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MAJOR THEMES 2Q17

- TRUMP RALLY BLUES FOR OUR SHORTS, MULTIPLE MADNESS
- INSURED MEDICAL CONSUMER GROWTH SLOWING
- HARD AND SOFT DATA, DOES IT MATTER TO HEALTH CARE?
- PROVIDER LABOR COST PRESSURE EMERGING AS A CRITICAL HEADWIND
- MATERNITY TRENDS WORSENING
- BIO-DOLLARS, CLINICAL TRIAL TREND, WEAKNESS EMERGING
- REPEAL AND REPLACE, THE PATH FORWARD
- LEGISLATION NOT NEEDED, REGULATION TOOLS IN PLACE
- MEDICAID IS OVER-ENROLLED AND LIKELY TO DECLINE
- EXPANSION FROM HERE NEUTRAL TO NEGATIVE

HEALTHCARE POSITION MONITOR

Sentiment Investment Ideas - Longs

Score¹ **LONG**

Score	Ticker	Company	Trade	Trend	Tail
38	EXAS	Exact Sciences Corporation	✓	✓	✓
24	ATHN	athenahealth, Inc.	✓	✓	✓

Trade Trend Tail

Sentiment Investment Ideas - Shorts

Score¹ **SHORT**

Score	Ticker	Company	Trade	Trend	Tail
47	ZBH	Zimmer Biomet Holdings, Inc.	---	x	x
97	HOLX	Hologic, Inc.	x	x	x
80	HQY	HealthEquity Inc	x	x	---
53	QSII	Quality Systems, Inc.	---	x	x
53	HCA	HCA Holdings, Inc.	x	x	x
65	CERN	Cerner Corporation	x	x	x
18	MDRX	Allscripts Healthcare Solutions, Inc.	x	x	x
3	MD	MEDNAX, Inc.	x	x	x
1	CPSI	Computer Programs and Systems, Inc.	---	x	x

Trade Trend Tail

Sentiment Long Bench

Score¹ **LONG**

Score	Ticker	Company	Trade	Trend	Tail
6	EVH	Evolent Health Inc Class A	---	---	---
48	ILMN	Illumina, Inc.	---	---	---
80	HQY	HealthEquity Inc	---	---	---

Trade Trend Tail

Sentiment Short Bench

Score¹ **SHORT**

Score	Ticker	Company	Trade	Trend	Tail
76	OMCL	Omicell, Inc.	---	---	---
68	LH	Laboratory Corporation of America Holdings	---	---	---
58	ABCO	Advisory Board Company	---	---	---
20	DGX	Quest Diagnostics Incorporated	---	---	---
13	LPNT	LifePoint Health, Inc.	---	---	---
8	THC	Tenet Healthcare Corporation	---	---	---
41	TDOC	Teladoc Inc	---	---	---
25	CYH	Community Health Systems, Inc.	---	---	---

Trade Trend Tail

Hedgeye's "bench" 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.

HEALTH POLICY POSITION MONITOR

Investment Ideas - Longs

LONG

Ambulatory Surgery	AMSG, SGRY
Behavioral	ACHC, AAC, UHS
Healthcare IT	TDOC, EVH, ATHN, HQY, HMSY, PFMT, COTV
Biotech/Discovery	ABBV, AMGN, AZN, GILD, BMY, CPIX
Home Health	AMED, AFAM, LHCG
Managed - Medicare	ANTM, HUM, CI, UNH, AET

Long Bench

LONG

REITS	CHCT, HR, NHI
Diagnostics	DGX, LH, ILMN, MYGN
Outsourcing	HCSG, HSTM
Inpatient Rehabilitation	HLS, KND, SEM
LTAC Hospitals	KND, SEM, HLS

Investment Ideas - Shorts

SHORT

Inpatient Hospitals	HCA, THC, LPNT, CYH
Skilled Nursing Care	DVCR, ENSG, NHC, GEN
Dialysis	DVA, FMS
Healthcare IT	CERN, MDRX, CPSI, QSII
Generic Pharma	TEVA, MYL, VRX
Supply Chain/PBM	CVS, WBA, ESRX
Freestanding ERs	ADPT

Short Bench

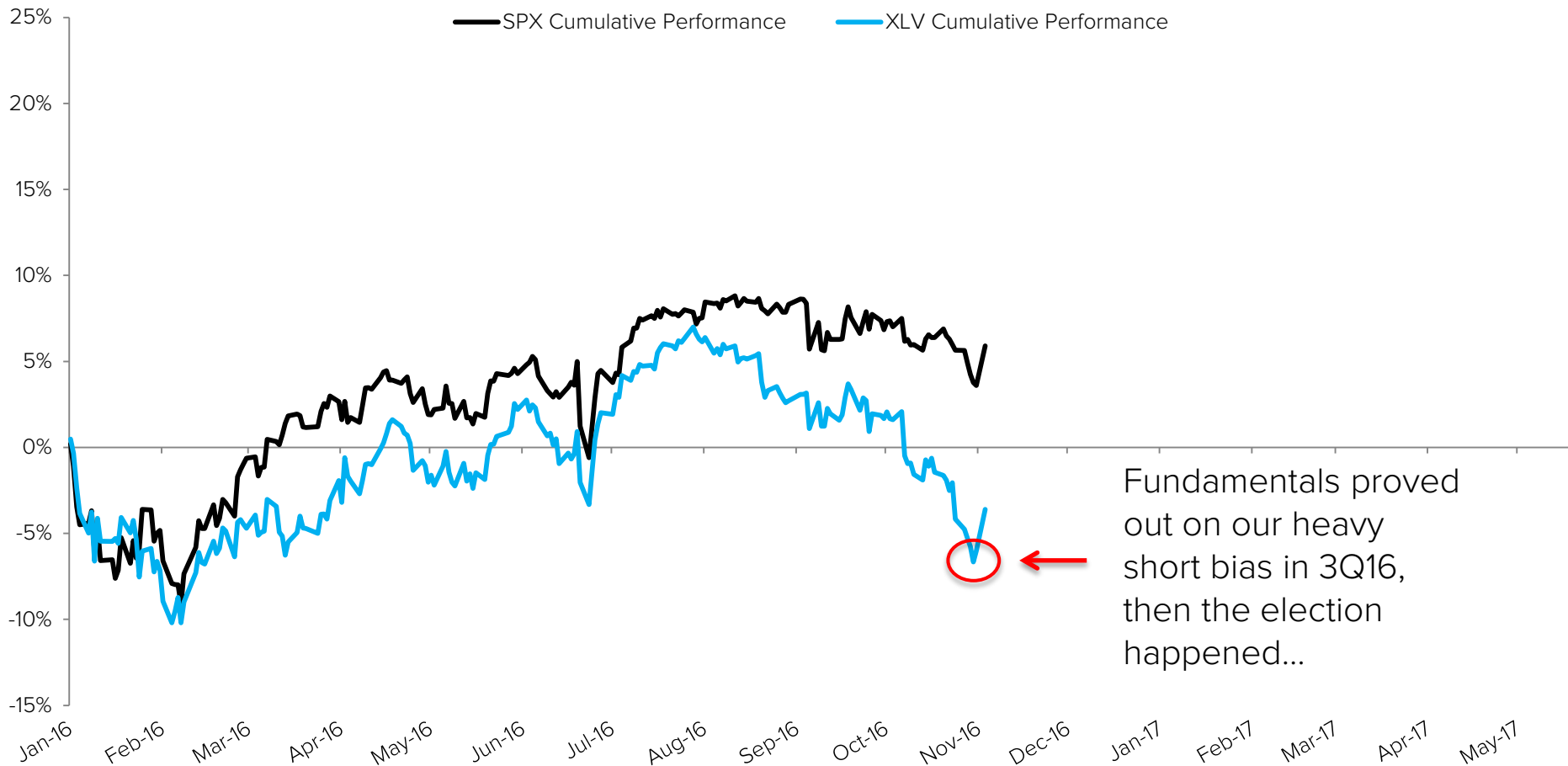
SHORT

Managed Care - Medicaid	MOH, UNH, CNC
Devices	BDX, MDT, STK, ZBH, JNJ
Ambulance Services	AIRM
Senior Care	BKD

