

HEDGEYE



The Outlook | Sector Spotlight

Tobin & McCullough: The Outlook For Health Care Stocks

November 12, 2020

THE OUTLOOK

SECTOR SPOTLIGHT
THE OUTLOOK FOR
HEALTH CARE STOCKS


Tom Tobin

**An Investing Conversation
With Tom Tobin**

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Thursday, November 12 at 12:00pm ET

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Health Care Position Monitor

For Week of November 9, 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.	\$ 31.48	\$4.0B	✓	✓	EXAS	Exact Sciences Corporation	\$ 123.97	\$19.7B	×	×
TXG	10x Genomics Inc Class A	\$ 147.70	\$11.5B	✓	✓						
AMN	AMN Healthcare Services, Inc.	\$ 63.05	\$3.0B	✓	✓						
GH	Guardant Health, Inc.	\$ 112.96	\$11.3B	✓	✓						
TDOC	Teladoc Health, Inc.	\$ 206.14	\$29.8B	✓	✓						
Long Bias						Short Bias					
NTRA	Natera, Inc.	\$ 82.08	\$6.9B			HRC	Hill-Rom Holdings, Inc.	\$ 92.62	\$6.2B		
ILMN	Illumina, Inc.	\$ 308.16	\$45.0B			MASI	Masimo Corporation	\$ 254.94	\$14.0B		
NEO	NeoGenomics, Inc.	\$ 40.66	\$4.5B			AMWL	American Well Corporation Class A	\$ 30.41	\$6.0B		
						NVTA	Invitae Corp.	\$ 44.76	\$7.9B		

Note

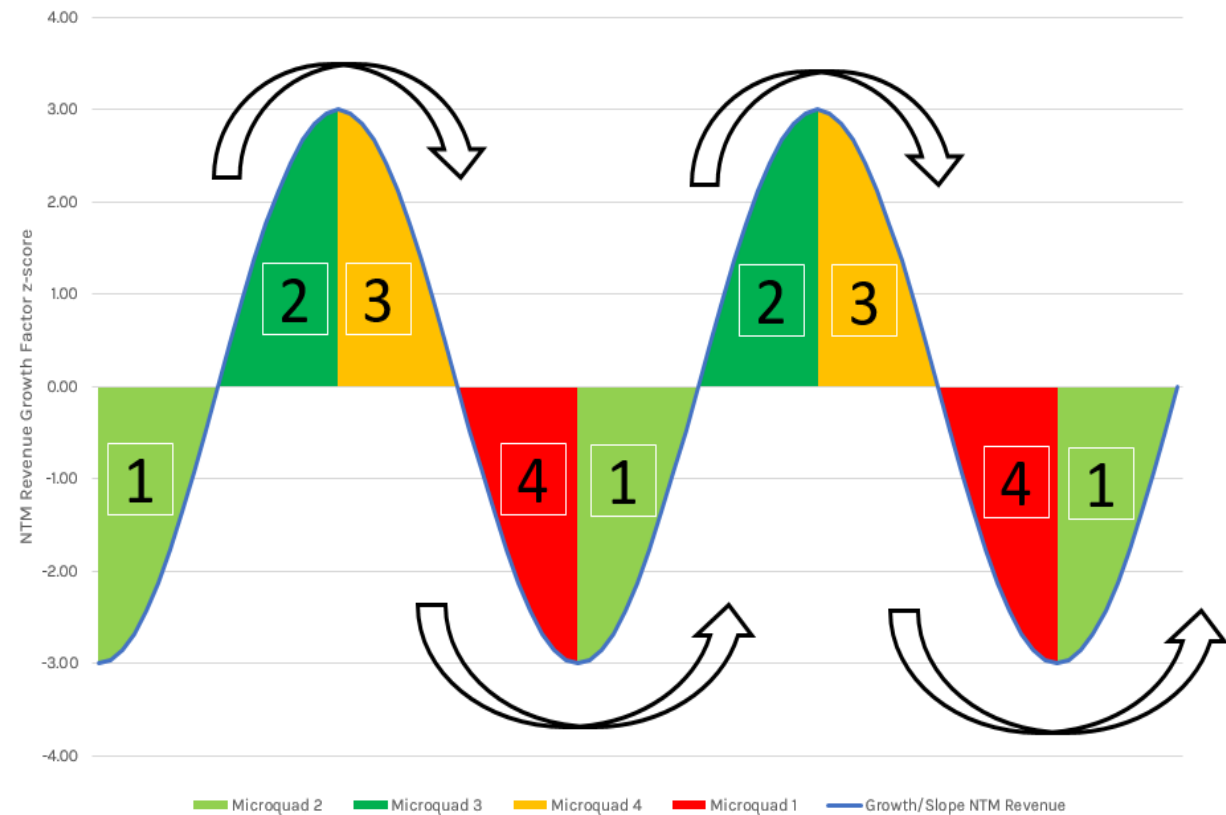
Active Longs/Shorts are high conviction ideas that we’ve either presented a Black Book for already or have one in the works (similar to other Hedgeye teams). Bench or Bias ideas are ones in which we’ve done the bulk of the work, but there may be another question we need to answer to move it over the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

Disclaimer

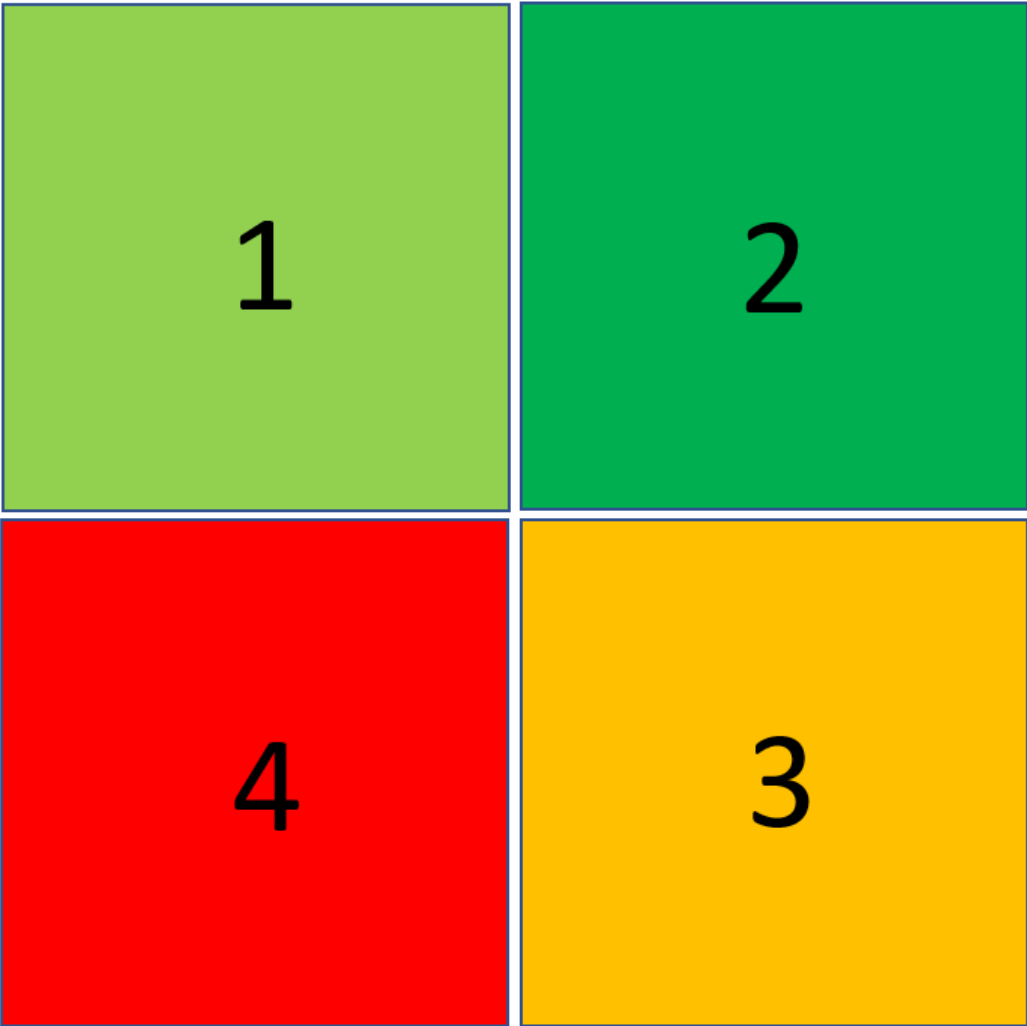
Hedgeye’s “bias” represents Hedgeye’s outlook on companies currently under Hedgeye’s review, or for which timing is not right for greater coverage. Hedgeye may or may not provide further commentary on any or all companies represented on the bench and representation of a company on the bench does not forecast whether Hedgeye will or will not issue any additional material on that company.

