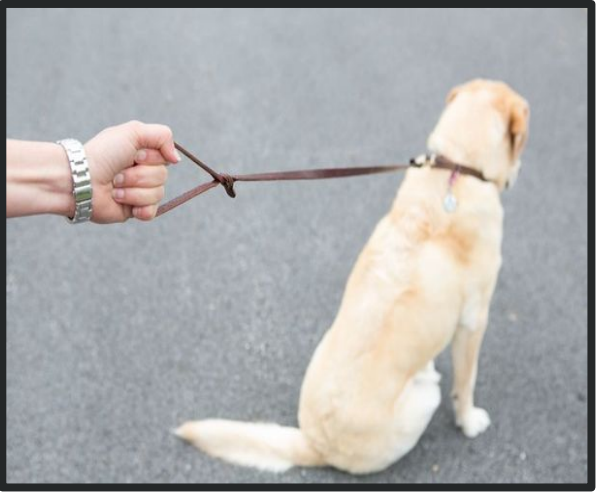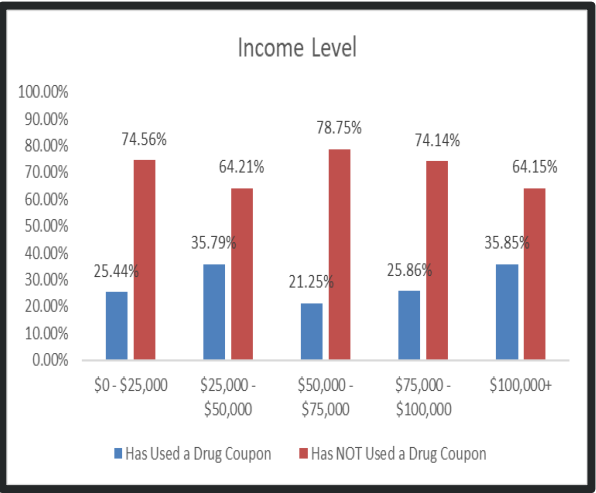HEDGEYE

Health Care Position Monitor Update

AMZN Enters Healthcare, GDRX to Long Bias, Garbage Rally, Hospital CFO Recap

———

November 23, 2020

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Legal

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Health Care Position Monitor

For Week of November 23, 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.	$ 33.50	$4.5B	√	√	EXAS	Exact Sciences Corporation	$ 117.81	$18.7B	×	×
AMN	AMN Healthcare Services, Inc.	$ 61.20	$2.9B	√	√						
TXG	10x Genomics Inc Class A	$ 138.98	$11.1B	√	√						
GH	Guardant Health, Inc.	$ 114.14	$11.4B	√	√						
TDOC	Teladoc Health, Inc.	$ 196.40	$28.5B	√	√						
Long Bias						**Short Bias**					
ILMN	Illumina, Inc.	$ 302.25	$44.1B			HRC	Hill-Rom Holdings, Inc.	$ 97.87	$6.5B		
NTRA	Natera, Inc.	$ 86.15	$7.4B			MASI	Masimo Corporation	$ 248.33	$13.7B		
GDRX	GoodRx Holdings, Inc. Class A	$ 37.82	$1.7B			AMWL	American Well Corporation Class A	$ 23.33	$4.7B		
NEO	NeoGenomics, Inc.	$ 45.02	$5.0B			NVTA	Invitae Corp.	$ 49.43	$8.7B		

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
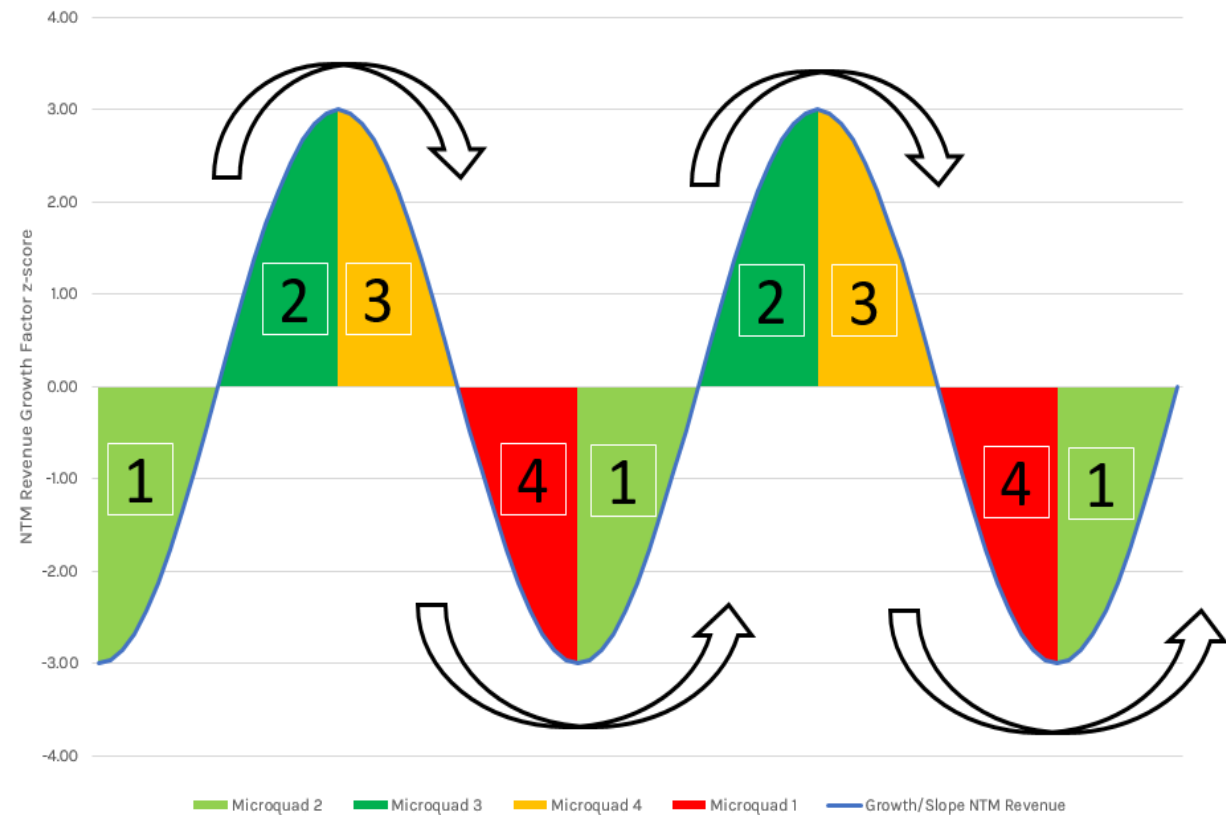
MicroQuad – Generic Growth Curve Progression
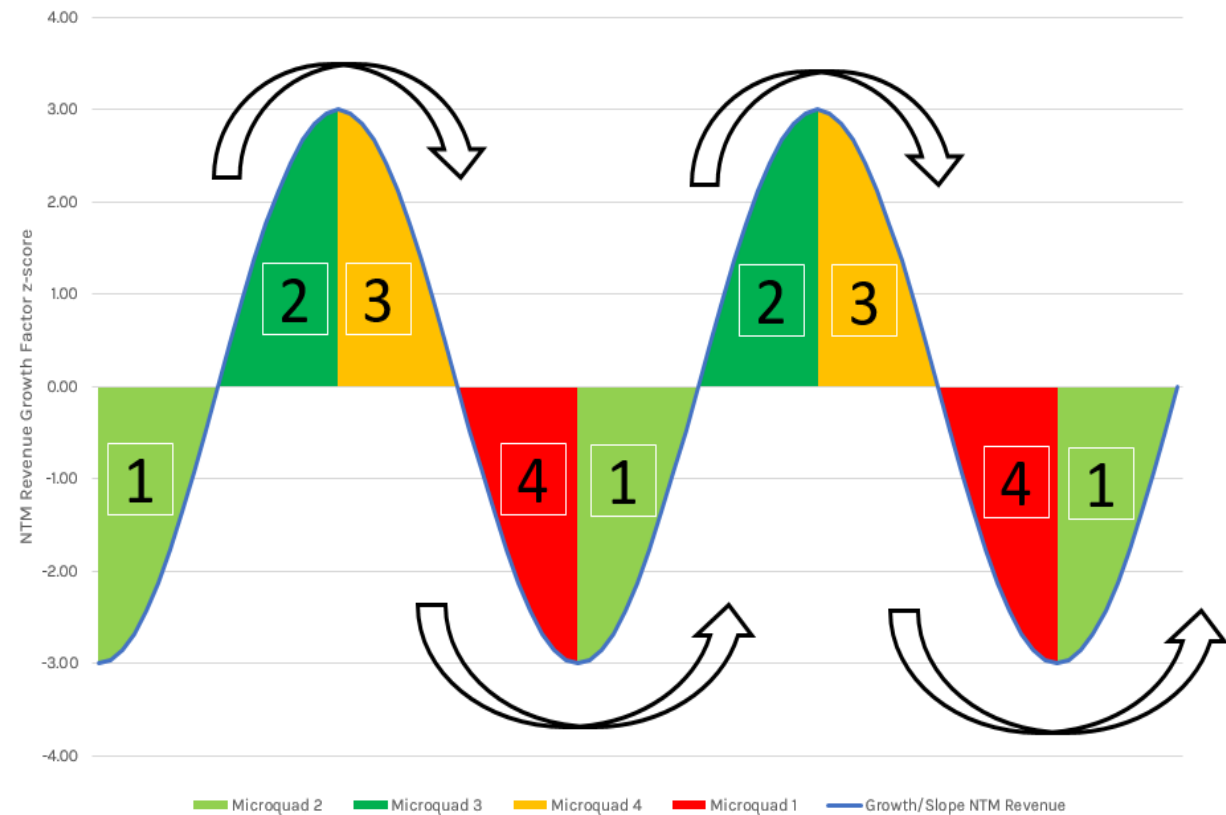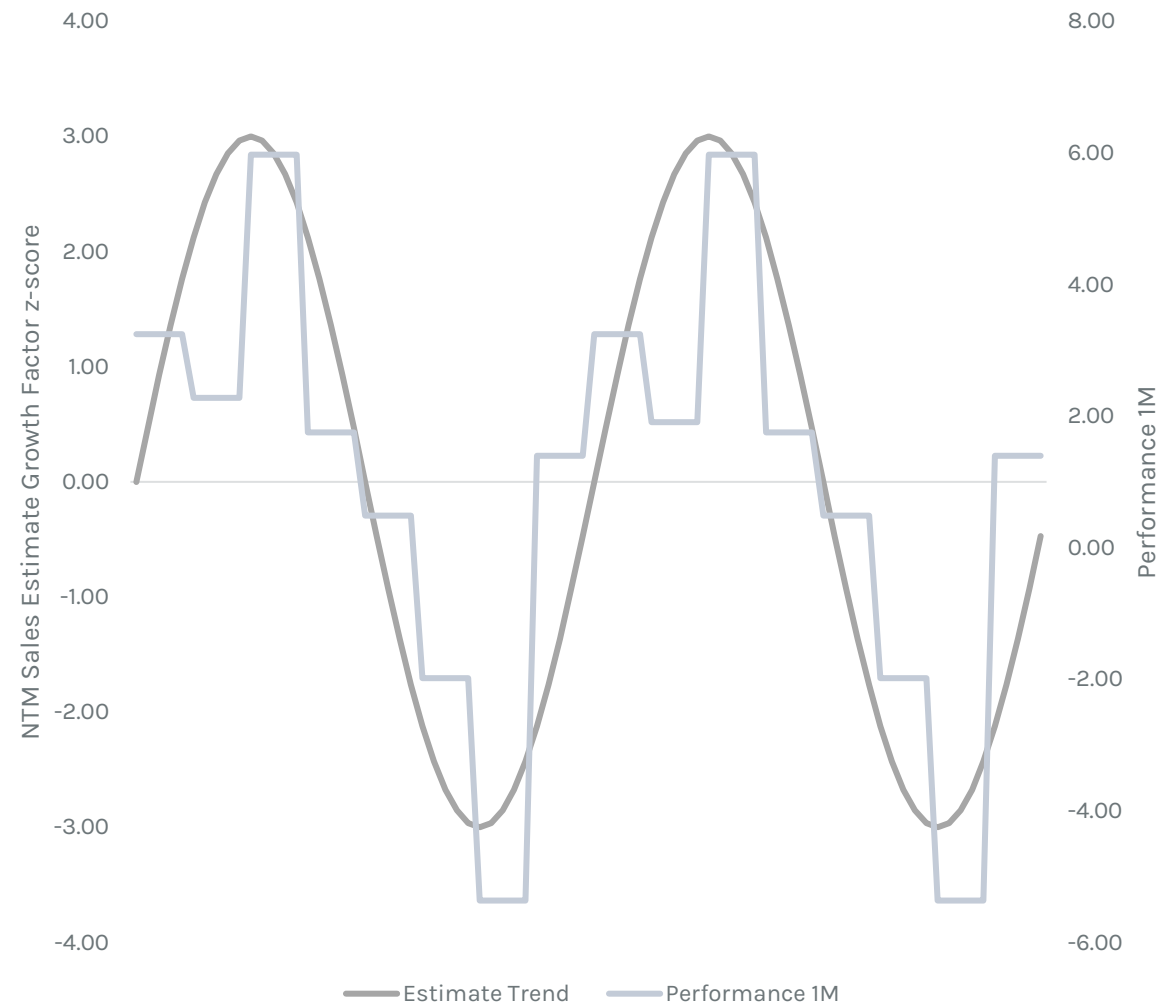

