BofA IG and HY Healthcare Research

# Day 1, 2, and 3 Healthcare Conference Takeaways

**Industry Overview**

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High Grade Credit
United States
Healthcare

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## 2024 Healthcare Conference highlights

In this report, we summarize key takeaways from the IG and HY presenters at the healthcare conference this week.

## Investment Grade Healthcare Companies

Abbott (ABT), AbbVie (ABBV), Agilent (A), Alcon (ALC), Amgen (AMGN), AstraZeneca (AZN), Baxter (BAX), Becton Dickinson (BDX), Bristol Myers (BMY), Cardinal Health (CAH), Cencora (COR), Cigna (CI), CVS Health (CVS), Danaher (DHR), Eli Lilly (LLY), GE Healthcare (GEHC), Gilead (GILD), GSK (GSK), Johnson & Johnson (JNJ), Labcorp (LH), McKesson (MCK), Merck (MRK), Novartis (NOVNSW), Pfizer (PFE), Quest Diagnostics (DGX), Royalty Pharma (RPRX), Sandoz (SDZ), Sanofi (SANFP), Thermo Fisher (TMO), Viatris (VTRS), Zimmer Biomet (ZBH), Zoetis (ZTS).

## High Yield Healthcare Companies

Acadia Healthcare Company, Inc. (ACHC), AdaptHealth Corp. (ADAHEA), AMN Healthcare Services, Inc. (AMN), Amneal Pharmaceuticals, Inc. (AMNPHA), Avantor, Inc. (AVTR), Bausch + Lomb Corporation (BLCOCN), Catalent, Inc. (CTLT), Centene Corporation (CNC), Charles River Laboratories International, Inc. (CRL), Embecta Corp. (EMBC), Fortrea Holdings Inc. (FTRE), Fresenius Medical Care AG & Co. KGaA (FMEGR), HealthEquity, Inc. (HQY), Hologic, Inc. (HOLX), ICON plc (ICLR), Integer Holdings Corporation (ITGR), Jazz Pharmaceuticals plc (JAZZ), MultiPlan Corporation (MLTPLN), Option Care Health, Inc. (OPCH), Organon & Co. (OGN), RadNet, inc. (RDNT), Surgery Partners, Inc. (SURCEN), Teleflex Incorporated (TFX), Teva Pharmaceutical Industries Ltd. (TEVA).

# IG Healthcare Conference Takeaways

## Abbott (ABT)

- **M&A:** There is not a need to execute M&A to sustain the growth rate. Can be selective in looking for deals. There is plenty of fire power for M&A.
    - **Focus areas:** Diagnostics and devices.
- **Libre:** Annualized sales exceed $5 bn. Expects to achieve $10 bn sales by 2028.
    - **Diabetes:** There are 500 mn people with diabetes worldwide.
- **Infant formula:** Market share that was lost during the recall was almost fully recaptured in Q3.
- **Adult nutrition:** ABT products can be used to offset some of the muscle loss effects from taking GLP-1s.
- **Inflation:** Commodity, freight, and distribution costs have come down from the peaks.
- **Pricing:** In med devices, pricing has moved closer to neutral.

## AbbVie (ABBV)

- **M&A:** Focus for the foreseeable future is on smaller early stage assets to drive growth in the next decade.
- **Humira:** 2024 erosion is trending more positively in 2024. Has more parity access in 2024 than expected. Vast majority of covered lives will be at parity.
    - **2024:** Majority of erosion in 2024 will come from price.
    - **CVS:** The majority of CVS lives will be at parity.
- **Aesthetics:** Expects the total business to return to growth in 2024.
    - **Botox:** Returned to market growth in Q3 and continuing into Q4. Market share has remained stable at 68%.
    - **Filler:** Typically the filler market lags Botox growth recovery following economic disruption by a couple of quarters. Market share continues to grow.
    - Confident in ability to hit greater than $9 bn of sales by 2029.
- **Earnings floor:** ABBV maintained its adj EPS floor of $11.00 in 2024, inclusive of the negative impact from the transaction of $0.19 and the ImmunoGen impact of $0.13.
- **Rinvoq:** In play share for RA is in the low teens and TRx share is just under 7%. In play share for Atopic Dermatitis is in the high teens and TRx share is in the high single digits.
- **Skyrizi:** In play share for psoriasis is 50% and TRx share is in the mid to high 30%
- **Long term guidance:** Expects strong growth from Rinvoq and Skyrizi until at least 2033.