Microquad | Model vs Actual

Microquad – Generic Growth Curve Progression

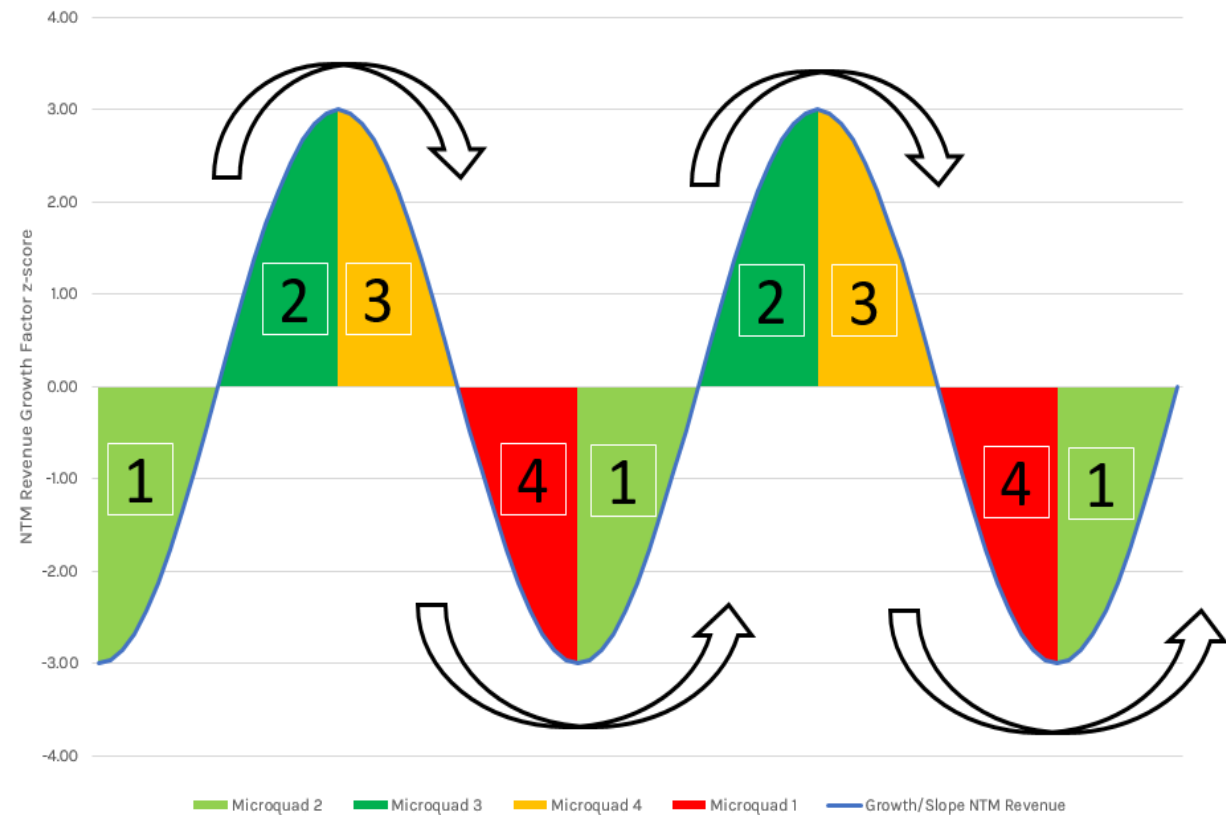


Microquad - The Four Quadrants

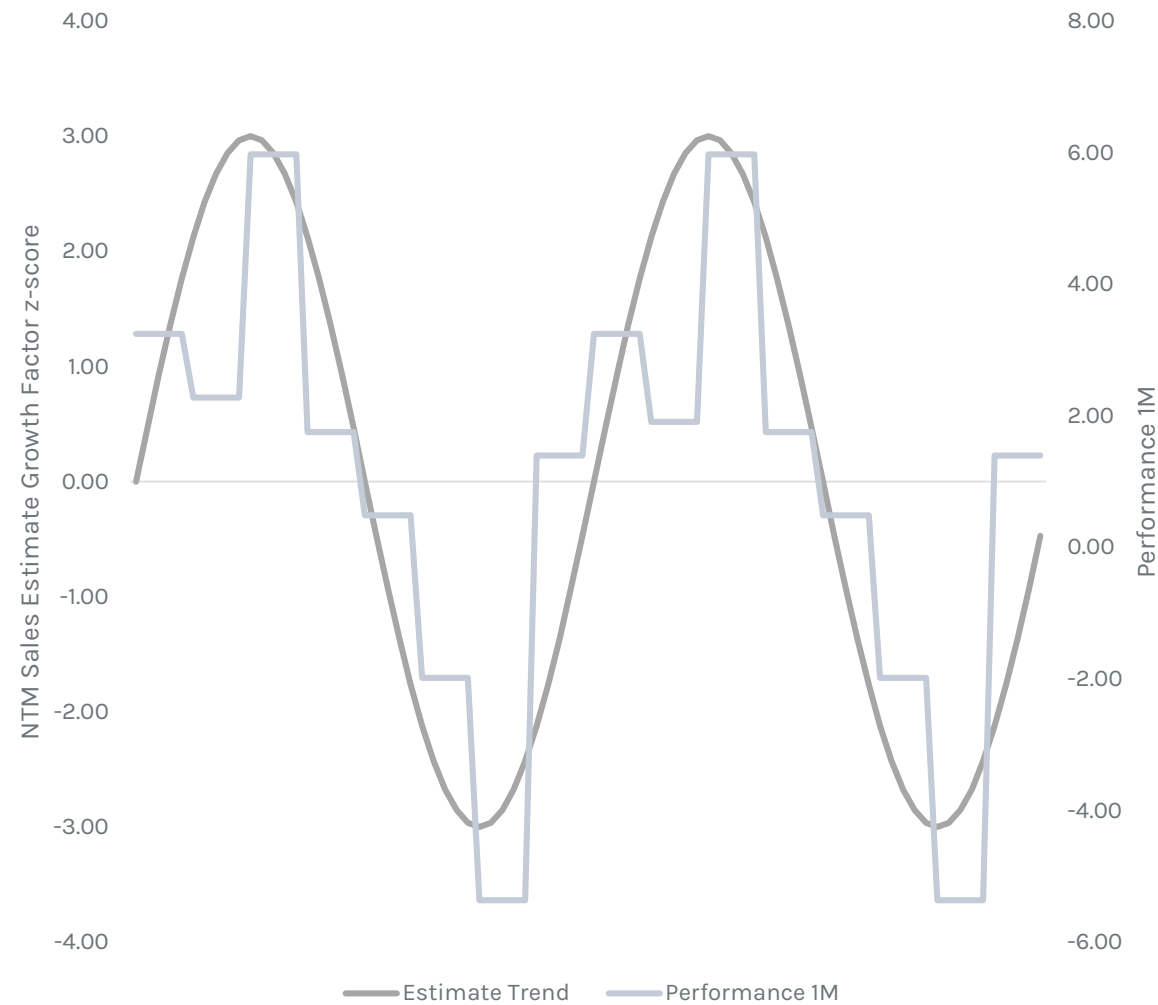


Microquad | Model vs Actual

Microquad – Generic Growth Curve Progression

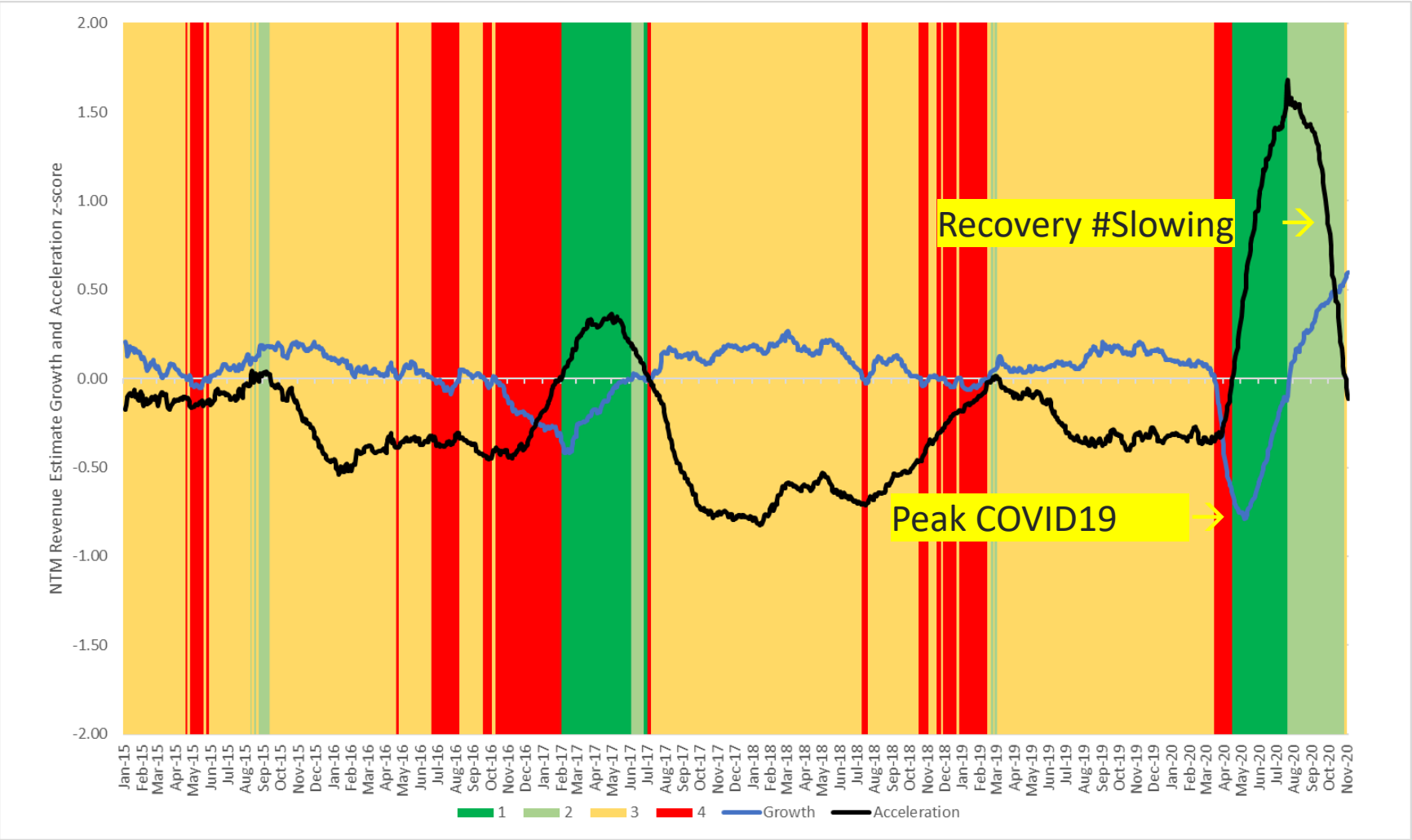


Microquad – Actual Performance vs Growth Curve



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.

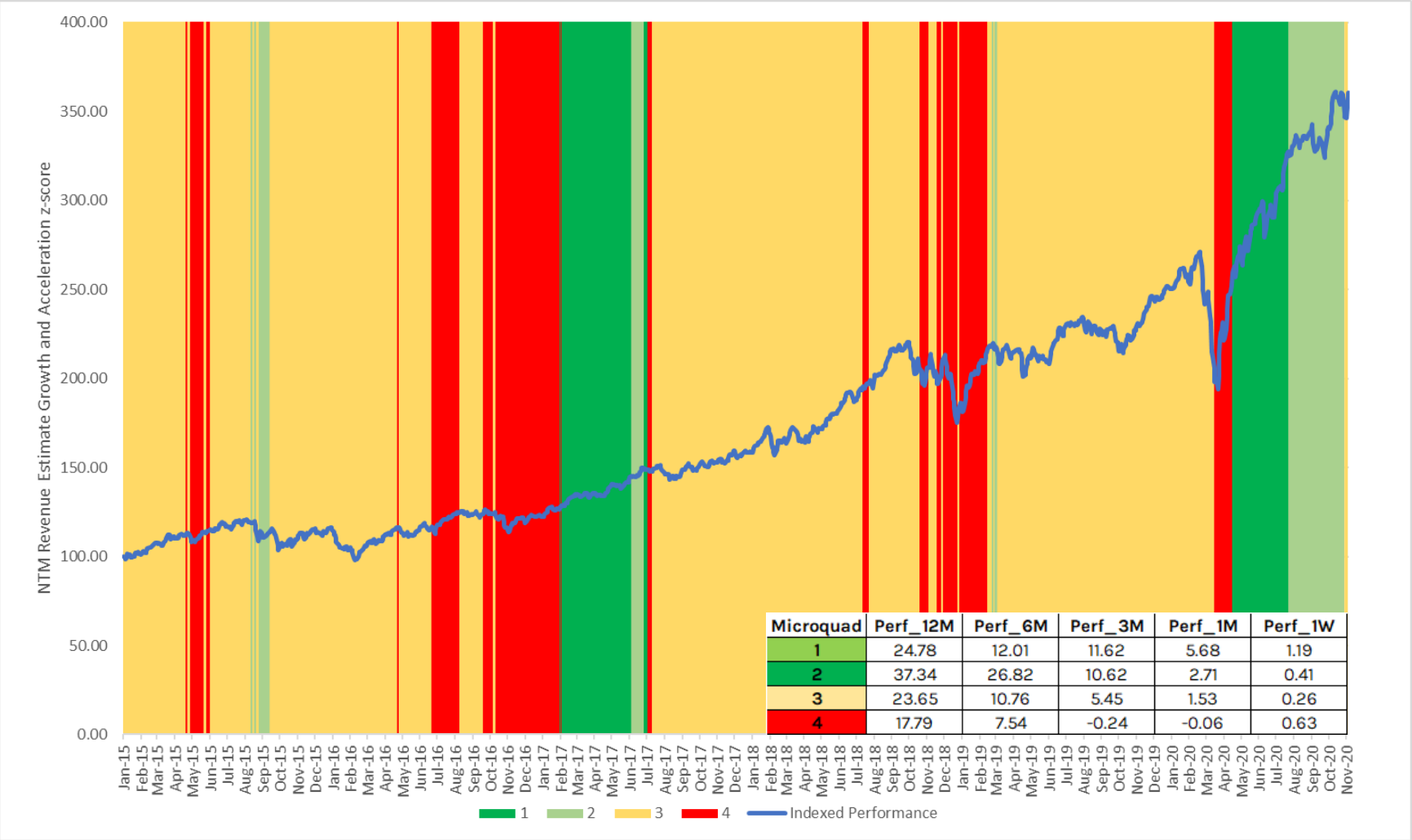
This chart displays the average of the estimate trend across our Healthcare universe and assigns a one of 4 microquads based on the +/- positioning of the two factors.

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

As of 11/5/2020 has transitioned 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?



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

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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 11/6/2020 performance has been increasingly volatile.. On average, performance metrics deteriorate in Microquad3, although results differ across Macro Quads.