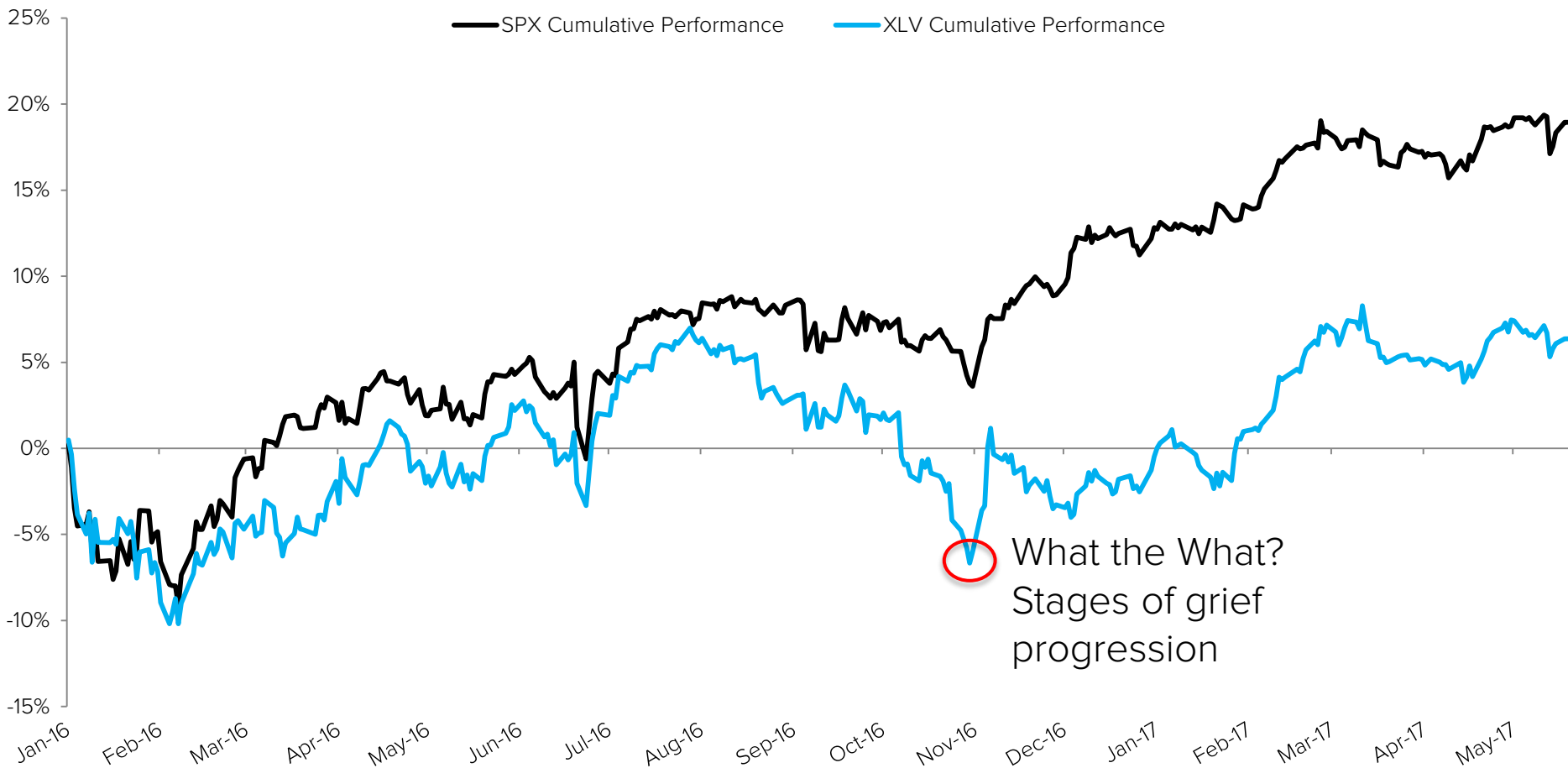
Bench = Research in Process

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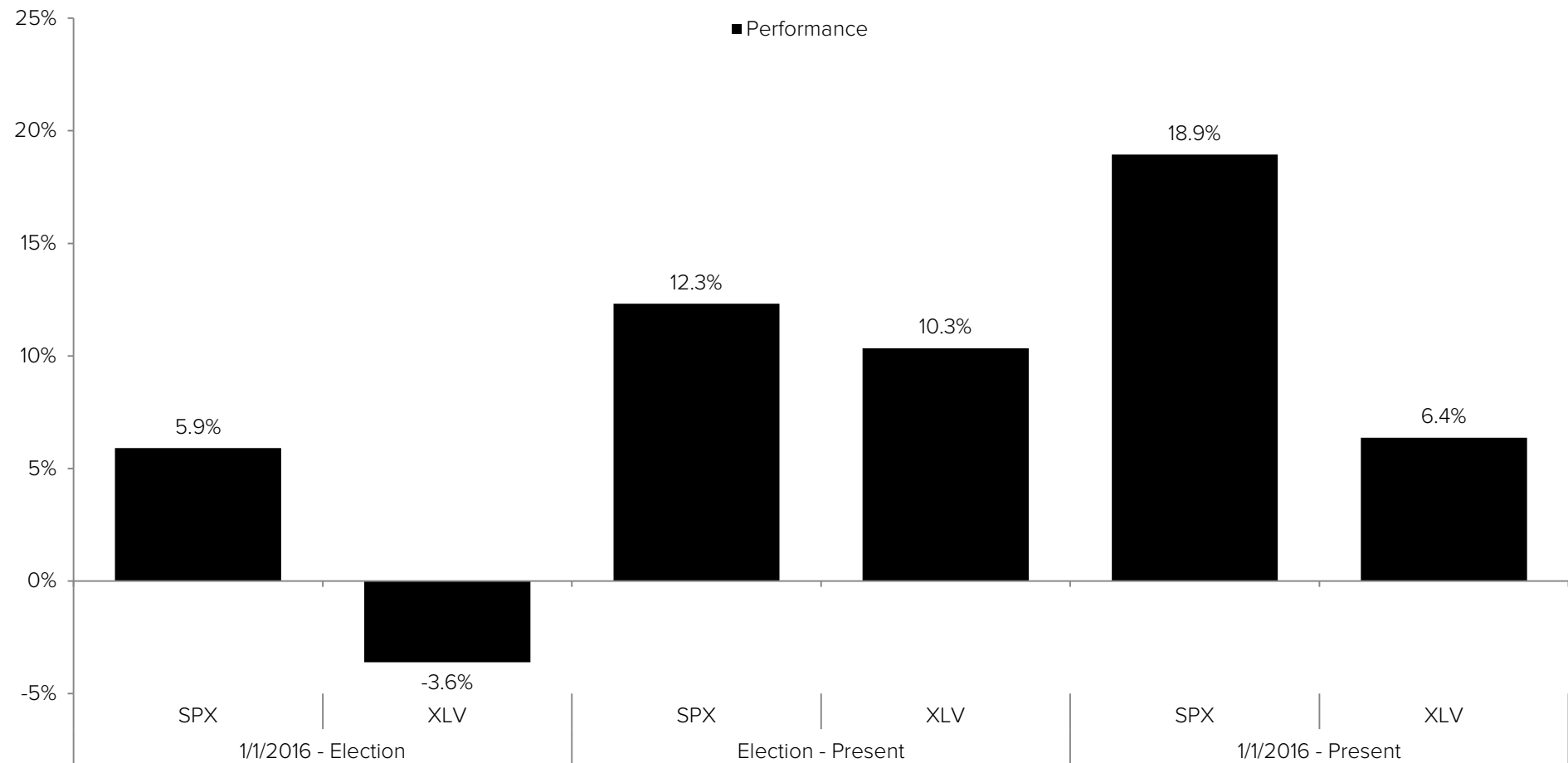
SPX VS XLV PERFORMANCE



