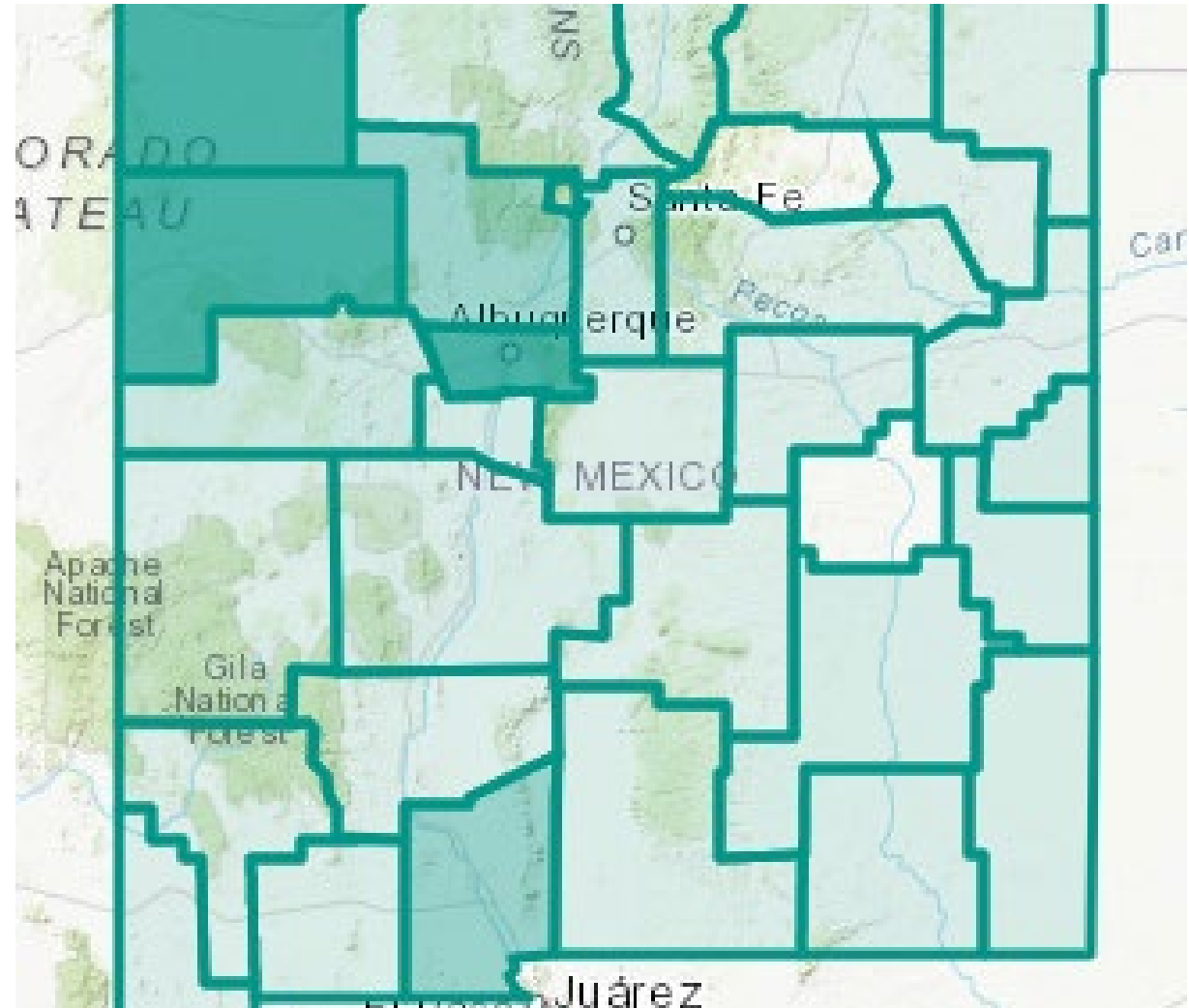
Positive rate increasing with more testing which is different. Trend has been that positive rate declines with more testing

Arizona | A Border Problem?