## Agilent (A)

- **M&A:** Actively looking for M&A opportunities. Can do deals as high as $4-$5 bn.
- **China:** Saw some early signs of stabilization. Expects 2024 to decline and a return to growth in 2025. Continues to view China as a long term growth market.
- **Pharma:** Expecting the pharma end market to return to modest growth in 2024.
- **IRA:** Could see an accelerated shift from small molecule drugs to biologics.
- **Emerging biotech:** Funding challenges are transitory as good science will find capital to support development.
- **Portfolio:** 60% of revenue is recurring.
- **End markets:** $65 bn market growing 4%-6%.
    - **Pharma and Biotech:** $21 bn market growing 5%-7%. 36% of sales.
    - **Chemicals and Advanced Materials:** $5 bn market growing 3%-5%. 22% of sales.
    - **Dx and Clinical:** $15 bn market growing 5%-7%. 14% of sales.
    - **Environment and Forensics:** $6 bn market growing 2%-4%. 10% of sales.
    - **Food:** $5 bn market growing 2%-4%. 9% of sales.
    - **Academic and Government:** $13 bn market growing 3%-5%. 9% of sales.
- **2024 guidance:** Adj EPS of $5.44-$5.55, net revenues of $6.71-$6.81 bn (-0.5%-1% growth).
    - Expectation is 1H'24 will look very similar to 2H'23. The trough will be Q1 and then progressively getting better and exiting the year in a period of growth.
    - Assuming China will be down mid single-digits.

## Alcon (ALC)

- **Market:** Total market size $33 bn, growing 4%-5%.
    - **Surgical:** $13 bn market growing 5%.
        - **Implantables:** $4 bn market growing 6%.
        - **Consumables:** $6 bn market growing 5%.
        - **Equipment:** $3 bn market growing 6%.
    - **Vision care:** $21 bn market growing 4%.
        - **Contact lenses:** $11 bn market growing 5%.
        - **Ocular health:** $10 bn market growing 2%.

- **Contact lenses:** 1 point of share gain in global reusables generates $40 mn in revenue.
    - **Dailies:** ALC holds 29% market share.
    - **Reusables:** ALC holds 22% market share.
    - **Pricing:** Does not expect pricing in 2024 to be as aggressive as 2023.
- **AT-IOL:** U.S. AT-IOL penetration is 19% with a ceiling of 40%. Global AT-IOL penetration is 12% with a ceiling of 35%.
    - 1 point of U.S. penetration generates $30 mn of Alcon revenue.
    - Sees China as a region for significant growth potential in AT-IOLs.

## Amgen (AMGN)

- **M&A:** Continues to look for internal and external innovation.
- **Tarlatamab:** PDUFA date on June 12, 2024.
- **Biosimilars:** Next three expected launches: Stelara, Soliris, Eylea.
- **Obesity:** AMG 786 Phase 1 data readout in 1H'2024.
- **Horizon:** 91 days into the close, integration is going well so far.
- **Guidance:** On track to meet or beat long term guidance.

## AstraZeneca (AZN)

- **M&A:** Continues to explore opportunities for additional M&A.
- **Disease focus areas:** Oncology, cardiovascular, renal & metabolism, respiratory & Immunology, vaccines & immune therapies, rare diseases.
- **Oncology:** Global IO market is expected to be $92 bn by 2028. Global ADC market is expected to be $37 bn by 2028.