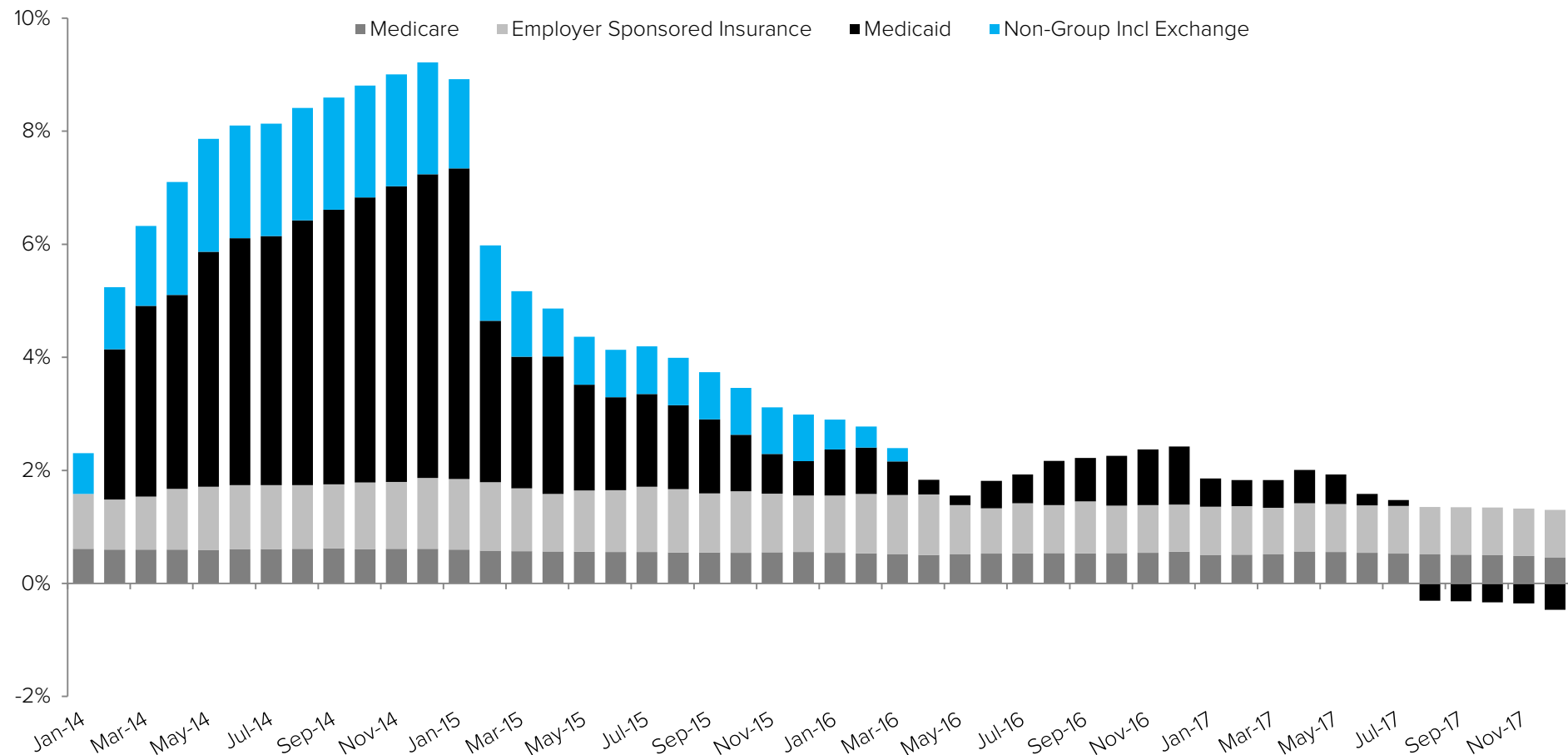
SPX VS XLV PERFORMANCE



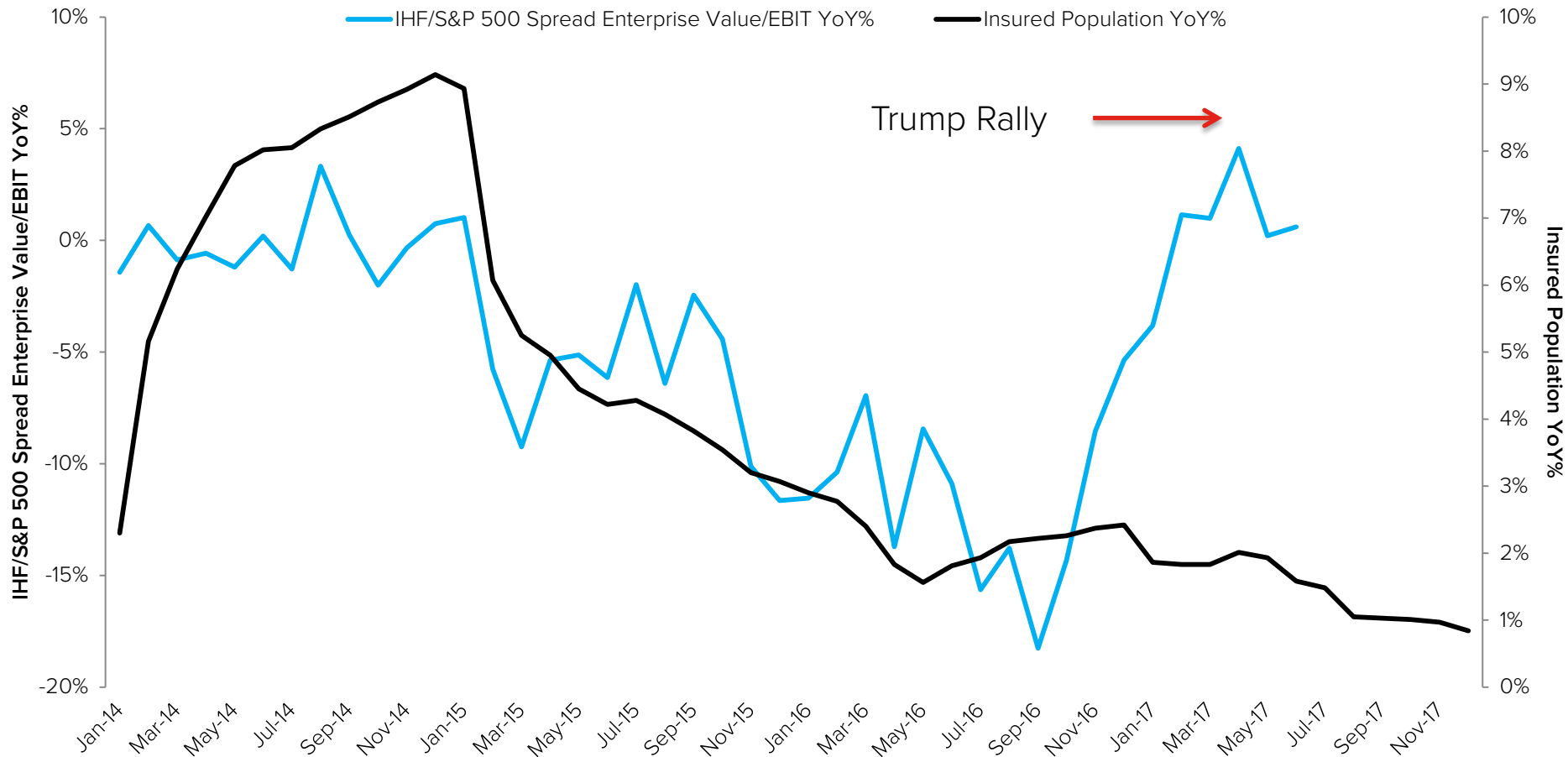
SPX VS XLV PERFORMANCE



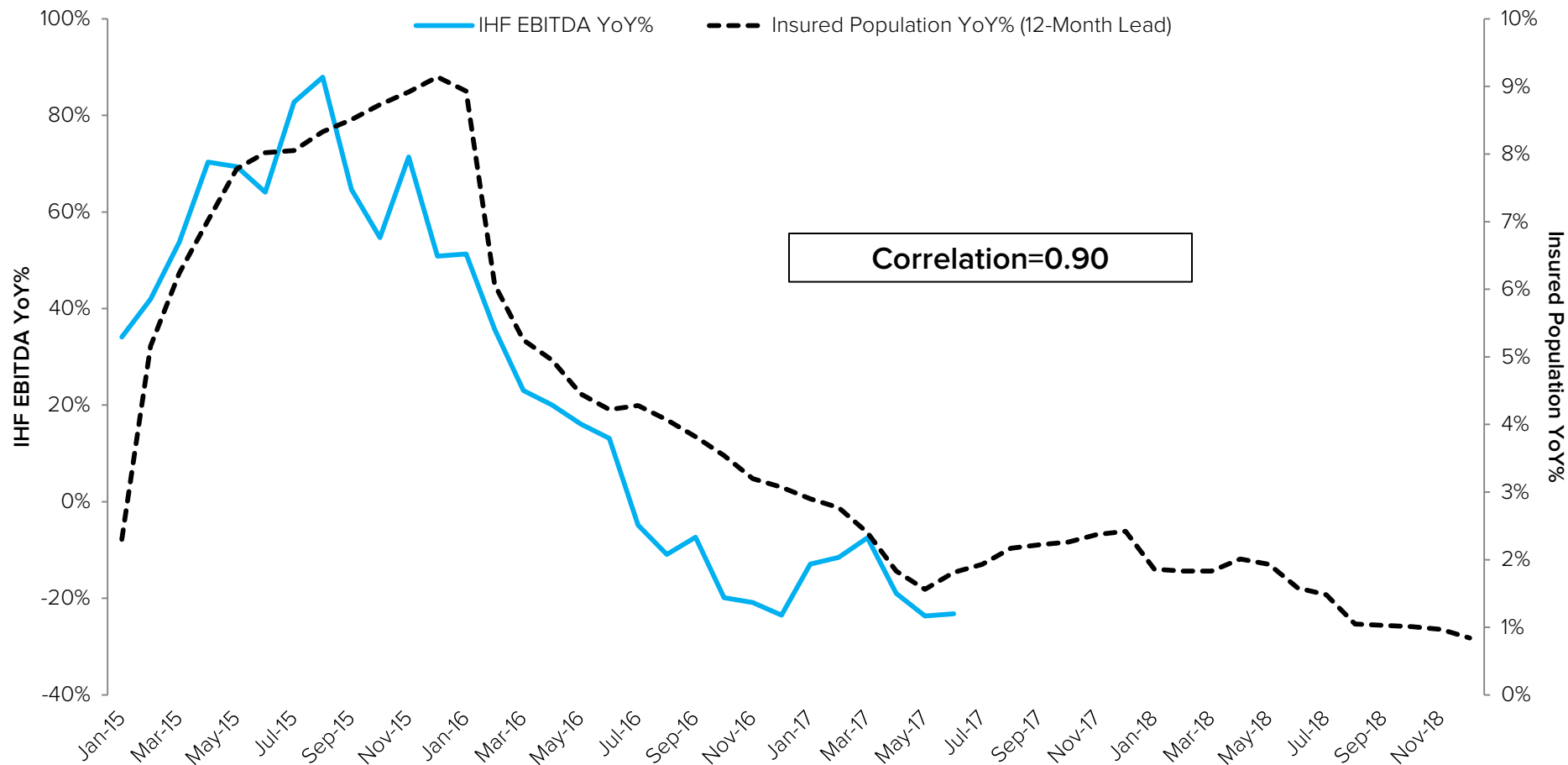
