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The Cure to What Ails Healthcare

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Over the last several years, the healthcare industry has shifted dramatically, as has our analysis of investments in the sector. In our view, new paradigms that focus on innovative product and service platforms that not only improve upon existing offerings but further drive down costs or improve access, will win out from here. We seek to identify companies whose approach benefits all stakeholders including payors, providers and patients. In our research, we focus on organizations that are dedicated to prevention and diagnosis, curative therapies, or better clinical and service treatment pathways relative to existing regimens.

The Cost of Healthcare

The unsustainable growth trajectory of spending is top of mind to any US healthcare investor, while access to appropriate care is another pervasive issue, particularly in non-US markets. As the chart below illustrates, cumulative healthcare spending in the US rose 33% from 2007 to 2017, roughly double the rate of GDP. Most recently, healthcare spending reached an all-time high of 18% of GDP in the US.¹

Health Spending and GDP: Cumulative Percentage Change (Constant Dollars) Since December 2007

We recognize some of this healthcare spending resulted in remarkable innovation, which led to both improvements in the quality and longevity of life as well as job creation. In fact, the US Bureau of Labor Statistics (BLS) projects that, over the next decade, five of the fastest-growing ten jobs will be related to healthcare. Thus, policymakers face a predicament—while the rise in healthcare spending is unsustainable and needs to be addressed, it also keeps employment elevated in high-value parts of the economy.
The unsustainable cost trajectory of healthcare spending is not only a domestic issue, it has led to tough budgetary decisions and rationing in non-US markets as well. In the UK for example, budgetary constraints have resulted in inflated National Health Service (NHS) waitlists. With 4.3 million people awaiting care, it’s the highest in the last 5 years.

Patients Waiting More Than 18 Weeks for NHS Treatment in England


PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.
A Solutions-Oriented Mindset

Healthcare spending often results in higher innovation, better quality of life, increased longevity and more jobs, but solutions are needed to change the unsustainable cost trajectory while preserving these benefits. Our focus on a “cure” to what ails traditional healthcare emphasizes companies that are providing solutions to conventional “Healthcare Inflationary Spending,” which is heavily reliant on reactive, prolonged, expensive treatments, and often with misaligned incentives. Generally, we have found the most impactful efforts focus on all stakeholders (i.e. payors, providers and patients) buying in. In some cases, short-term costs may increase in order to drive long-term savings if there is a strong return on investment (ROI) argument for newer products or services that are priced at a premium. We believe companies putting forth differentiated and first-mover product or service models will continue to be rewarded in their stock performance.

There is no shortage of politically charged propositions and attacking them is akin to squeezing a balloon. As investors, we are mindful of debates between extreme points of view that might pressure valuations, such as the potential heavy hand of drug pricing controls or the migration to a single-payor government healthcare system. While the noise can make healthcare investing frightening at times, we’ve observed a mega-trend in product and service innovation where the ability to change the rate of spending is equally as important and additive to traditional benchmarks as efficacy and safety.

With a new mindset, we have developed an investing framework that identifies therapies and services that conform to the new realities of healthcare. In our view, successful companies need to be investing around one or more of the following focus areas:

1. A continuing focus on Research & Development driven product and service innovation
2. An urgent focus on efforts to stem runaway healthcare inflation
3. Significant prioritization of reliable diagnostic & preventative techniques
4. Aggressive adoption of emerging technological advances capable of streamlining workflows in healthcare

We believe companies that embrace these concepts will ultimately win out over those geared toward “me too” therapies, inflationary spread economics, or “fee for service” (i.e. higher volumes and utilization designed to drive revenue).

Improving Outcomes and Savings

Preventive Implants

We have identified many investment opportunities where minimally invasive medical procedures could supplant the more expensive standard of care with similar or better patient outcomes. Atrial Fibrillation (AF), a form of irregular heart rhythm, affects 5 million US patients and 20 million patients worldwide. The condition often results in blood clots, which can lead to ischemic stroke. The most common preventative treatment is the continual use of ordinary blood thinners, which has its own list of menacing knock-on effects. However, an alternative in the form of a permanent implant has emerged for patients who cannot tolerate standard blood thinners—the Left Atrial Appendage (LAA) closure. An interventional cardiologist inserts the implant to close the LAA, where most clots form, during a procedure that’s minimally invasive and takes approximately one hour with one overnight stay.
Five-year follow-up clinical trial results reveal similar stroke prevention rates to common blood thinners. Patients benefit from the one-time procedure, reduction in ischemic stroke risk due to AF, and it eliminates the need to use blood thinners over the longer run, reducing the risk of excessive bleeding. The closure device also appears to bend the cost curve relative to blood thinners, which is the current standard of care. In a published article in Stroke, the authors reveal that the aforementioned closure device achieved cost effectiveness relative to common blood thinners at years five and six. In addition, at year ten, the device added more quality adjusted life years at lower costs using standard diagnosis-related groups pricing data for different outcomes. To sum, LAA closure could benefit all stakeholders. With a large patient population at 28% of the 5 million people afflicted with Atrial Fibrillation in the US, the cost drivers and savings to the third-party payor and system could be meaningful.