MicroQuad - The Four Quadrants
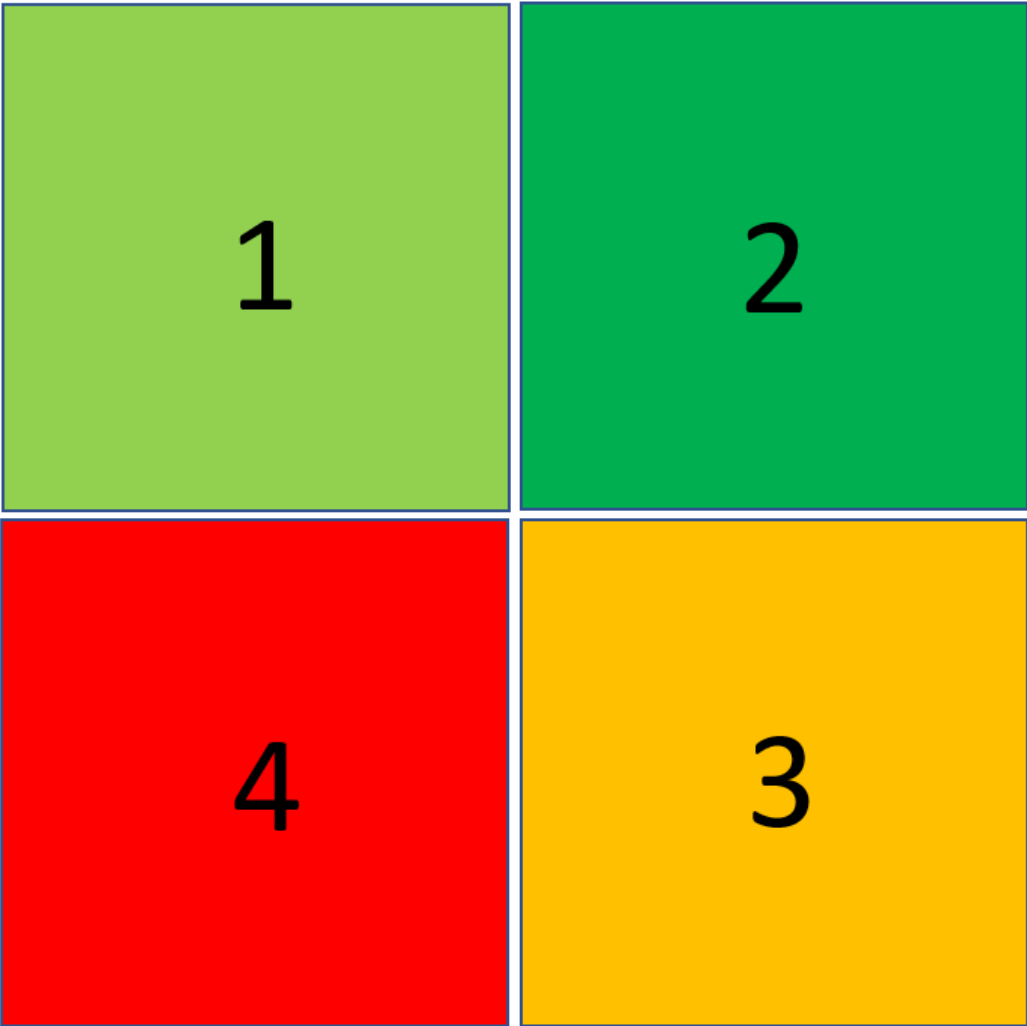
MicroQuad | Model vs Actual

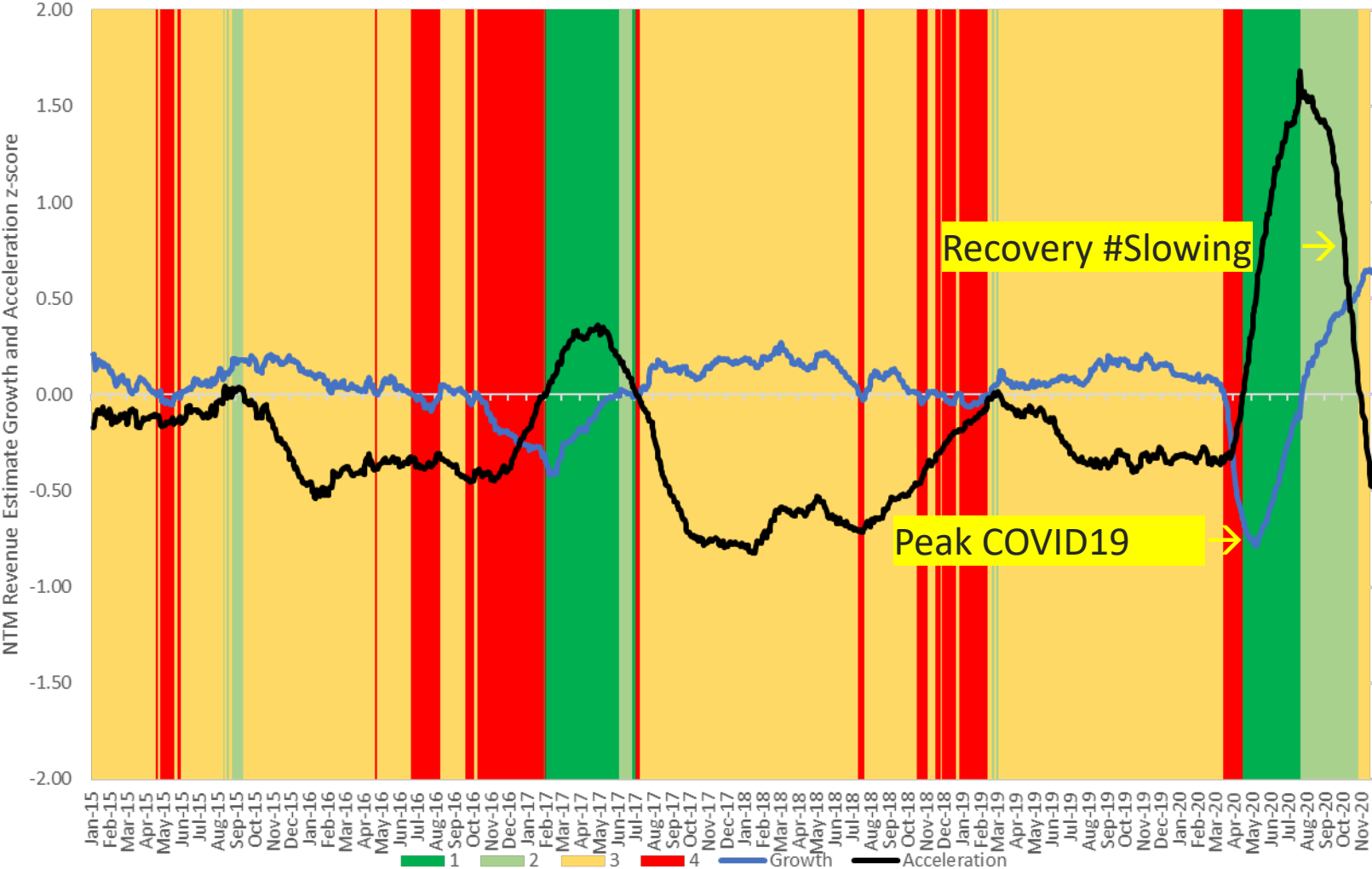## MicroQuad – Generic Growth Curve Progression

MicroQuad – Actual Performance vs Growth Curve

Estimate Revision Trend is Decelerating

Past the peak for the post-COVID19 recovery

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

The output employs a standardized method to describe and compare estimate trends for revenue, EBITDA, and EPS.
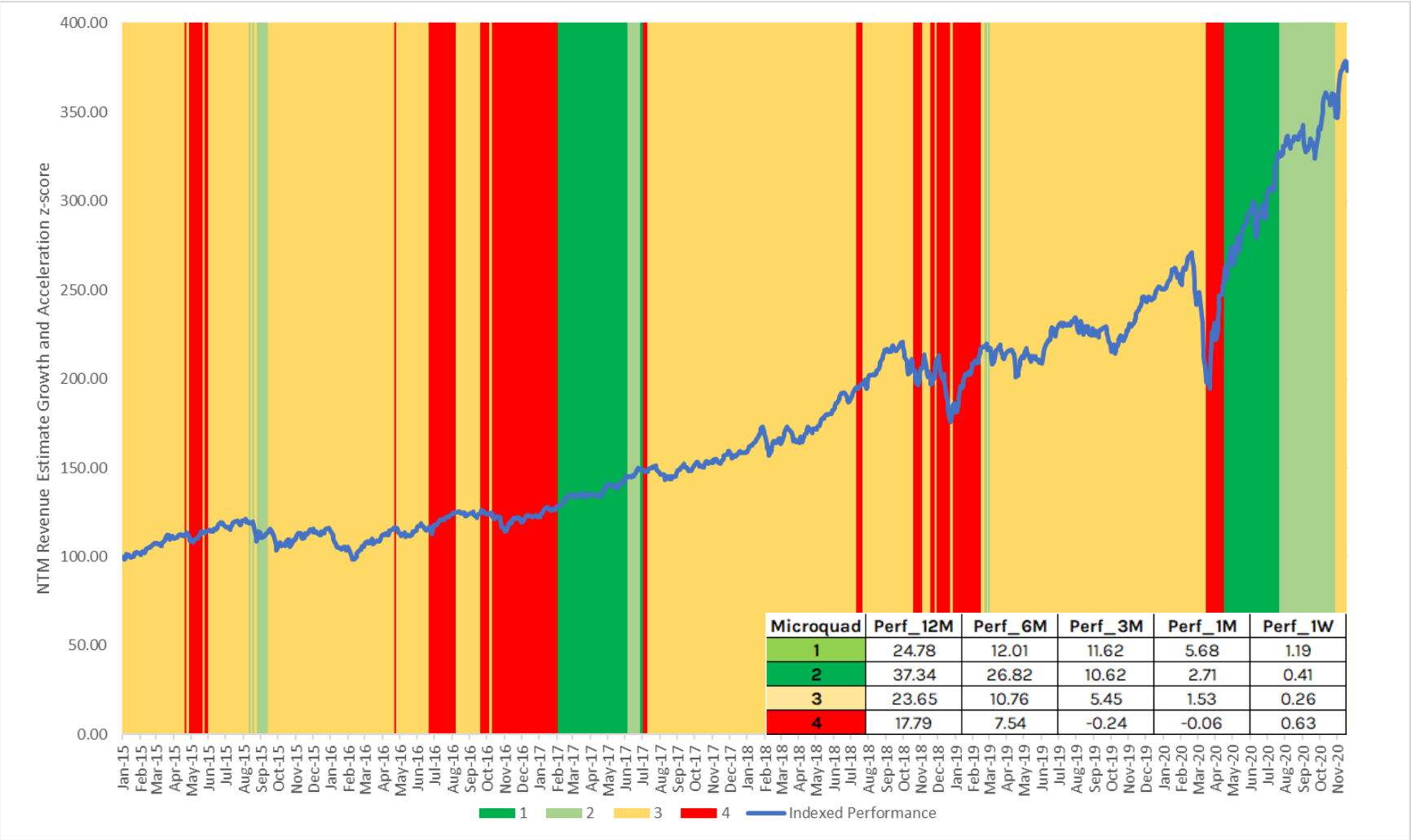
This chart displays the average of the estimate trend across our Healthcare universe and assigns a one of 4 microquads based on the +/- positioning of the two factors.

After a sharp Microquad4 downturn, the impact from COVID19 peaked on 4/16/2020, marking the beginning of the fundamental recovery.

As of 11/20/2020 the average trend continue to progress deeper into Microquad 3, lower probability of positive performance and lower average performance compared to Microquad 2.

Price Index

Past the peak for the post-COVID19 recovery?

Microquad	Perf_12M	Perf_6M	Perf_3M	Perf_1M	Perf_1W
1	24.78	12.01	11.62	5.68	1.19
2	37.34	26.82	10.62	2.71	0.41
3	23.65	10.76	5.45	1.53	0.26
4	17.79	7.54	-0.24	-0.06	0.63

As of 11/20/2020 performance has been increasingly volatile but remains positive. On average, performance metrics deteriorate in MicroQuad 3, but will be overwhelmed by an emerging Macro Quad 2.

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

The output employs a standardized method to describe and compare estimate trends for revenue, EBITDA, and EPS.

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 | November 20, 2020

Active Long | Active Short
Bench Long | Bench Short

HEDGEYE

MicroQuad1

AMGN
EHC
HMSY
HRC
HUM
LHCG
PRGO

MicroQuad2

AMN	PEN
BAX	RCM
CERN	RMD
COO	STAA
ENSG	STE
EXAS	TXG
GKOS	UNH
HAE	VEEV
IART	
ICUI	
ILMN	
OMCL	

MicroQuad3

A	GILD	MEDP	QDEL
ABMD	GMED	MMSI	RGEN
ABT	HCA	MRK	SEM
ALGN	HOLX	MTD	SYK
AMED	IDXX	NEOG	TDOC
BIO	IQV	NSTG	TECH
BSX	IRTC	NTRA	TFX
CNMD	ISRG	NVTA	TMO
CRL	JNJ	OPK	TNDM
CVET	LH	PDCO	WAT
DGX	LLY	PKI	WST
DHR	LVGO	PODD	ZTS
DXCM	MASI	PRAH	
EW	MDT	Q	