INSURED POPULATION



TRUMP RALLY DRIVING MULTIPLE EXPANSION



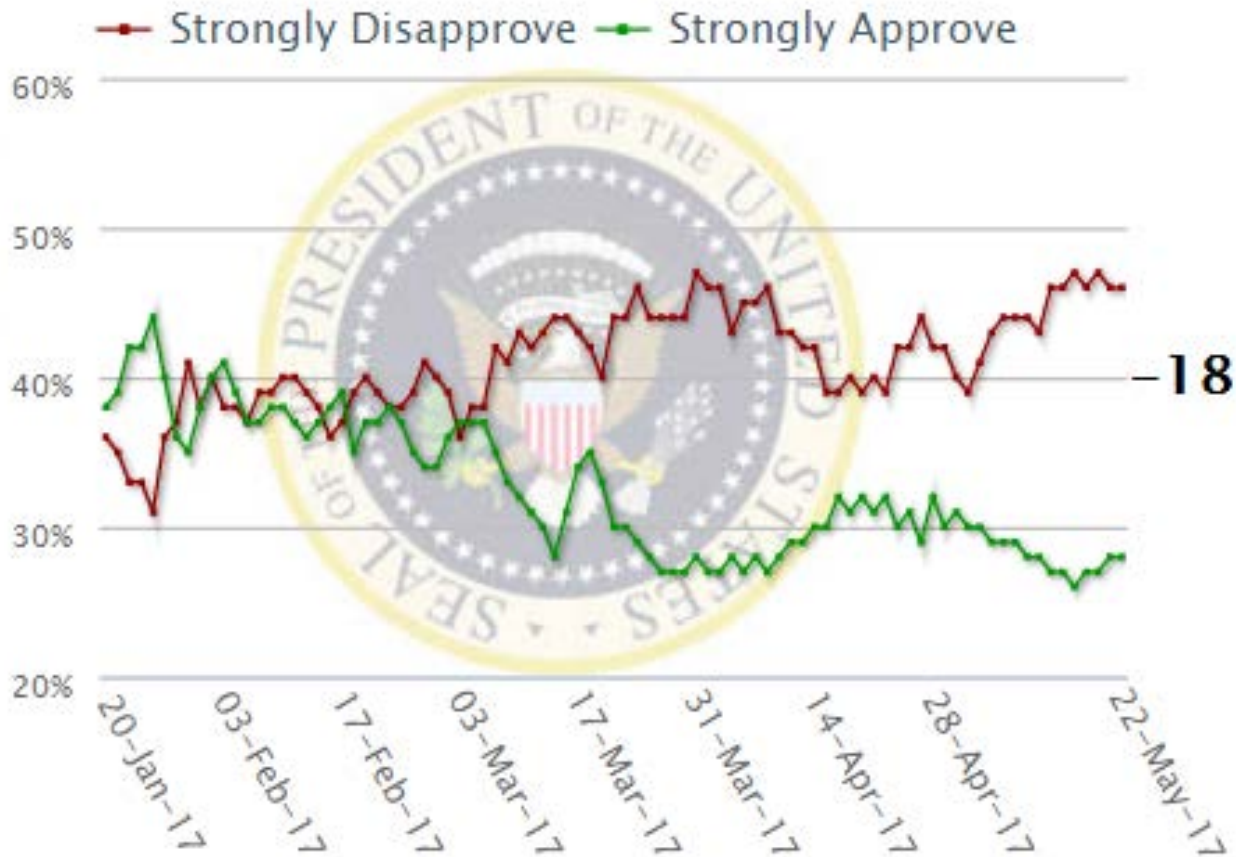
INSURED POPULATION DRIVES EARNINGS GROWTH



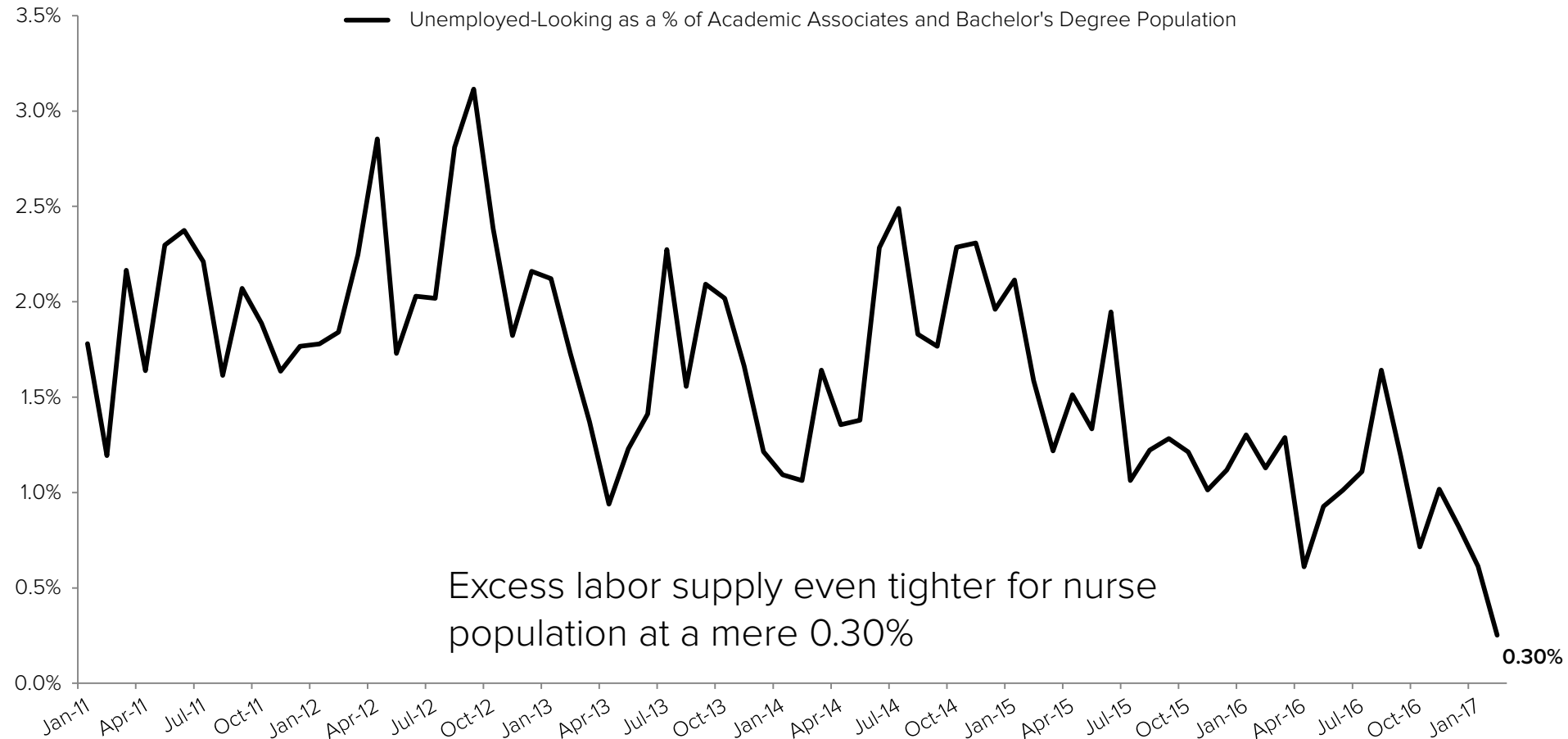
