

HEDGEYE

Health Care Position Monitor Update

FEQ's, TDOC App Downloads, HC Labor Demand, GH Claims, & COVID-19

March 9, 2020



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Health Care Position Monitor

HEDGEYE

For Week of March 9, 2020

Best Ideas - Longs						Best Ideas - Shorts					
		Price	Mkt Cap (\$B)	Trend	Tail			Price	Mkt Cap (\$B)	Trend	Tail
LONG						SHORT					
Active Longs						Active Shorts					
GH	Guardant Health, Inc.	\$ 81.12	\$7.7B	✓	✓	EXAS	Exact Sciences Corporation	\$ 66.18	\$9.8B	×	×
AMN	AMN Healthcare Services, Inc.	\$ 73.57	\$3.4B	✓		HQY	HealthEquity Inc	\$ 62.00	\$4.4B	×	×
MD	MEDNAX, Inc.	\$ 16.01	\$1.3B	✓		NVTA	Invitae Corp.	\$ 19.39	\$1.9B	×	×
ILMN	Illumina, Inc.	\$ 267.81	\$39.4B	✓	✓						
THC	Tenet Healthcare Corporation	\$ 25.62	\$2.7B	✓	✓						
Long Bias						Short Bias					
TDOC	Teladoc Health, Inc.	\$ 138.75	\$10.1B			HCA	HCA Healthcare Inc	\$ 122.26	\$41.4B		
MYGN	Myriad Genetics, Inc.	\$ 16.71	\$1.2B			UNH	UnitedHealth Group Incorporated	\$ 275.99	\$261.8B		
TXG	10x Genomics Inc Class A	\$ 68.32	\$1.5B			DVA	DaVita Inc.	\$ 78.26	\$9.8B		
SGRY	Surgery Partners, Inc.	\$ 11.90	\$0.6B			DXCM	DexCom, Inc.	\$ 286.32	\$26.2B		
UHS	Universal Health Services, Inc. Class B	\$ 124.15	\$9.9B								
ZBH	Zimmer Biomet Holdings, Inc.	\$ 129.19	\$26.7B								
ANTM	Anthem, Inc.	\$ 277.51	\$70.0B								

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.

Position Monitor Triage

Elective and non-essential, remote care, Politics

Positives

- (+) COVID-19 cases are high acuity, reimbursed at high rate (HCA, UHS, THC)
- (+) Temp nurse labor demand, pricing, assuming net hospital census increases relative to labor supply (AMN)
- (+) Telemedicine demand increases for routine care and behavioral visits, may lead to permanent shift (TDOC)

Neutral

- (-/+) Primary voter turnout dampened, Trump approval
- (+/-) Genetic Testing, clinical testing for cancer (GH)

Negatives

- (-) Elective procedures deferred or prohibited (THC ambulatory, ZBH, MD)
- (-) Non-essential outpatient, i.e. screening colonoscopy (EXAS)
- (-) Sales force productivity, restricted access to facilities (ZBH)
- (-) Managed Care mixed impact of cost avoidance and COVID-19 costs, negative for Medicare Advantage, enrollment challenges (UNH, ANTM)
- (-) HQY enrollment, spending, custodial fees

Fundamental Equity Quadrants

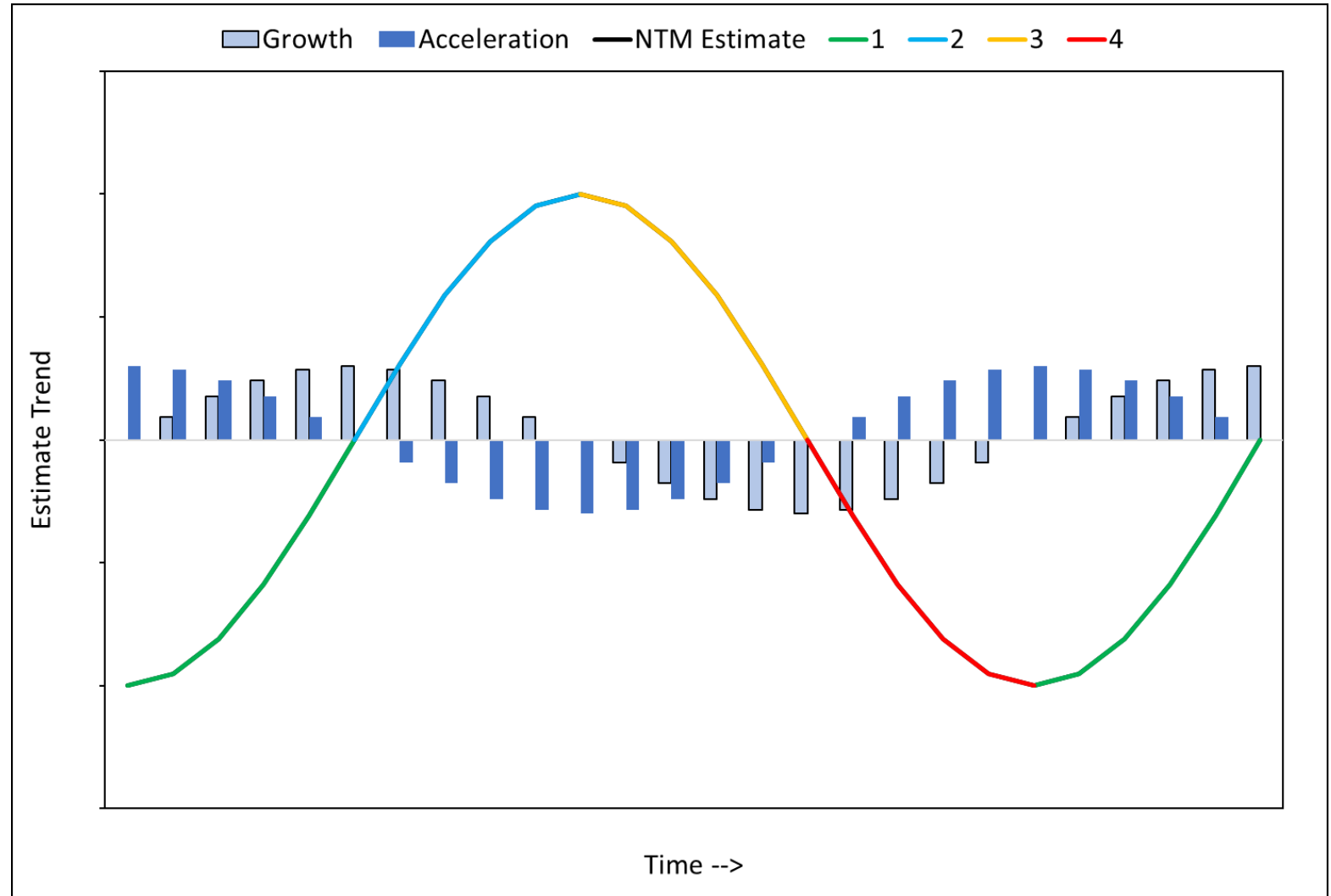
Similar to Macro Quads, stock estimates follow a pattern of growth and acceleration.

We transformed consensus forward expectations, assigning each datapoint to one of 4 possible Fundamental Quadrants.

Back tests show that companies that make the transition from Fundamental Quad 1 to Quad 2 are the best performers.

We produce these values across our universe of companies for revenue, EBITDA, and EPS alongside a correlation of the price to the underlying estimate.