MicroQuad4

ABBV
ANTM
BDX
BIOS
CHE
GH
NEO
VRTX

Sigma Positioning – Current Position Monitor
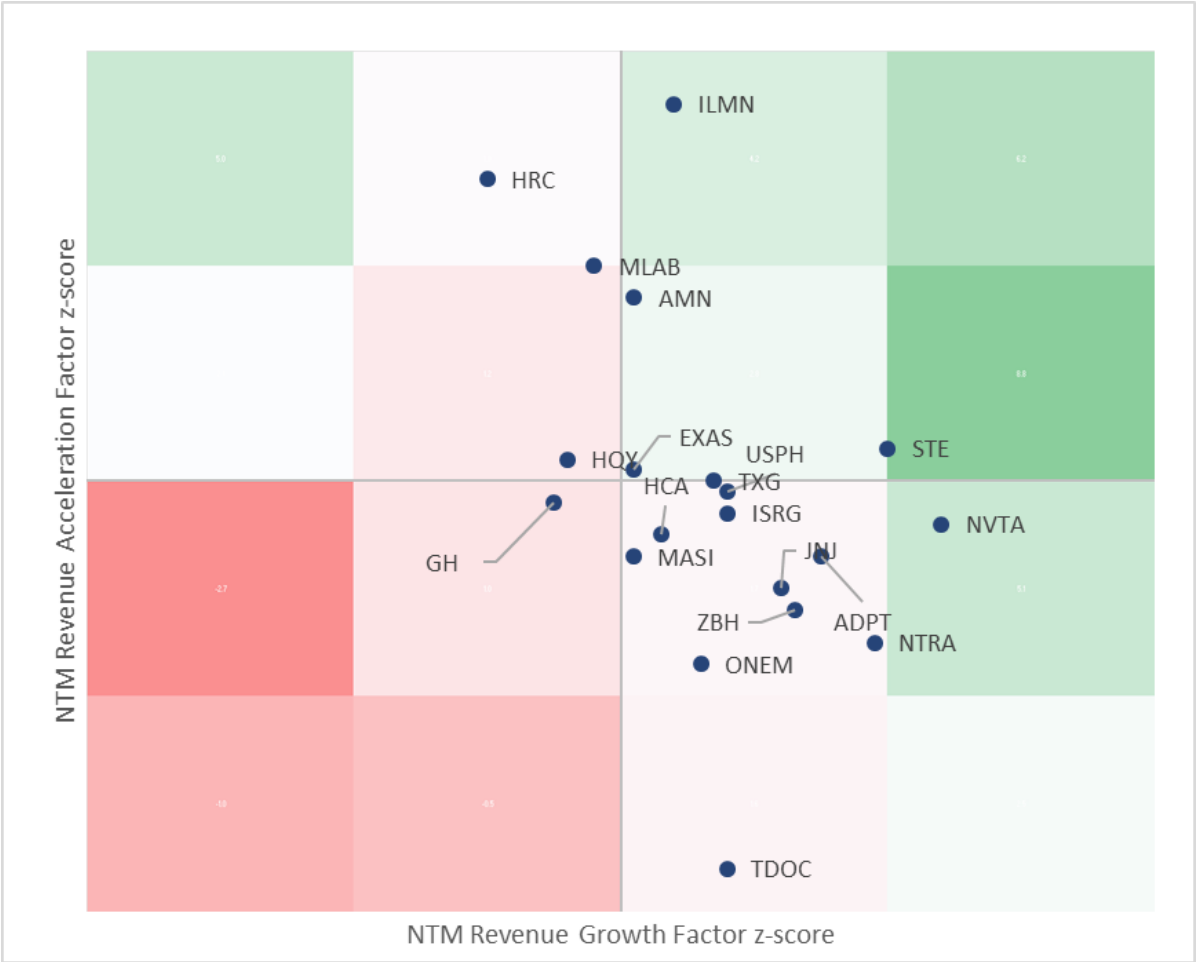
Sigma Positioning –Universe Average
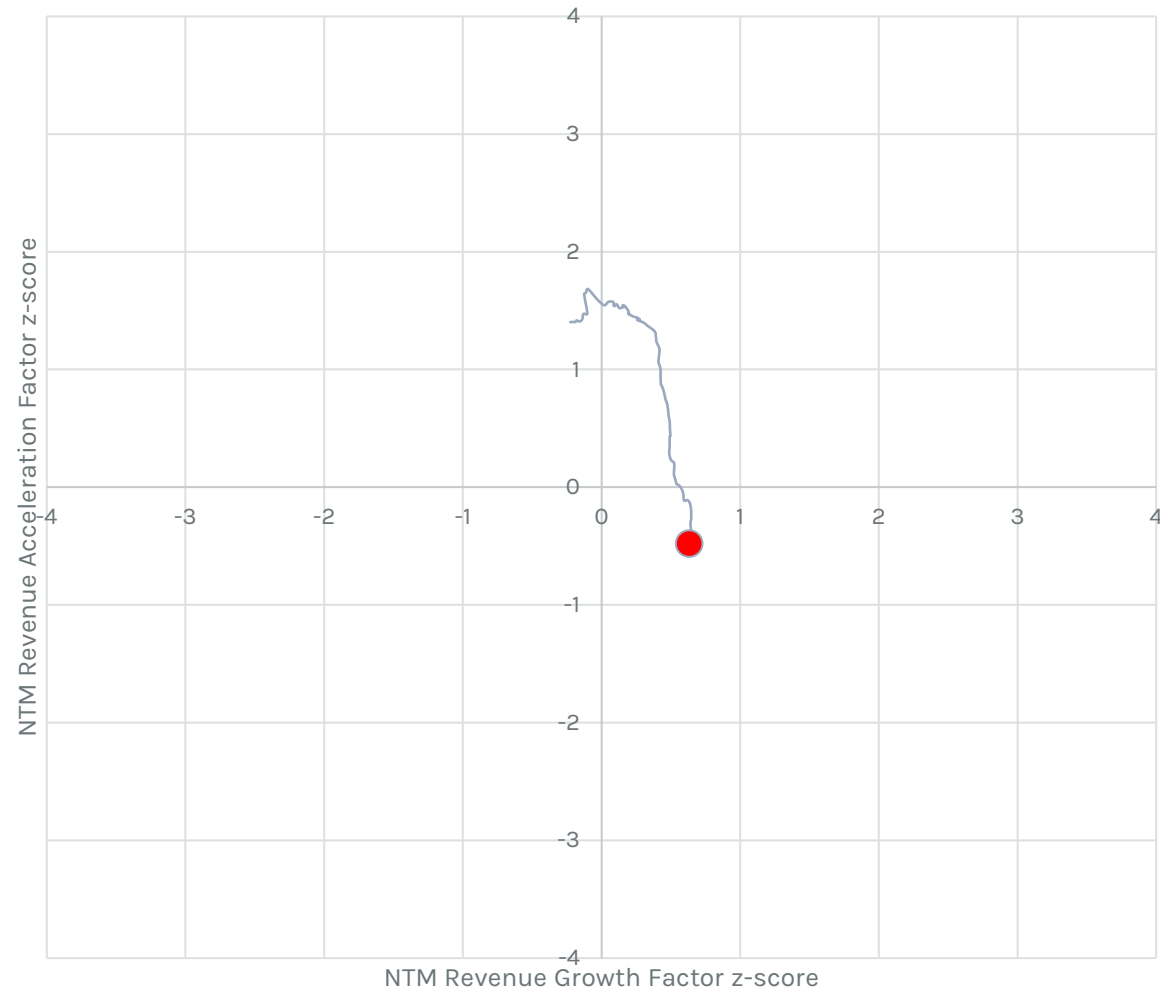
Prospective Performance

MicroQuad average returns based on revenue estimate vectors

POSITION MONITOR		11/20/2020			Performance					EBITDA		
Ticker	Name	Price	EV	MCAP	Performance 1W Actual	Performance 1M Actual	Performance 1M Expected	Performance 1M Expected Forward	Correlation	Growth Factor z-score	Acceleration Factor z-score	Sales Quad
ONEM	1Life Healthcare, Inc.	35.44	4274.33	4713.97	1.84%	10.89%	2.13%	2.16%	0.20	0.42	-1.69	3
TXG	10x Genomics Inc Class A	139.72	13392.87	11199.41	0.84%	-4.07%	1.22%	0.81%	-0.10	0.42	0.21	2
TDOC	Teladoc Health, Inc.	200.00	16545.81	28992.15	9.25%	-6.89%	-7.93%	9.98%	0.94	3.45	3.27	2
NTRA	Natera, Inc.	85.40	6377.64	7290.59	3.13%	19.62%	3.75%	0.18%	-0.90	2.17	1.77	2
ILMN	Illumina, Inc.	300.80	43099.40	43916.80	-2.61%	-7.71%	1.52%	2.73%	0.91	-0.38	3.13	1
GH	Guardant Health, Inc.	112.95	10334.74	11291.88	-2.76%	9.99%	2.61%	1.26%	-0.27	1.41	-1.77	3
AMN	AMN Healthcare Services, Inc.	59.24	3751.63	2786.11	-4.80%	-10.77%	1.65%	2.25%	0.79	0.68	0.81	2
EXAS	Exact Sciences Corporation	115.23	17749.94	18324.97	-6.10%	7.60%	1.27%	0.14%	0.66	0.78	-0.58	3
HRC	Hill-Rom Holdings, Inc.	97.49	8211.20	6513.59	2.53%	7.05%	0.89%	2.14%	0.94	-0.80	3.08	1
MASI	Masimo Corporation	247.96	13757.38	13651.49	0.99%	3.46%	4.84%	-1.65%	0.95	1.97	1.17	2
AMWL	American Well Corporation Class A	23.92	4547.99	4781.41								
NVTA	Invitae Corp.	48.00	6329.88	8481.59	2.08%	4.33%	3.10%	0.45%	-0.69	1.65	-1.44	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.

Positive Revision Trends

Top 20 revenue revision trends

Rank	Ticker	Market Cap	Sales Correlation	Sales Estimate Change	Growth	Acceleration	Microquad Forward Performance - Expected	1W-Return	1M-Return	3M-Return	1Y-Return
1	CYRX	1,696.80	88%	269%	-	-					
2	FLGT	939.99	89%	77%	1.29	-2.90	1.03%	0%	22%	-6%	254%
3	MYL	20,686.10	3%	51%	3.36	1.01	0.40%	10%	10%	5%	-1%
4	QDEL	8,199.68	87%	38%	0.97	-3.35	2.33%	-6%	-24%	-18%	182%
5	NVTA	6,329.88	84%	27%	2.39	-0.45	2.86%	2%	4%	43%	145%
6	TTOO	172.99	-26%	25%	1.19	-2.13	1.60%	-7%	-16%	-27%	-31%
7	TXG	13,392.87	88%	25%	0.74	0.02	1.54%	1%	-4%	32%	126%
8	PRSC	1,682.66	-17%	24%	1.13	0.65	1.96%	1%	11%	38%	116%
9	PKI	16,389.40	92%	23%	1.23	-2.44	1.23%	-1%	4%	13%	44%
10	OSUR	648.80	47%	23%	1.53	-2.23	0.74%	-7%	-18%	-16%	54%
11	ALGN	34,812.98	80%	22%	1.60	-0.47	0.78%	-2%	-1%	51%	64%
12	ONEM	4,274.33	40%	17%	0.59	-1.69	1.14%	2%	11%	22%	0%
13	NTRA	6,377.64	93%	15%	1.94	-1.51	2.88%	3%	20%	30%	123%
14	HOLX	20,703.95	83%	15%	0.99	-3.04	1.90%	-1%	2%	6%	39%
15	IRTC	6,099.10	75%	14%	1.66	-1.00	1.46%	-14%	5%	5%	223%
16	RGEN	10,065.26	94%	14%	1.72	-1.32	1.96%	-6%	10%	33%	130%
17	OPK	2,766.16	73%	13%	0.86	-2.99	2.05%	-1%	-8%	-17%	146%
18	SRDX	452.85	72%	12%	0.86	-1.16	2.08%	-2%	-9%	-19%	-7%
19	EXAS	17,749.94	81%	12%	0.07	0.15	0.52%	-6%	8%	44%	46%
20	PINC	3,966.36	19%	10%	0.58	0.89	1.19%	-3%	0%	2%	-7%

- ONEM making the list after a great 3Q20

- COVID comp names, HOLX, FLGT, QDEL and EXAS to a lesser extent.

Negative Revision Trends

Top 20 negative revenue revision trends

Rank	Ticker	Market-Cap	Sales Correlation	Sales Estimate Change	Growth	Acceleration	Microquad Forward Performance - Expected	1W-Return	1M-Return	3M-Return	1Y-Return
1	TVTY	1,753.77	-44%	-49%	-1.40	1.16	1.28%	6%	19%	0%	-25%
2	MD	3,099.99	26%	-20%	-0.53	3.14	1.83%	4%	37%	6%	-25%
3	CODX	300.96	77%	-18%	-0.78	-1.63	1.38%	-26%	-8%	-12%	1099%
4	BIIB	42,620.68	25%	-14%	-1.71	2.75	3.15%	-2%	-8%	-12%	-15%
5	LNTH	970.73	56%	-8%	0.59	-2.39	1.71%	3%	-4%	-7%	-38%
6	MDRX	3,121.43	15%	-7%	-0.06	0.29	0.81%	8%	17%	44%	22%
7	GILD	80,153.71	67%	-5%	0.12	-2.19	0.98%	-1%	-1%	-9%	-9%
8	EVH	1,157.96	-45%	-3%	-0.87	0.97	1.75%	4%	29%	6%	33%
9	BIIB	42,620.68	25%	-14%	-1.71	2.75	3.15%	-2%	-8%	-12%	-15%
10	LNTH	970.73	56%	-8%	0.59	-2.39	1.71%	3%	-4%	-7%	-38%
11	MDRX	3,121.43	15%	-7%	-0.06	0.29	0.81%	8%	17%	44%	22%
12	GILD	80,153.71	67%	-5%	0.12	-2.19	0.98%	-1%	-1%	-9%	-9%
13	EVH	1,157.96	-45%	-3%	-0.87	0.97	1.75%	4%	29%	6%	33%
14	CERS	966.27	22%	-2%	-1.08	0.01	1.81%	2%	-1%	-9%	44%
15	HCSG	1,514.09	32%	-2%	0.06	1.51	0.81%	-1%	-4%	7%	-6%
16	DGX	20,768.97	62%	-2%	0.56	-3.38	1.44%	3%	-1%	6%	19%
17	INGN	570.23	32%	-1%	-0.48	2.29	2.00%	7%	25%	21%	-50%
18	EHC	11,630.22	85%	-1%	-1.01	1.42	1.58%	9%	17%	28%	12%
19	ITGR	3,098.49	-69%	-1%	0.46	0.45	1.15%	0%	5%	1%	-5%
20	COO	18,424.02	89%	-1%	0.43	1.31	1.16%	-3%	-6%	10%	8%

- COVID comp names making the list…

- CODX is a COVID testing company

- DGX is new week over week. COVID testing comp is going to be tough, but the broader recovery may offset.

- HCSG is a nursing home services company, given the trend in nursing home employment, unsurprising to see it here.

- MD has been down so long, with the end of COVID and a cleaner organization, it may be time to dust of the long thesis.
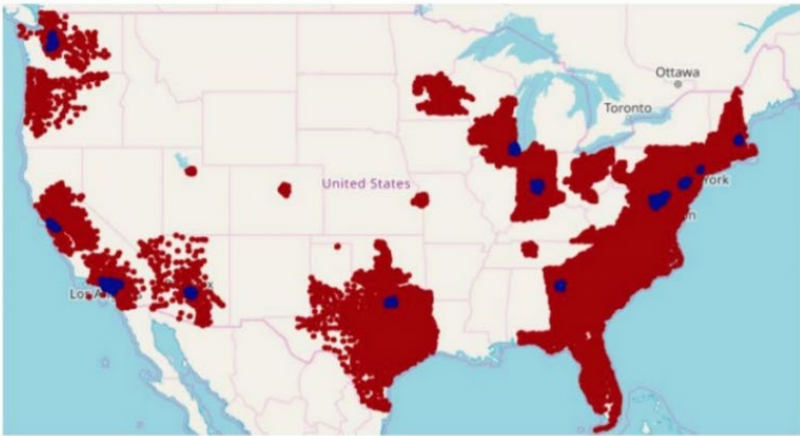
Amazon Has Entered the Health Care Market

Amazon excels in physical and digital transportation, as well as procuring efficiency and productivity from their employees

72%
of Americans live in zip codes that Amazon can ship to within a day

● 2014
● 2018

prime

112M+ Prime Members

- 45% of Prime members make a purchase on Amazon at least once a week
- 73% of Prime members start their search for new products on Amazon

Our Care Options

Care Chat
Our in-app text chat connects you with a clinician in minutes for advice on any health topic.