**Left Atrium Appendage Closure for Prevention of Stroke Due to Atrial Fibrillation**

![Heart Diagram](https://example.com/heart_diagram.png)

**Gene Therapy**

We see functional cures for many inherited diseases displacing inflationary chronic modalities over the coming years. Gene therapy (GT) or editing is one of the most exciting breakthroughs that may offer hope to cure diseases like severe hemophilia or Sickle Cell Disease (SCD). Several companies are developing GT for Hemophilia A. Hemophilia A (H-A) is a genetic condition whereby the patient is unable to make the factor VIII (F8) protein necessary for normal blood clotting. Patients with the disease live each day with the risk of severe life-threatening bleeds and rely on on-demand or preventative infusions and transfusions during their lifetime, which is roughly normal length given modern treatment paradigms. Thus, the potential advent of a one-time gene therapy that dramatically improves the patient’s quality of life while reducing crisis episodes would be a welcome medical breakthrough.

Although still in clinical development, gene therapy for hemophilia, put simply, injects a virus carrying the corrected gene for F8 production into the patient. Once the virus enters the nucleus of certain cells, it can provide the genetic information necessary to produce F8. To date, GT for H-A has been able to maintain F8 levels within normal range in patients with pre-treatment levels of below 1% of normal. If results continue to be promising, one or more companies could be in a position to launch a product in 2021.
Clearly, hemophilia patients stand to benefit from functional cures of their disease, but there’s a clear cost saving component that makes gene therapy one of the purest “healthcare” plays. Typical annual costs of hemophilia treatment are extremely high at approximately $300,000 per year for normal F8 injections and nearly $577,000, all inclusive of associated medical costs, if the patient has developed immune responses to those injections. The first gene therapy approved by the US Food and Drug Administration (FDA) for the treatment of rare inherited blindness, Luxturna™, was priced at $850,000. While that price may shock some, the simple math based on current factor replacement therapy and associated medical service costs reveals that gene therapy for hemophilia could pay for itself in just two years. Not only could gene therapy for hemophilia benefit the over 400,000 patients worldwide, but it could also benefit the broader healthcare system, which bears a near $300,000 cost burden per patient per year.

Improving Access

The Lancet Commission’s Report predicted almost 25 million more people would be diagnosed with cancer in the next 15 years—doubling the world’s cancer burden. The article also noted that, while 50-60% of patients with cancer should receive radiation therapy (RT), only 10% have access in low income countries. Four recommendations came out of the report, including a call to expand RT capacity by 25% by 2025. To try to meet the demand, a Company we follow developed a new type of linear accelerator, a device commonly used to treat various types of cancer. This new machine fits in a smaller space, can be installed in as little as a few weeks, allows for greater throughput and was built with the practitioner in mind as both training and navigation have been simplified. Over time, this machine should greatly improve access to underserved markets where radiation oncology can make a difference in patients’ lives.
Advancing Pharmacy Care and Physician/Patient Interfaces

Several leading Pharmacy Benefit Managers (PBMs) recently launched new tools in line with advancing technologies that we believe will streamline workflows while lowering cost and improving patient satisfaction. Some of these technologies are tied into a physician’s electronic medical record (“EMR”) and enable him or her to view real-time patient-specific information, including the patient’s individual formulary options and out-of-pocket cost responsibilities. The physician can view these together with the patient to select the most effective course of action.

Early results suggest that, armed with an improved data set, physicians and patients are opting for clinically-equivalent lower-cost alternatives. In some cases, the PBMs are noticing material savings for the patient while saving the system money as well. Additionally, the tools may allow for electronic instant pre-authorization approvals, which could further reduce the administrative costs around prescription approval and fulfillment. We have seen rapid adoption of these new technologies and expect their use to continue to meaningfully increase.

Spectacular innovation resulting in better patient outcomes has consistently driven successful healthcare stories. That innovation has surely extended people’s lives in quality and length. In our view, new services and therapies must also provide cost-trend bending solutions for the system broadly. Companies that achieve what we view as “healthcures” advancements will find the most product demand and outperformance should follow. Key global policymakers are the driving forces behind this paradigm change. We agree with Health and Human Services Commissioner Alex Azar who recently remarked, “It is time to realign the system in a way that promotes the development of affordable innovations that improve health outcomes and lower both out-of-pocket cost and total cost of care.”

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Prior to joining the investment industry, Matt was a senior research scientist at SmithKline Beecham, where he helped to develop cardiovascular/general surgical techniques, designed surgical models for MRI in stroke research, and researched osteoporosis.

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Endnotes

1. Altarum Institute, Health Sector Economic Indicators; August 2018


3. OptumRx Hemophilia Drug Class Insight, 2015. (Company Website: www.optum.com)


Disclosure

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