Performance is weakest as companies in Fundamental Quad 2 transition into Quad 3 and 4.



Macro Quads + Fundamental Quads = Alpha

Back test results

Equal weighted results YTD

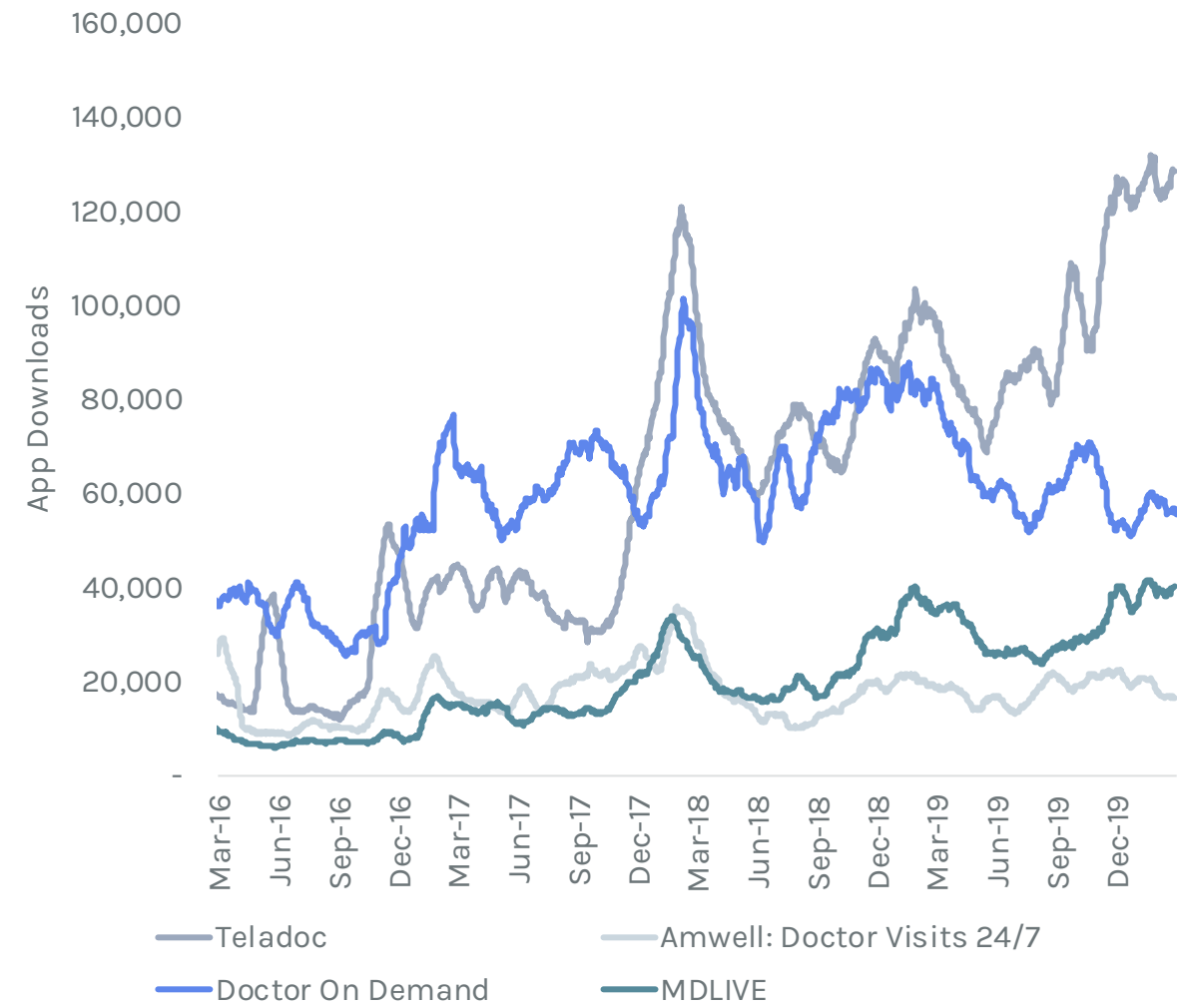
Sector Healthcare
Industry Health Care Equipment & Supplies
Factor Sales NTM
Metric Performance 1M, continuous
Correlation > 50%
Market Cap > 1000

		Macro Quad			
		1	2	3	4
Fundamental Equity Quad	1	3.52	3.12	2.51	4.07
	2	2.40	2.77	0.99	1.31
	3	2.06	1.93	0.67	0.34
	4	2.08	1.65	0.86	0.49
	Quad				

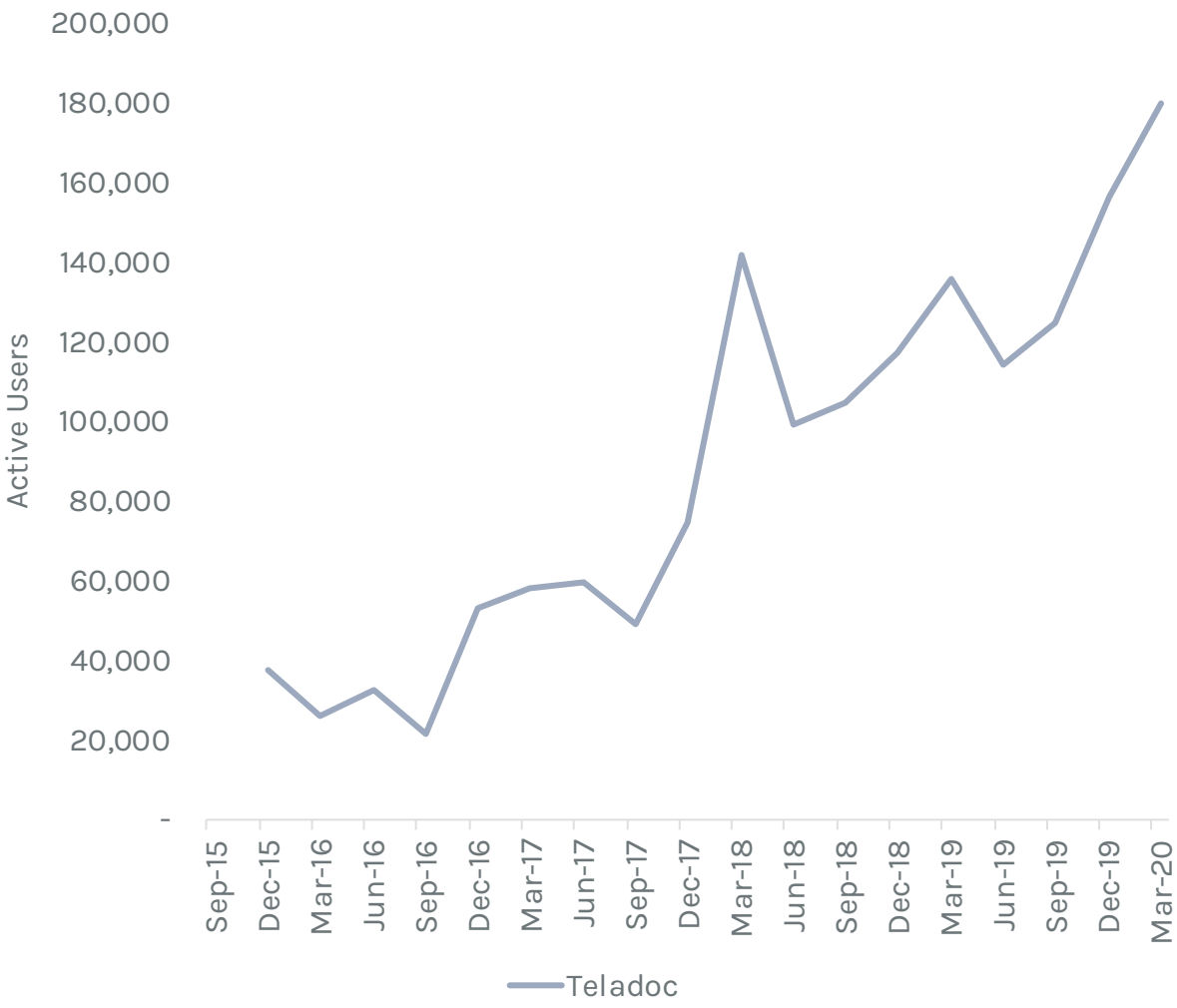
		31-Jan	24-Feb	28-Feb	6-Mar
Fundamental Equity Quad	1	3.05%	-2.12%	-7.22%	-9.75%
	2	3.51%	-0.50%	-5.71%	-2.23%
	3	2.83%	-8.96%	-12.63%	-8.78%
	4	5.70%	-2.49%	-7.42%	-0.89%
	Weighted Performance	-0.06%	1.24%	0.12%	0.00%