Video Care
Launch an in-app video visit with a clinician for advice, diagnoses, treatment, or referrals.

Mobile Care
A Mobile Care nurse can be dispatched to your home or office to conduct in-person exams, testing, or treatment.

Care Courier
Your Care Courier can deliver Amazon Care prescribed medications to you at your home or office.

Drug manufacturers outsource product distribution to Amazon

Amazon's supply chain handles distribution to its pharmacy network

Amazon offers drugs and pharmacy benefit plans to patients, payers, and employers

FDA U.S. FOOD & DRUG ADMINISTRATION

PillPack by amazon pharmacy

Customer Satisfaction
Based on how likely our customers are to recommend PillPack (Net Promoter Score).

26 — Industry Average
80 — PillPack

care amazon — Urgent Care/PCP/Telemed.

PillPack by amazon pharmacy — Pharmacy

RPM/Member Engagement

FSA | HSA STORE
Use your FSA or HSA card on Amazon
Add your card — Medical Equipment

WHOLE FOODS MARKET — Nutrition

Winners/Losers from Amazon's Deepening Entry

Amazon Care Competitors

Teladoc

Amwell

Livongo

Doctors on Demand

Haven Competitors

Optum

UNH

AthenaHealth

Aetna

Anthem

Mckesson
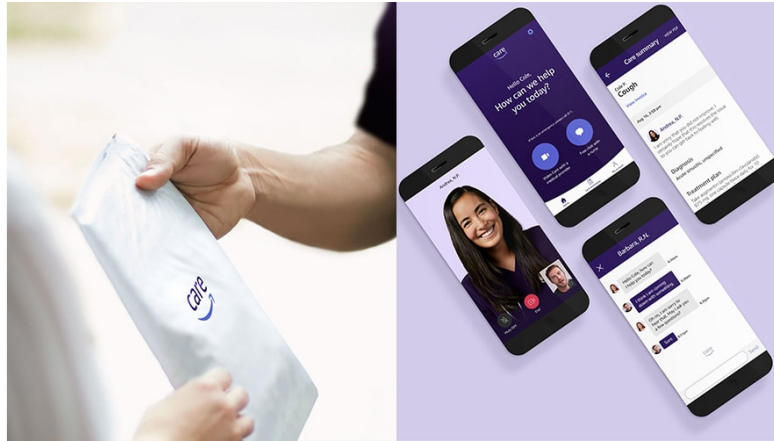
Cigna

Humana

PillPack Competitors
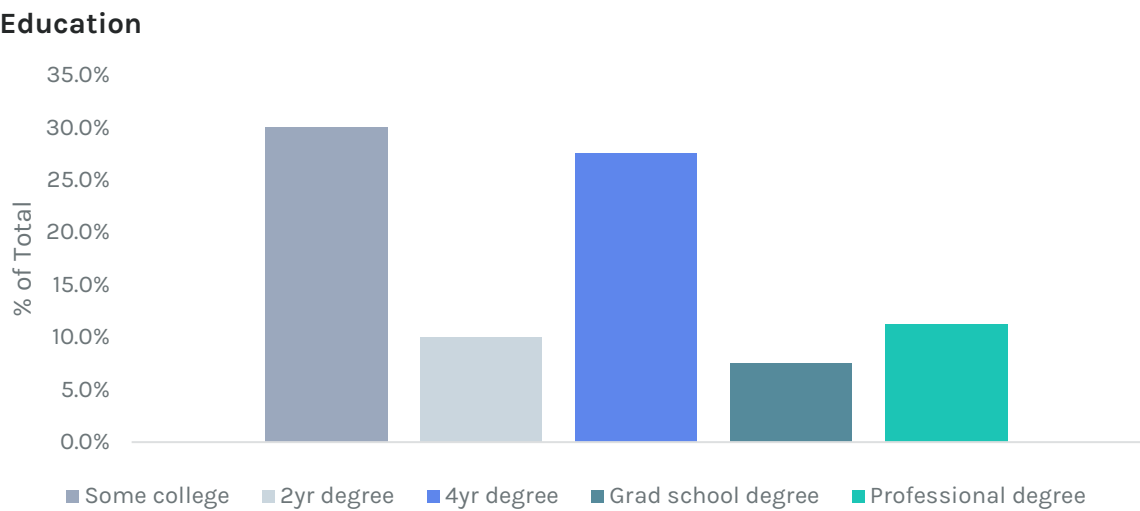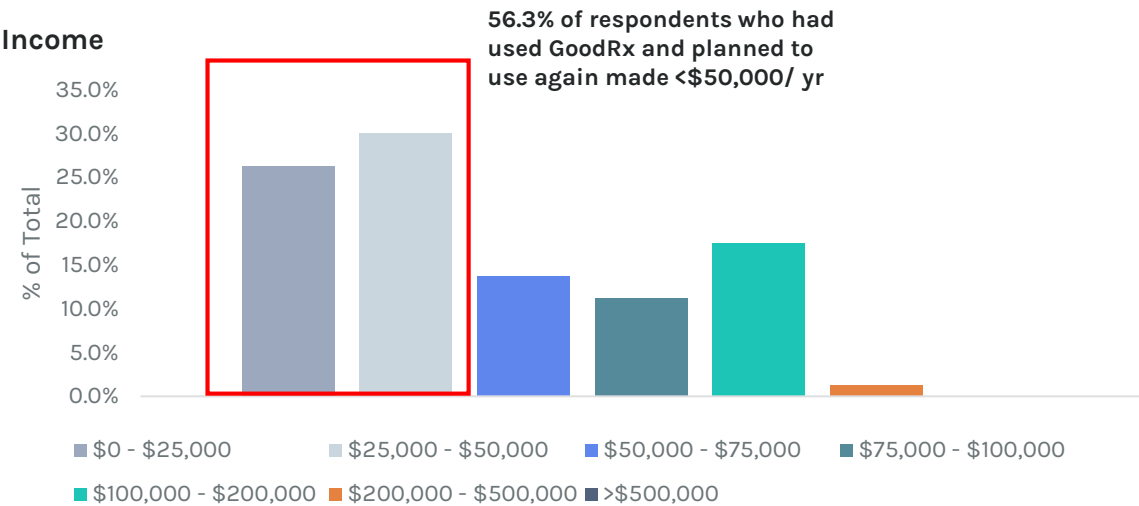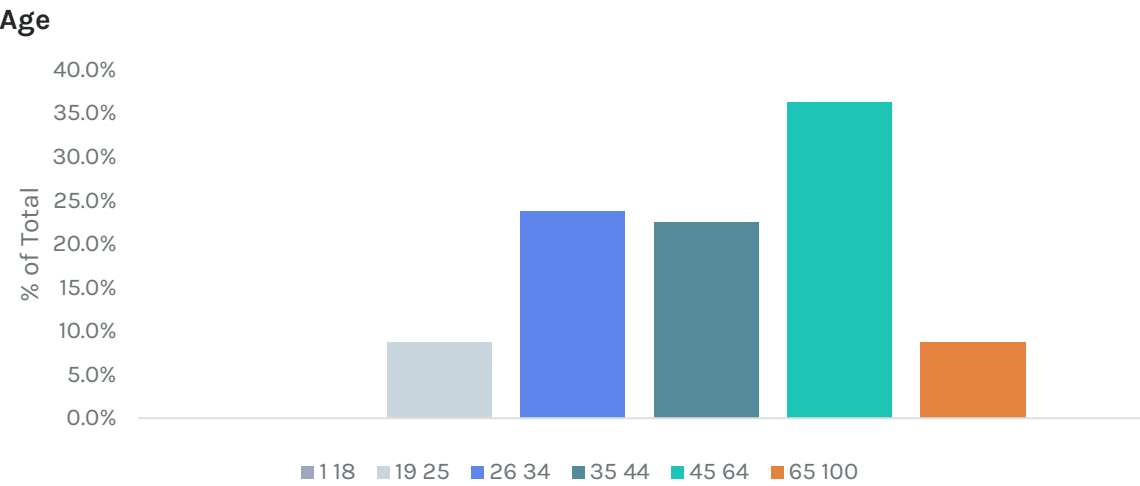
CVS Health

