



Innovations shaping the global healthcare universe

The healthcare sector is in a state of constant evolution, and with the COVID-19 pandemic behind us and an upcoming US election, what impacts could we see in the sector? Investment Analyst, Wilson Nghe sheds light on the dynamics that could play out from the US elections, how the healthcare system has transformed since the pandemic and highlights the opportunities and challenges that investors need to watch out for.

In a recent Magellan podcast, we have discussed Ozempic in detail, it certainly feels like this is a particular area of healthcare that's evolving and continues to gain more attention. Is there anything new we are considering in this space?

It's a space I've followed quite closely for some time now and developments in the weight loss drug space remain quite fluid, given we're still in the early stages of reimbursement – so essentially, who is going to pay for this – and some clinical trials are still ongoing. But there are a couple of areas that I am keeping in mind as this market continues to develop.

Firstly, it's the pipeline of new products and this would be amongst the two key leaders, Eli Lilly and Novo Nordisk. There are also a couple of Bio-techs out there with quite interesting early-stage assets – I'd add Viking Therapeutics and Zealand Pharma into this mix. The second point I'm keeping my eye on is supply and manufacturing constraints continuing to improve. Thirdly, it's the development of a non-peptide based pill version of the drug – so here the chemical properties will be quite different to current weight loss drugs like Ozempic. What this essentially means is it will be a lot cheaper and easier to manufacture, so a lot of the supply constraints will be alleviated. We're expecting some important clinical trial data on this in the first half of 2025.

The last thing I would note, and it's more of a tail risk, is we are starting to see low-cost, scaled Indian and Chinese generics players ramp up their manufacturing lines to try and capture some of this market.

We like this space quite a lot, particularly the two leaders, Eli Lilly and Novo Nordisk, but as we know it's not all about quality. Valuation is something I am thinking about constantly and that's mostly around the pricing outlook and reimbursement, so we continue to watch this space quite closely.

It's an election year in America, and health care is always high on the agenda for both Biden and Trump. Does this create opportunities or add areas of concern when doing research?

Healthcare does become quite topical during U.S. election campaigns and we have seen some quite interesting positions from both the Biden and Trump camps so far.

Firstly on the Democrat side, they've historically been more about government intervention in order to push for healthcare affordability and access, so 'Obamacare' is a great example of this. Some of their more recent policies have focussed on Big Pharma and drug pricing and an example of this is the Government giving Medicare the power to negotiate drug prices with Big Pharma for the first time. They've also been largely against mergers and acquisitions (M&A) in concentrated healthcare sub-sectors, this has been aimed at the larger end of town in the healthcare sector and is not too dissimilar to what we've seen in the tech sector with the antitrust cases against Google.

On the Republican side they have historically been more supportive of economic and market forces and actually limiting government interference. The key opportunity we see in the event that Trump is elected – and it is shaping up to be quite a tight race – is a more favorable backdrop for M&A activity and this will help some of the larger companies in the pharma and health insurance space. There's also been talks about repealing some of Biden's drug pricing reforms.

So when we think about positioning in the US healthcare sector, we typically prefer healthcare sub-segments or companies that firstly play into a structural thematic that provides them with growth over your usual demographics such as an ageing

population. Secondly, those who operate in an area that generally has broad bipartisan support and what this does is help with conviction on that growth outlook.

What are examples of companies in these areas?

UnitedHealth Group is a good example here. They're the largest health insurer in the US and they're also vertically integrated in that they own health care providers. An easy way to think about this is if Medibank in Australia owned the largest GP network and a couple of surgical centres.

Now what you might not know is that about 25% of total health care costs in the US are deemed wasteful, this is mostly through failed or unnecessary care, a good example of this is if a GP referred you to multiple specialists when you only really need to see one. Something we're seeing in the US health system that's addressing this is a shift away from fee-for-service, which is what we have here in Australia, towards something called value-based care, which essentially ties payments for healthcare services to actual patient health outcomes.

One of the biggest supporters of value-based care policies is actually the US government and this is through reimbursement for a health plan called Medicare Advantage. By the end of 2023, more than half of all Medicare beneficiaries in the US opted in for a Medicare Advantage plan – that's over 30 million Americans enrolled in a Medicare Advantage plan.

UnitedHealth has the largest share of the Medicare Advantage market, but most importantly they have an unrivalled value-based care platform. They were the first movers in building out the technology and infrastructure needed to service value-based care policies. We view UnitedHealth as being best placed to grow above peers in what could actually eventually be a \$1 trillion industry.

During Covid we saw big changes to the way that health care was delivered. What's happened to the health system since Covid?

One of the big changes we're seeing in the health system post-Covid is a return of all elective surgical procedures which were put on hold during the lockdowns. During the Covid pandemic, hospitals reserved all their beds for Covid patients and operating rooms were shut to non-emergency procedures, like knee and hip implants.

What we are seeing now is all those procedures are actually flowing back into the system. So the big beneficiaries will be firstly, those who provide the underlying infrastructure – HCA Healthcare is a company we like in this space, they're the largest for-profit hospital provider in the US. Secondly, the companies who sell the medical devices used in these surgeries, Stryker is a company that we like in this space. They are the global leaders in medical devices like orthopedic implants and they also sell a lot of the surgical instruments that hospitals use, like endoscopic cameras and hospital beds.

So this gives them an additional leg of growth above your usual demographic trends over the short term. What I think is also underappreciated is the longer-term growth from hospitals actually improving their operating room efficiency. Stryker is leading the charge here, they were the first to introduce robotics and software into orthopedic surgeries and what we're starting to see is increased accuracy in surgical procedures as well as error rates coming down. Not only are patients recovering quicker and having a better experience but complex surgeries are being completed a lot quicker in these operating rooms. We're quite positive on the long-term outlooks for both Stryker and HCA Healthcare.

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