## Baxter (BAX)

- **Capital allocation:** First priority for capital deployment is debt pay down.
- **M&A:** Once deleveraging targets are met, the focus will be on tuck-in M&A in front line care and care communications.
- **Pricing:** Previous contracts were not designed to account for the level of inflation seen in 2021 and 2022. New contracts have been structured to incorporate price increases should inflation rise again.
- **Capital environment:** In the U.S., large hospital systems have a stable to slight positive purchasing environment.
- **Kidney care:** Making progress toward target of July 2024 for proposed spinoff.
- **BioPharma Solutions:** $3.7 bn of proceeds were used for debt repayment.
- **Novum IQ:** Cautiously optimistic Novum can launch in 2024.

## Becton Dickinson (BDX)

- **M&A:** Continues to focus on tuck-in M&A. Not looking to enter spaces the company isn't in today.
- **Leverage:** Long term net leverage target is 2.5x.
- **Portfolio:** 85% of revenue is recurring.
    - ~90% of hospital patients interact with a BDX product.
- **Ratings:** Focused on maintaining full investment grade ratings.
- **Alaris:** Expects floor sales of ~$200 mn for 2024.
- **Flu:** $30 mn of flu testing revenue was shifted from Q1 to the remainder of the year.
- **GLP-1:** BDX is the leader in the prefilled syringe market with five to six times the capacity of the number two player.
- **2025 financial targets:** 5.5% base revenue CAGR, ~540 bps base adj operating margin expansion, double-digit base adj EPS CAGR.

## Bristol Myers (BMY)

- **Ratings:** Committed to strong IG ratings.
- **M&A:** Focused on licensing, partnerships, and bolt-on acquisitions.
    - Has capacity to do additional business development deals.
- **Share repurchase:** Will be opportunistic in executing buybacks.
- **Mid-term guidance:** New product sales guidance of >$10 bn in 2026. Expects sales of $25 bn from 9 new products by 2030.
    - Low to mid single digit revenue CAGR from 2020-2025.
    - Low double digit revenue CAGR ex Revlimid and Pomalyst from 2020-2025.
    - $8-$10 bn growth from in line brands from 2020-2025.
    - Operating margin target of >37% through 2025.
- **Opdivo:** Subcutaneous nivolumab has the potential to address 65%-75% of Opdivo U.S. indications.

## Cardinal Health (CAH)

- **Branded pricing:** Branded inflation has been in line with expectations of mid single digits.
- **Generic pricing:** Generic deflationary market has been stable and consistent.
- **GLP-1:** Expects the growth rate in GLP-1s to normalize over time.
- **2024 outlook:** Adj EPS at high end of $6.75-$7.00.

- **Capital allocation:** Investing back into the business to drive organic growth, maintain IG balance sheet, baseline return of capital to shareholders (continue to grow the dividend, baseline share repurchases).

- **M&A:** Active, disciplined and targeted M&A as an opportunistic lever.

- **Portfolio review:** Announced plans to invest and further develop at-Home Solutions and OptiFreight Logistics.

- **Medical Segment:** Now expects 2Q segment profit to be generally consistent with 1Q (prior slightly higher than 1Q).

    - Utilization trends are in line with expectations.

- **Pharma:** Demand remains strong particularly in vaccines.

- **Long-term targets 2024-2026:**

    - **Pharmaceutical and Specialty Solutions:** 4-6% segment profit CAGR.

    - **GMPD:** ~$300 mn in segment profit by FY26.

    - **Other:** 8%-10% segment profit CAGR.

    - **Share repurchases:** At least $2.25 bn.

    - **Non-GAAP diluted EPS growth:** 12-14% CAGR.

- **2023 actuals:**

    - **Pharmaceutical and Specialty Solutions** (former Pharmaceutical Segment, excluding Nuclear and Precision Health Solutions): Revenue of ~$188.8 bn, segment profit of ~$1.87 bn.

    - **GMPD** (Former Medical Segment, excluding at-Home Solutions and OptiFreight Logistics): Revenue of ~$12.1 bn, segment profit of $(165) mn.