ExactCare

Blink Health

GoodRx

Profile of an Amazon Prime User

Skews younger, married person with some education or degree making less than $100k a year
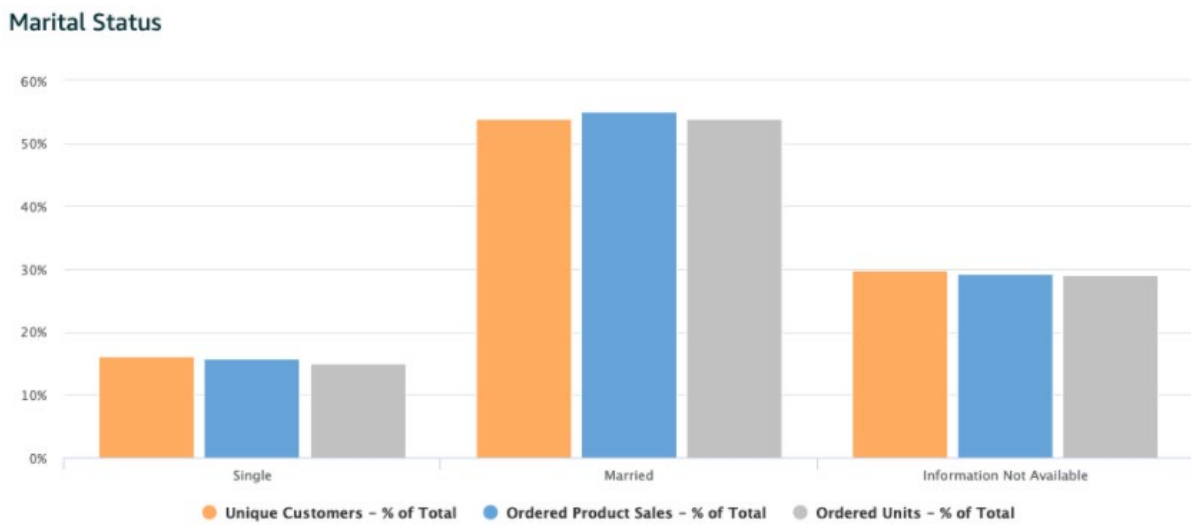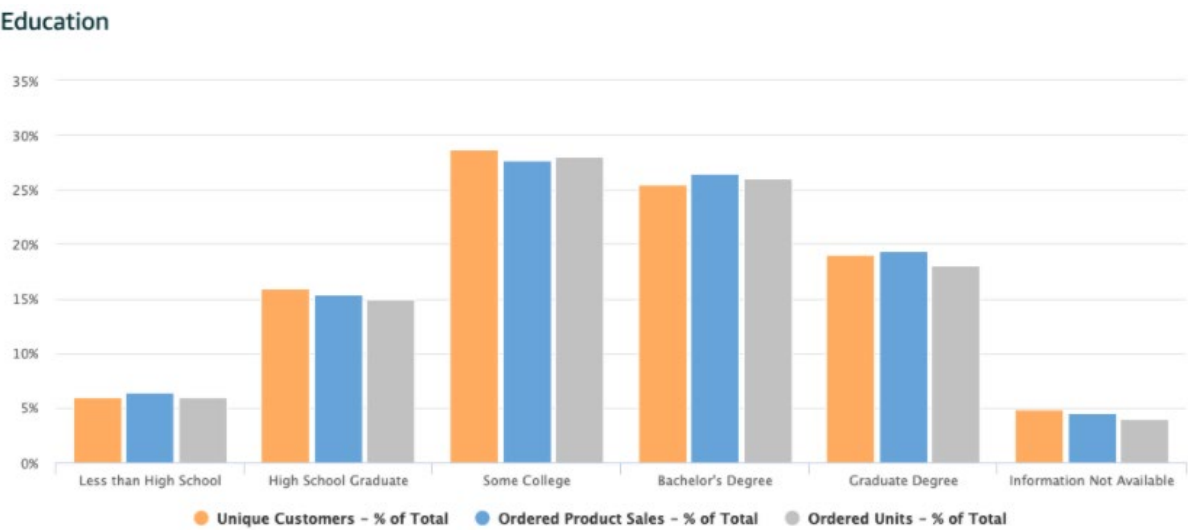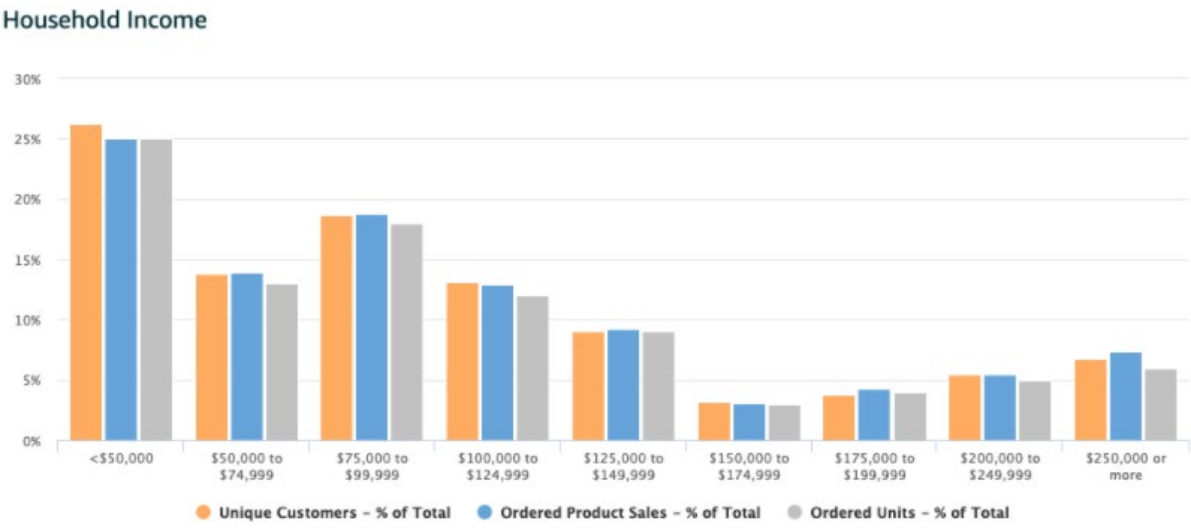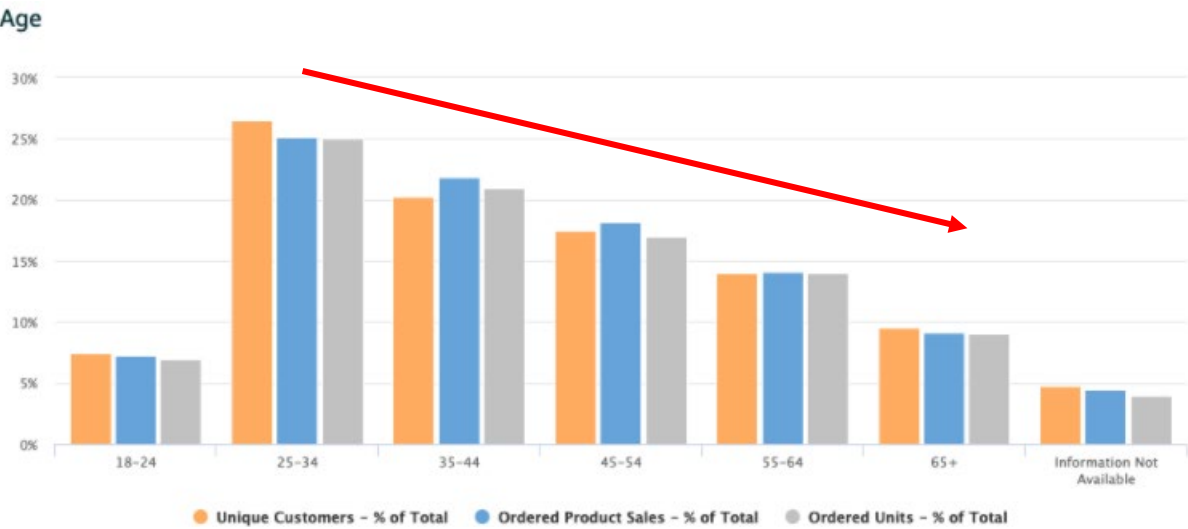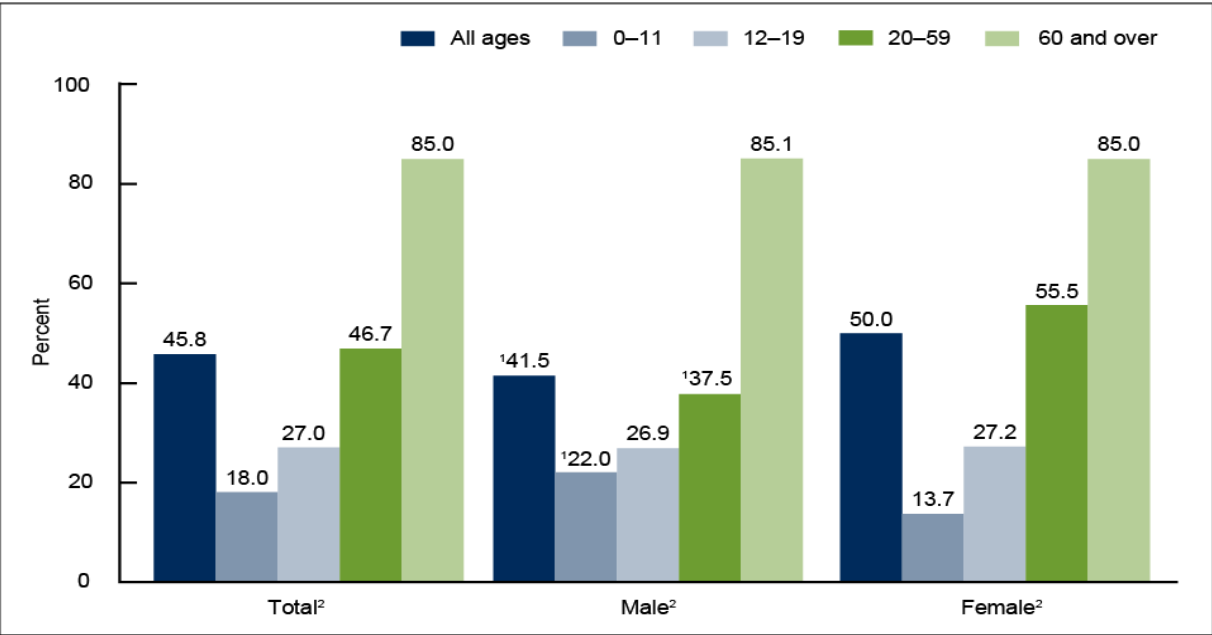
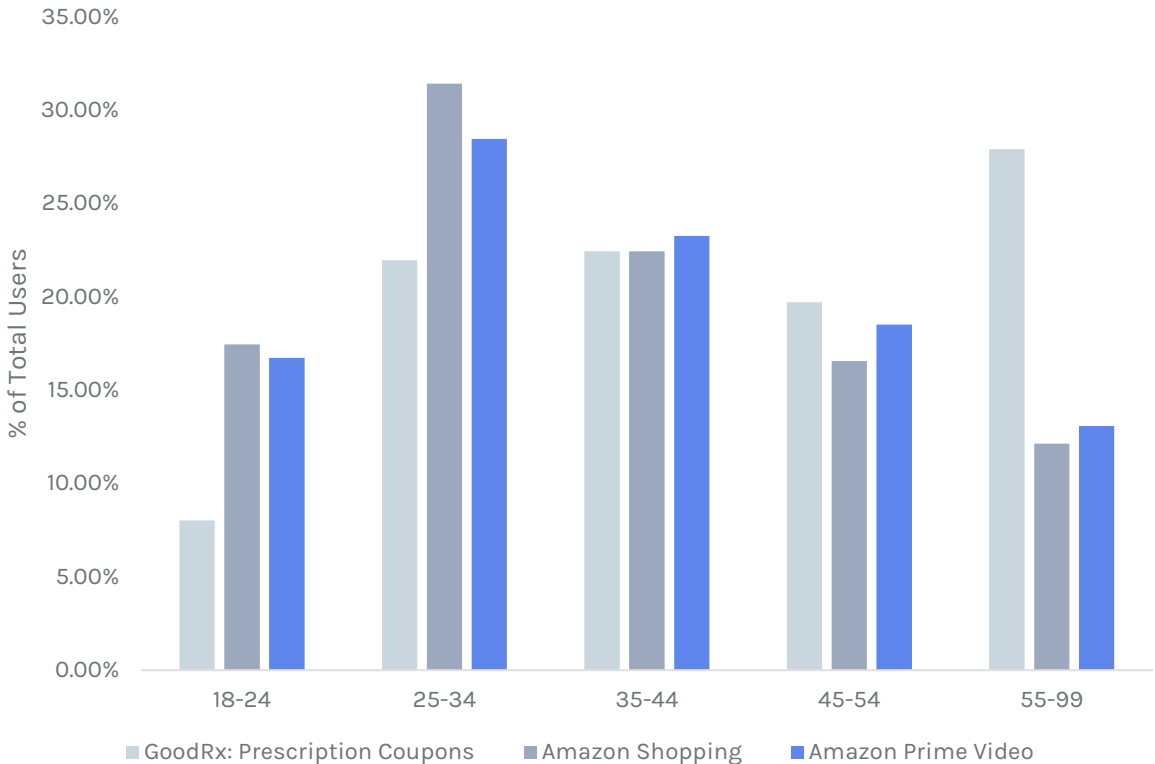# Profile of a GoodRx User

Skews to an older population with less income

Age — bar chart, % of Total (0.0%–40.0%), categories: 1 18, 19 25, 26 34, 35 44, 45 64, 65 100

Income — bar chart, % of Total (0.0%–35.0%), categories: $0 - $25,000, $25,000 - $50,000, $50,000 - $75,000, $75,000 - $100,000, $100,000 - $200,000, $200,000 - $500,000, >$500,000

56.3% of respondents who had used GoodRx and planned to use again made <$50,000/ yr

Education — bar chart, % of Total (0.0%–35.0%), categories: Some college, 2yr degree, 4yr degree, Grad school degree, Professional degree

Marital Status — bar chart, % of Total (0.0%–60.0%), categories: Single, Living with a significant other, Engaged, Married, Divorced, Widowed

GDRX | Added Long Bias

HEDGEYE

GoodRx has the advantage in the share of the market that consumes most prescription drugs

Figure 1. Use of one or more prescription drugs in the past 30 days, by age (years) and sex: United States, 2015–2016

Legend: All ages | 0–11 | 12–19 | 20–59 | 60 and over

Values by group:
- Total[2]: 45.8, 18.0, 27.0, 46.7, 85.0
- Male[2]: [1]41.5, [1]22.0, 26.9, [1]37.5, 85.1
- Female[2]: 50.0, 13.7, 27.2, 55.5, 85.0

[1]Significantly different from females.
[2]Significant increasing trend with age.
NOTES: Estimates for all ages are age adjusted by the direct method to the 2000 projected U.S. population using age groups 0–11, 12–19, 20–59, and 60 and over. Crude estimates are 48.1% for total, 43.0% for male, and 53.1% for female. Access data table for Figure 1 at: https://www.cdc.gov/nchs/data/databriefs/db334_tables-508.pdf#1.
SOURCE: NCHS, National Health and Nutrition Examination Survey, 2015–2016.

Right chart: % of Total Users by age group (18-24, 25-34, 35-44, 45-54, 55-99)
Legend: GoodRx: Prescription Coupons | Amazon Shopping | Amazon Prime Video

- 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.

- **Preliminary demographic data shows a significant separation in market share across the key age and income levels.**

GDRX | Active Users v Reported

After reporting record MAUs during the quarter, will results be enough for the market?
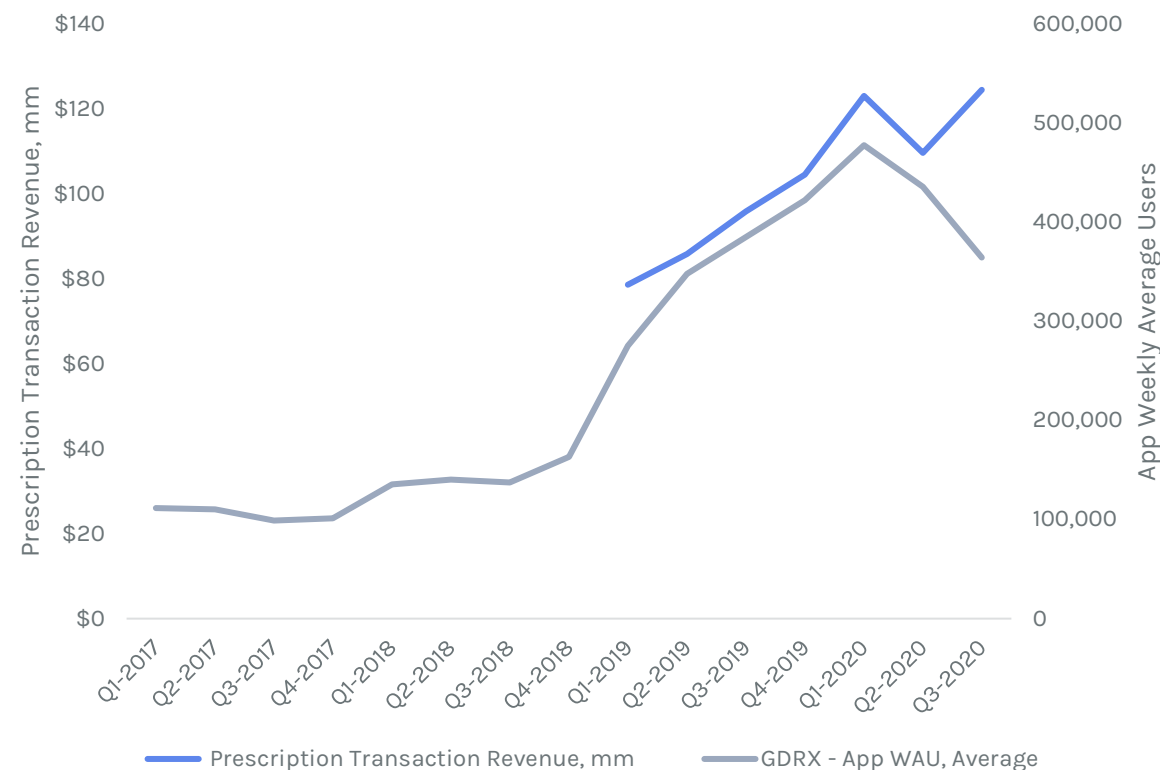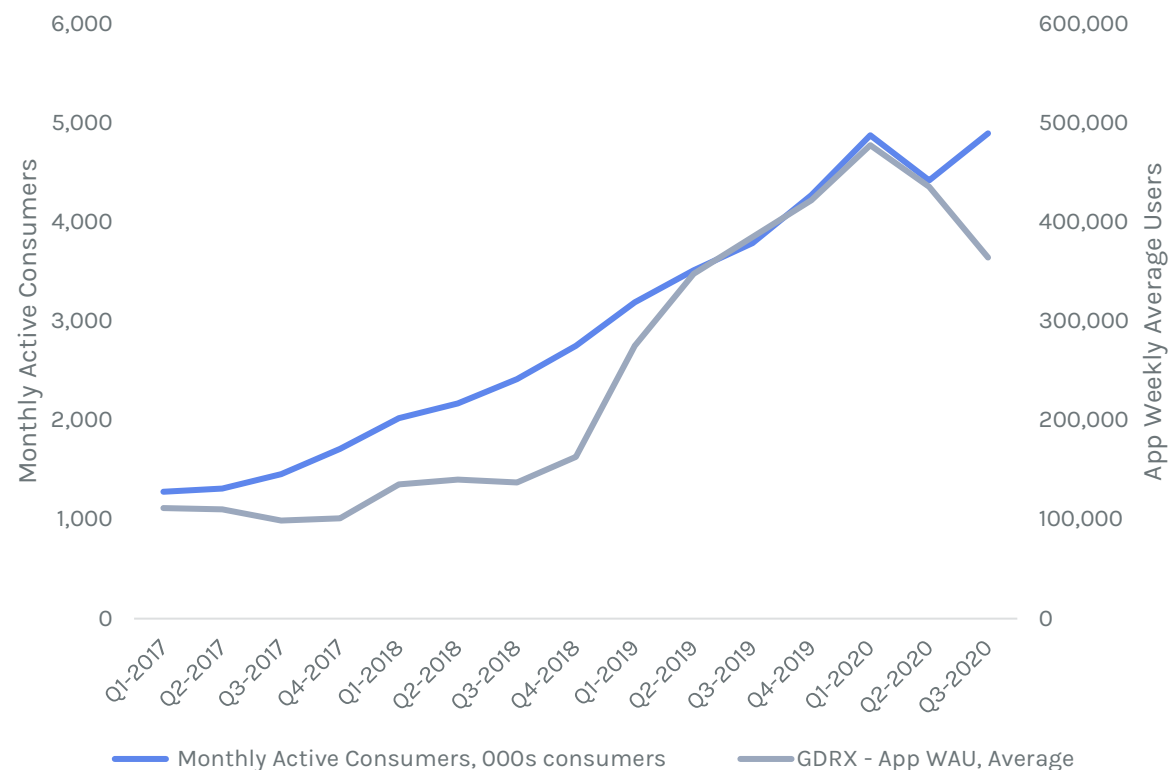
- We also think GoodRx is one of a handful of Healthcare companies with a novel attribute not usually connected with Healthcare investing, brand equity.