Telemedicine Trends

App Downloads

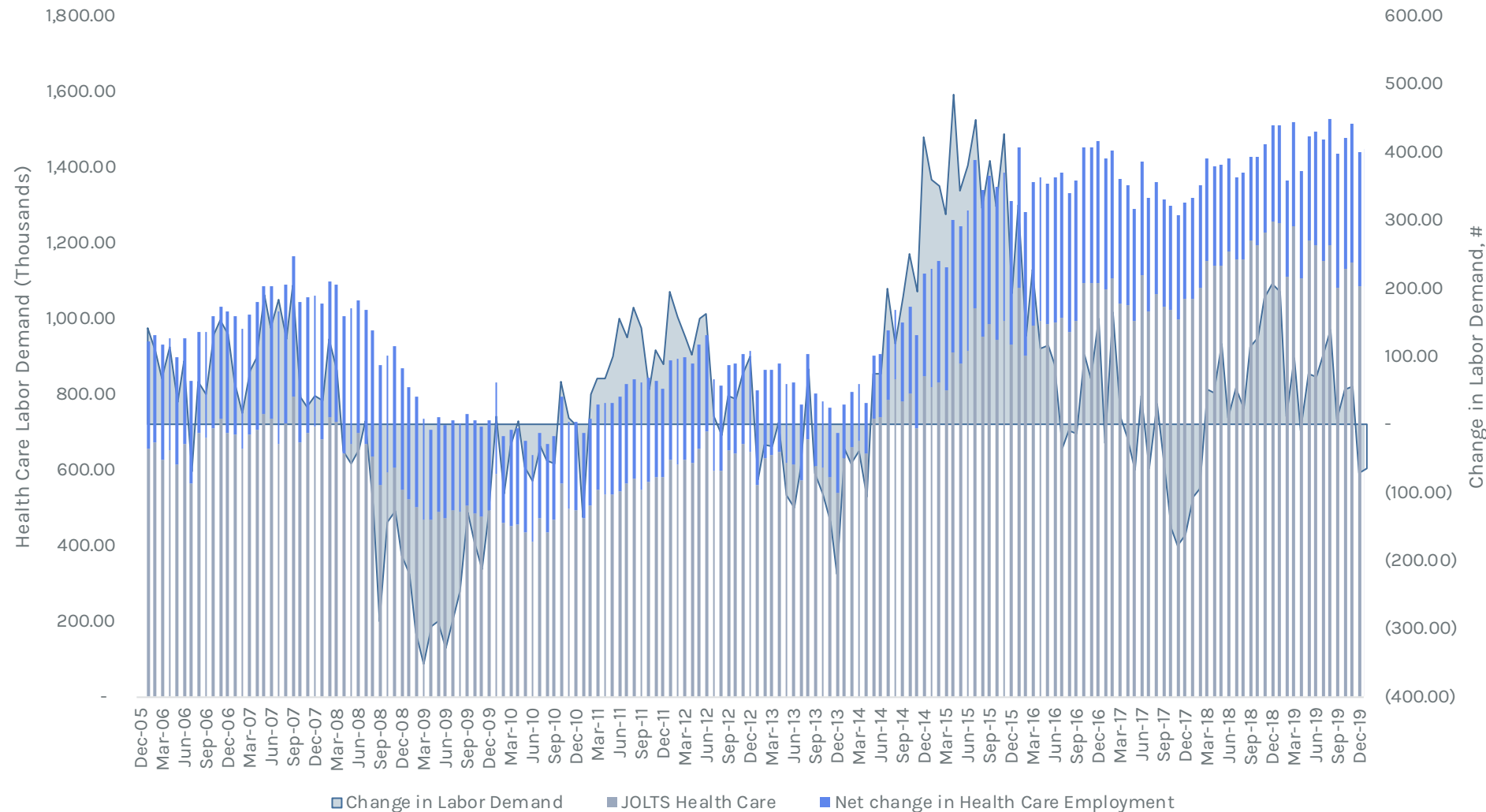


Teladoc Active Users



Health Care Labor Demand

US Medical Economy decelerating, tough compares in 2H20



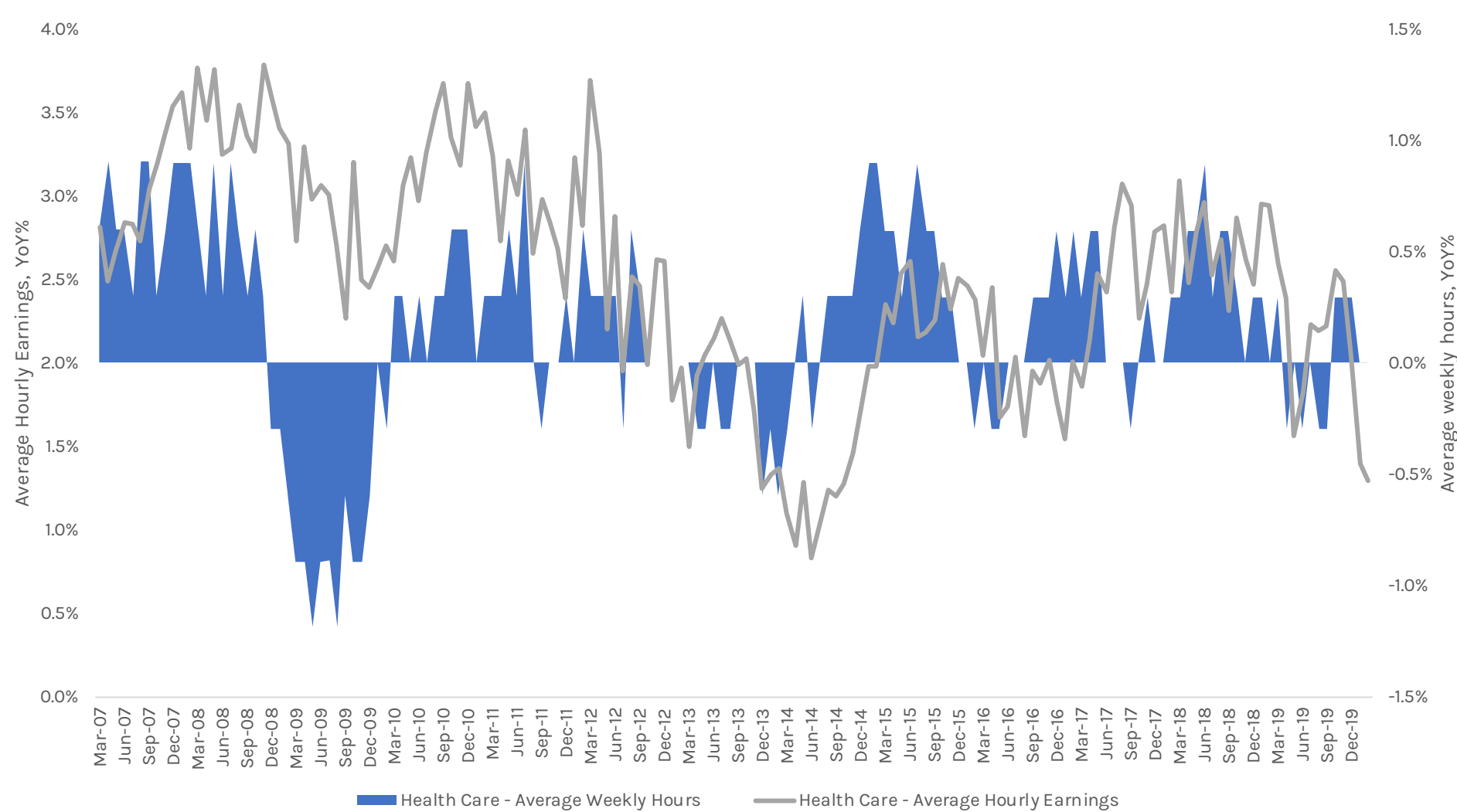
Before the impact of COVID19, the US Medical Economy was showing signs of slowing.

Health Care is an in-person industry, where demand for labor is correlated with utilization and aggregate demand

Aggregate demand for employment, in terms of the sum of job openings and the net change in Health Care employment

Wage growth and average weekly hours

US Medical Economy decelerating



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

Both Average Hourly Earnings and Average Weekly Hours have been slowing.

GH | Claims Forecast

Claims Index Forecast

Week	Q1-2017	Q2-2017	Q3-2017	Q4-2017	FY2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	FY2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	FY2019
1	39	87	54	92	272	93	91	113	76	373	153	160	185	299	798
2	73	77	67	96	312	119	142	102	120	483	102	188	162	134	586
3	46	109	102	72	329	76	116	79	95	366	131	117	179	168	594
4	75	90	87	64	316	139	134	109	124	506	91	153	230	161	634
5	94	68	60	77	299	88	115	120	138	461	111	195	136	195	637
6	49	75	128	102	353	105	120	95	87	407	123	122	161	206	612
7	67	74	97	94	332	126	109	80	102	417	151	146	146	247	690
8	85	91	89	53	318	94	102	88	95	379	115	130	215	180	641
9	85	89	78	91	343	94	62	135	94	386	143	171	143	170	629
10	124	93	58	115	389	62	69	98	97	326	120	147	213	153	633
11	88	72	76	90	327	140	94	87	94	416	164	127	148	189	628
12	87	108	119	80	394	109	124	98	200	531	140	210	166	230	746
13	103	101	93	42	338	91	183	113	149	537	146	206	180	304	836
Total	1,015	1,134	1,107	1,068	4,324	1,337	1,461	1,316	1,472	5,588	1,691	2,074	2,264	2,636	8,665

Seasonal Weekly Distribution Pattern Based on Prior Years			Average Per Day QTD x Total Days			QTD Volume / Ratio of Completed Days			Last Weekly Data Point Carried Forward			Average Weekly Volume Carried Forward		
Total	2,636	8,665	Total	2,636	8,665	Total	2,636	8,665	Total	2,636	8,665	Total	2,636	8,665

Claims Data & Reported Claims			96.5%
Guardant health			
Guidance	13,345	48,000	
Hedgeye			