    - **Other** (at-Home Solutions, Nuclear and Precision Health Solutions and OptiFreight Logistics): Revenue of $4.1 bn, segment profit of $410 mn.

## Cencora (COR)

- **Branded pricing**: Expects branded inflation to be inline with the last couple years.

- **Generic pricing**: Has seen a moderation of generic deflation over the last several months.

- **GLP-1s**: The drug class contributed 3% to revenue growth in the most recent quarter. GLP-1s are profitable, although not as profitable as other products due to margin and handling costs.

- **Biosimilars**: The sweet spot for COR is when there are two or three manufacturers. There isn’t value once there are five or six competitors. Margin earned on biosimilars is between generic and branded.

- **M&A**: Continues to be active in looking for additional M&A.

- **Long-term targets**: Adj diluted EPS of 8-12%, adj operating income of 5%-8%.
- **2023 financial highlights**: $11.99 adj EPS, $262.2 bn sales, $3.1 bn adj FCF, $3.3 bn adj operating income.
- **2024 guidance**: Adj diluted EPS of 9-12%, adj operating income of 8-10% (excluding COVID products).

## Cigna (CI)

- **Utilization:** 4Q medical costs are in line with expectations.
- **Government:** Interested in growing in both government benefits and services. Over the last few years, has grown the services side of the government business.
- **Care delivery:** Prefers to partner rather than owning care delivery. Willing to own in key MSAs if there is no other way to generate value.
  - Owned care: Home care, behavioral health, virtual care.
- **Commercial:** Expected the employment landscape to soften in 2H'23. That did not play out as expected in 2023. Expects some softening in the market in 2024.
- **2024 guidance:** Adj EPS at least $28.00.

## CVS Health (CVS)

- **MBR:** Could see 2023 MBR exceed 86% given where utilization ended the year.
- **Medicare Advantage:** Expects total MA membership to grow by at least 800k members in 2024 with approximately 1/3 in duals. Growth will be neutral to earnings in 2024 with opportunity for profit growth in 2025.
- **Capital deployment:** Executed an ASR that started in January of $3 bn, with $3.5-$4.0 bn planned in repurchases for the year.
- **2023 guidance:** Reaffirmed sales of upper-half of $351.5-$357.3 bn, adj op income of upper-half of $17.21-$17.57, adj EPS upper-half of $8.50-$8.70, CFO upper-end of $12.5-$13.5 bn, medical benefit ratio of ~86.0%
- **2024 guidance:** Reaffirmed sales of at least $366 bn, adj op income at least $17.2 bn, adj EPS at least $8.50, CFO at least $12.5 bn, medical benefit ratio of ~87.2%
- **Long-term guidance:** Adj EPS growth floor of 6%, growth increasing overtime.

## Danaher (DHR)

- **M&A:** There is significant capacity for M&A.
  - Pipeline for deals is robust and active.
- **Bioprocessing:** The first half of 2024 will be challenged with improvement in the second half of 2024. Total 2024 will be stronger than 2023.
  - **Q4:** Some customers came back to more regular buying patterns. Book to bill was similar to Q3. Did not see an inflection point for orders in Q4.
  - High single digit long term growth rate.
- **Testing:** $1.2 bn of sales is the floor for the endemic testing run rate. Mix shifted toward 4-in-1 vs. covid only.
  - 70% 4-in-1, 30% covid only testing.
- **China:** 12% of total DHR sales. Has not seen further deterioration but the segment has not improved.

- **Pricing:** Took 500 bps of price in bioprocessing in 2023. Expects pricing to remain elevated above historical averages of 75-100 bps per year but not at recent highs of 400-500 bps.

- **Abcam:** Closed the acquisition of Abcam in December 2023.

- **Portfolio:** ~80% of revenue is recurring.

- **Leverage:** Net leverage is <2x today.

- **Life Sciences:** Growth will be challenged in 2024 mainly due to the Chinese market.

- **Q4'23 guidance:** Base business core revenue declined mid-single digits, respiratory revenue of >$600 mn at Cepheid.