Texas is experiencing large case loads in El Paso

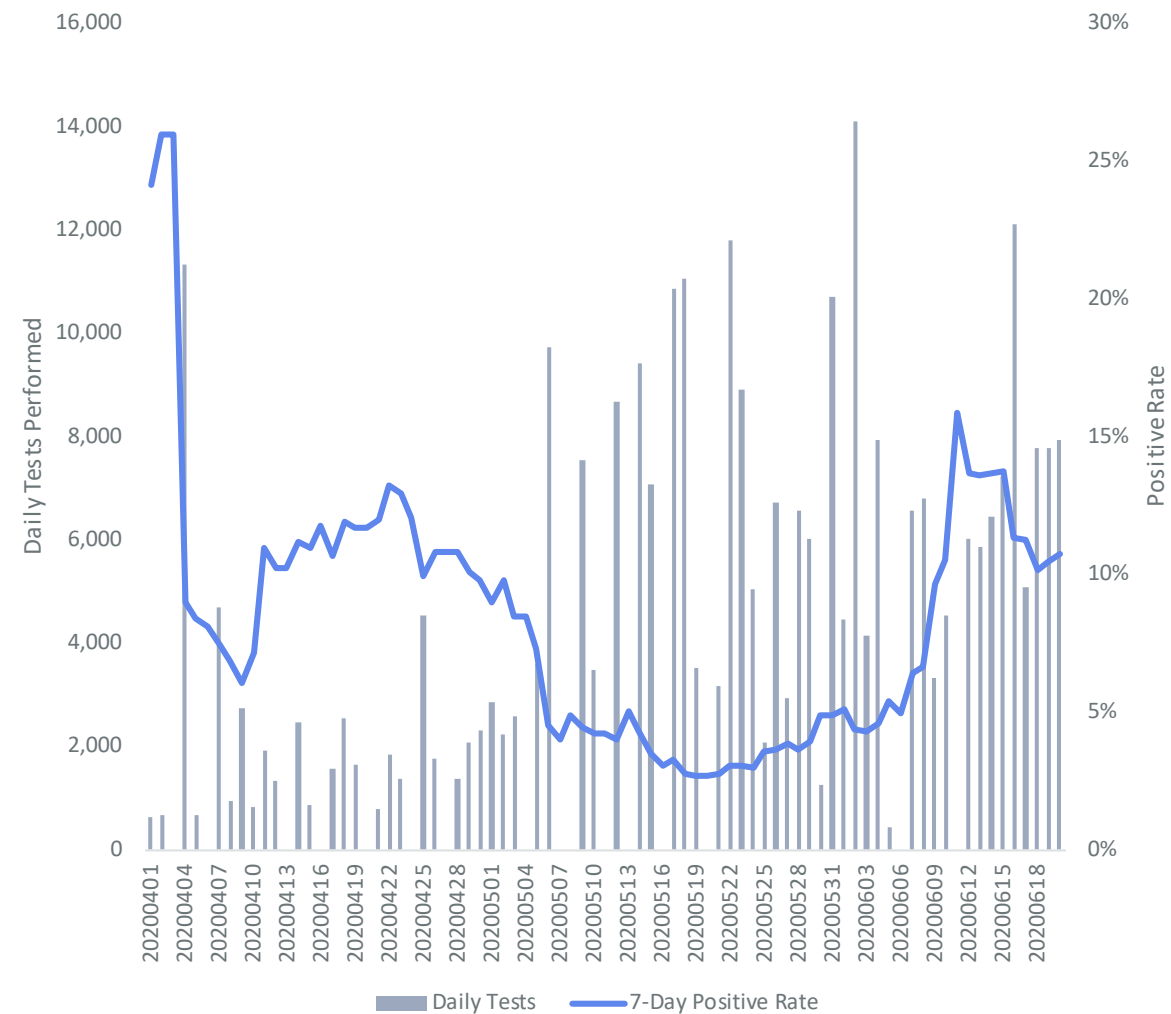
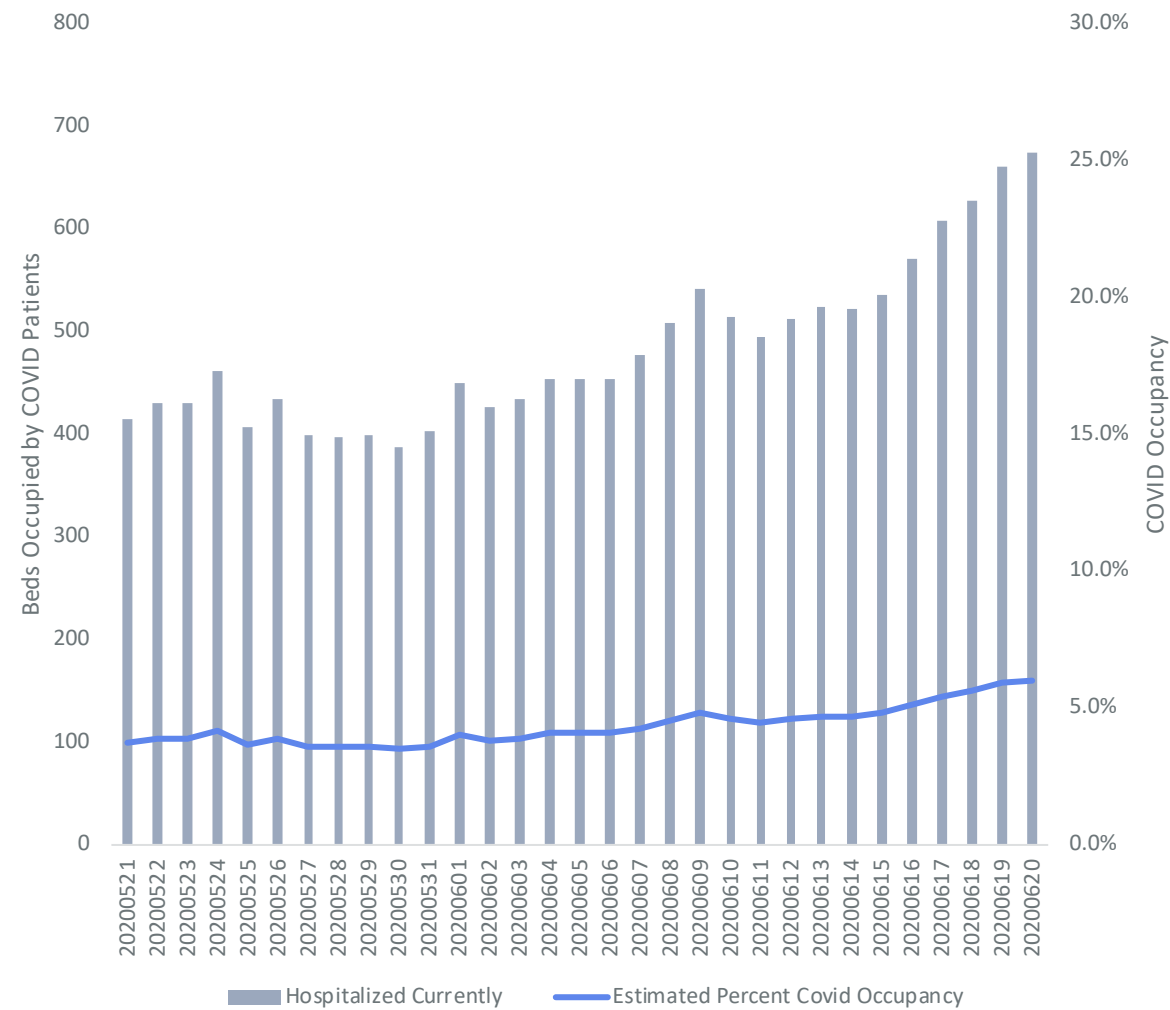