TRUMP SPREAD WORSENING



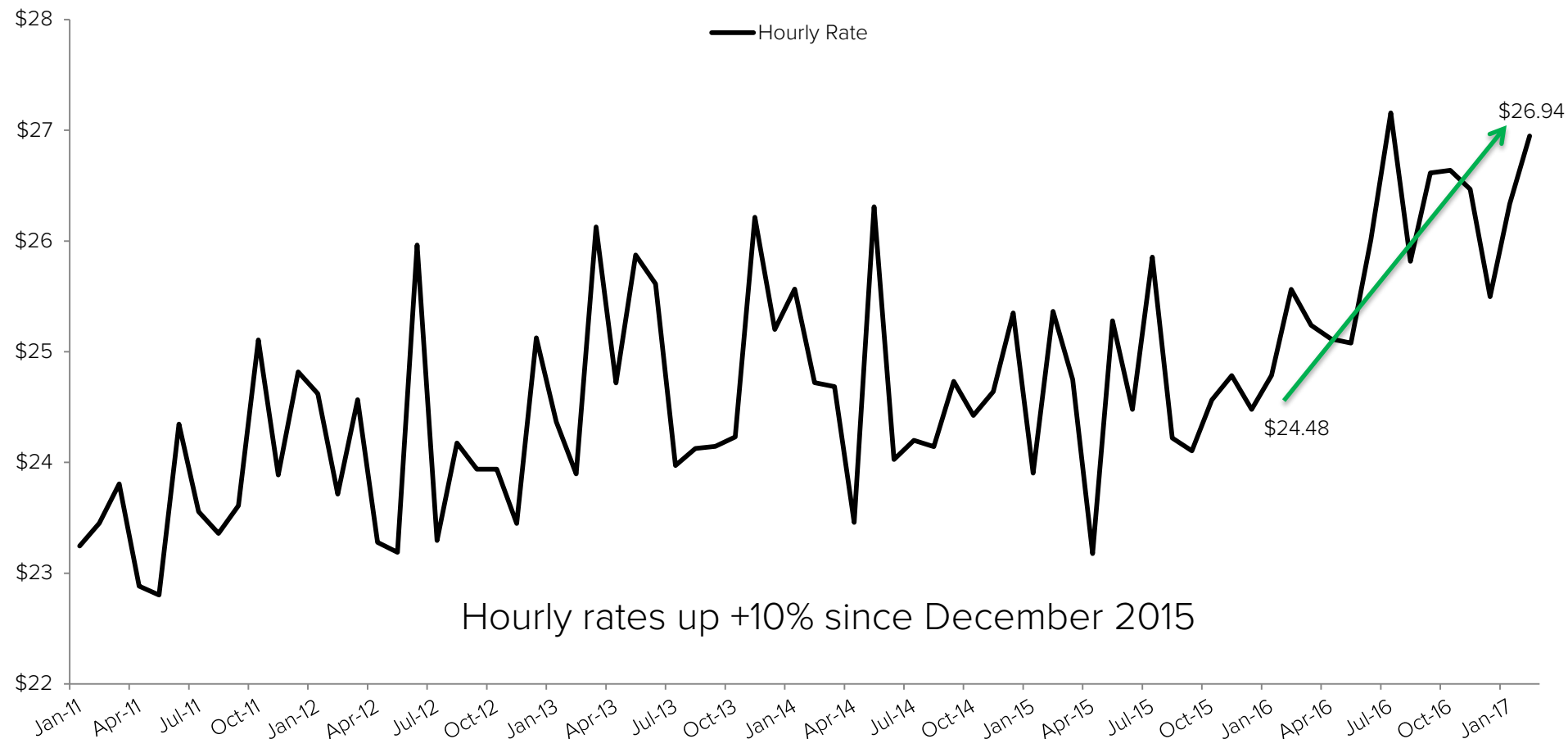
1,500 Likely
Voters
± 3%



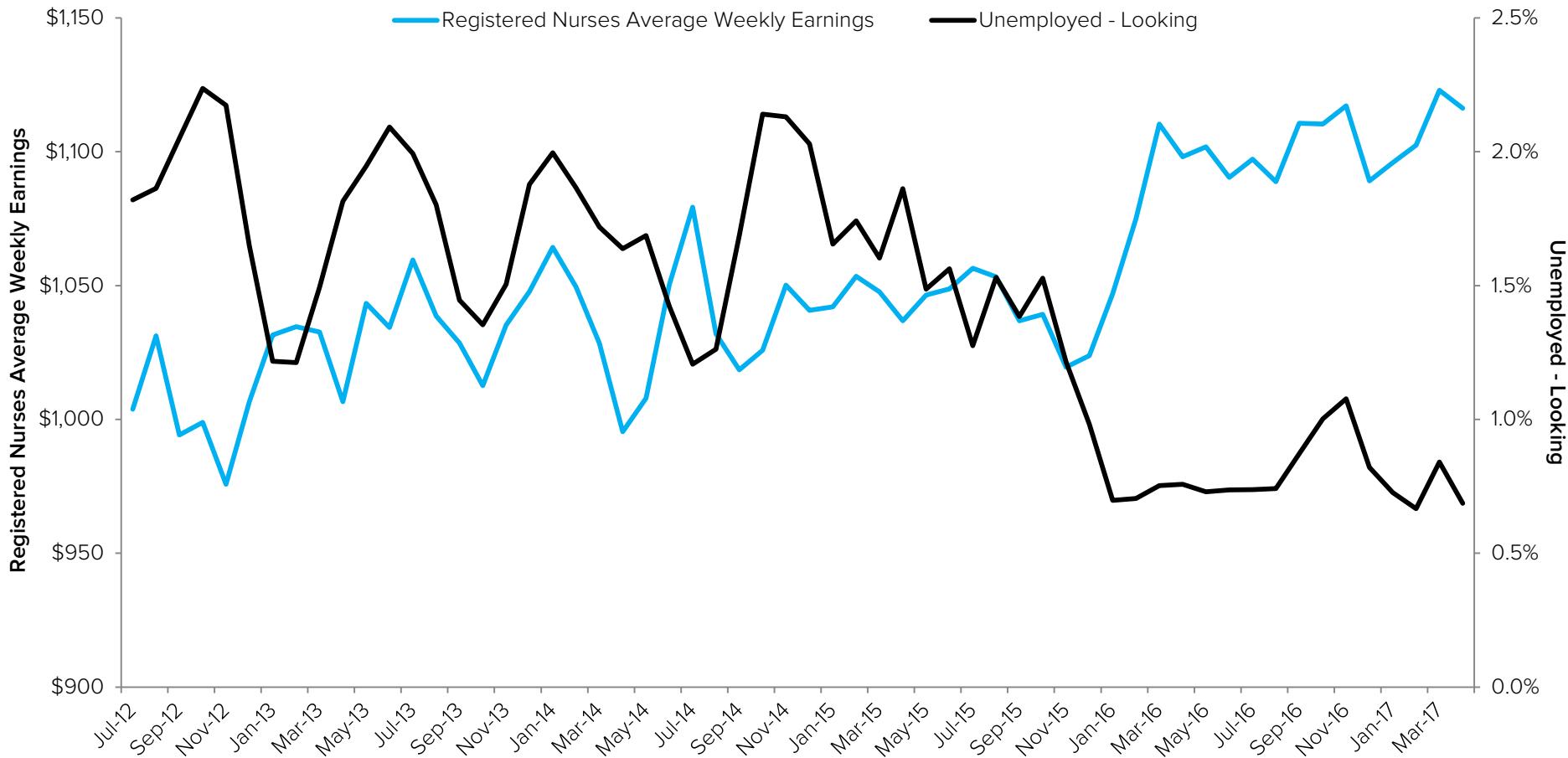
“UNEMPLOYED - LOOKING”