Microquad Screen | November 6, 2020

Microquad1

AMGN
EHC
HAE
HMSY
HRC
LHCG
PRGO
RCM

Microquad2

A	ICUI	SEM
ALGN	ILMN	STAA
AMN	ISRG	STE
BAX	LLY	SYK
CERN	MDT	TECH
COO	MMSI	TFX
ENSG	MRK	TXG
EXAS	NVTA	UNH
GKOS	OMCL	VEEV
HCA	PDCO	WAT
HUM	PEN	ZTS
IART	RMD	

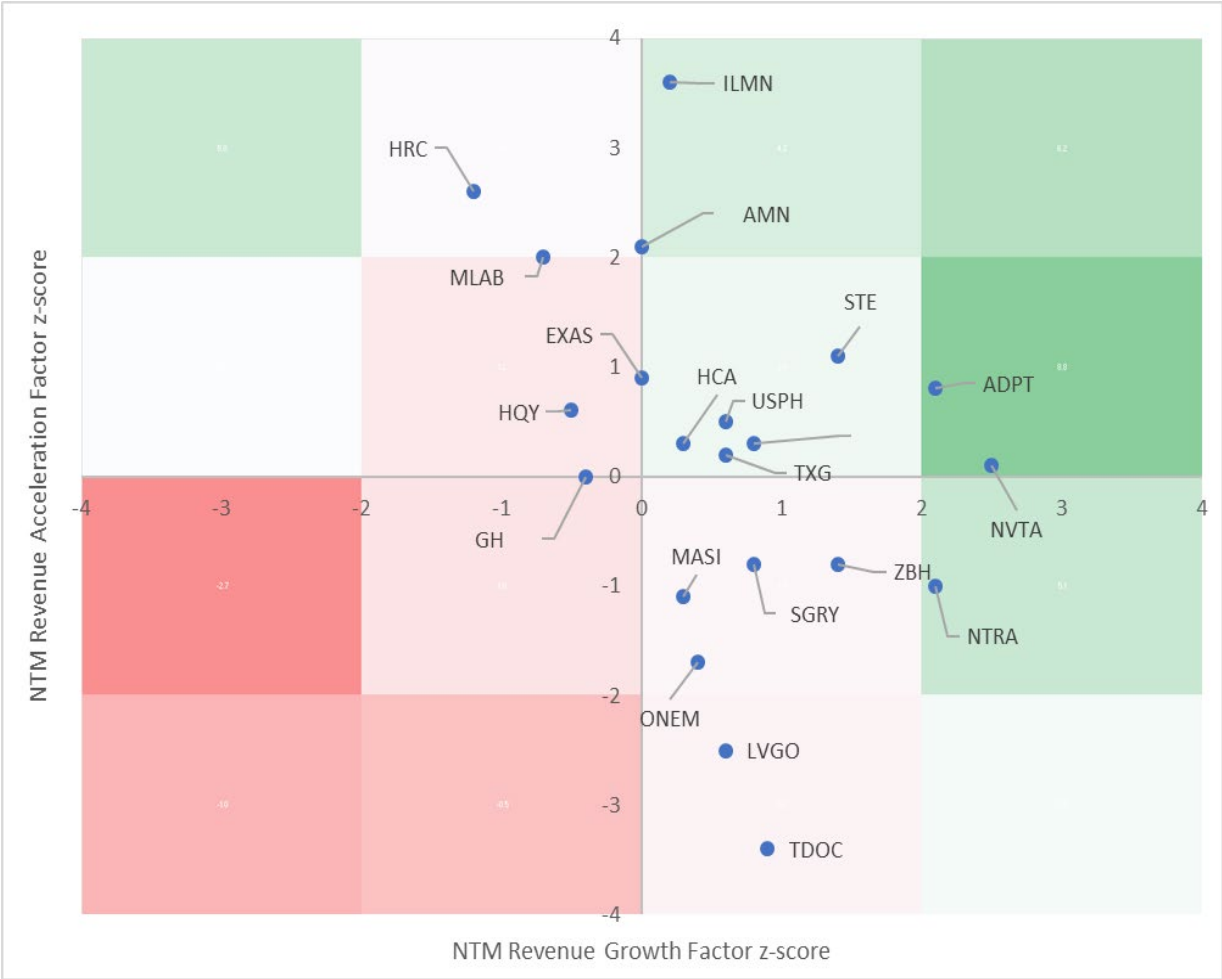
Microquad3

ABBV	EW	MTD	TMO
ABMD	GILD	NEOG	TNDM
ABT	GMED	NTRA	WST
AMED	HOLX	OPK	
ANTM	IDXX	PKI	
BIO	IQV	PODD	
BSX	IRTC	PRAH	
CNMD	JNJ	Q	
CRL	LH	QDEL	
CVET	LVGO	REGN	
DGX	MASI	RGEN	
DXCM	MEDP	TDOD	

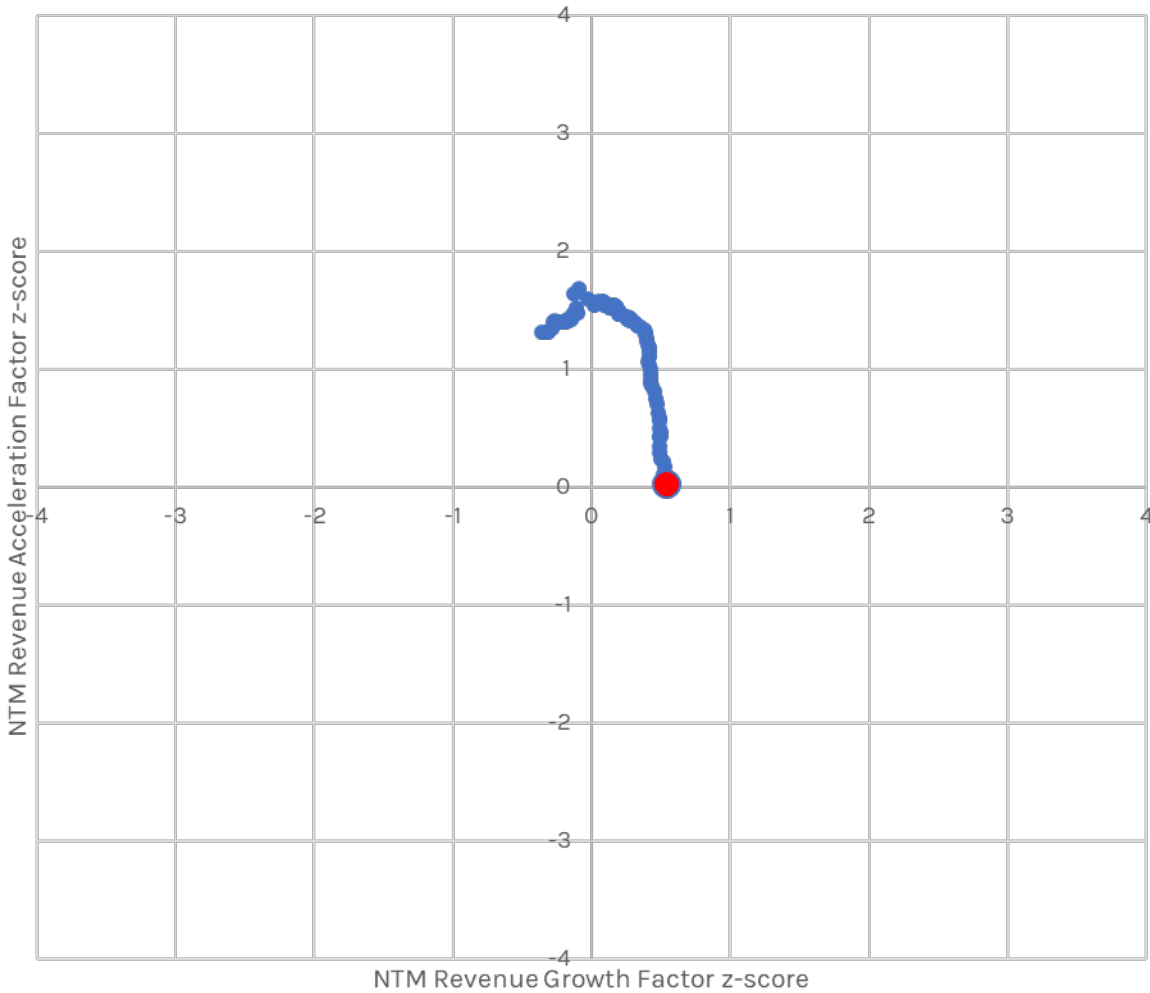
Microquad4

BDX
BIOS
CHE
GH
NEO
VRTX

Sigma Positioning - Current



Sigma Positioning - Current Universe Average



Prospective Performance

Microquad average returns based on revenue estimate vectors

POSITION MONITOR		11/6/2020			Performance				Sales			
Ticker	Name	Price	EV	MCAP	Performance 1W Actual	Performance 1M Actual	Expected 1M Performance	Expected 1M Performance Forward	Correlation	1st	2nd	Sales Quad
ONEM	1Life Healthcare, Inc.	28.21	3290.84	3561.03	11.59%	5.11%	1.14%	1.33%	0.34	0.41	-1.69	3
TXG	10x Genomics Inc Class A	136.90	13211.60	10684.47	7.89%	-2.84%	3.15%	1.56%	0.87	0.65	0.17	2
TDOC	Teladoc Health, Inc.	196.46	16242.56	16573.04	4.93%	-6.93%	2.94%	2.07%	0.94	0.95	-3.42	3
LVGO	Livongo Health, Inc.	139.77	13608.34	14198.59	0.00%	-1.38%	0.80%	1.23%	0.96	0.63	-2.48	3
NTRA	Natera, Inc.	67.26	5023.76	5653.50	22.03%	14.96%	2.87%	-0.72%	0.92	2.08	-1.01	3
ILMN	Illumina, Inc.	292.70	41900.60	42839.69	5.28%	-7.68%	3.64%	2.57%	0.93	0.23	3.60	2
GH	Guardant Health, Inc.	106.66	9402.46	10625.14	5.91%	5.15%	1.27%	1.67%	0.70	-0.36	-0.01	4
AMN	AMN Healthcare Services, Inc.	65.28	4109.57	3067.35	-3.42%	0.06%	1.93%	3.51%	0.82	0.03	2.12	2
EXAS	Exact Sciences Corporation	123.83	19041.27	19692.62	0.11%	14.38%	1.33%	1.57%	0.80	0.03	0.89	2
HRC	Hill-Rom Holdings, Inc.	91.07	7899.16	6065.81	1.70%	4.07%	-0.18%	2.41%	0.95	-1.20	2.57	1
MASI	Masimo Corporation	223.82	12350.50	12322.46	13.90%	5.76%	1.13%	2.47%	0.97	0.35	-1.11	3
AMWL	American Well Corporation Class A	25.81	6484.91	5114.62								
NVTA	Invitae Corp.	39.21	4963.28	5816.68	14.15%	-15.28%	7.67%	2.42%	0.83	2.46	0.11	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.

Positive Revision Trends

Top 20 revenue revision trends

Rank	Ticker	Market Cap	Sales Correlation	Sales Estimate Change	Growth	Acceleration	Microquad Expected Return	1W-Return	1M-Return	3M-Return	1Y-Return
1	QDEL	11,739.81	91%	19%	1.14	-3.20	1.95%	6%	2%	23%	382%
2	ALGN	33,200.43	79%	15%	1.78	0.34	2.04%	12%	46%	58%	85%
3	PEN	9,258.09	93%	14%	0.72	0.82	1.04%	-4%	21%	8%	45%
4	WST	20,429.01	99%	13%	1.86	-1.99	2.22%	9%	2%	11%	100%
5	LVGO	13,608.34	96%	13%	0.63	-2.48	0.91%	0%	-1%	15%	472%
6	PKI	16,317.53	92%	12%	1.42	-2.07	0.50%	9%	11%	19%	62%
7	MOH	9,956.61	39%	11%	1.15	-2.22	1.59%	16%	8%	14%	77%
8	ARAY	381.96	34%	11%	0.83	3.47	1.96%	-1%	1%	10%	1%
9	OPK	2,497.06	73%	9%	1.02	-2.87	2.06%	3%	-20%	-33%	141%
10	BEAT	1,674.30	81%	9%	0.65	0.88	1.08%	5%	-1%	4%	1%
11	TDOC	16,242.56	94%	9%	0.95	-3.42	2.42%	5%	-7%	6%	157%
12	EXAS	19,041.27	80%	9%	0.03	0.89	0.29%	0%	14%	46%	55%
13	ADPT	5,345.19	43%	9%	2.07	0.82	3.27%	11%	1%	36%	93%
14	VCRA	993.64	82%	8%	1.76	-1.38	2.27%	4%	8%	4%	58%
15	CNMD	3,036.00	93%	8%	0.93	-0.31	2.45%	3%	-4%	-6%	-27%
16	ALXN	25,810.28	-63%	7%	1.39	-1.26	0.45%	9%	2%	23%	15%
17	OMCL	3,669.40	89%	7%	1.18	3.04	1.22%	6%	15%	33%	23%
18	TMO	202,298.88	94%	7%	1.30	-2.42	0.27%	12%	16%	29%	80%
19	MEDP	4,095.97	91%	7%	0.12	-1.00	0.71%	7%	-1%	-3%	68%
20	GNMK	814.00	30%	7%	0.99	-3.29	1.89%	13%	-3%	-11%	147%

- The Microquads start with revision trends in the short term.
- Estimates have been trending higher for TDOC in recent weeks.
- TXG positive revision likely tied to the closing of recent acquisitions.
- In line with Dental Macro, ALGN revisions have been positive post earnings upside.