New Mexico also has high case counts near border



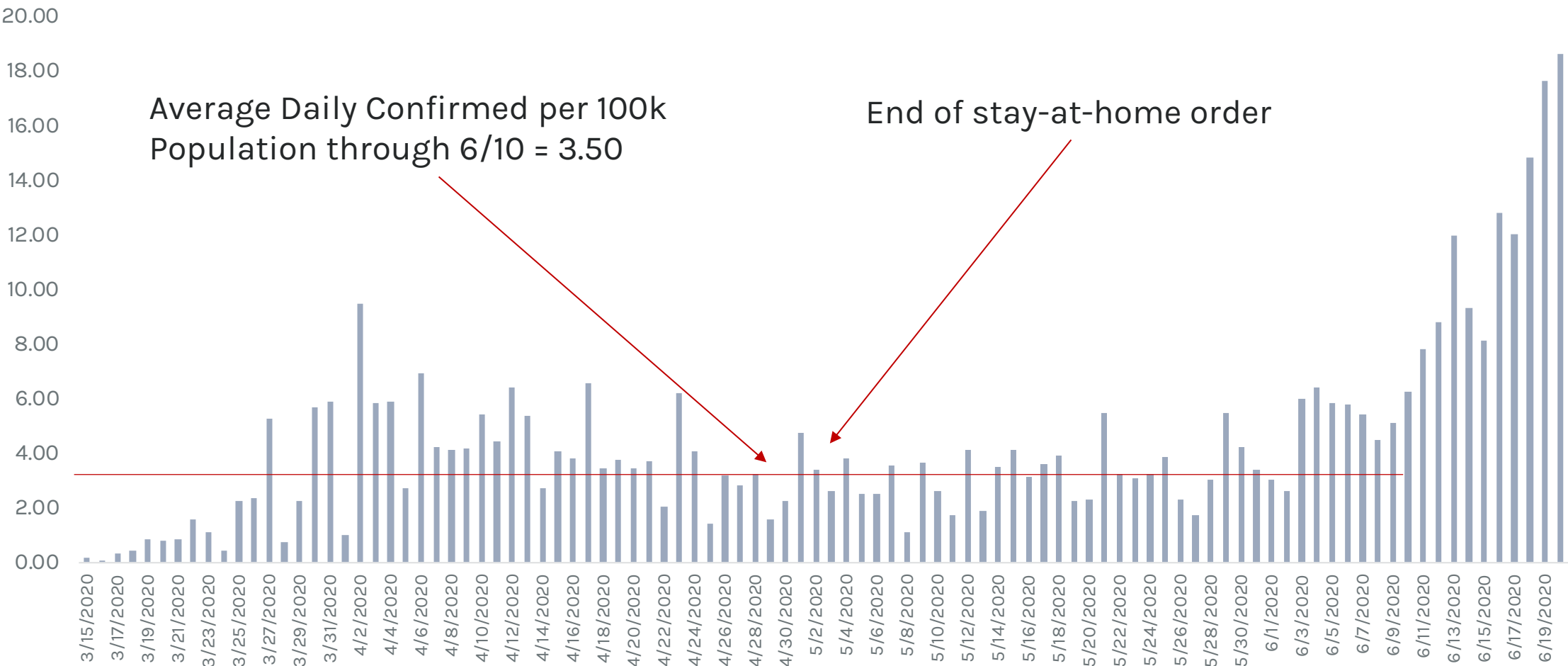
South Carolina

Similar increase in positive rate but only modest uptick in hospitalizations



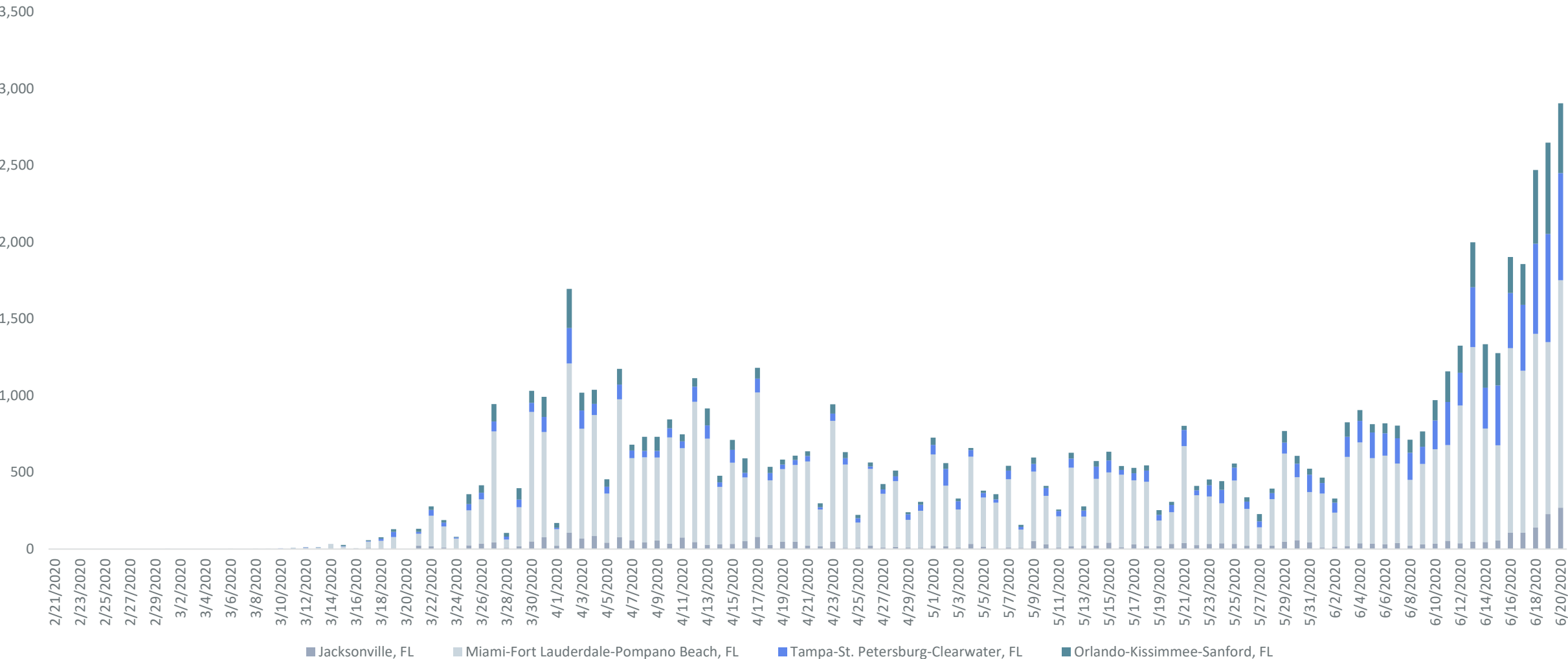
Florida | Magic Kingdom Effect?

Sudden uptick unexplained by “re-opening”