Method 1: Seasonal Wkly Distr.	15,440	50,750	
Method 2: Avg Per Day x Total	15,440	50,750	
Method 3: QTD Vol / Ratio Days	15,440	50,750	
Method 4: Last Wkly Data Pt	15,440	50,750	
Method 5: Avg Wkly Vol Carry	15,440	50,750	
Average	15,440	50,750	

We utilize several methods to forecast incomplete weekly periods for a given quarter for forecasting purposes.

In the first instance we use an adjustment factor based on historical trends in incurred but not reported claims.

For weeks lacking credible data, we use several methods to forecast incomplete and forward periods in order to compare current trends against management guidance and consensus estimates.

*13 of 13 weeks completed in this data set.

COVID-19 Impact on Health Care

Hedgeye Inpatient Analysis

Covid-19 Infection rate	30.00%
Hospitalization rate	10.00%
Increase in hospitalization	3.00%
Elective, percentage	40.00%
Increase/(Decrease) from elective	-50.00%
Increase/Decrease elective	-20.00%
Covid Case reimbursement	\$200,000.00
Increase/(Decrease)	\$542,767,716
Percentage Increase/(Decrease)	0.13%

CHANGE IN IP HOSP STAZ-MEDICARE AMT-FAC 15 AND THE IMPACT TO TOTAL SPENDING

65 - 90 AGE	Range	\$ -	\$4 - \$4,690	\$4,691 - \$9,867	\$9,868 - \$19,176	\$19,177 - \$190,748	Total	Spending Total
65 - 90 AGE	Average Spend		\$ 2,500	\$ 7,500	\$ 13,000	\$ 50,000		
65 - 90 AGE	Frequency	74%	7%	6%	6%	6%	100%	\$ 130,007,535,000
65 - 90 AGE	Frequency	69%	7%	6%	8%	10%	100%	\$ 189,615,217,675
65 - 90 AGE	Frequency	62%	7%	6%	10%	15%	100%	\$ 268,135,547,875
65 - 90 AGE	Count	21,143,941	1,875,327	1,838,877	1,838,780	1,752,470	\$ 28,449,395	
65 - 90 AGE	Count	19,630,083	1,991,458	1,706,964	2,275,952	2,844,940	\$ 28,449,395	
65 - 90 AGE	Count	17,638,625	1,991,458	1,706,964	2,844,940	4,267,409	\$ 28,449,395	
65 - 90 AGE	Frequency Change	-5%	0%	0%	2%	4%	0%	\$ 59,607,682,675
65 - 90 AGE	Frequency Change	-12%	0%	0%	4%	9%	0%	\$ 138,128,012,875
65 - 90 AGE	Count Change	(1,513,858)	116,131	(131,913)	437,172	1,092,470	\$ -	
65 - 90 AGE	Count Change	(3,505,316)	116,131	(131,913)	1,006,160	2,514,939	\$ -	

0 - 4 AGE	5 - 17 AGE	18 - 24 AGE	25 - 44 AGE	45 - 64 AGE	65 - 90 AGE
0.00%	0.00%	5.00%	10.00%	15.00%	70.00%
0.00%	0.00%	0.15%	0.30%	0.45%	2.10%