HOURLY RATE +10% SINCE DECEMBER 2015



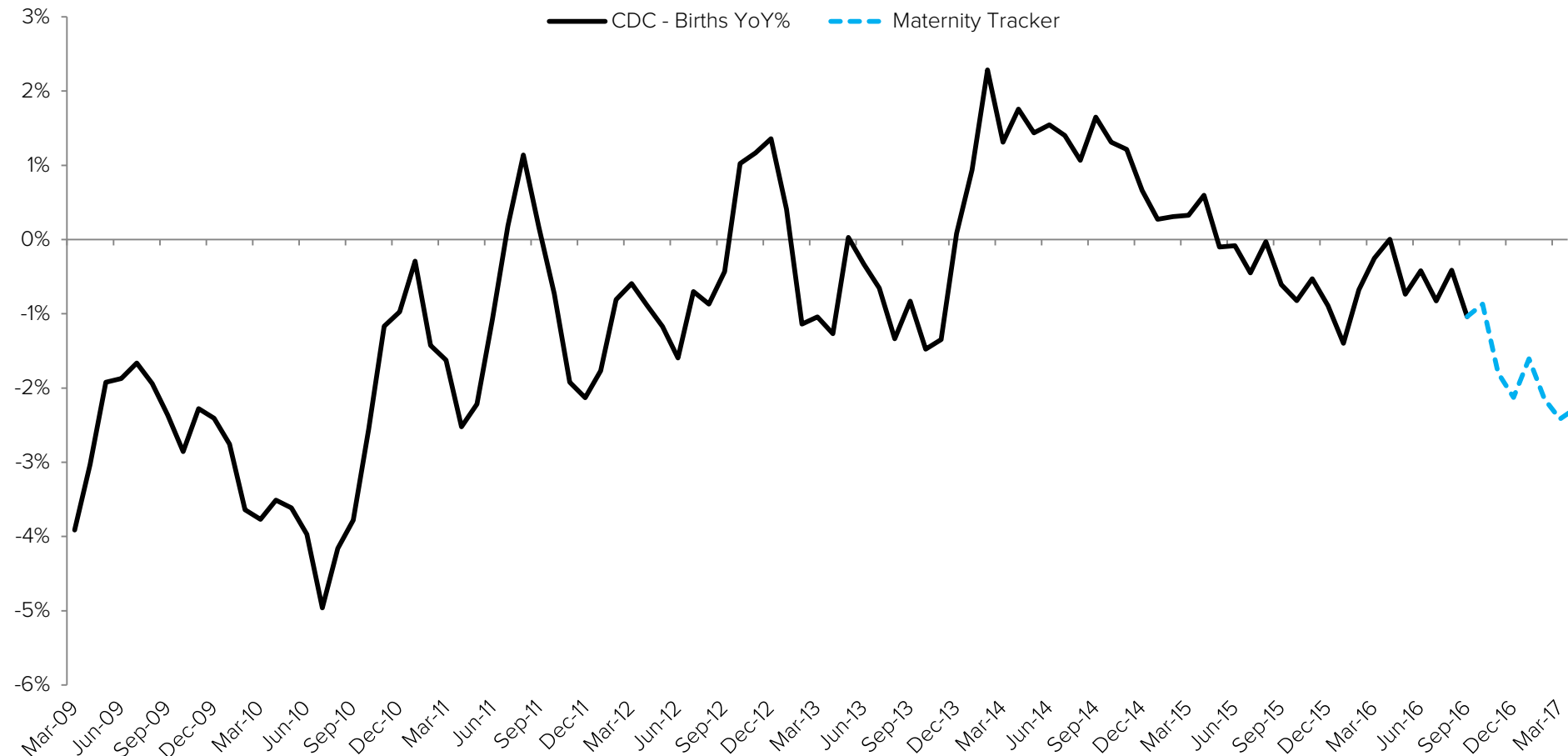
RNS WEEKLY EARNINGS VS UNEMPLOYED - LOOKING



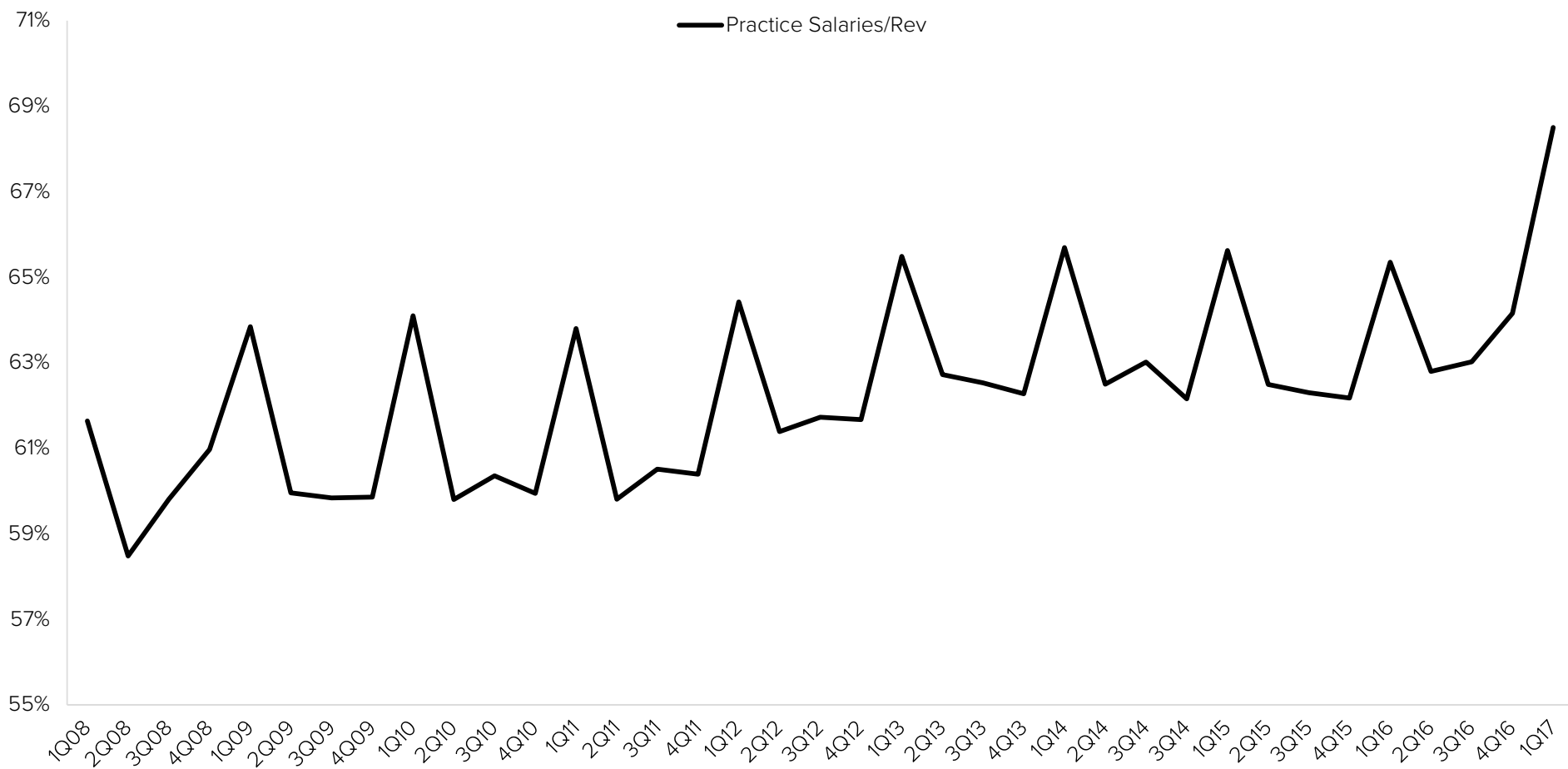