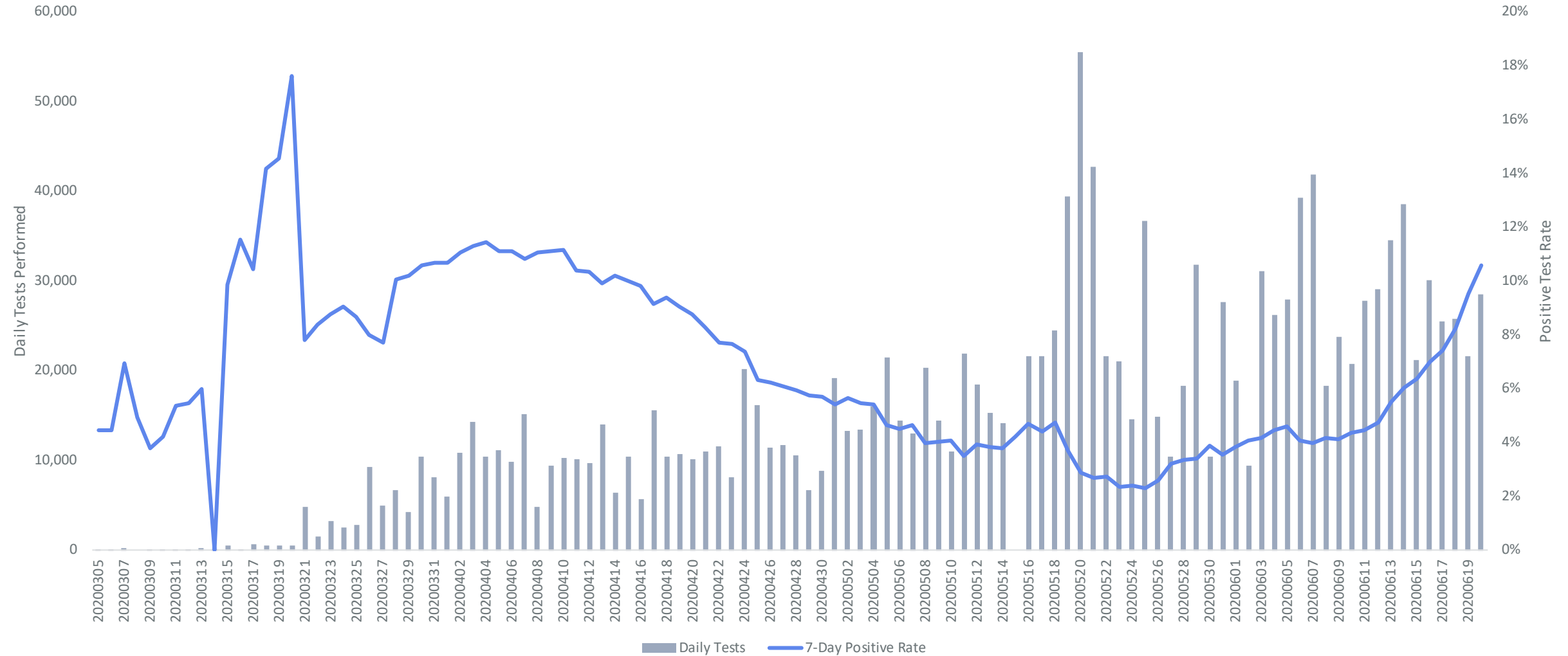


Florida | Magic Kingdom Effect?

Orlando and Jacksonville have played a role in uptick in cases

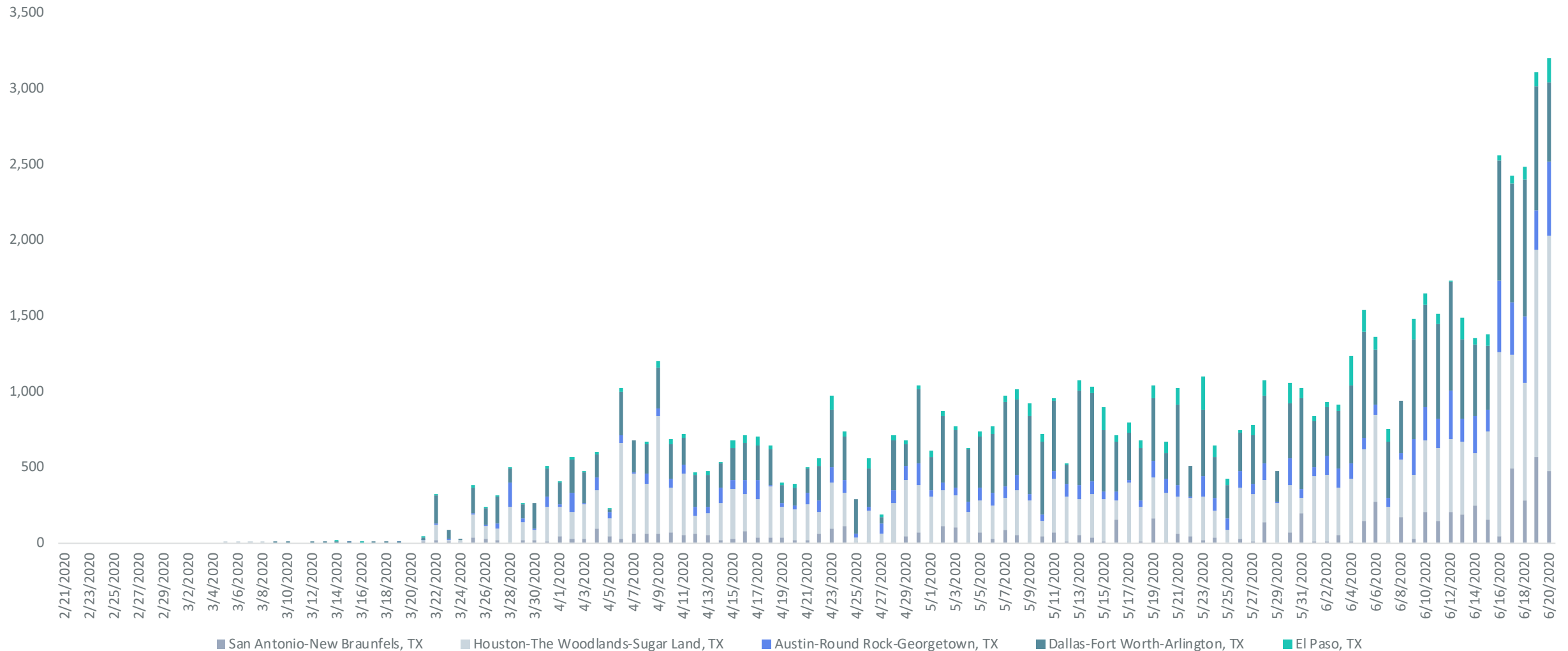


Florida | Magic Kingdom Effect?