- We think the value from owning the relationship with the Medical Consumer will be steadily increasing from here.

Call Recaps | GoodRx & Amazon Pharmacy & Hospital Capex

Highlights from 1. our live discussion and Q&A with Mr. David Green, VP of Business Development w/ BenMedica, and 2. our interview w/ a hospital CFO.

Health Care Speaker Call - How Good Can GoodRx Get? (11/19/20)

Amazon's formal entrance into the health care/pharmacy market was imminent. We heard about the threat – fear, excitement, curiosity, etc. - during just about every interview we conducted since early September. **That said, we think the decline in GDRX shares to the low $30s from the mid-$40s was an overreaction.**

Amazon's pharmacy product is designed to cater to its 112MM Prime members. We think this is significant, but feedback was mixed re. the depth of the impact. Said differently, we're not sure how much overlap there really is between GDRX and AMZN. **Both companies "do customer service and provide a good user experience" well in their own ways.**

A material segment of the population likes interaction w/ pharmacists... those relationships are something that will be difficult for Amazon to recreated. **GDRX has managed to save people money w/ out disrupting this relationship. As a result, it has a very favorable BRAND IMAGE w/ consumers.**

GDRX's presence at the point of prescription gives it an advantage. It has established relationships with EMR/EHR vendors and makes MDs aware of savings at the point of prescribing via APIs or more recently by displaying savings offerings as alternatives through RTB - real time benefit (an emerging tech and required by CMS in a limited way starting Jan 1, 2021).

With mail order falling somewhat out of favor (or, at least not taking massive share recently), Amazon's influence may be limited. **CVS is not likely to go away but will be forced to evolve**. They have the pieces. It's not clear yet if they'll succeed. Also, CVS and WBA will surely be involved w/ COVID vaccine deployment.

GDRX could be an attractive target for Walmart or another player but is well-positioned in the meantime given HeyDoctor and the opacity of the Rx market.
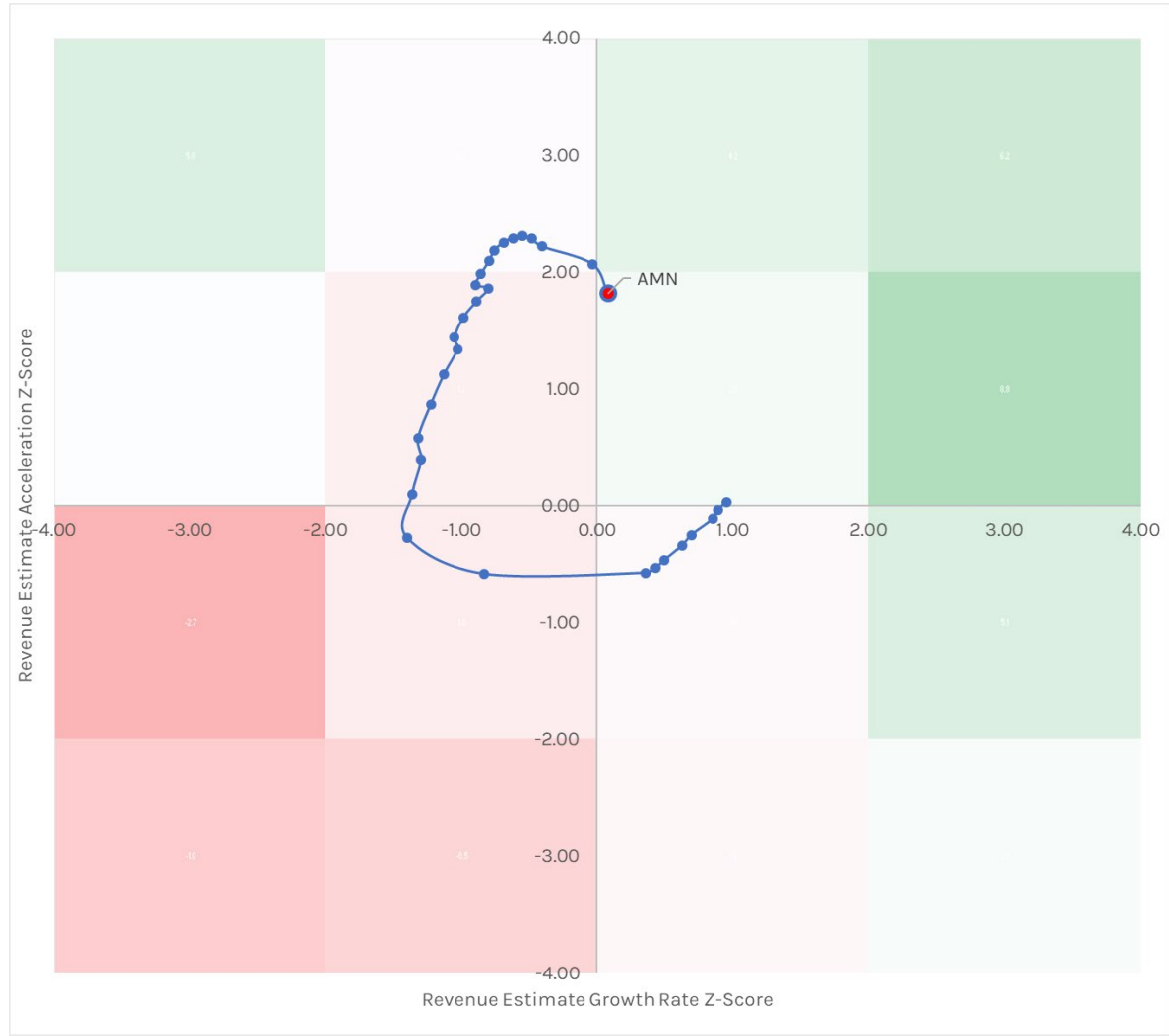
Field Notes: Hospital Capex/Cost Trends | Don't Need No [More] Beds (11/17/20)

We spoke with the CFO of an integrated system in the South with 3 hospitals (combined ~800 beds), two of which have an average daily census of ~100, and the larger facility ~300. The payer mix is ~50% Medicaid, 25% Medicare, 20% commercial, and the remainder is self-pay (~1/3 of revenue is from the state – e.g., supplemental payments/DSH). The transition to a fee-for-service model is slow. The overall budget is $900MM and the capital budget is ~$70MM for the three hospitals. **Upon reflection over the past week, and given a recent focus on the timing and efficacy of COVID vaccine(s), we believe the following takeaways are most important to consider:**

1. **Labor costs – nurses in particular – have been the biggest issue over the past year for hospitals.** Nurses that are normally $35/hr. were ~$75/hr. through an agency, and that jumped to over $100 ($120/hr. in some areas) due to COVID. This has moderated to the low $80s/hr. through an agency, but supply remains tight, **which should be net positive for AMN**.

2. **Acuity is up for bad reasons –** patients have been scared or overly cautious, and serious conditions are going untreated; however, this trend is starting to reverse (it will likely do so in waves across the country as COVID cases "stabilize" – our contact did not sound concerned about COVID in his area, and the flu has been nonexistent to date; things should return to "normal" in 2021 (springtime).

3. **Hill-Rom will likely be facing one of the tougher COVID Comps** - so much demand was pulled forward, and they'll need to play for a replacement cycle while competing with Stryker. It's unlikely that there will be another surge in ICU bed demand. There's a clear focus on necessities or "routine" expenditures.

4. **Telehealth/telemedicine spending is likely stable YoY**, but the sentiment was mixed (more positive on doctor-to-doctor than direct-to-consumer for our contact). **Timing and priorities could = benefit for TDOC over AMWL.**
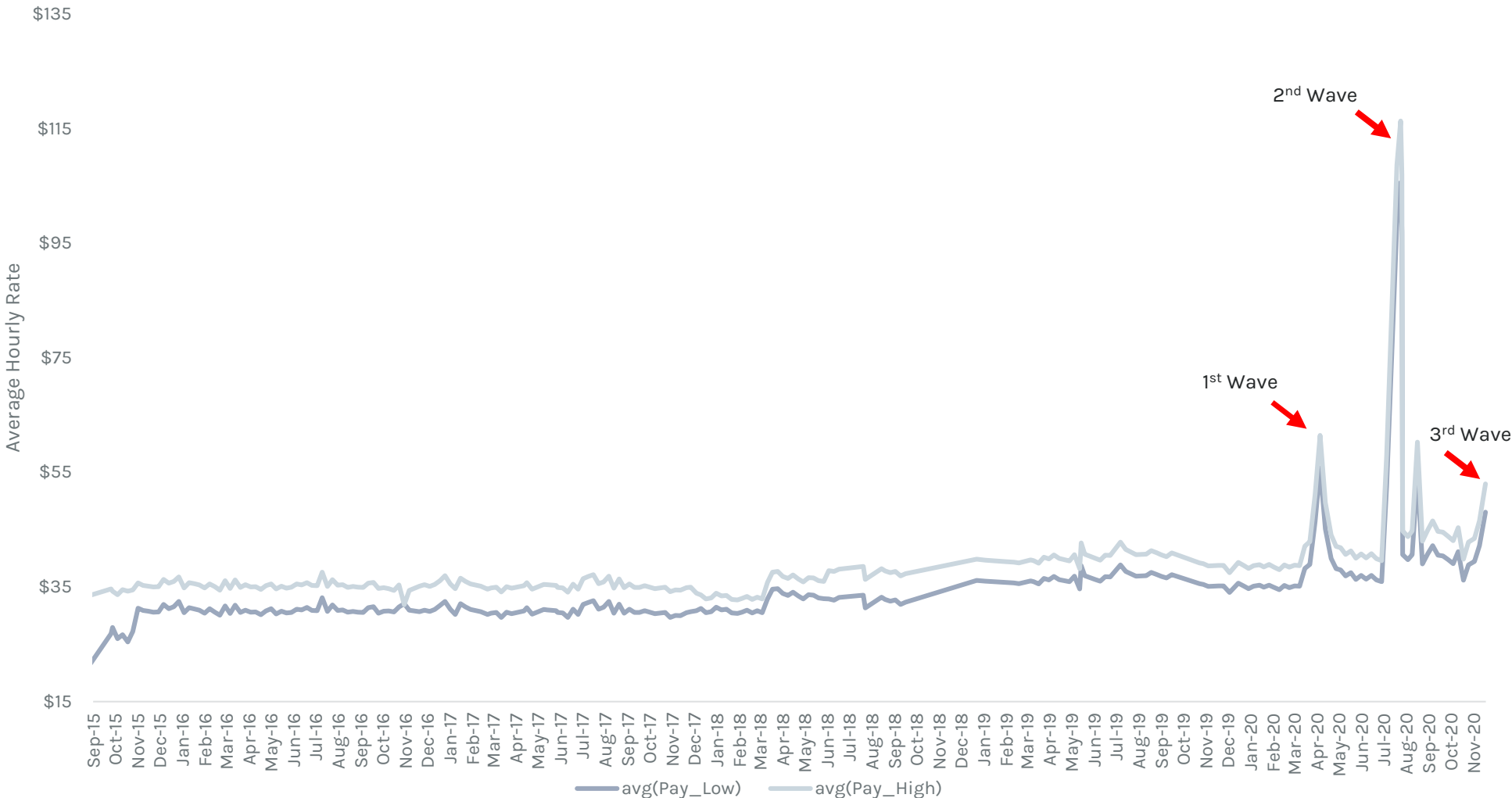
AMN | COVID-19 Vaccine Play?

Rapid deployment will put RNs in high incremental demand

24-July-2020
Peak new caseloads per day
of COVID 2nd Wave in US.