MEDNAX ROLL-UP TO BLOW-UP

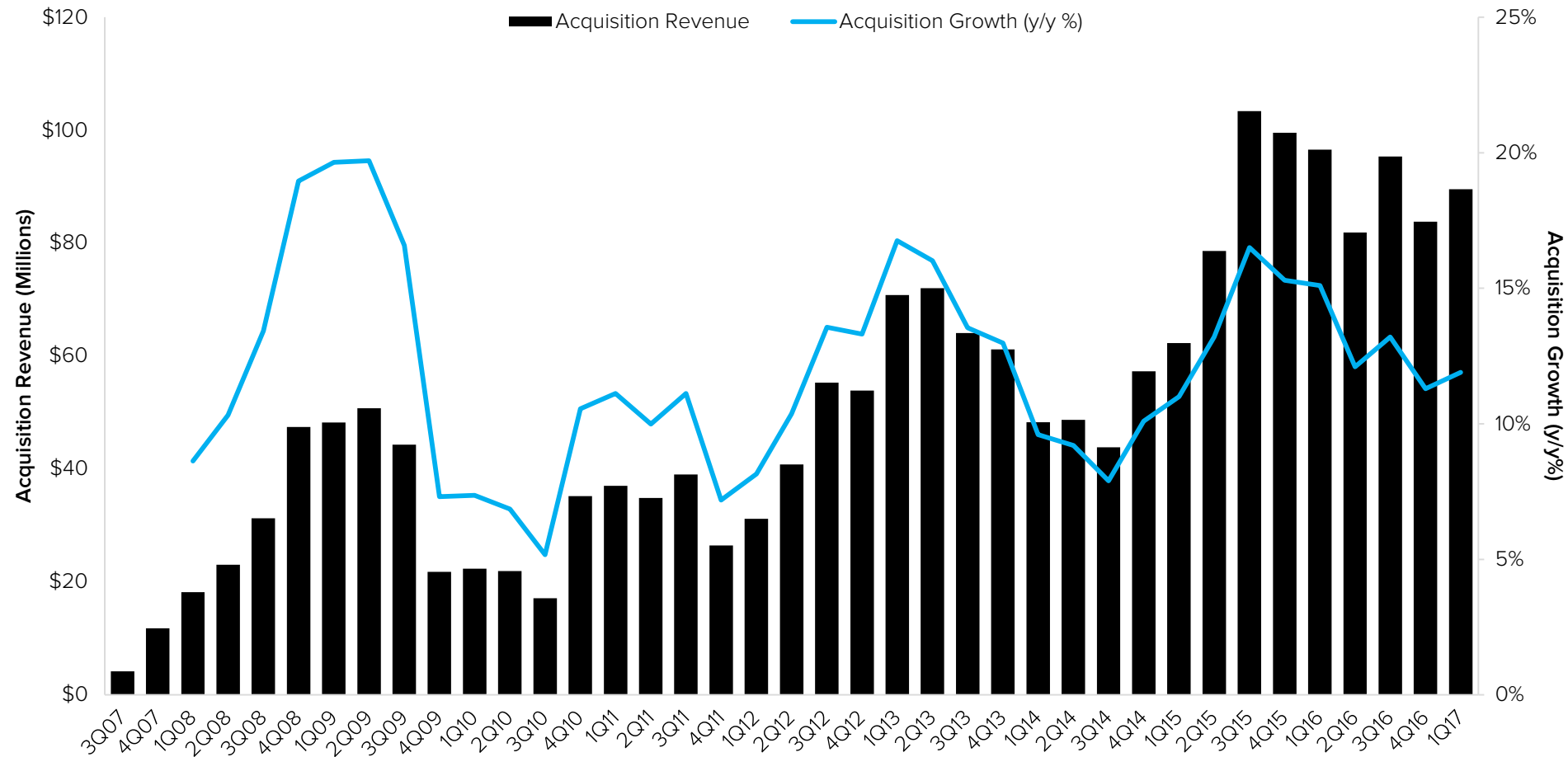
MATERNITY CONTINUES NEGATIVE



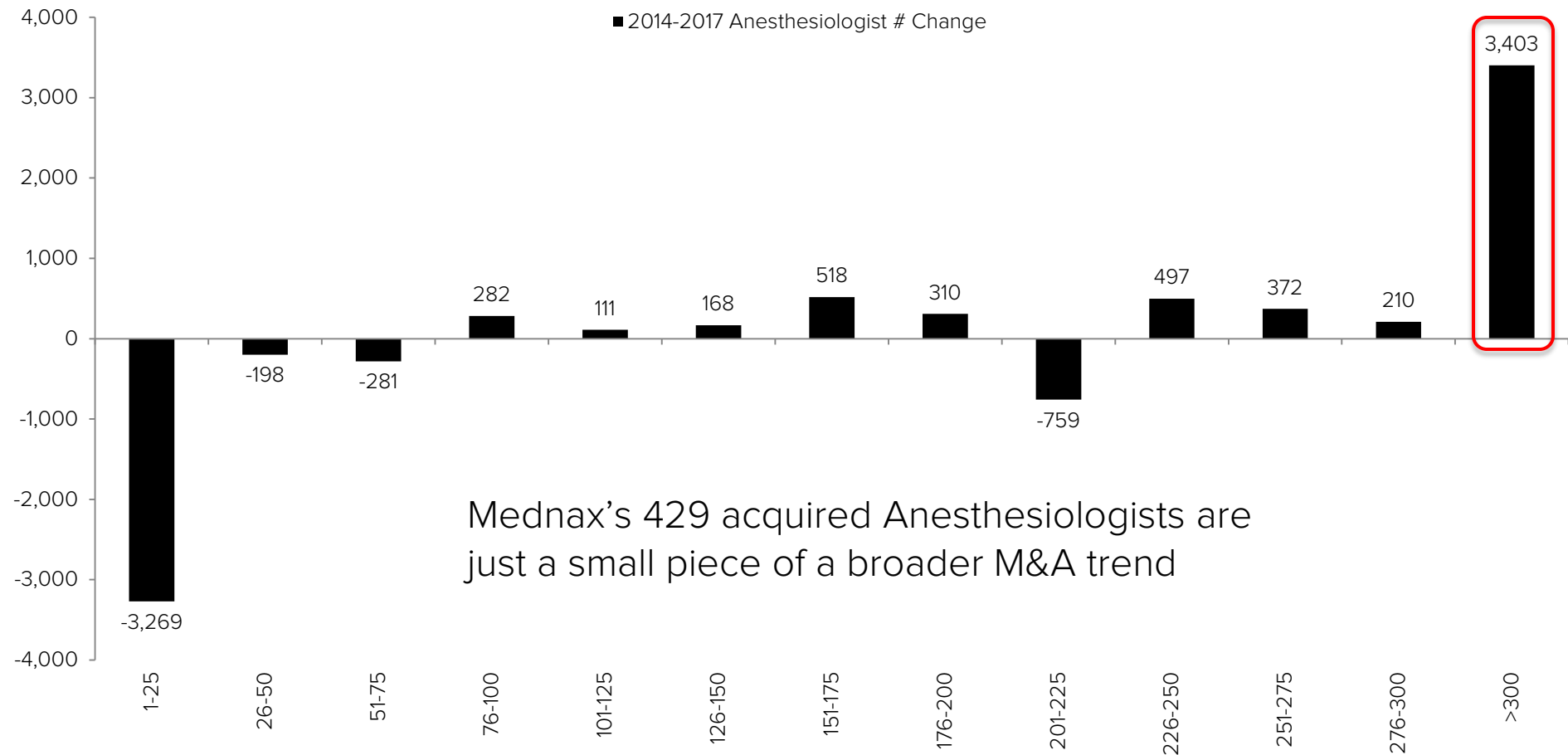
IS THE MEDNAX STORY BROKEN?