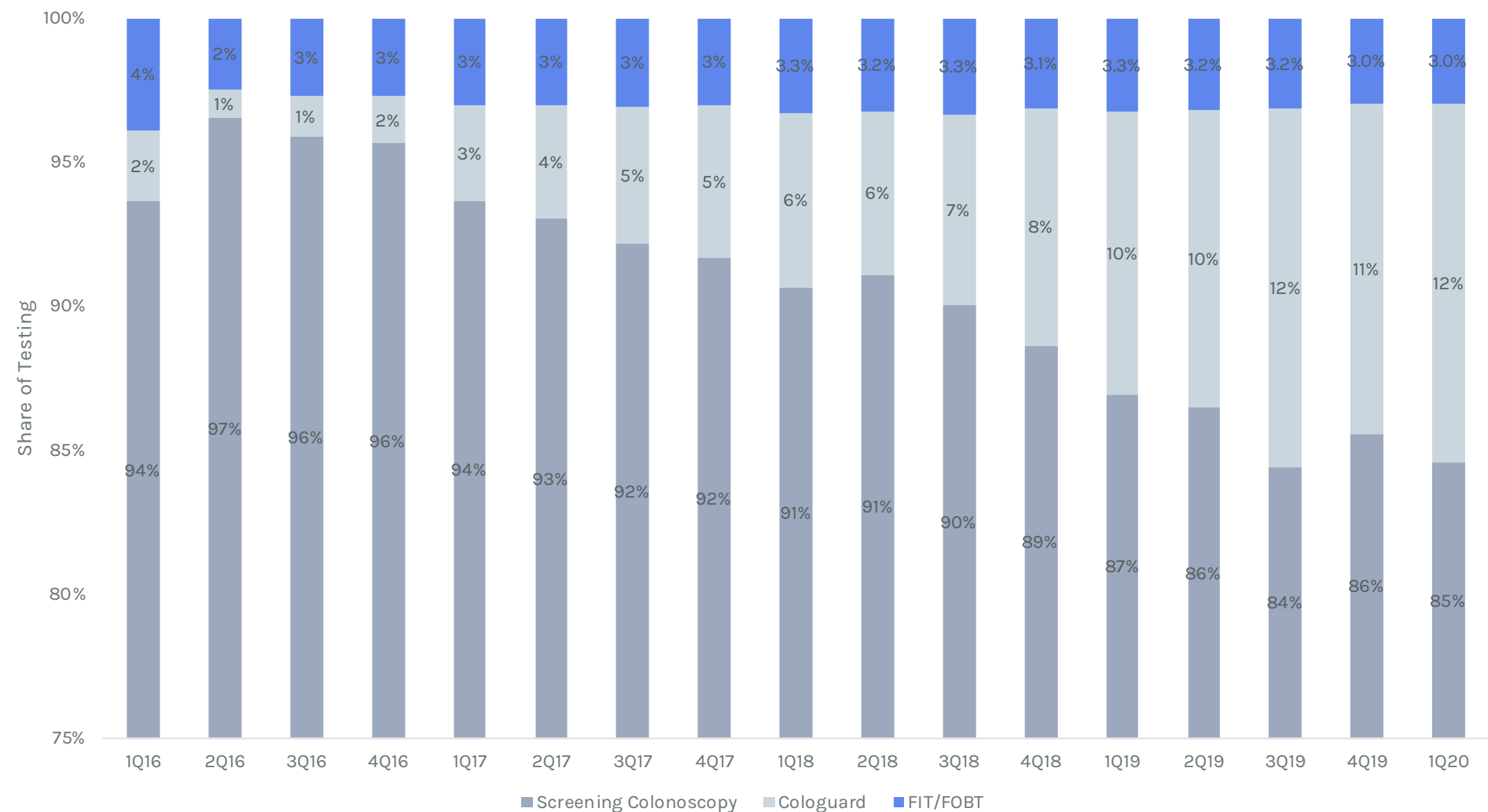
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We have created a table from the Medical Expenditure Panel Survey. The table allows the user to change the inputs for infection rate, hospitalization rate, percentage elective, percentage decline in elective, the COVID-19 reimbursement per hospitalized case.

An infection rate is 30% with a 10% hospitalization produces a 3% increase in hospital charges. Elective procedures would have to decline -50% to offset the increase from COVID-19.

Colon Cancer Screening Tracker

Cologuard share has been stable into 1Q20



The Tracker displays the percentage of total testing under the correct diagnosis codes.

FIT/FOBT has been remarkably stable as a percentage of total

Colonoscopy has lost 10 points of share.

CDC Criteria for Testing COVID-19

Updated on February 27, to expand testing criteria

Effective February 1, 2020

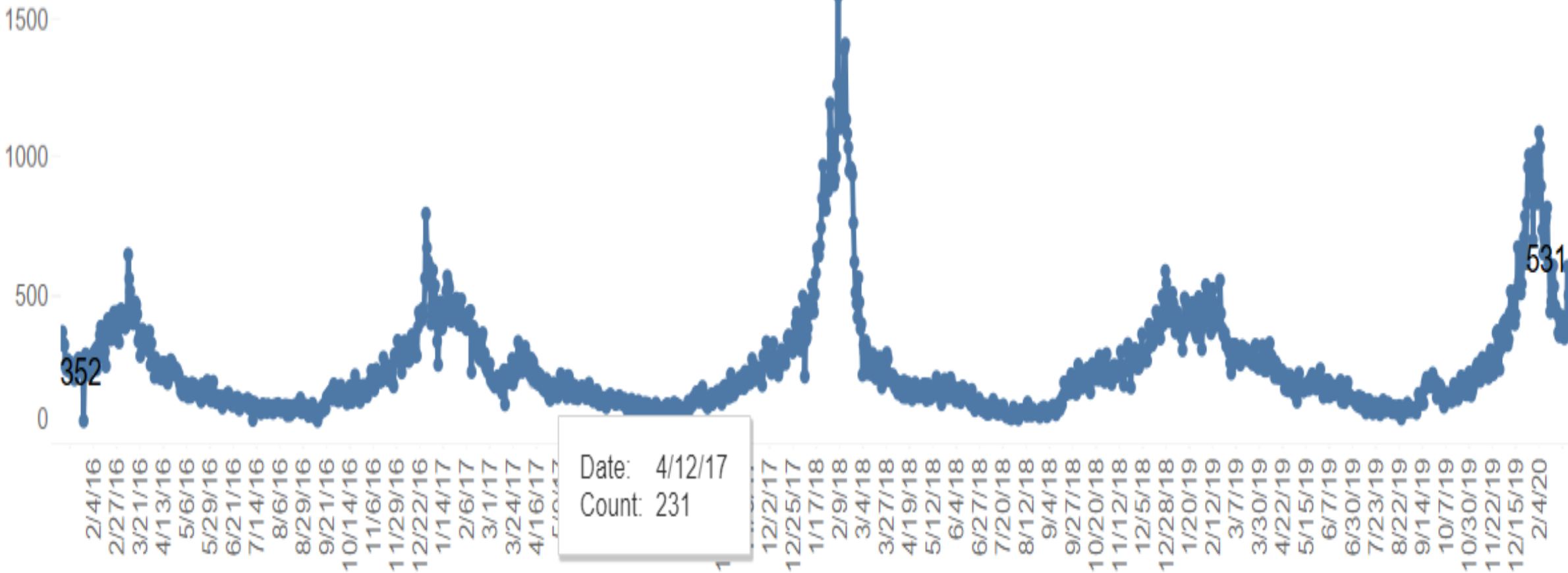
Clinical Features	AND	Epidemiologic Risk
Fever OR signs/symptoms of lower respiratory illness (e.g. cough or shortness of breath)	AND	Any person, including health care workers, who has had close contact with a laboratory confirmed 2019-nCoV patient within 14 days of symptom onset
Fever AND signs/symptoms of lower respiratory illness (e.g. cough or shortness of breath)	AND	A history of travel from Hubei Province, China within 14 days of symptom onset
Fever AND signs/symptoms of lower respiratory illness (e.g. cough or shortness of breath)	AND	A history of travel from mainland China within 14 days of symptom onset