Negative Revision Trends

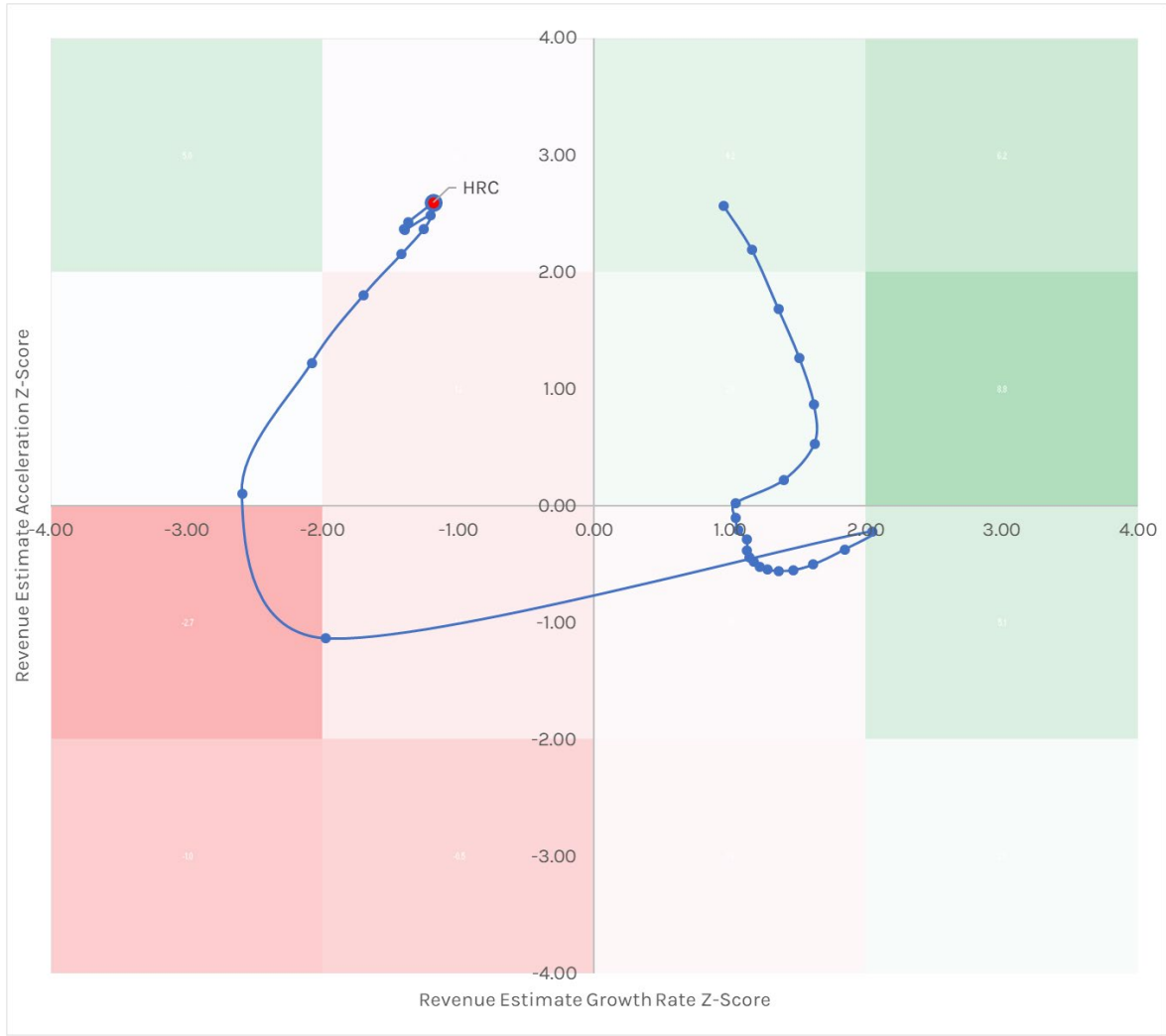
Top 20 negative revenue revision trends

Rank	Ticker	Market-Cap	Sales Correlation	Sales Estimate Change	Growth	Acceleration	Microquad Expected Return	1W-Return	1M-Return	3M-Return	1Y-Return
1	BIIB	43,865.70	24%	-14%	-1.92	2.41	3.11%	31%	15%	10%	15%
2	MDRX	2,594.49	13%	-5%	-0.11	0.23	0.82%	11%	31%	25%	0%
3	GILD	46,929.25	69%	-4%	0.26	-2.23	1.38%	2%	-7%	-14%	-8%
4	MD	2,658.84	22%	-4%	-0.10	3.62	0.81%	29%	-1%	-22%	-36%
5	TTOO	172.33	-25%	-4%	1.31	-1.88	0.15%	-8%	-10%	-41%	-53%
6	EVH	1,076.56	-44%	-3%	-0.98	1.03	1.59%	18%	3%	-11%	26%
7	ITGR	2,719.77	-69%	-3%	0.36	0.49	1.28%	-2%	-10%	-12%	-23%
8	HRC	7,899.16	95%	-2%	-1.20	2.57	1.83%	2%	4%	-3%	-10%
9	SPNE	263.45	36%	-2%	1.35	0.20	0.35%	7%	-13%	-2%	2%
10	RCM	3,744.01	95%	-2%	-0.08	0.42	0.66%	6%	8%	22%	61%
11	BDX	82,085.26	89%	-1%	-0.13	-0.68	0.71%	2%	0%	-8%	-3%
12	TCMD	686.32	66%	-1%	-0.21	3.01	0.82%	-3%	-10%	-7%	-32%
13	HCSG	1,518.58	31%	-1%	0.03	1.28	0.68%	-1%	-6%	-18%	-10%
14	HSTM	464.24	28%	-1%	0.29	1.20	1.30%	0%	-14%	-21%	-33%
15	HQY	4,556.44	36%	-1%	-0.46	0.56	1.84%	3%	-3%	-2%	-14%
16	IART	4,971.38	80%	-1%	0.25	0.70	1.31%	11%	-3%	-1%	-16%
17	CHE	7,851.32	97%	-1%	-1.12	-0.34	1.82%	3%	3%	-2%	22%
18	ONEM	3,290.84	34%	-1%	0.41	-1.69	1.13%	12%	5%	7%	0%
19	PRGO	8,856.23	81%	-1%	-0.30	0.46	0.97%	2%	-2%	-14%	-18%
20	NEO	4,269.14	94%	-1%	-0.09	-0.94	0.56%	4%	4%	3%	85%

- The Microquads start with revision trends in the short term.
- For example - HRC estimates have been falling in recent weeks. On balance, the environment for Health Care Capital spending should be anticipated to be weak.
- BIIB ex the Alzheimer's FDA meeting setback looks like a short.

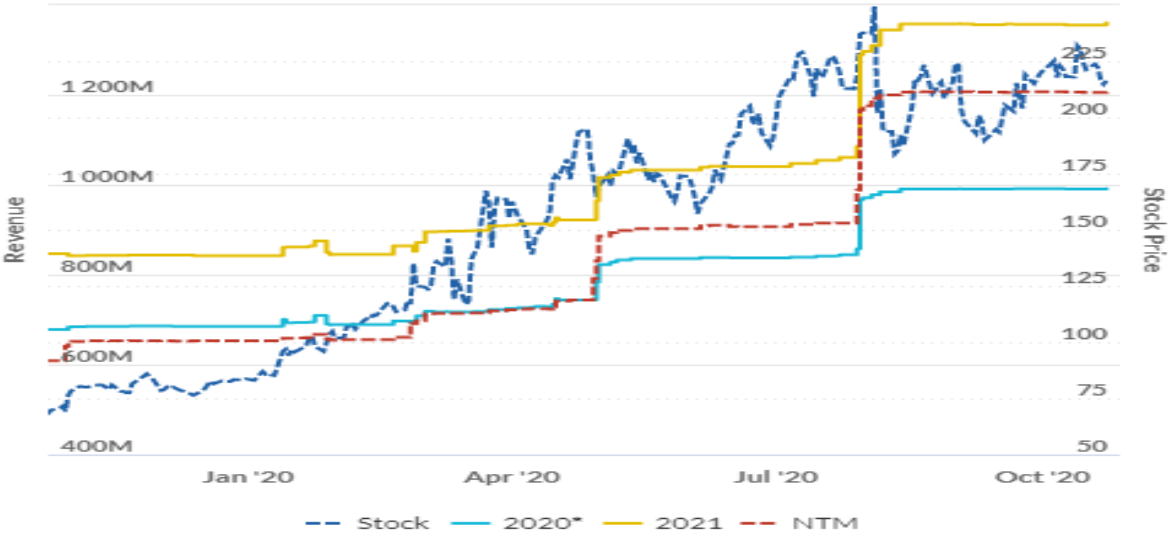
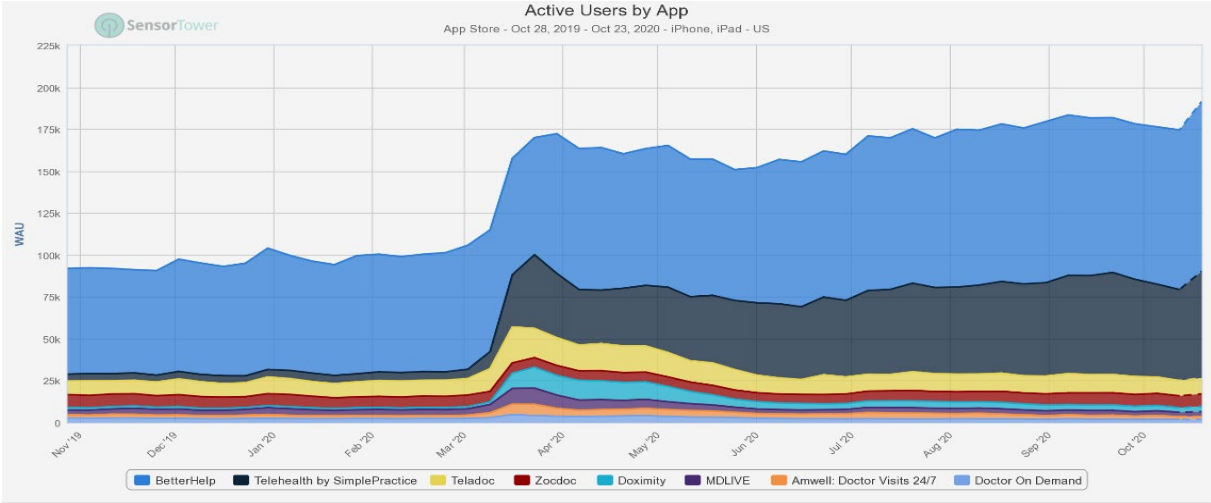
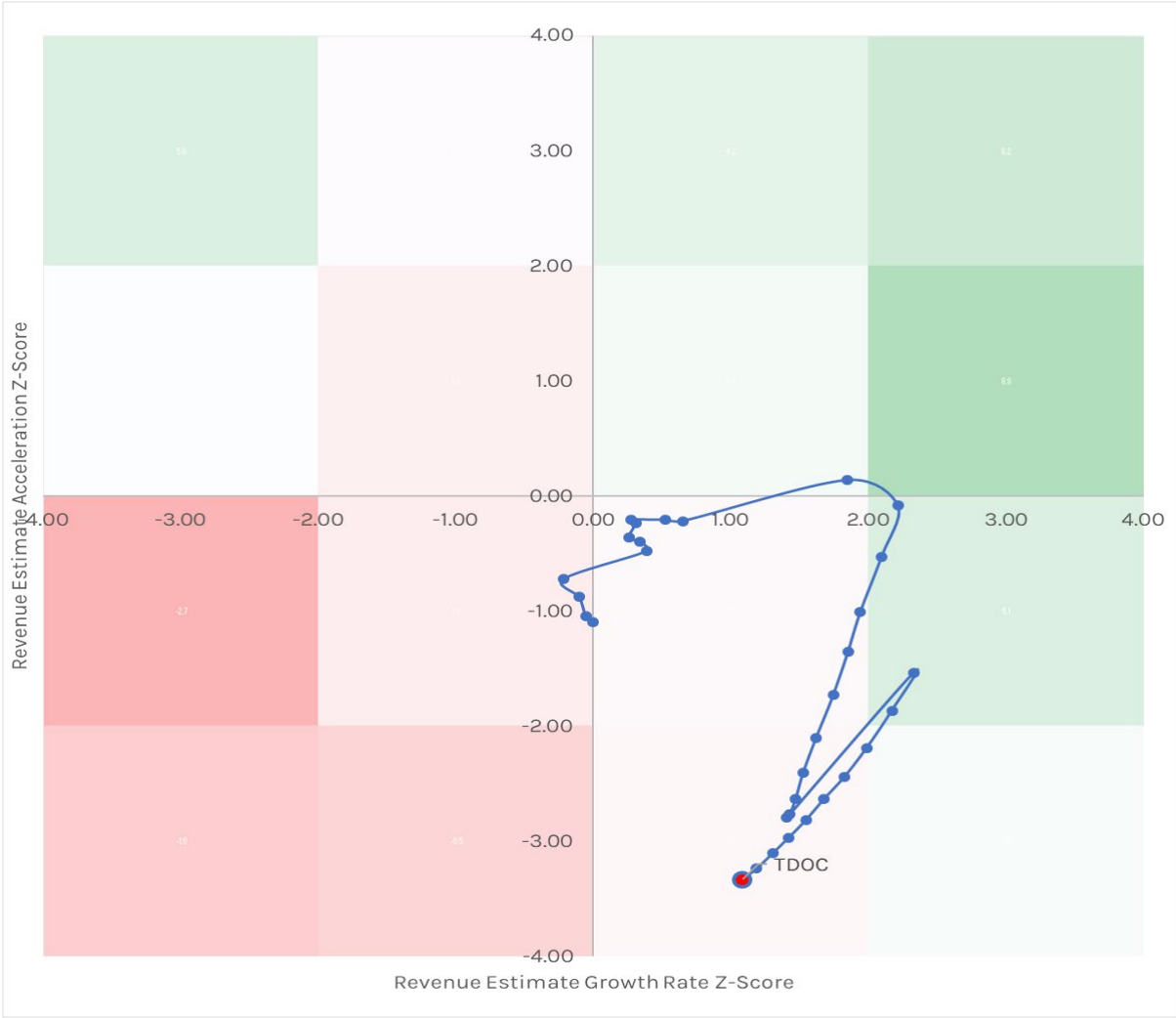
HRC | Negative Revision Trend Continues