18-May-2020
All counties in Florida entered Full Phase
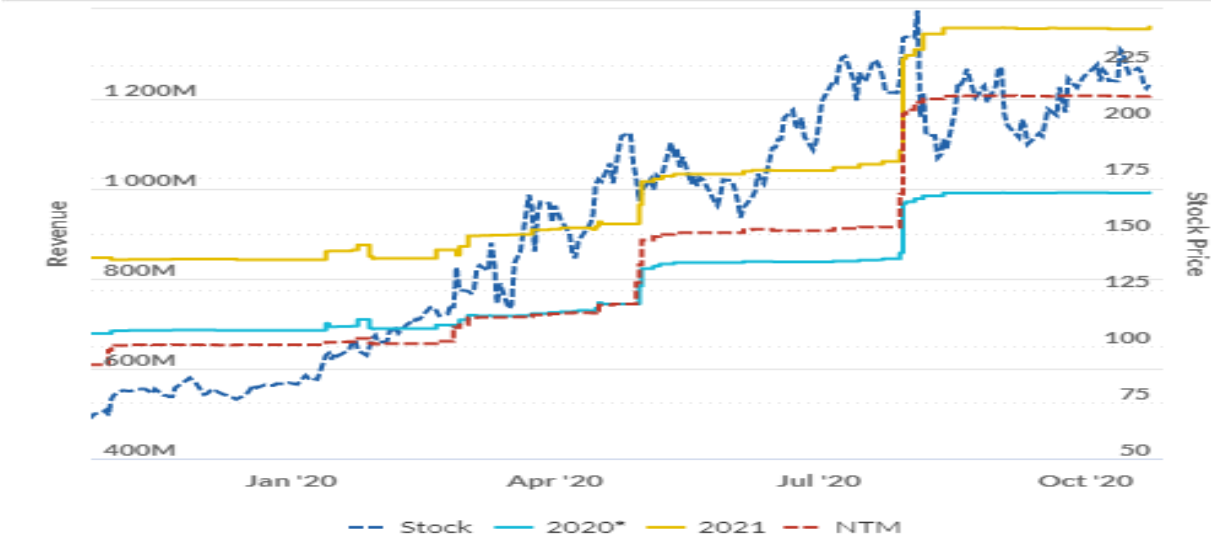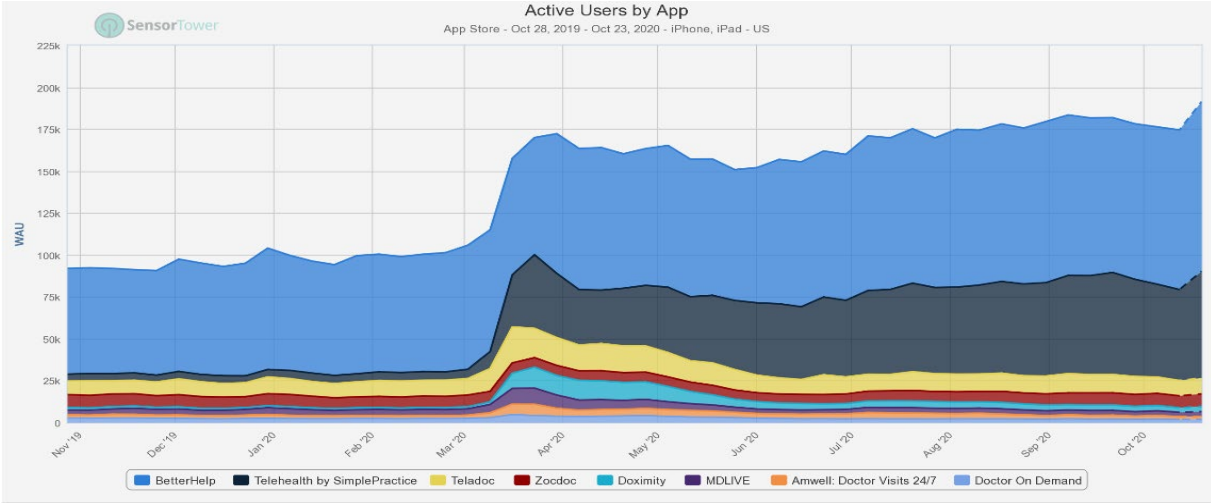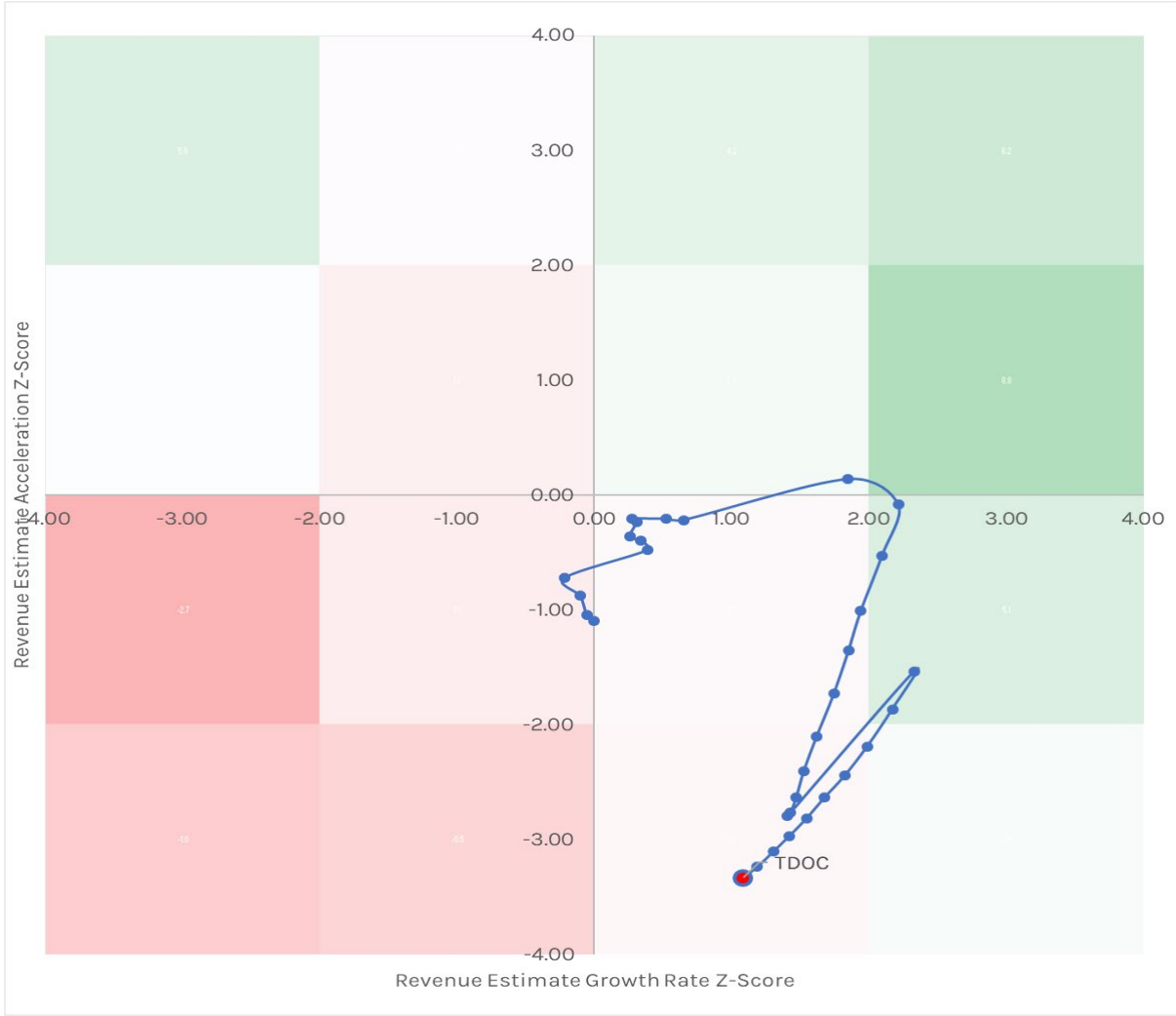One of the reopening plan.

HRC | Negative Revision Trend Continues

Economic headwinds and structural changes from Telemedicine adoption will continue to pressure Hospital/Medical Capex
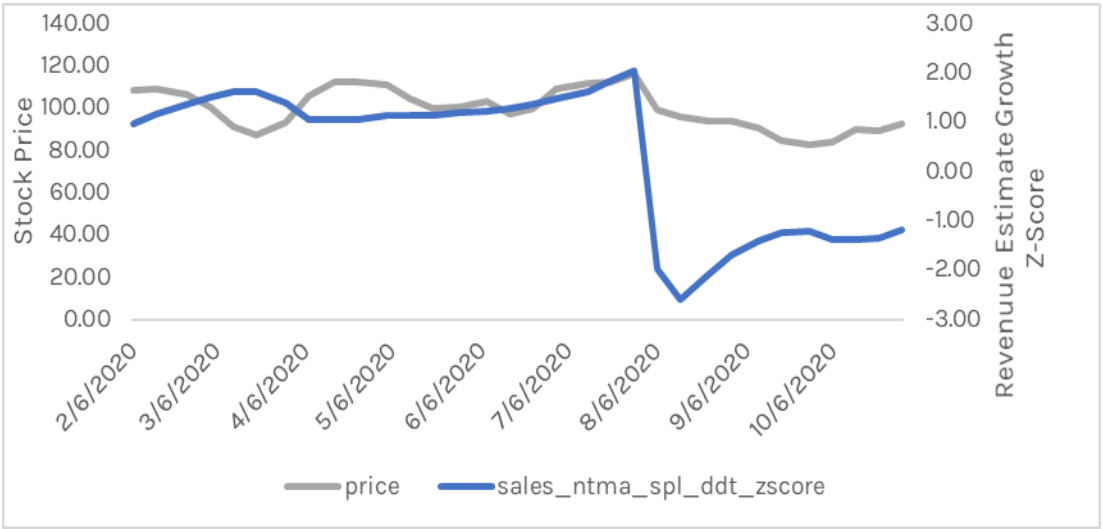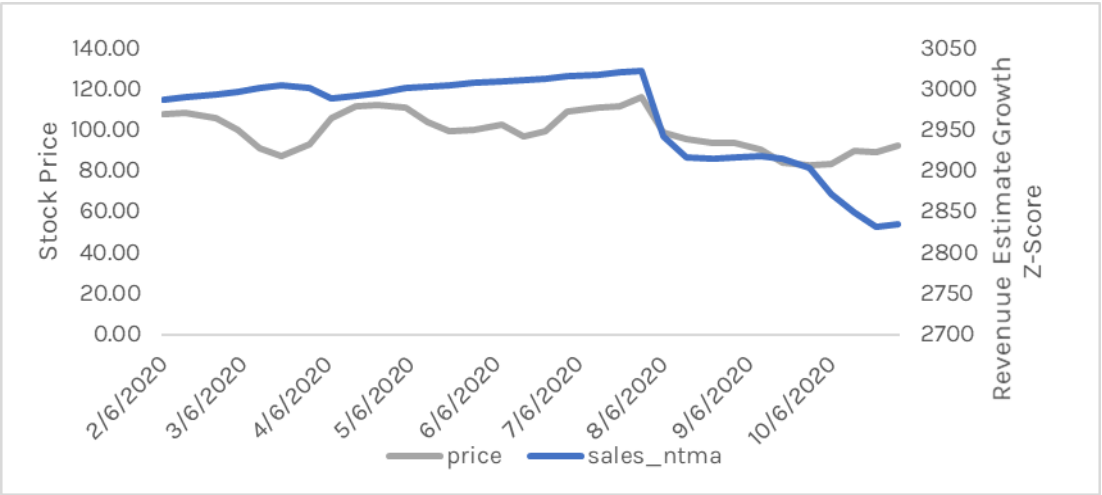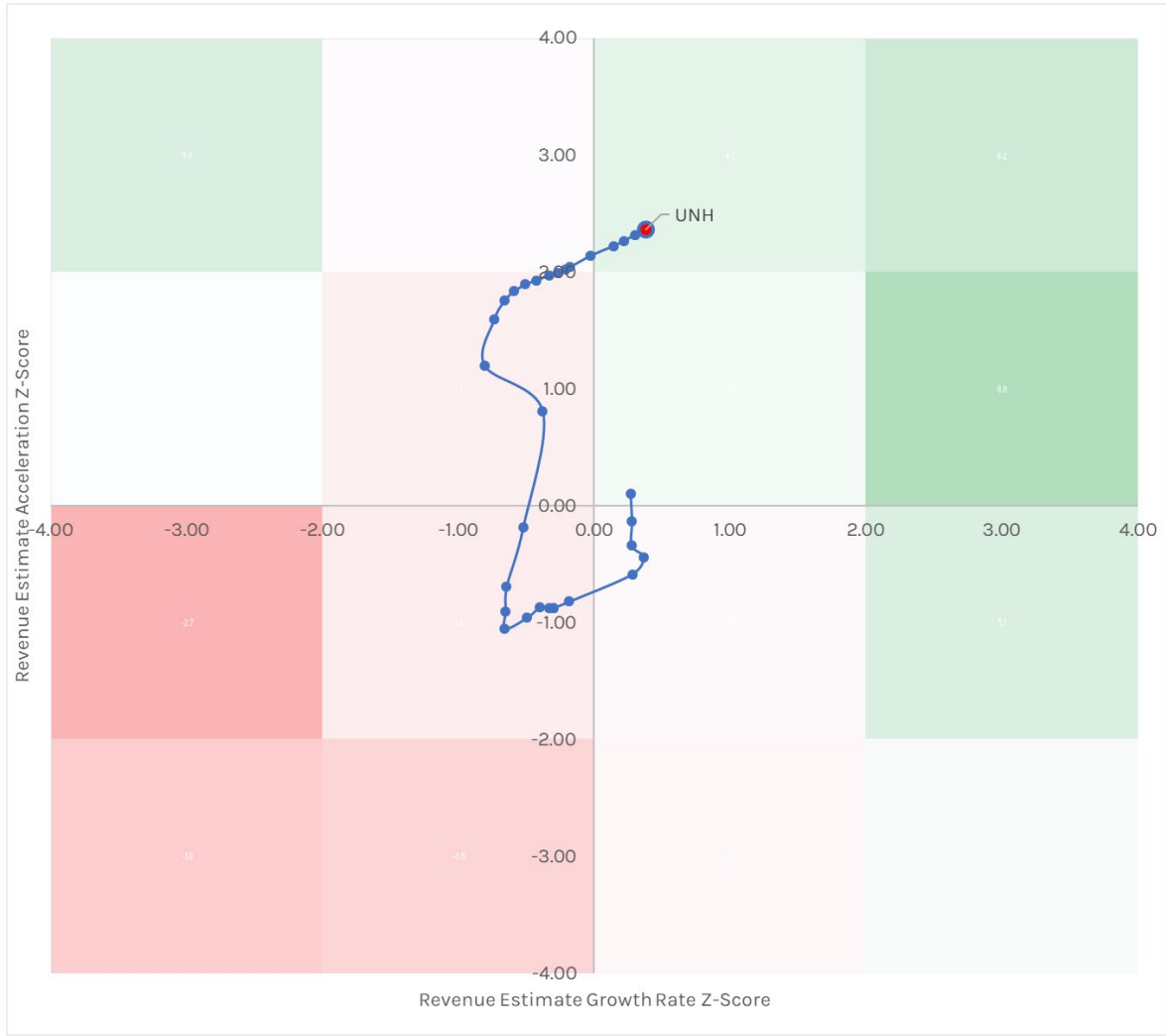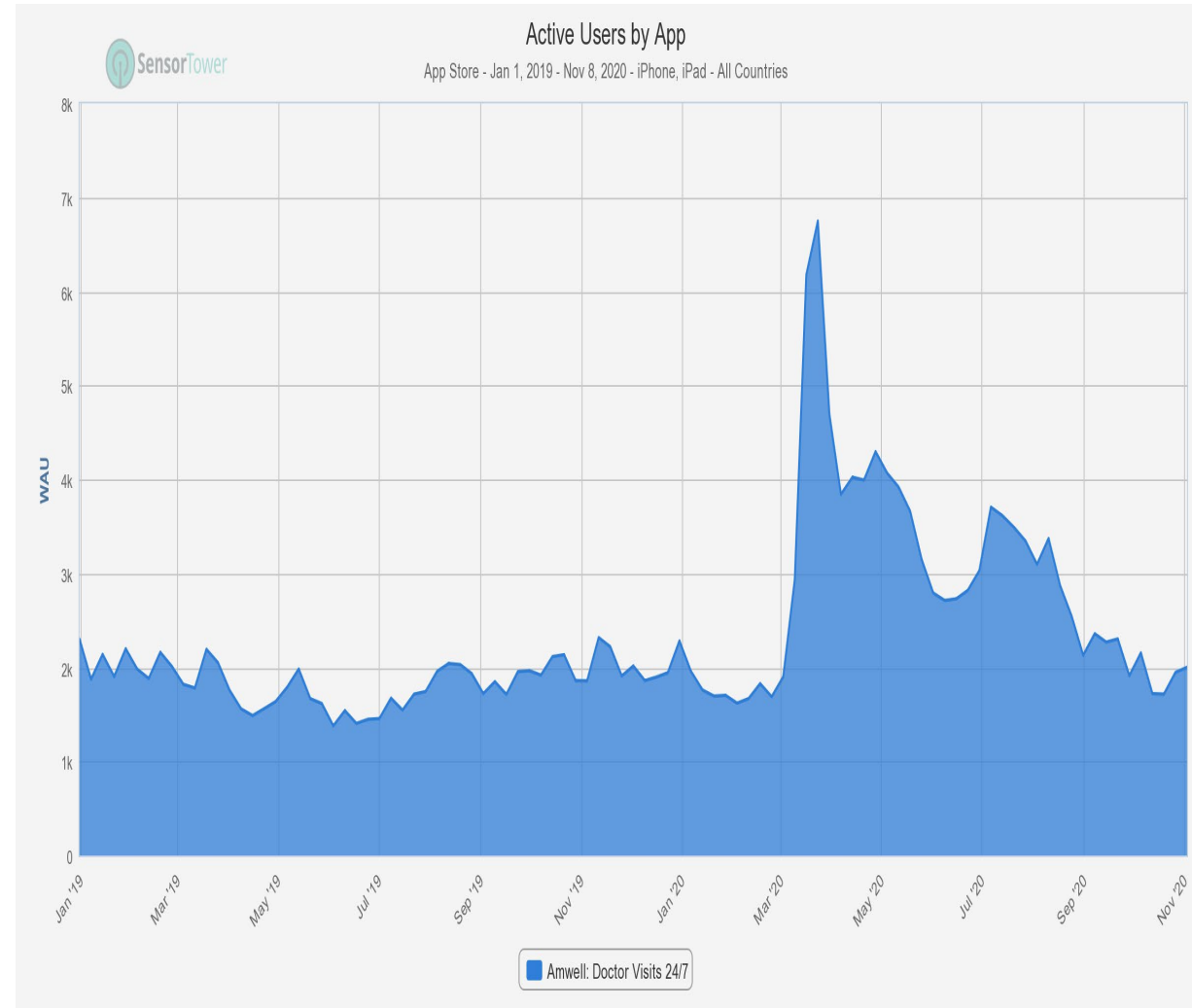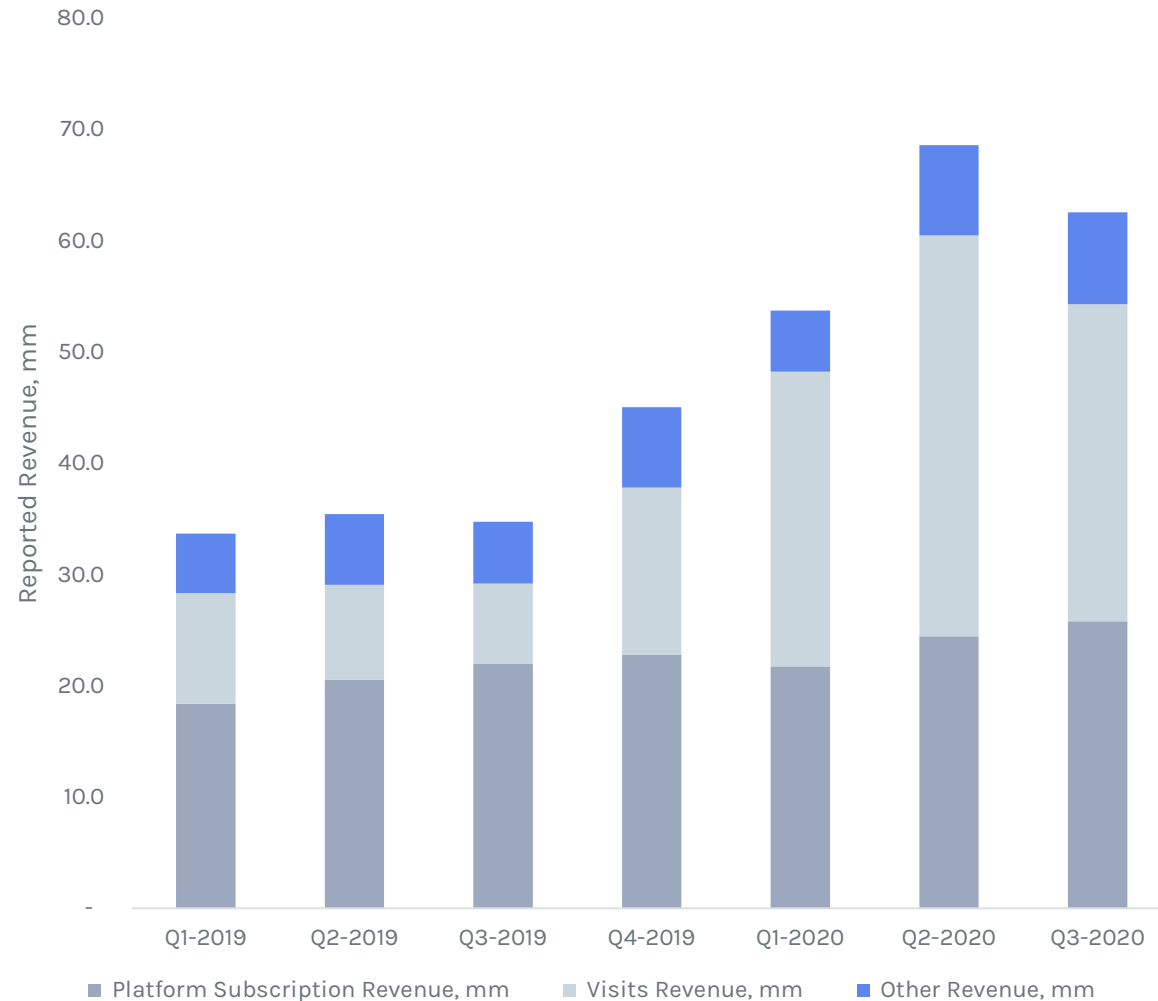
TDOC 3Q20 | COVID-19 Re-Accelerating