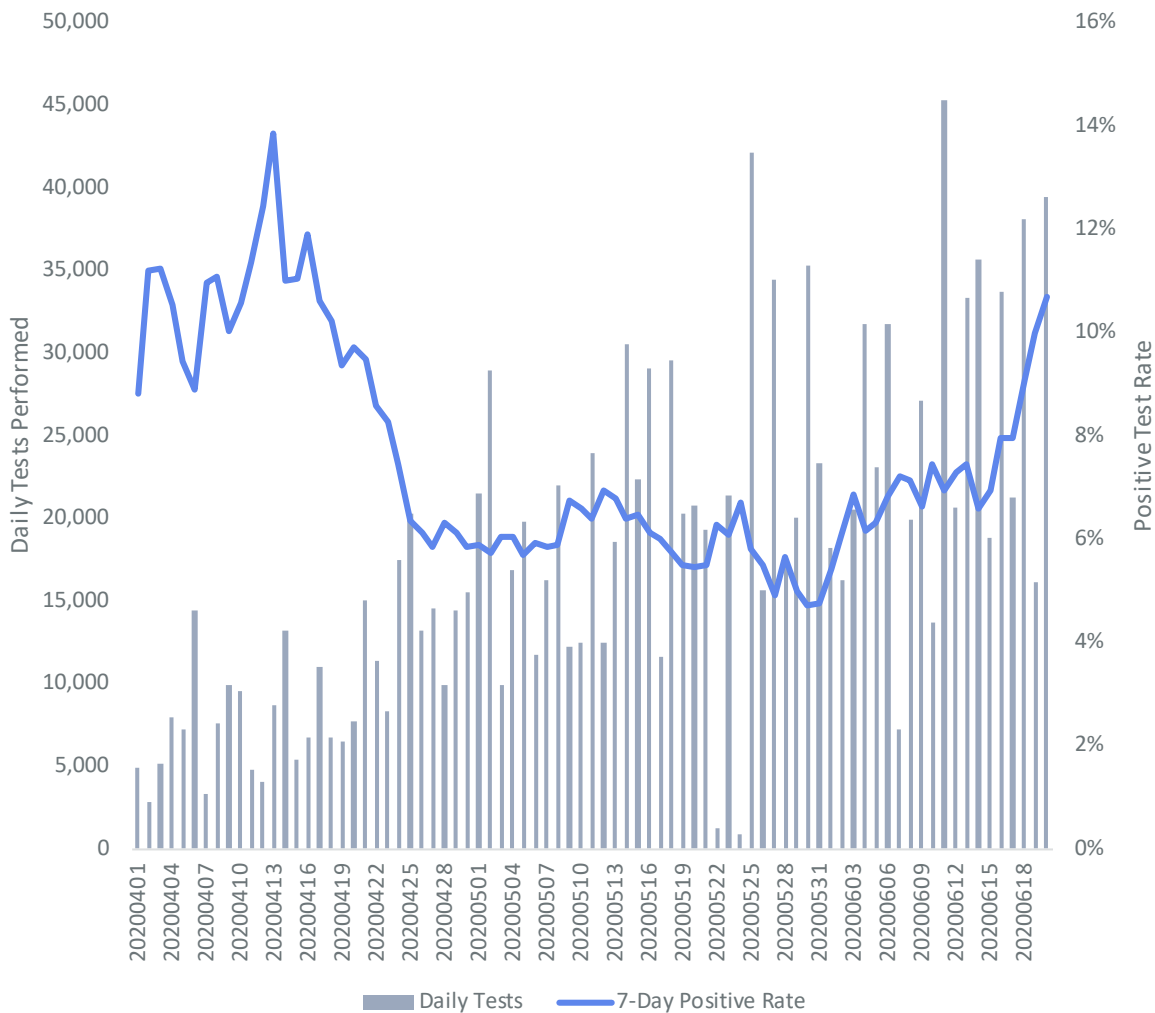