Economic headwinds and structural changes from Telemedicine adoption will continue to pressure Hospital/Medical Capex



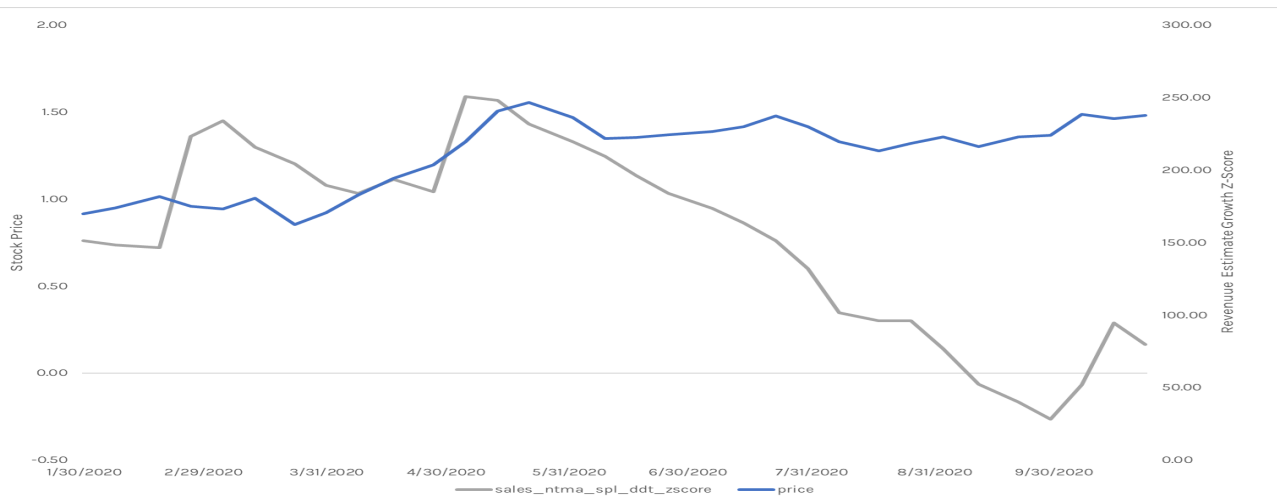
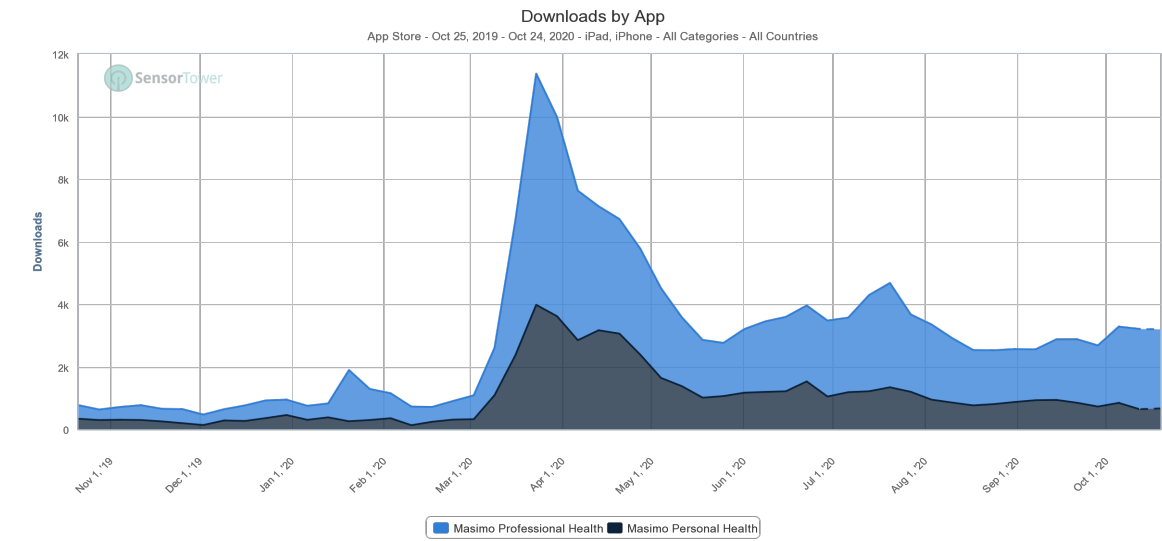
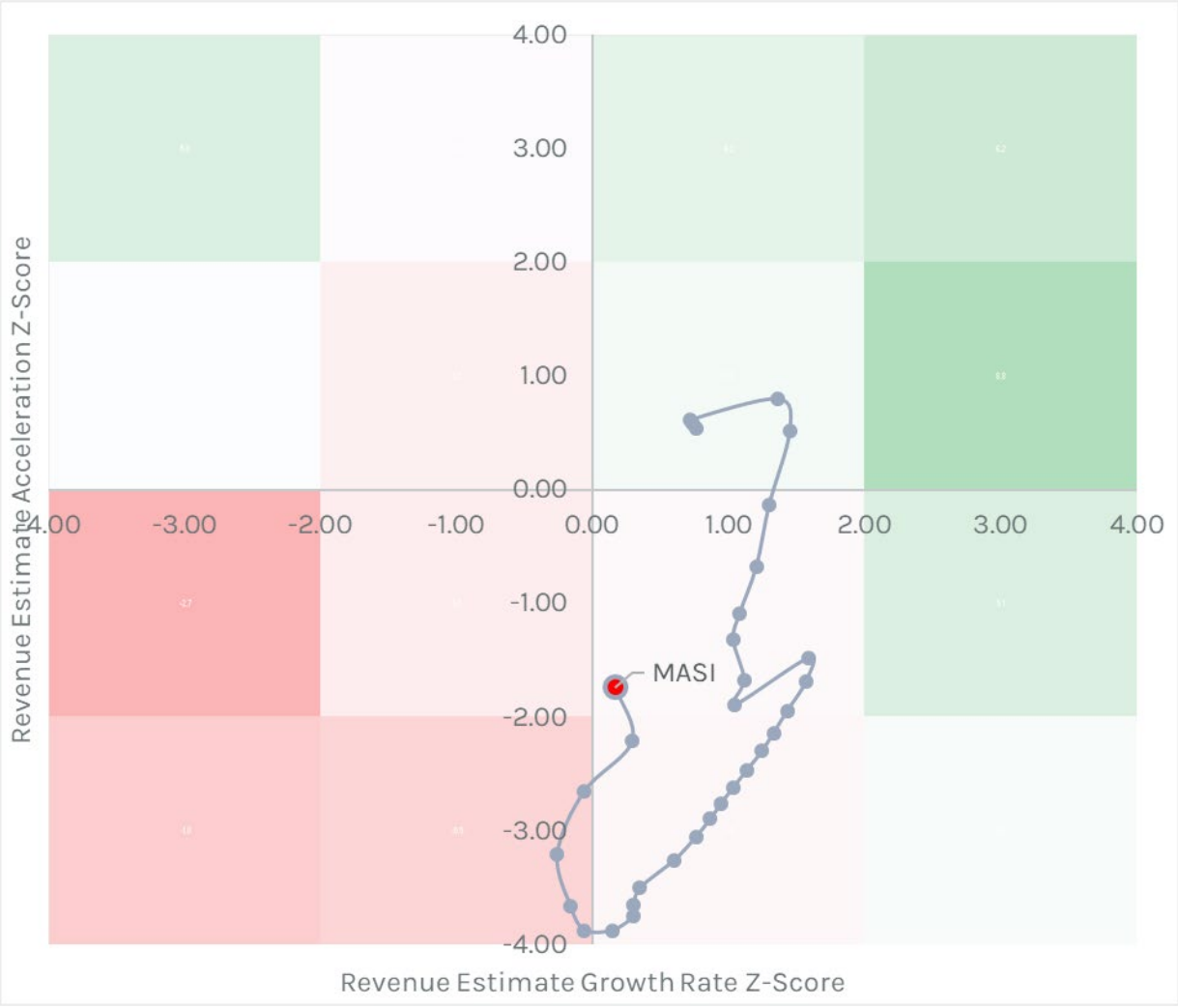
TDOC 3Q20 | COVID-19 Re-Accelerating