Effective February 27, 2020

Clinical Features	AND	Epidemiologic Risk
Fever OR signs/symptoms of lower respiratory illness (e.g. cough or shortness of breath)	AND	Any person, including health care workers, who has had close contact with a laboratory confirmed 2019-nCoV patient within 14 days of symptom onset
Fever AND signs/symptoms of lower respiratory illness (e.g. cough or shortness of breath)	AND	A history of travel from geographically affected areas within 14 days of symptom onset
Fever with severe acute lower respiratory illness (e.g. pneumonia, ARDS) requiring hospitalization and without an alternative explanatory diagnosis (e.g. influenza)	AND	No identified source or exposure

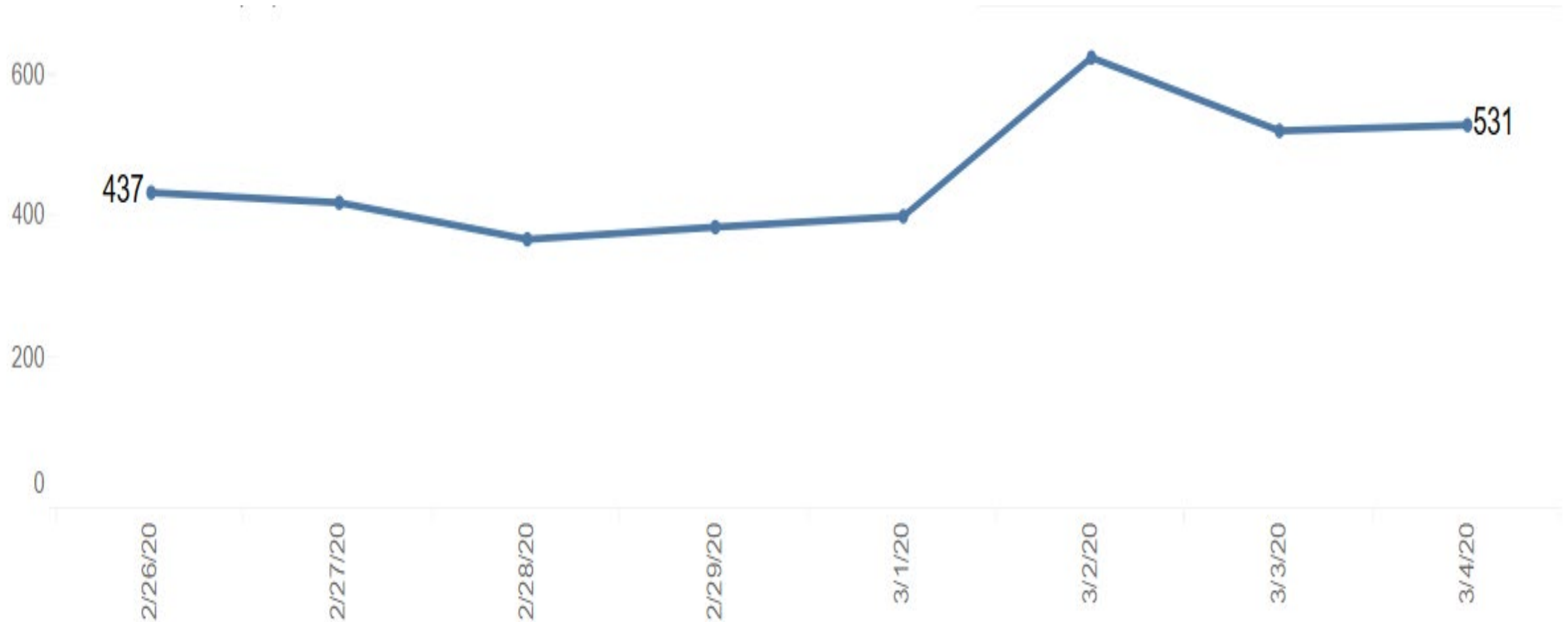
Influenza-like Illness, New York City

Modest uptick last week, but it is still early



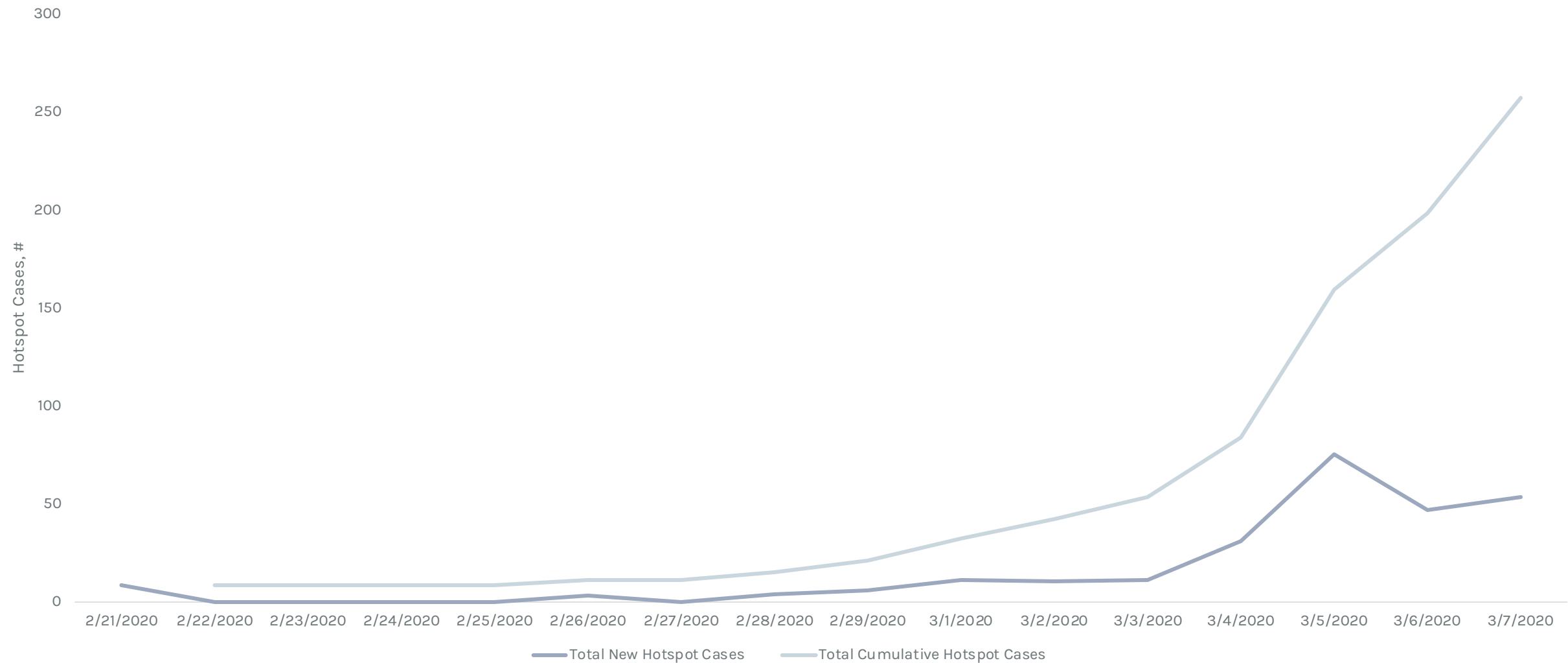
Influenza-like Illness, New York City

Cases still elevated above seasonal trend, but pattern did not persist beyond early week