Weekly Users remains strong for BetterHelp - Are employers expanding access?
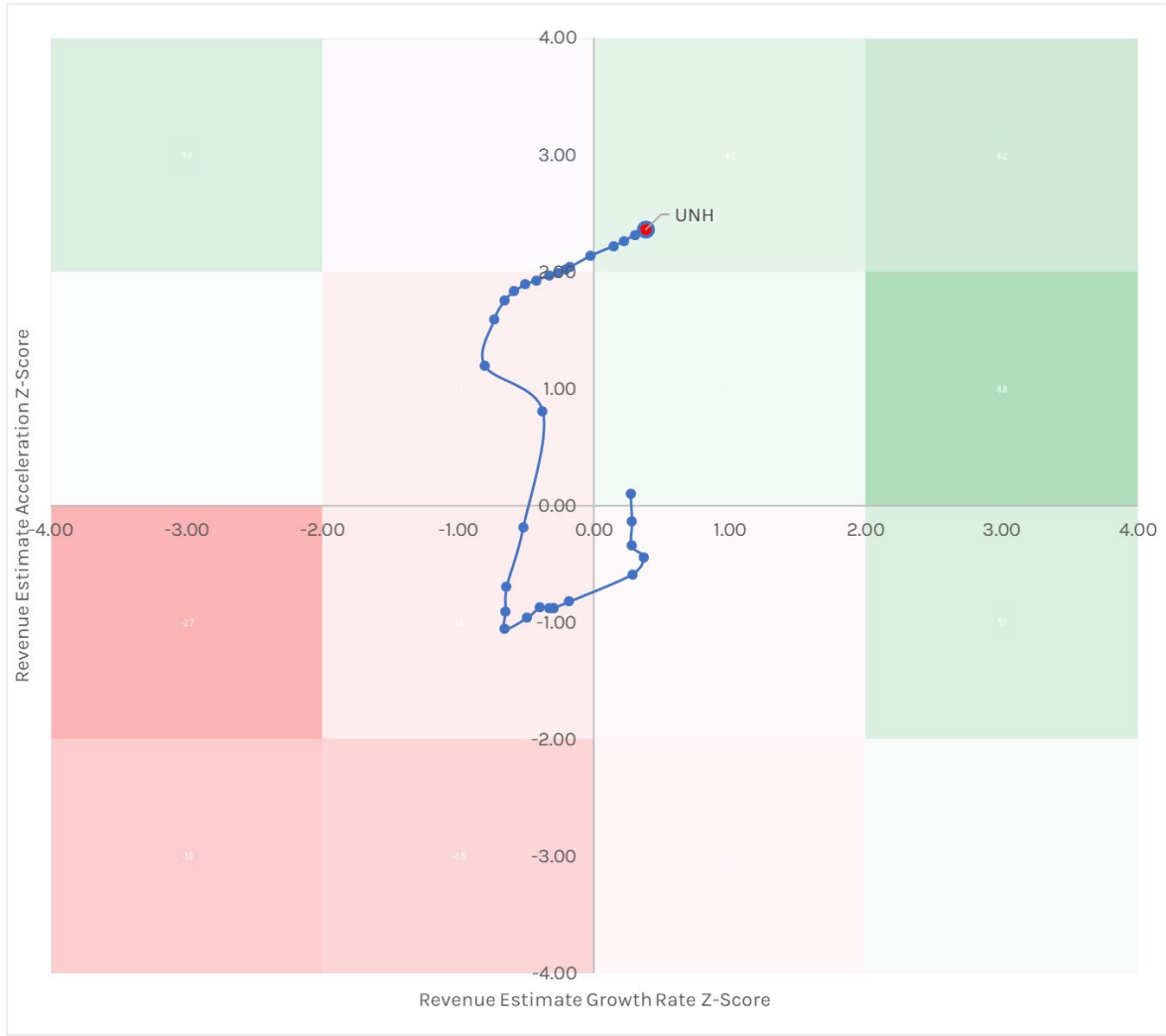
AMWL | Revenue Segmentation & Active Users

Despite an impressive triple digit YoY growth in total active providers, the market reacted negatively to the implied 4Q20 revenue guidance
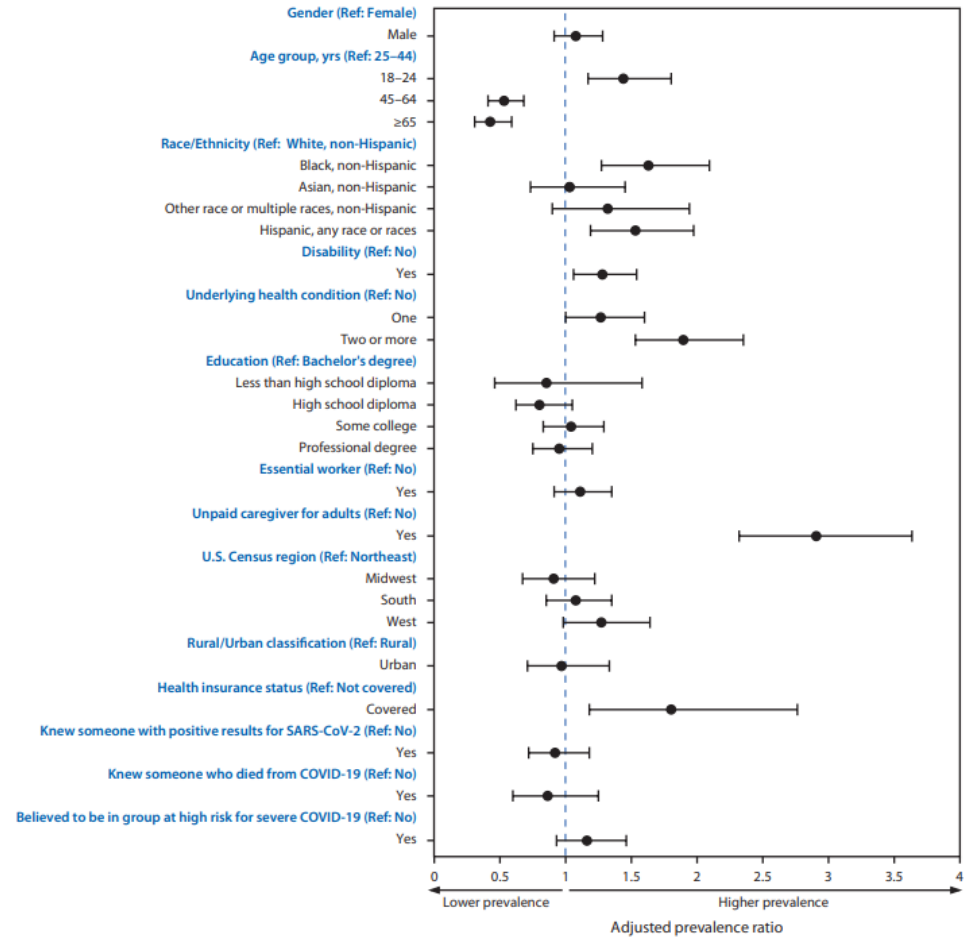
Times have been great for managed care, reports suggest a big rebound

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