Weekly Users remains strong for Betterhelp



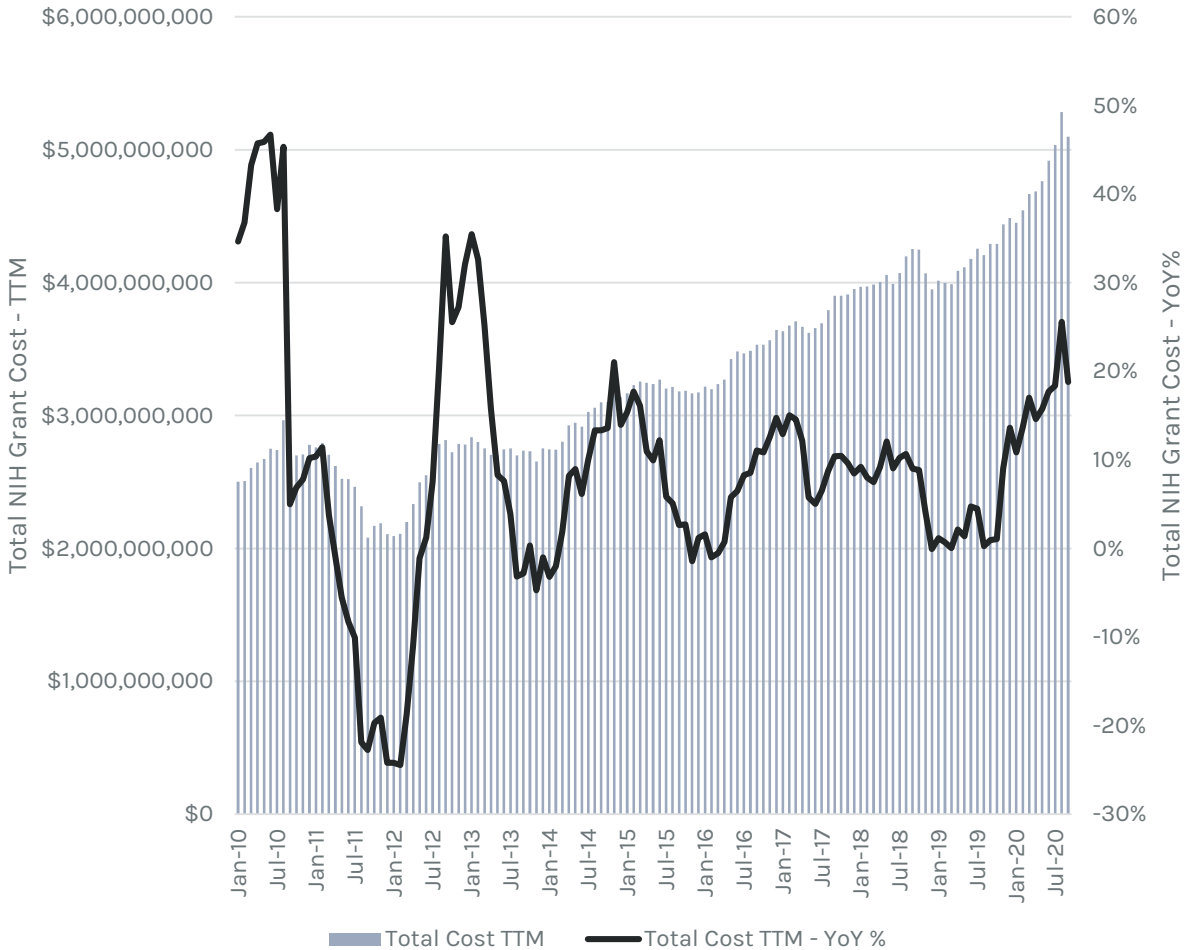
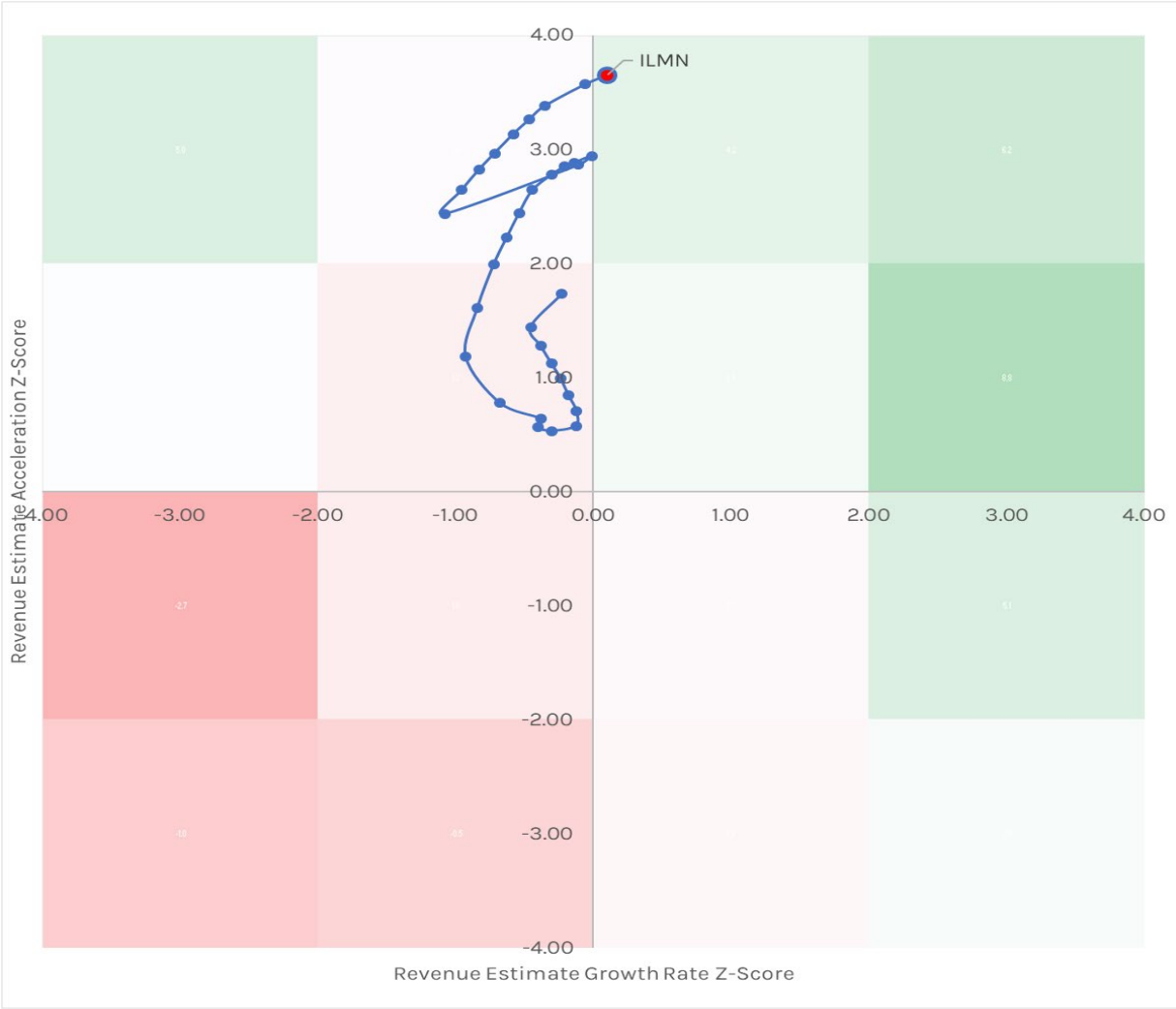
MASI 3Q20 | COVID-19, Capex, Commodity

App downloads sequentially flat, positive year over year, COVID is a tailwind vs Hospital Capex, etc.



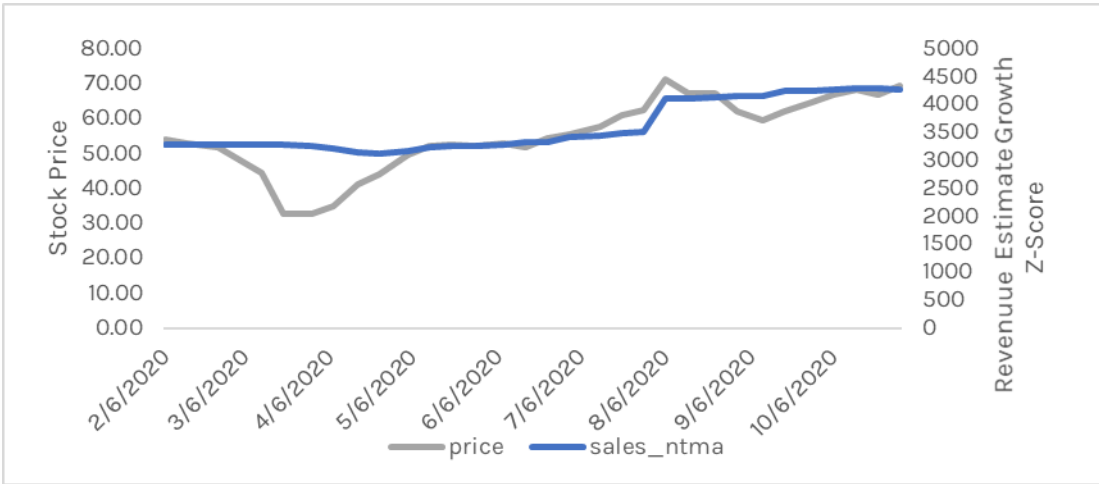
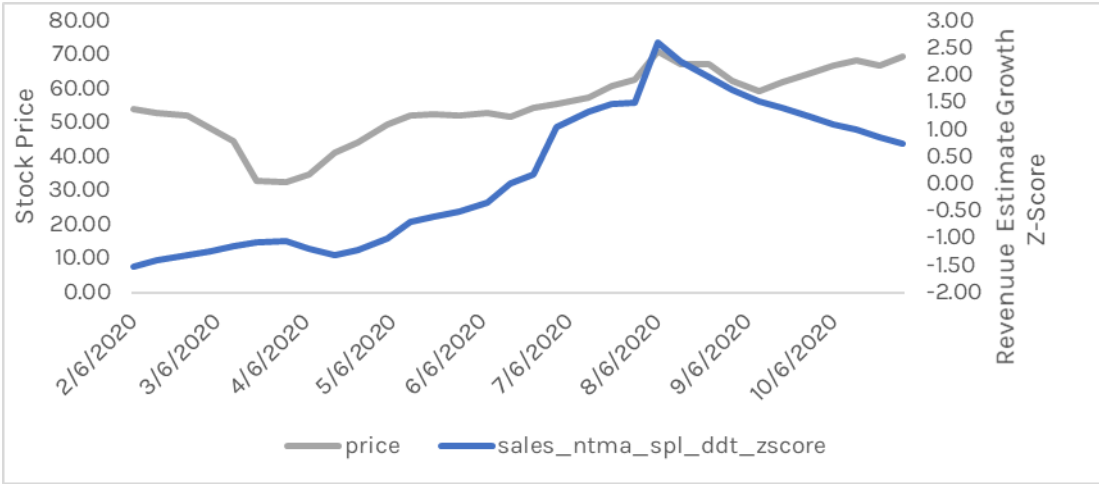
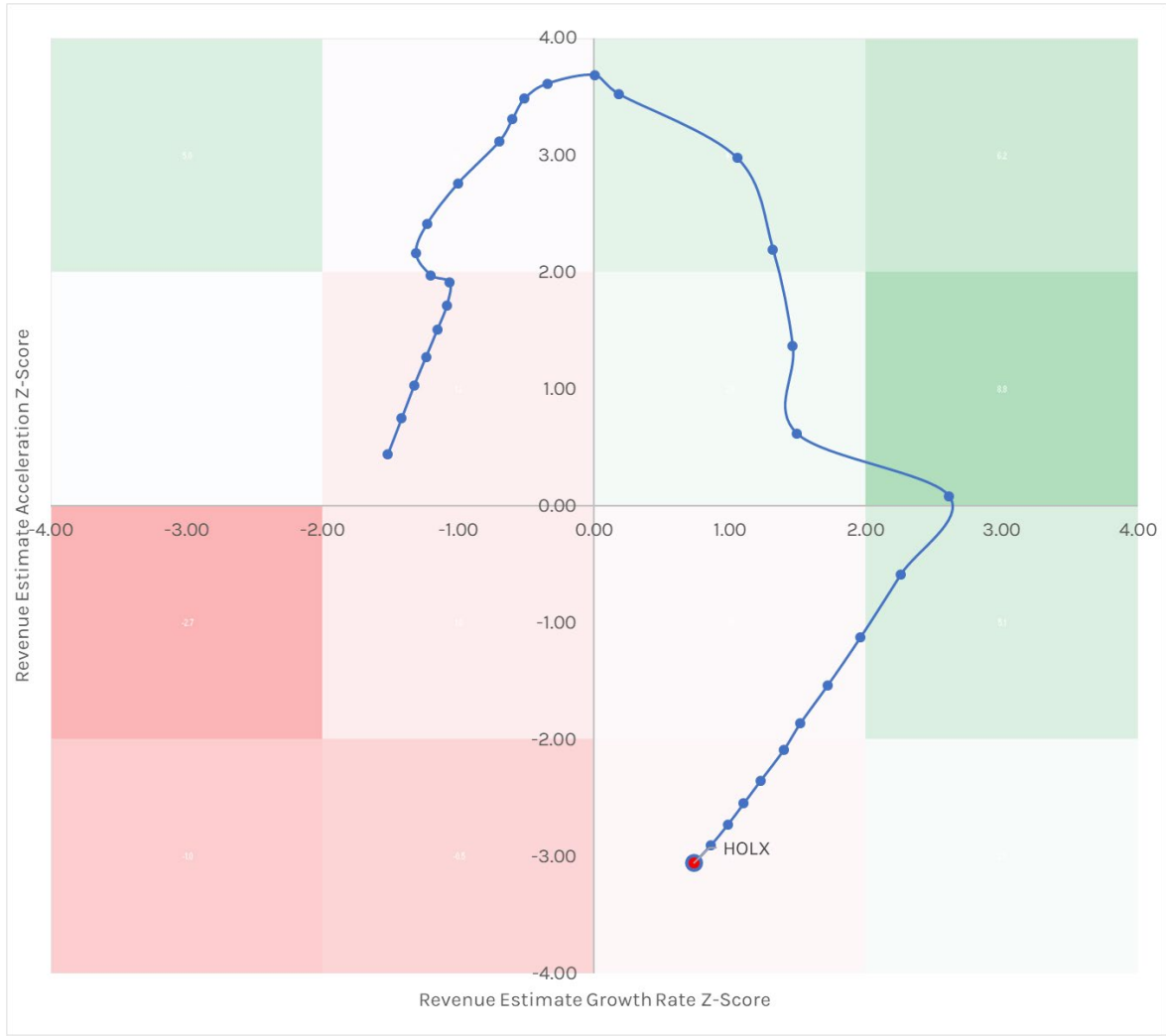
ILMN 3Q20 | NIH tailwind