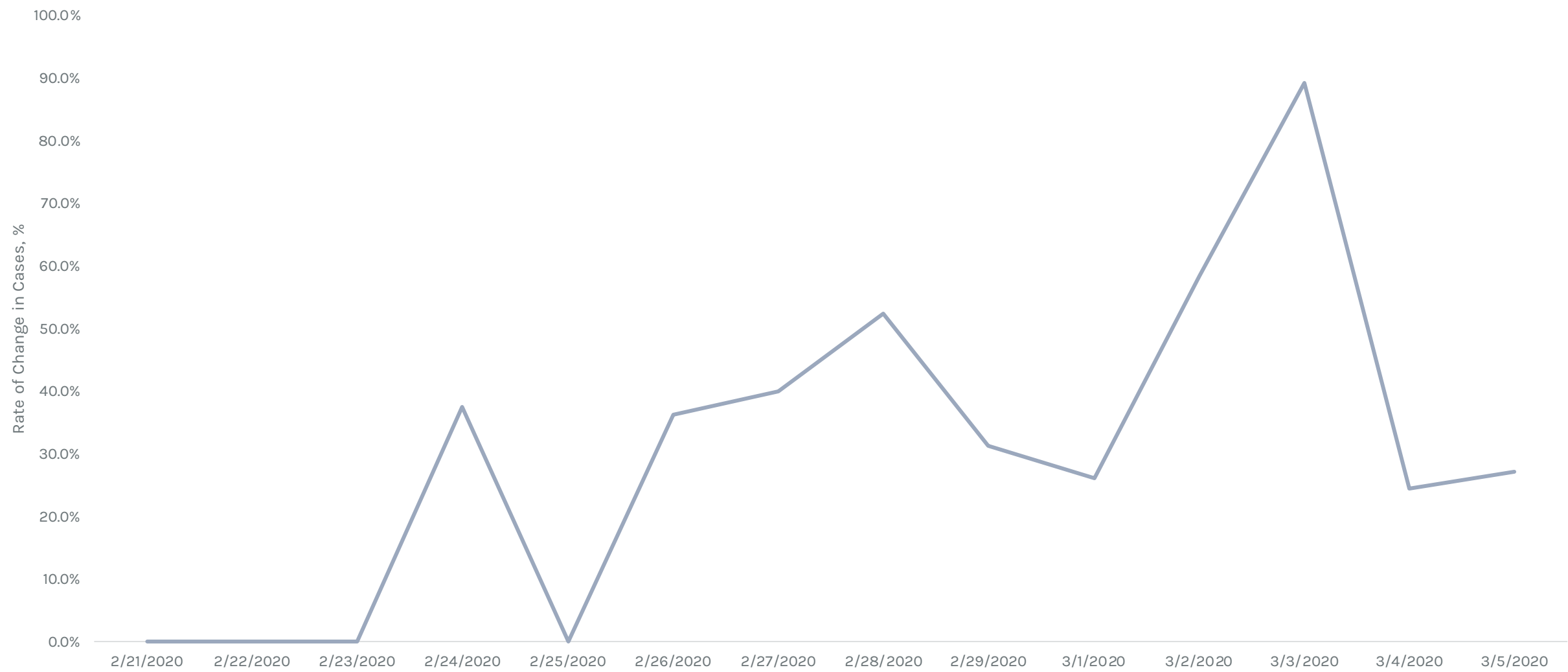
Has the Backlog Cleared?

Testing ramped up last week with new cases abating a bit on Friday and Saturday



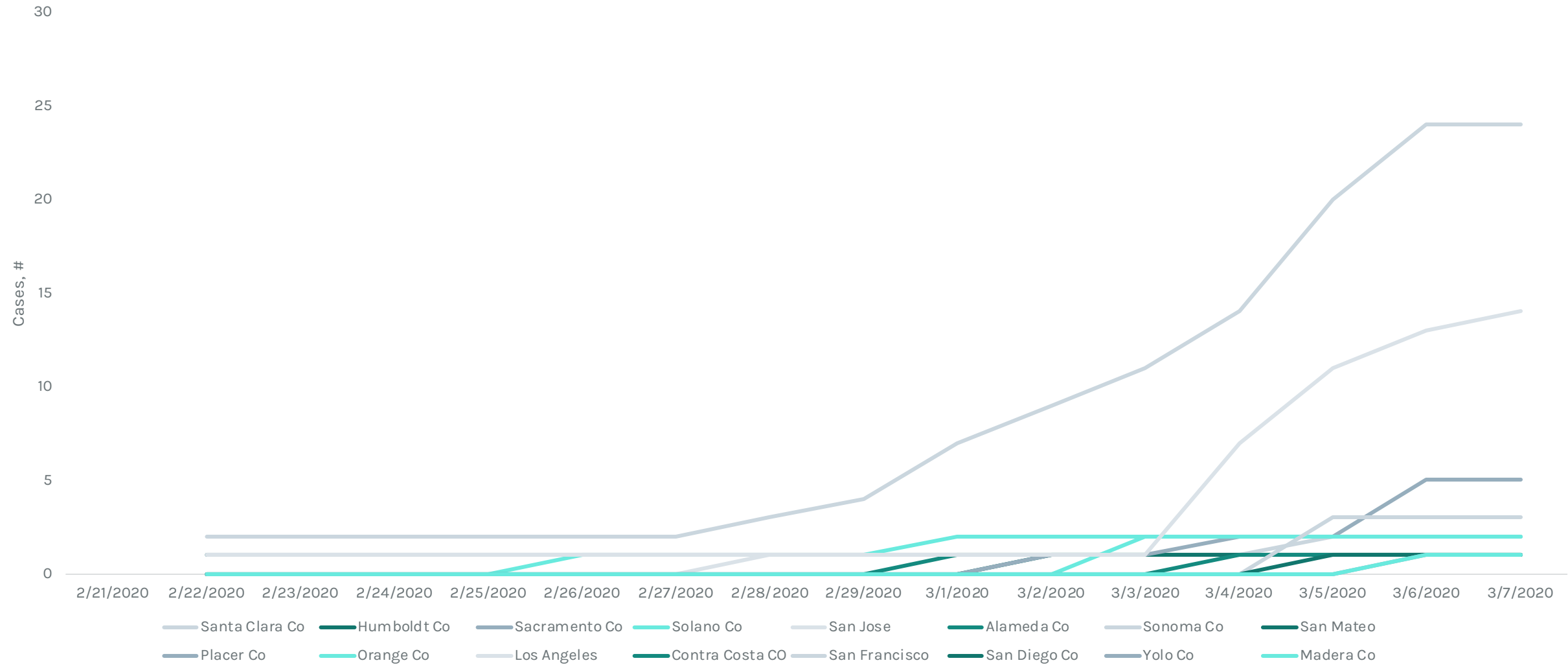
Has the Backlog Cleared?