## Eli Lilly (LLY)

- **M&A:** Actively looking for external innovation. Focused on smaller bolt-on deals.

- **Pipeline:** 50% of the NME pipeline is from acquisition, licensing, or partnership.

- **Mounjaro:** Diabetes access is over 80% in commercial and 80% in Part D.

- **Zepbound:** 15%-20% growth in employer coverage in 2023. Additional readouts will help grow employer coverage.

- **Duration of therapy:** Unlikely that patients will stay on therapy for their whole lives but its too early to tell how long average duration will be.

- **Supply:** RTP was announced in 2020 and came on line this year. That is about the quickest additional production can be brought on line.

- **Donanemab:** The bigger opportunity will be in prevention.

## GE Healthcare (GEHC)

- **M&A:** Focused on tuck-in deals that are accretive to the top line on day one and accretive to the bottom line by year two.

- **Capital purchasing:** The capital purchasing environment has improved from 2023. Hospitals are benefitting from improved staffing situations, lower interest rates, and hospital economics have improved.

- **Margins:** Expansion opportunity to high-teens to 20% in the midterm driven by pricing and commercial execution, new products, and cost improvement.

- **Total market:** Estimated total addressable market of $87 bn in 2022, growing to $100 bn by 2025.

- **Backlog:** Current backlog is $18.4 bn, which is $1 bn higher than pre-pandemic.

- **Capital allocation priorities:** 1) Investing in internal innovation, 2) M&A, 3) minority investments and strategic collaborations, 4) shareholder returns.

- **Portfolio:** On track for >45% of recurring sales in 2023.

- **Medium term targets:** Mid-single-digit sales growth, high-teens to 20% adj EBIT margin, 85%+ FCF conversion.

## Gilead (GILD)

- **M&A:** Continues to focus on the late research/early development phase. Will look at late stage assets but will be more selective there.
- **Oncology:** On track to generate 1/3 of revenue from oncology by the end of 2030. Oncology makes up roughly 12% ($3 bn) of the business today.
- **Trodelvy:** Three approved indications across three tumor types. Three phase 3 readouts in 2024.
- **Yescarta:** Number 1 cell therapy in 2L + LBCL.
- **Biktarvy:** Sales annualizing at ~$12 bn. U.S. market share is over 47%. Projected U.S and EU LOE in 2033.
- **Lenacapavir:** Expecting launch in the U.S. for PrEP as early as 2025.
- **Descovy:** Sees market growth and demand share to be maintained despite generics and new entrants. Still holding over 43% market share.
- **HIV Pricing:** Tailwinds from pricing favorability seen in 2H'22 and 1H'23 due to inflation dynamics post-covid have normalized through 2H'23. Growth will be driven by market and demand trends in treatment and prevention.
- **R&D:** Expects a substantial reduction in R&D expense growth going forward.

## GSK (GSK)

- **M&A**: Looking for acquisitions that will drive growth at the end of the decade in the core therapeutic areas. Focused on vaccines and specialty medicines, and in technology platforms that can add to the flywheel of development.
- **Capital allocation**: First priority remains to invest in pipeline delivery, both organically and with continued targeted BD.
- **2021-26 Outlook**:
    - **Sales**: >5% CAGR.
    - **Adj operating profit**: >10% CAGR.
    - **Vaccines**: High single-digit % CAGR.
    - **Specialty Medicines**: Double-digit % CAGR.
    - **General Medicines**: Broadly stable.
    - **Adj operating margin**: >30% by 2026.
    - **CFO**: >£10 bn by 2026.
- **Core therapy areas**: 1) infectious diseases 2) HIV 3) respiratory/immunology 4) oncology.
- **Infectious diseases**: £105 bn market.
    - **Arexy**: >£3 bn peak sales.
    - **Shingrix**: >£4 bn peak sales.