Capital raising in ‘Genomics’ and strong NIH grant trend, Grail/Galleri questions building



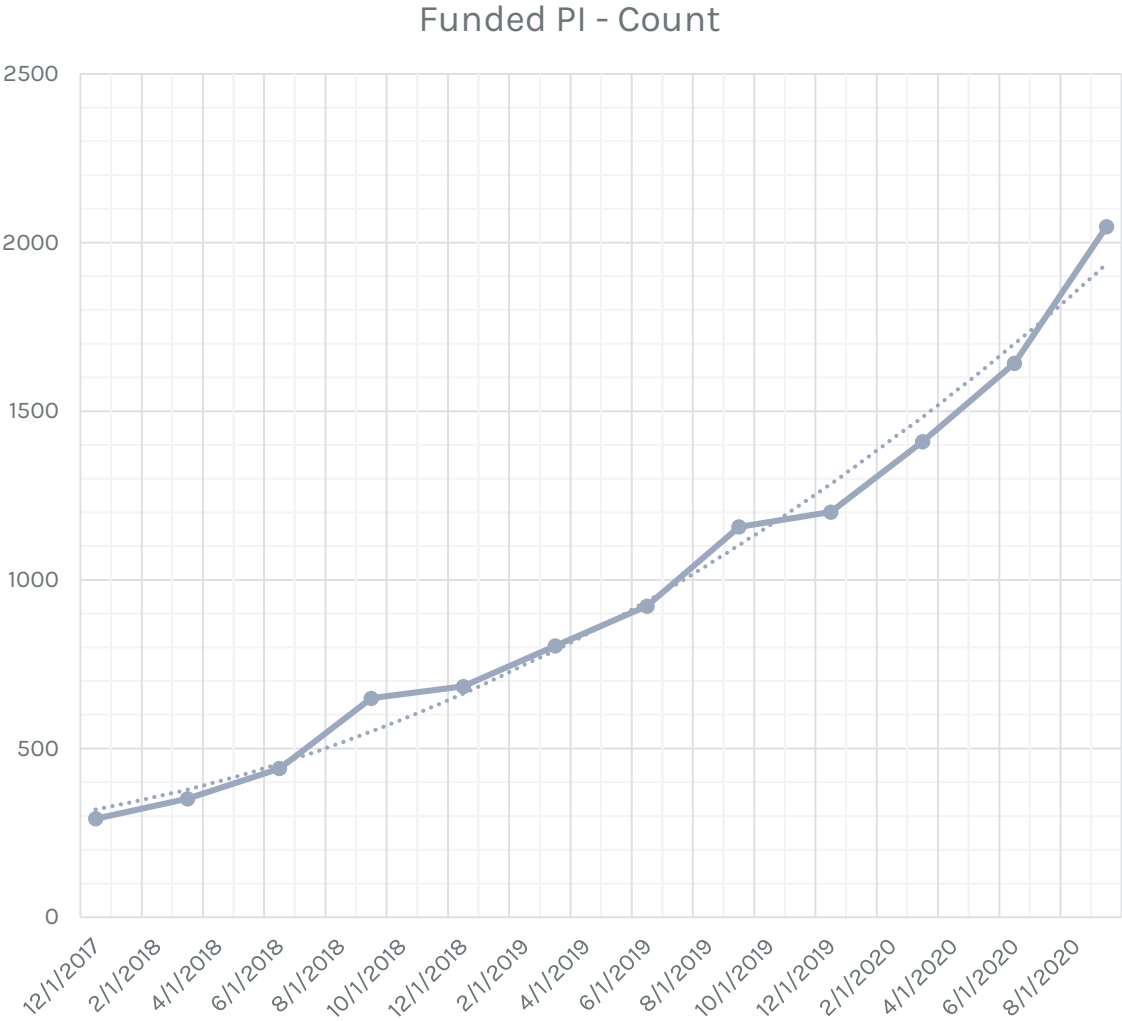
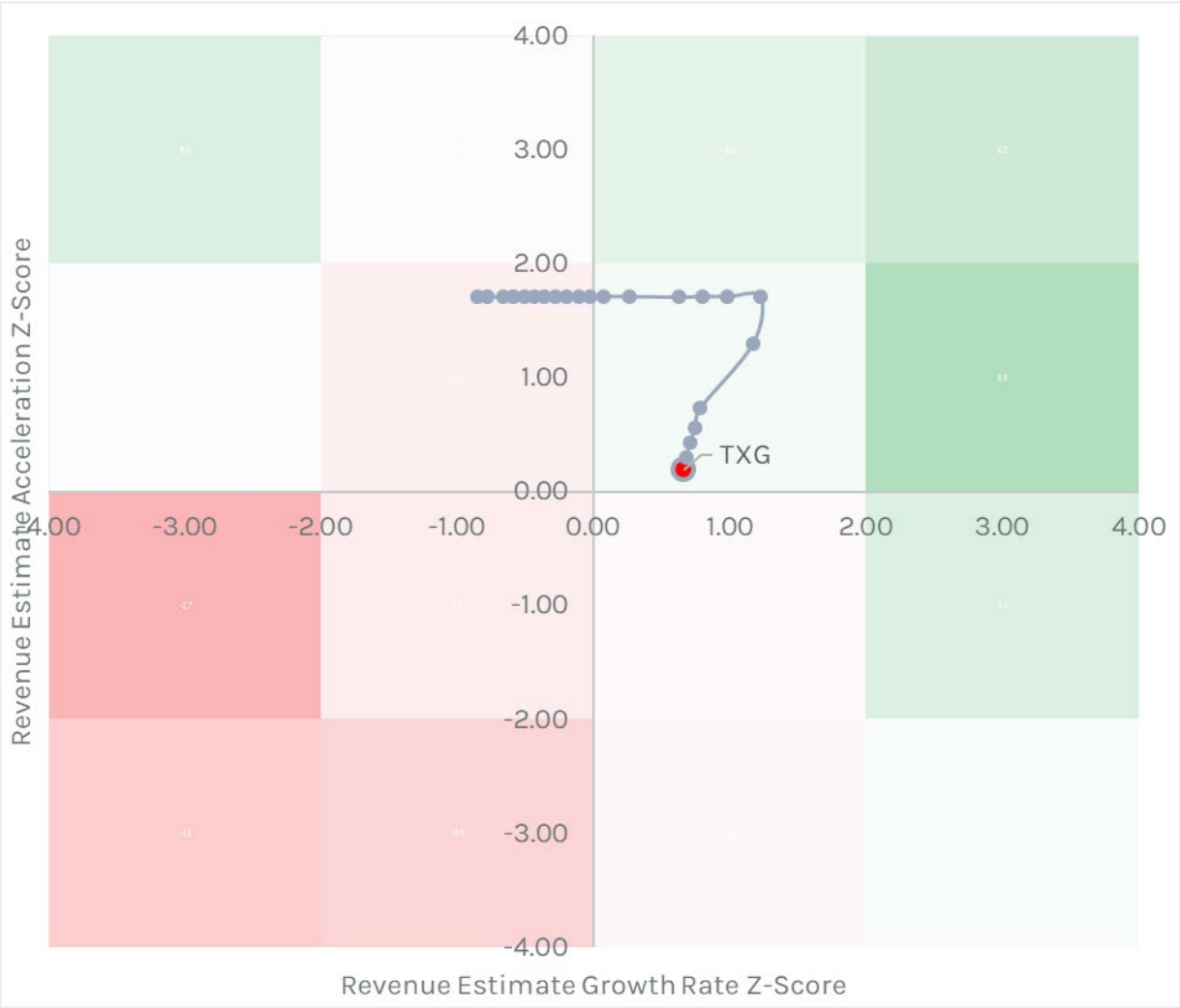
HOLX | Past the initial revision peak?

Beneficiary of COVID-19 testing leading platform, with capex and utilization headwinds



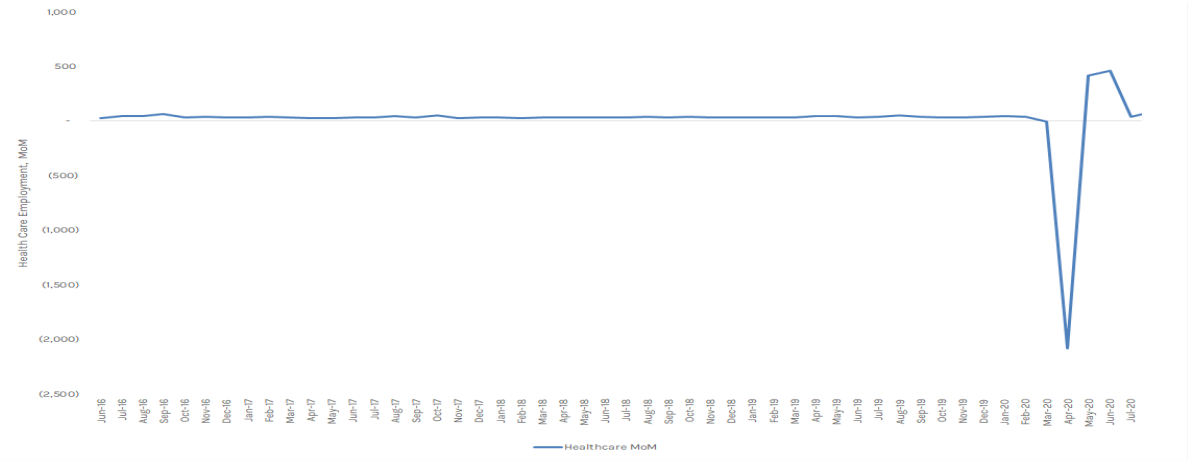
TXG | Adoption Has a Long Way to Go

NIH funding for TXG's equipment and consumables touches 2000 of the 300,000 funded scientists

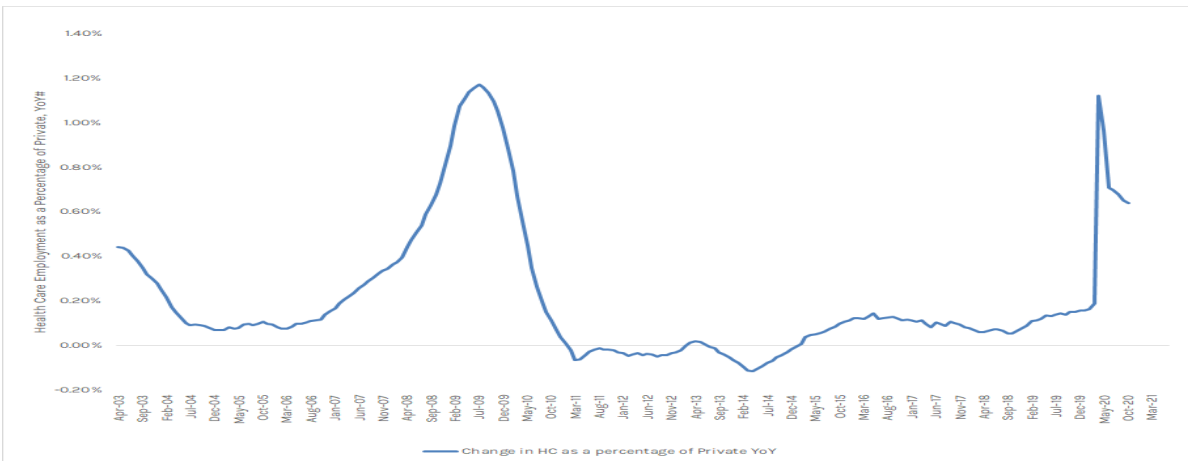


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+68,000 October versus 101,000 September