Rate of Change, Total Cumulative Cases, Hotspots



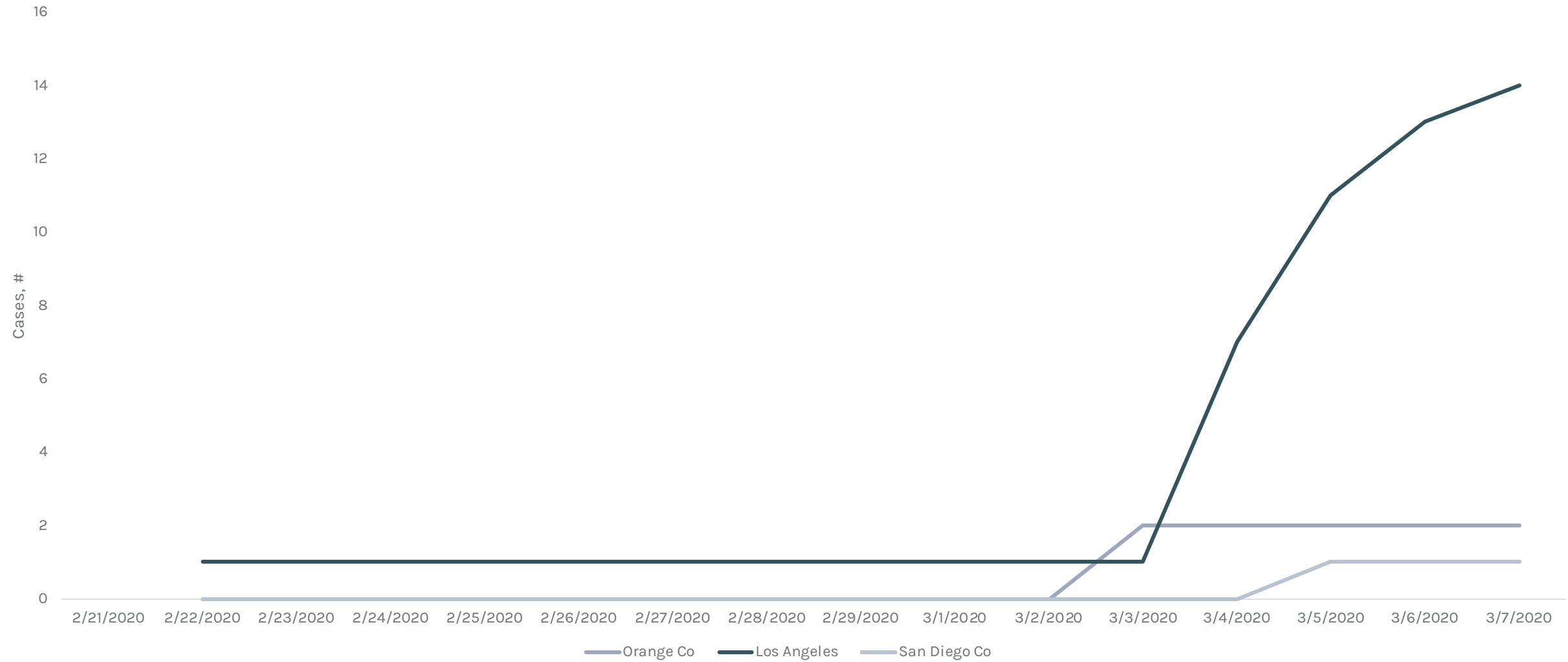
Northern California

Cumulative Cases Confirmed



Southern California

Cumulative Cases Confirmed



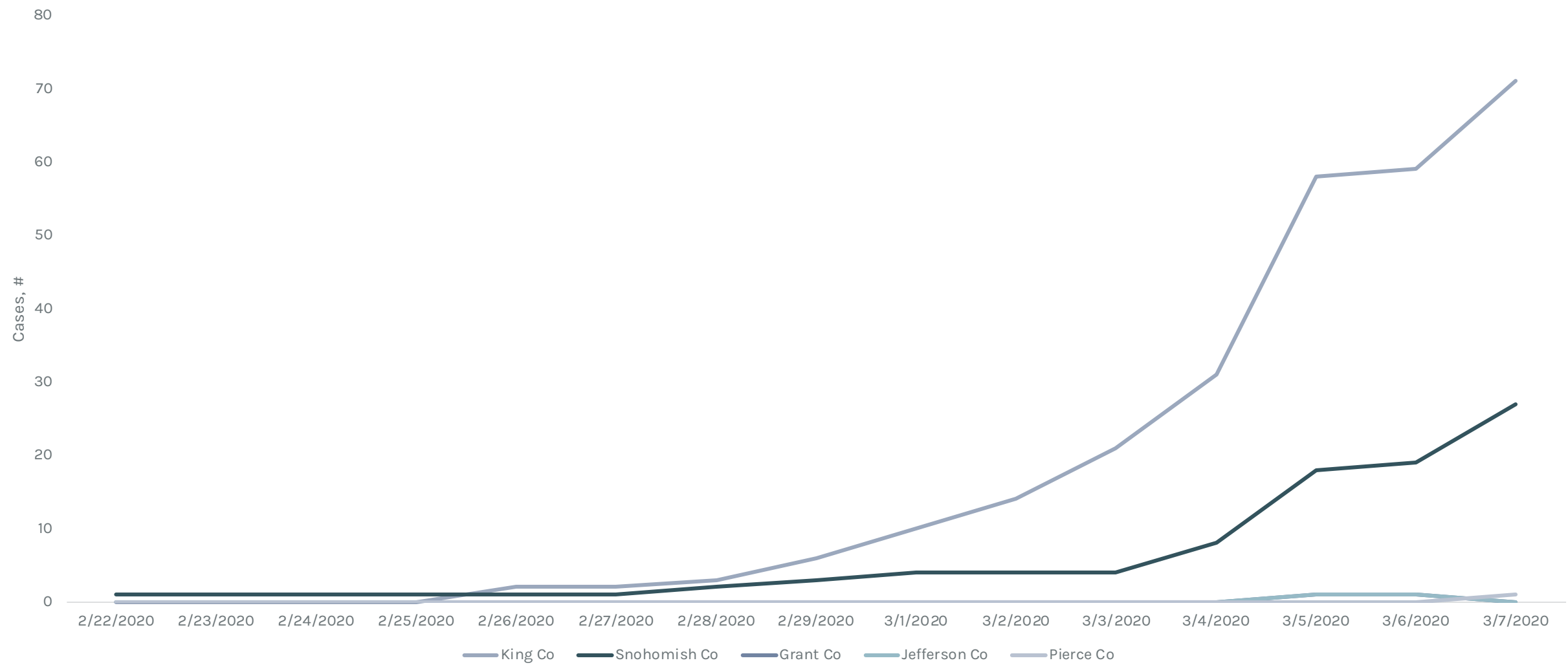
New York City Area

Cumulative Cases Confirmed



Seattle Area

Cumulative Cases Confirmed



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