  - **Influenza**: >£3 bn peak sales.
  - **Meningococcal disease**: £1-2 bn peak sales.
  - **Pneumococcal disease**: >£4 bn peak sales.
  - **Bepirovirsen (Hepatitis B)**: >£2 bn peak sales.
  - **Anti-infectives**: ~£2 bn peak sales.
- **HIV**: ~£7 bn sales in 2026.
  - 6-8% sales CAGR in 2021-26.
  - Dovato and cabotegravir drive growth via competitive execution.
  - Cabotegravir replaces dolutegravir as foundational medicine.
- **Respiratory**:
  - **Nucala (COPD):** ~£0.5-1 bn in peak sales.
  - **Depemokimab**: >£3 bn in peak sales.
  - **Camlipixant**: >£2.5 bn in peak sales.
- **Oncology**: Initial focus on hematologic malignancies and gynecologic cancers.

## Johnson & Johnson (JNJ)

- **M&A:**
  - **Pharma focus areas:** Oncology (both in hematology and solid tumors), immunology, and neuroscience.
  - **Medtech focus areas:** Cardiovascular, surgical robotics, vision, and faster growing segments of orthopedics.
- **Stelara:** Does not expect Stelara biosimilar entry in the U.S. until 2025. Could see European entry in 2H'24.
- **2024 guidance:** 5%-6% adj operational revenue growth, 3% EPS growth.
- **Consensus estimates:**
  - **Carvykti:** Sees street estimates 25% lower than internal estimates.
  - **Taris:** Sees street estimates 50% lower than internal estimates.
  - **Spravato:** Sees street estimates 50% lower than internal estimates.

## Labcorp (LH)

- **Base business:** Both Biopharma Laboratory Services and Diagnostics have returned to pre-Covid levels.
- **Oncology:** 40% of clinical trials are in oncology.
  - **Opportunities:** Screening (blood test to diagnose cancer), therapy selection, MRD (monitoring a patients blood to determine if cancer has returned).

- **Women's health:** Sees opportunities in prenatal testing.
- **Pricing:** Expects 2024 pricing to be flat to slightly positive.
- **Early biotech:** Cancellations were due to NHP supply constraints and macro environment for smaller biotechs. Business is not yet back to pre-covid levels.
- **PAMA cuts:** Remains supportive of passage of SALSA. There has support from both Democrats and Republicans.
    - Had PAMA been reinstated in 2024 it would have been an $80 mn impact to revenue.
- **Labor:** Turnover rates in biopharma have returned to pre-Covid levels. Turnover rates in diagnostics have not returned back to pre-Covid levels.
- **M&A:** Pipeline for additional outreach lab deals remains robust.

## McKesson (MCK)

- **Share repurchase:** Expects to buy back $3.5 bn of stock in FY'24.
- **Long-term guidance:** 12%-14% baseline adj EPS growth.
- **GLP-1s:**
    - **Distribution:** GLP-1s are lower margin vs other products due to the higher distribution costs.
    - **Prescription Technology Solutions:** The growth in the class has led to increased demand for access solutions such as prior authorization services.
- **Branded pricing:** Branded inflation is in line with prior years and in line with expectations.
- **Biosimilars:** There are currently 45 biosimilar approvals and 37 products on the market.
- **2024 guidance:** Adj EPS $26.80-$27.40.

## Merck (MRK)

- **M&A:** Has capacity to pursue additional business development deals.
    - **Size**: $10-$15 bn is the outer bound of the focus for the company in terms of size.
- **Sotatercept**: PDUFA date March 26th.
    - Expects multibillion dollar peak revenue opportunity.
- **V116**: Potential to be the first approved PCV protecting against 83% of adult invasive pneumococcal disease.
    - PDUFA date June 17th.
    - Expects multibillion dollar peak revenue opportunity.
- **Long term guidance**:
    - **Oncology**: >$20 bn sales
    - **Cardiometabolic**: ~$15 bn sales.
    - **Immunology**: Multibillion sales.