ACQUISITION REVENUE SLOWING



BIG GETTING BIGGER ACROSS PRACTICE SIZES



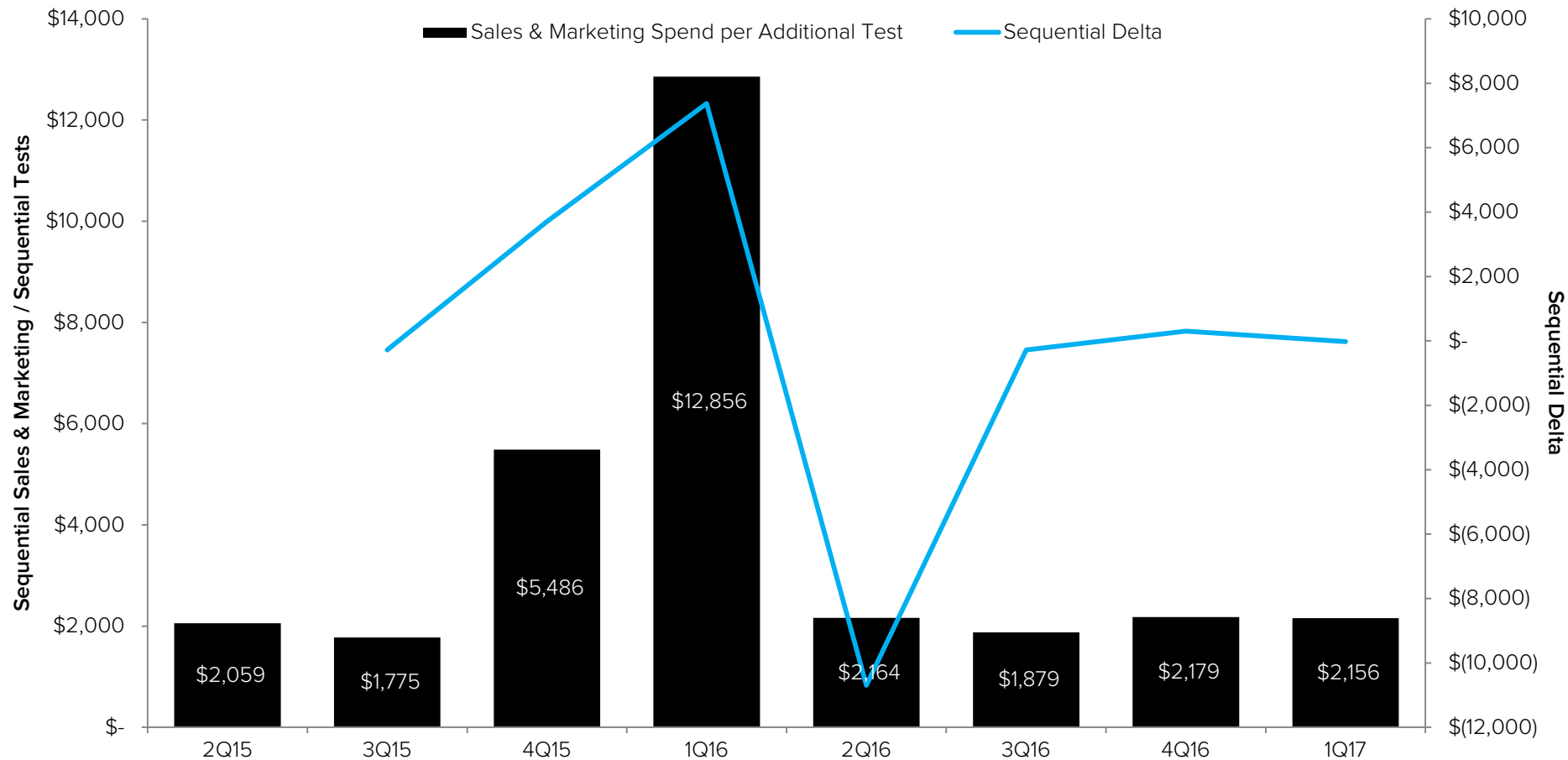


EXACT SCIENCES | THE FACTS VS SHORTS

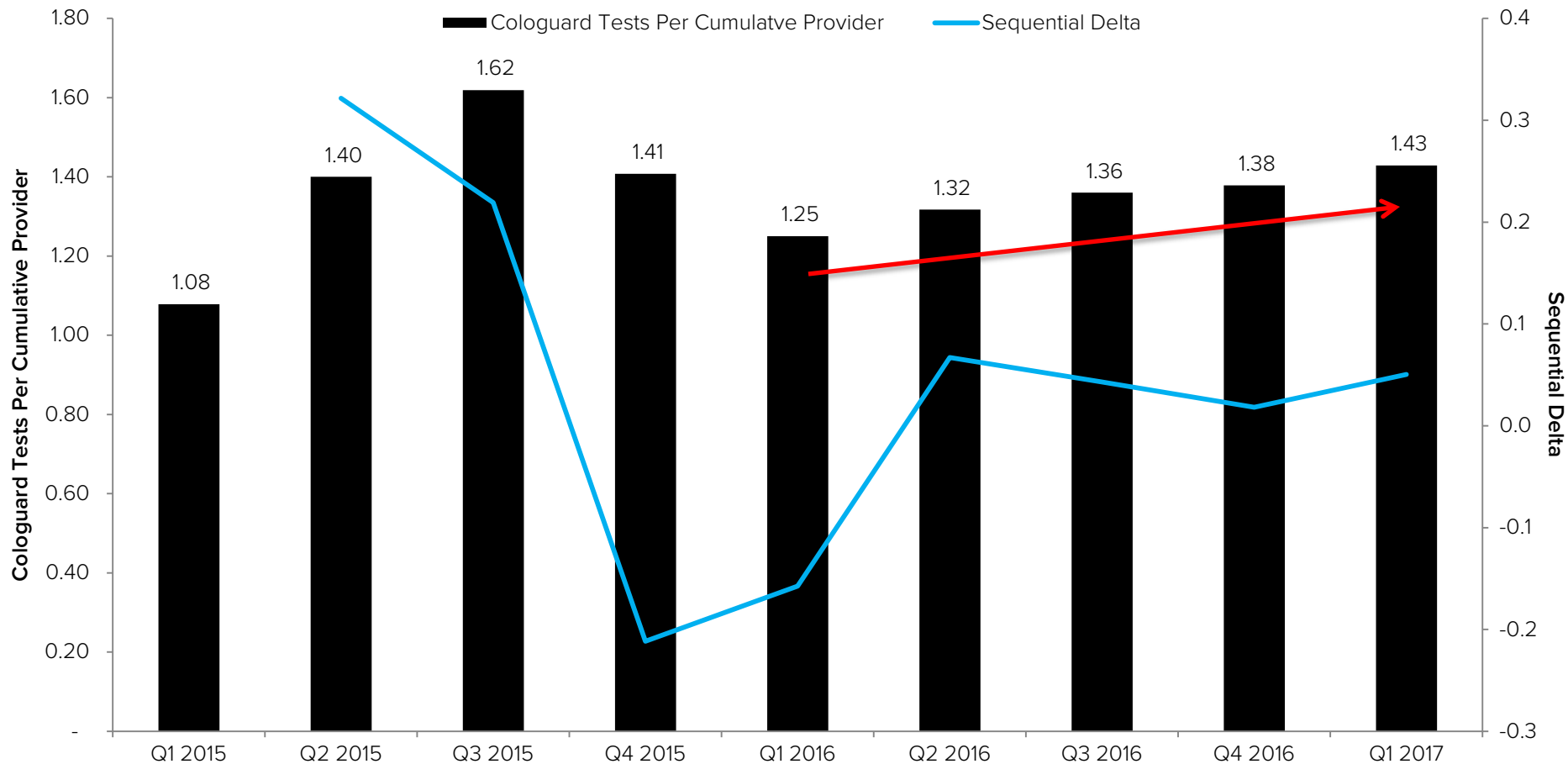
EXAS | CITRON SHORT REPORT

- Last Monday Exact Sciences (EXAS) was down as much as **-8% after Citron Research issued a short report on the company.**
- Many of Citron's arguments around pricing are **factually incorrect.**
 - Citron's PAMA analysis is **wrong**. The report fails to mention that PAMA puts a 10% limit on the downside for pricing from 2018-2020.
 - The report also fails to mention that the PAMA rate is based off of **contracted rates only** which EXAS' management has been vocal about not contracting below the Medicare price of \$512.
- Citron claims that tests per provider have been flat and “can only get worse”. **We have seen a steady increase in this metric and believe it more likely near an inflection point to the upside.**
- Citron claims EXAS doesn't disclose test per provider metric. EXAS provides the number of tests and number of providers which are needed to calculate this metric.
- Ultimately, there was **nothing new released in the Citron report** that we believe will matter to the stock over the next 9-12 months.

EXAS | SALES & MARKETING PER ADDITIONAL TEST



EXAS | TESTS PER CUMULATIVE PROVIDER





ATHENA | ACTIVIST RISKS & OPPORTUNITIES

ATHN | ACTIVIST RISKS AND OPPORTUNITIES

- **Don't Touch Jonathan Bush** - For better or worse, Jonathan Bush is the lifeblood of athenahealth. We believe his antics and strong personality have done the company more good than bad over time, and believe he is 'crazy like a fox' and not certifiably insane like some suggest.
- **Hire Inpatient Talent** – Inpatient is more complicated and requires a different implementation approach and mindset compared to ambulatory.
- **Careful Cost Cutting** – While we wouldn't describe athenahealth's cost-structure as bloated or inefficient, there are likely areas where the company could pull back on that may drive an additional 200-400bps in operating margin expansion over time.
- **Strategic M&A** – With core ambulatory growth slowing, valuations down, and 389 vendors responsible for the bottom 25% of the practice management market, athenahealth could embark on a more aggressive roll-up campaign.

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