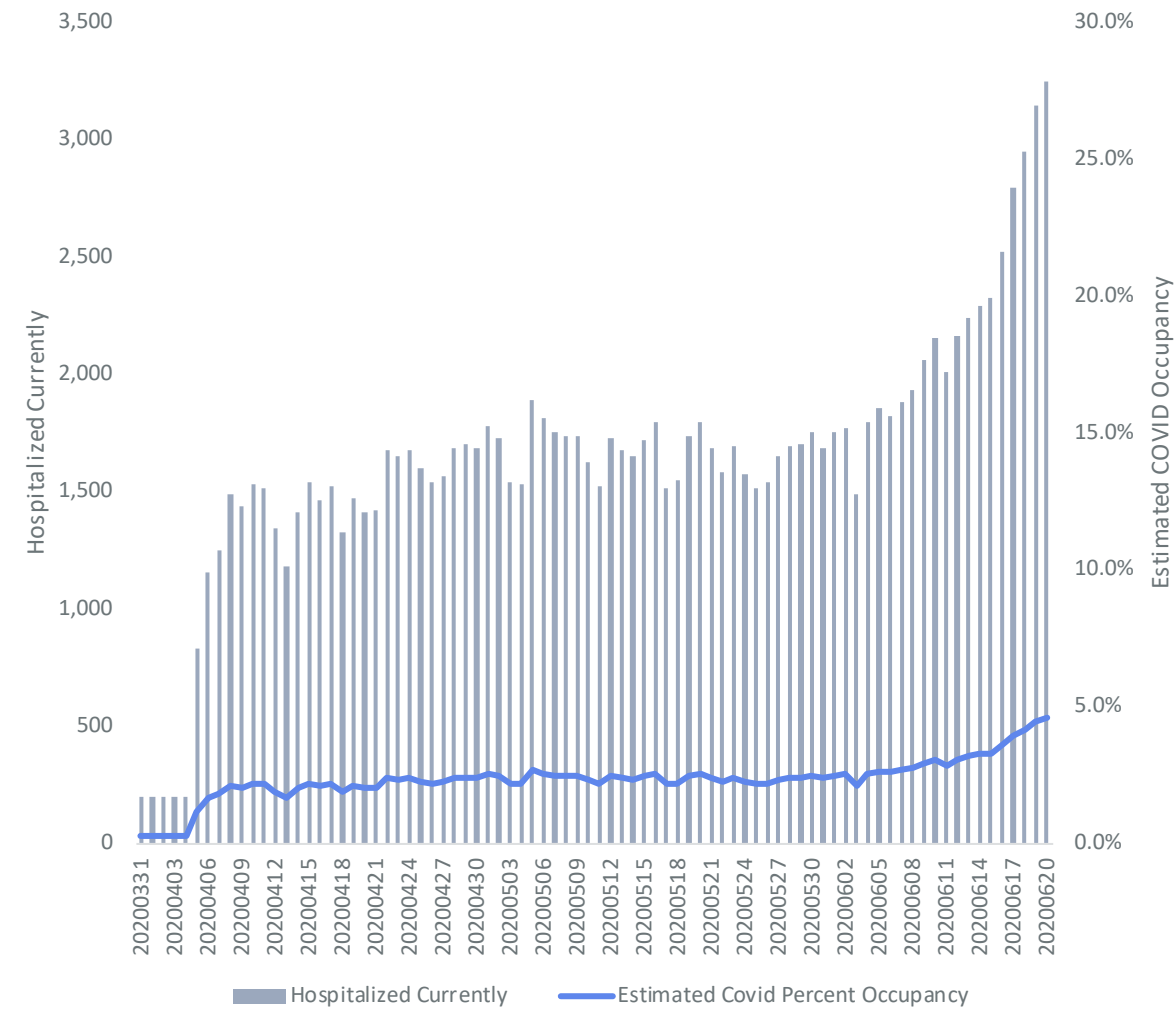
Texas | Houston We Have A Problem