## Novartis (NOVNSW)

- **M&A:** Continues to look at deals sub $2 bn to build out the portfolio.
- **Core therapeutic areas:** Cardiovascular-Renal-Metabolic, Immunology, Neuroscience, Oncology.
- **Priority geographies:** U.S., China, Germany, Japan.
- **Marketed portfolio:**
    - **Entresto:** Current sales $5.9 bn. Peak sales $7 bn. Assumes U.S. LoE in 2025.
    - **Cosentyx:** Current sales $5.3 bn. Peak sales $7 bn.
    - **Kesimpta:** Current sales $2.6 bn. Peak sales $4 bn.
    - **Kisqali:** Current sales $2.2 bn. Peak sales $4 bn.
    - **Pluvicto:** Current sales $1.0 bn. Peak sales multi billion.
    - **Leqvio:** Current sales $0.4 bn. Peak sales multi billion.

## Pfizer (PFE)

- **Capital allocation priorities:** 1) Growing dividend, 2) delevering over the next 1-2 years, 3) M&A and share repurchase.
- **M&A:** Does not expect any major acquisitions or licensing deals in 2024.
    - Spent $72 bn to acquire ~$20 bn of 2030 revenues.
- **LOE:** Expects LOEs from 2025-2030 to impact sales by $17 bn.
- **Restructuring:** Cost realignment program expected to achieve $4 bn in combined OpEx reductions by the end of 2024.
    - 70% of cost cuts come from R&D.
- **Obesity:** Still focused on developing assets to treat obesity.
- **RSV:** Currently has 35% market share in RSV.

## Quest Diagnostics (DGX)

- **M&A:** Funnel for M&A has never been stronger. Focus is on accretive hospital outreach purchases as well as smaller independent labs.
- **Covid:** Expects 2023 Covid testing revenue of $200 mn in 2023.
    - Expects $50 mn in sales in 2024.
- **2024 Tailwinds:** Base volume growth, strength of M&A funnel, reimbursement outlook.
- **2024 Headwinds:** Covid testing decline, Haystack acquisition dilution, higher interest expense.
- **Price:** Expects pricing to be flat to slightly positive in 2024.
- **Alzheimer's:** Saw an incremental increase in Alzheimer's testing in 2023.

- **Labor:** Historical labor inflation was 2%. Recently, labor inflation has been at the high end of 3%-4%.
- **PAMA cuts:** Continues to work on the passage of SALSA.

## Royalty Pharma (RPRX)

- **Capital deployment:** From 2022-2026 RPRX is targeting to deploy $10-$12 bn of capital ($7.4 bn deployed toward that goal).
    - **2023:** Announced $4.0 bn ($2.1 bn upfront) in transactions across seven deals.
    - **Priorities:** Acquiring royalties continues to be the number one priority for capital allocation.
- **Market:** RPRX maintains 54% market share of the biopharma royalty funding market. The number two royalty market holds 13% and all other royalty buyers make up 33%.
- **Therapeutic areas of interest:** Agnostic to therapeutic areas when looking at potential deals.
- **Cystic Fibrosis:** In the worst case scenario where the new triple gains 75% market share, the impact to RPRX would be a couple hundred million dollars in 2030.
- **Leverage:** Current leverage is ~2.5x.
- **2023 guidance:** Raised portfolio receipt guidance to $3.05 bn (prior $2.95-$3.00 bn).

## Sandoz (SDZ)

- **Portfolio:** 79% Generics, 21% Biosimilars.
- **Pipeline:**
    - **Generics:** >400 products in the pipeline targeting $170 bn of originator sales.
    - **Biosimilars:** 25 products in the pipeline targeting $200 bn of originator sales.
- **2024-2028 launches:** Expects to launch 12 complex generics and 10 biosimilars from 2024 to 2028.
- **Hyrimoz:** Has the best coverage among adalimumab biosimilars in the US.
- **EBITDA margin:** Expects to take EBITDA margins from 18%-19% today to 24%-26% in 2028.
    - Bridge: Volume price 100 bps, product mix 100 bps, operational improvements 350 bps, organizational efficiency 150 bps.
- **Capital allocation priorities:** 1) Invest in the organic business, 2) Return capital to shareholders, 3) value generating bolt-on M&A and BD&L.
- **2028 guidance:** Mid single digit sales growth, 24%-26% core EBITDA margins.
- **GLP-1:** Pipeline includes many complex generic opportunities for GLP-1s.