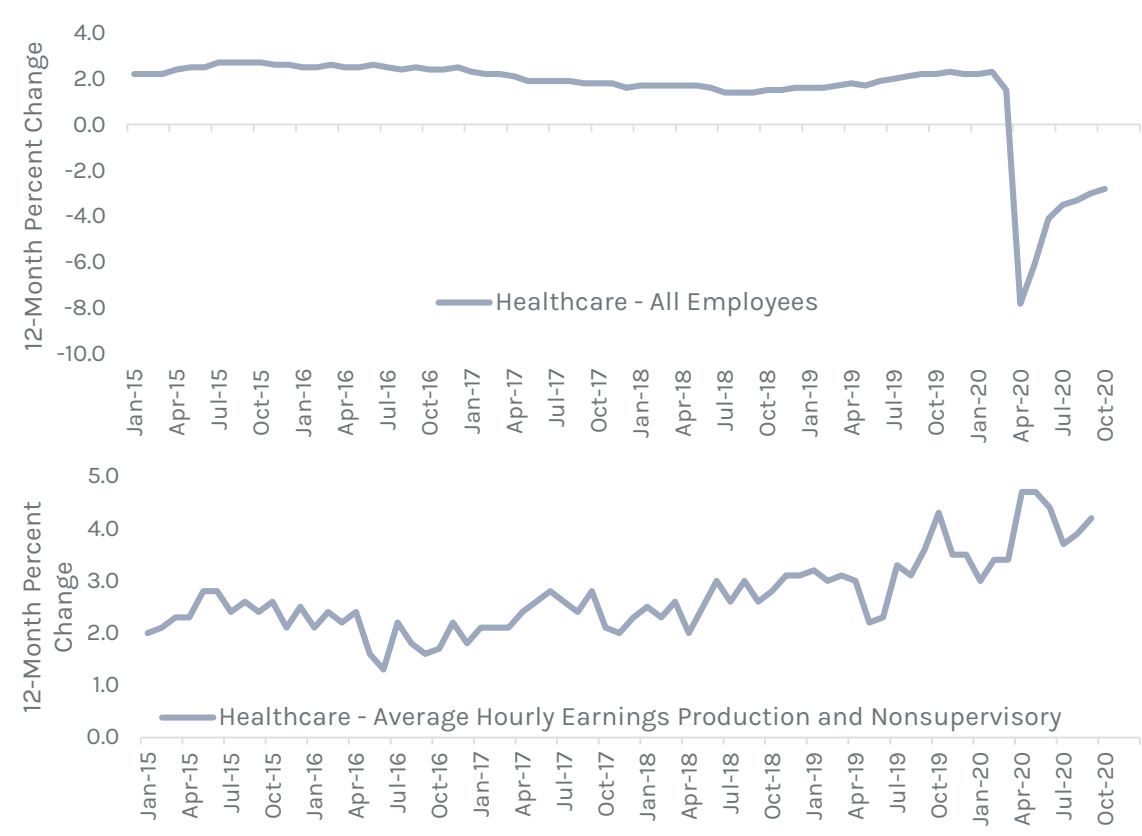
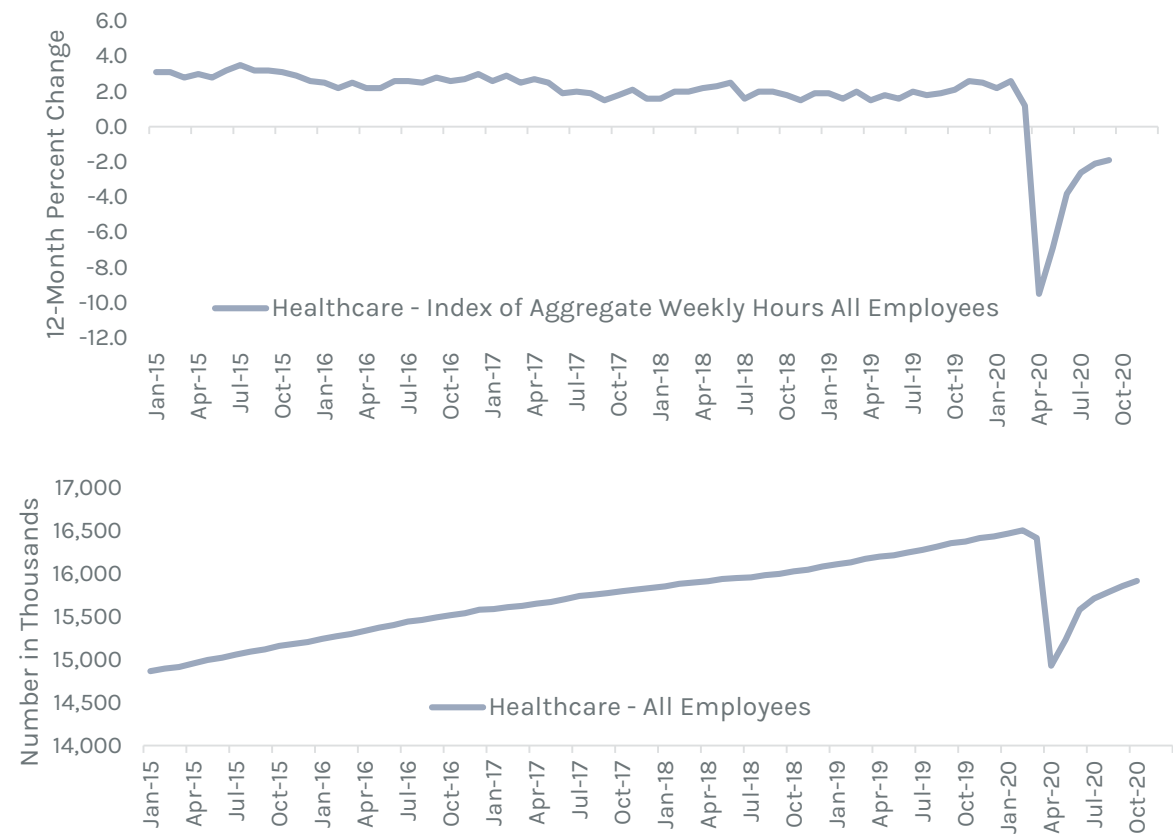


Percent of Private Payrolls, recovery slowing



Healthcare Employment

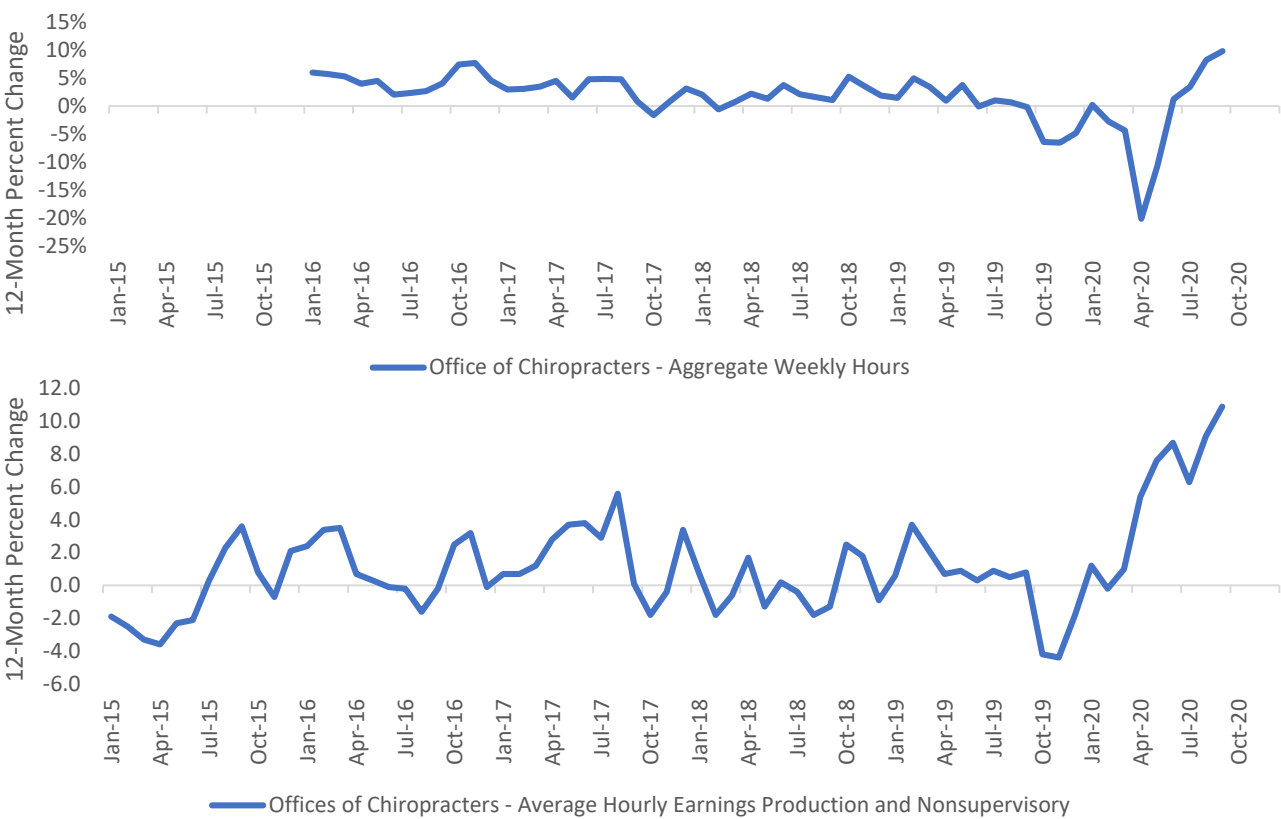
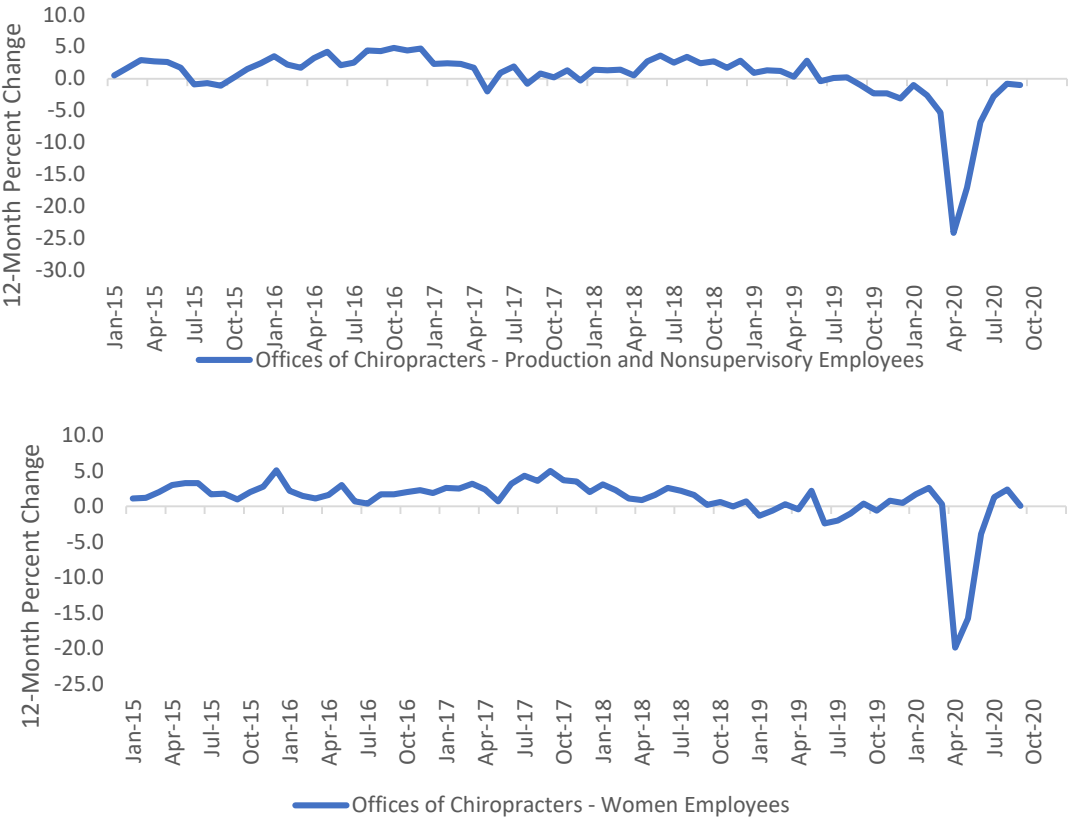
Recovery slowing, elevated wage inflation



Healthcare employment and demand for labor bottomed in April 2020 at -9.5%. The recovery is stalling at -2% year over year decline in the aggregate, although subindustries such as Nursing Homes are faring far worse than other subgroups such as Dentists and Chiropractors. Wage inflation has been substantial for a host of reasons.

Office of Chiropractors Employment

Massive uptick in Aggregate Weekly Hours and Average Hourly Earnings



In person care has done better where patient population is younger, and on average, less at risk from COVID-19. Nursing Care, Assisted Living, and Retirement Communities continue to experience sequential decline in demand for utilization and labor.

For more information, contact us at:

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