Houston and El Paso are big contributors to growth

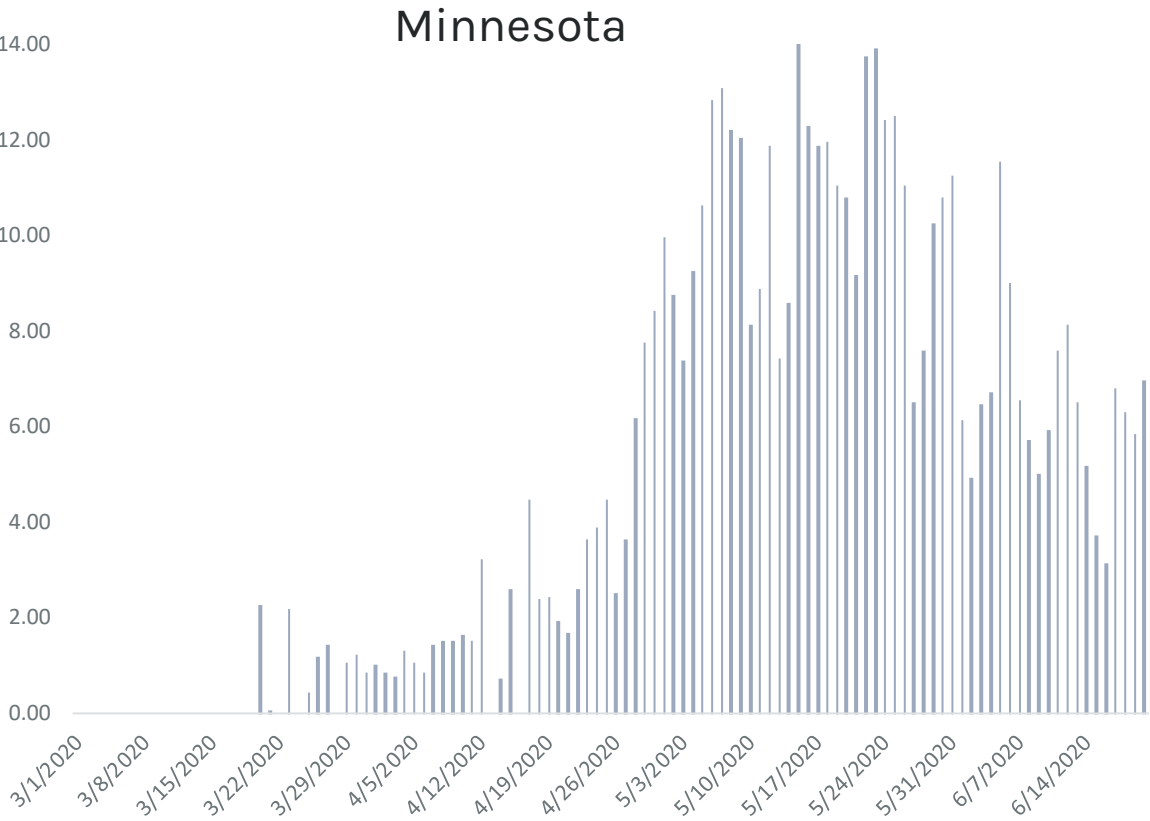


Texas | Houston We Have a Problem

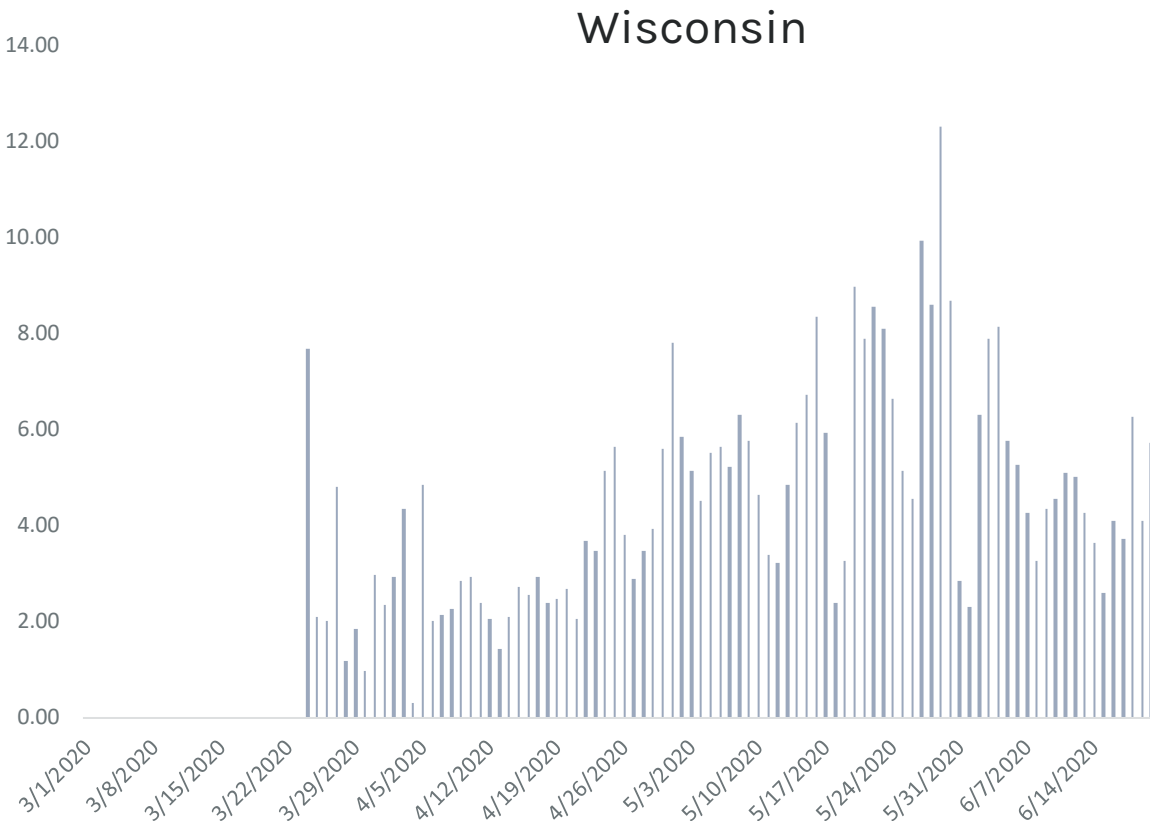
Hospitalization rise but capacity is sufficient



Do Stay At Home Orders Even Matter?



Had stay-at-home order in place until April 23 when it began to relax. Entered Phase I on May 18



Courts invalidated stay-at-home order on May 14

For more information, contact us at:

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