- **Generic pricing:** Generic price erosion in 2023 came in below 2022.

## Sanofi (SANFP)

- **Dupixent:** 9 approved indications. #1 U.S. NBRx share across all indications. Expects low double digit growth CAGR from 2023-2030.
- **Consumer health:** €5.2 bn of sales. Executing spin at the earliest in Q4'24.
- **Capital allocation priorities:** 1) Organic investment 2) M&A/business development 3) growing dividend 4) anti-dilutive share buybacks.
- **Cost restructuring:** Restructuring plan is expected to save up to €2 bn by the end of 2025.
- **Pipeline:** 12 new molecular entities with €3-€5 bn or €5 bn+ peak sales potential.
- **M&A:** Remains open-minded about M&A but will continue to make organic investments.

## Thermo Fisher (TMO)

- **M&A:** The industry remains fragmented. There aren't that many large deals to execute on.
- **Pharma and biotech:** 2023 was impacted by a more muted funding environment, rising interest rates, and the pandemic unwind.
- **China:** Market will be one of the faster growing long term end markets.
  - Less likely that there will be additional near term stimulus.
  - **2024:** Will be a muted year in China.
- **CRO:** Number 2 industry participant. High single to low double digit growth opportunities.
- **End markets:** $240 bn market growing 4%-6%. Pharma and Biotech 58%, Academic and Government 14%, Diagnostics and Healthcare 15%, Industrial and Applied 13%.
  - TMO expects to grow 3% higher than the market.
- **2024 guidance:** Expects core organic revenue growth similar to 2023 (1% core organic revenue growth). Assumes a more challenging first half with moderate growth in the second half.

## Viatris (VTRS)

- **Debt:** Expects to paydown $3 bn of debt in 2024.
- **Capital allocation:** Once proceeds from divestures are received, cash will be used to pay down debt to reach target leverage.
  - **Next phase:** Expects $2.3 bn off FCF annually. 50% of FCF for reinvestment in the business (organic and inorganic), 50% of FCF returned to shareholders via dividends and buybacks.
- **M&A focus areas:** GI, ophthalmology, dermatology. Open to M&A outside of those areas.
- **Share repurchase:** Wil be more aggressive on share repurchase in 2024 and 2025.

- **Leverage:** There is line of sight to hitting gross leverage target.
- **China:** Has not seen an impact from the anti-corruption campaign.
- **Generic pricing:** Has seen relatively stable pricing over the last few quarters.

## Zimmer Biomet (ZBH)

- **M&A:** Looking for tuck-in deals up to $2 bn in size.
  - **Focus areas:** 1) Segments in recon that are growing faster than ZBH WAMGR (data, technology solutions, navigation in hips and knees), 2) SET, CMFT, 3) ASC.
- **ASC:** Growing in the upper teens in the U.S. 10%-15% of sales are in the ASC.
  - One out of every three robots are placed in the ASC.
- **Capital allocation:** M&A continues to be the number one priority for capital allocation.
- **Leverage:** Net leverage today is 2.2x.
- **Sales break down:** $6.9 bn sales in 2022. Knees 40%, Hips 27%, SET 24%, Other 8%.
- **Market size:**
  - **Large joint:** Market opportunity $17 bn, ZBH market share #1, historic market growth rate low single digits.
  - **Sports:** Market opportunity $9bn, ZBH market share #6, historic market growth rate mid single digits.
  - **Trauma and Extremities:** Market opportunity $12 bn, ZBH market share #2 in extremities and #3 in Trauma, historic market growth rate mid single digits.
  - **SMFT:** Market opportunity $5 bn, ZBH market share #1 in Sternal closure and #2 in rib trauma, historic market growth rate mid single digits.
- **Orthopedics:** 4% market growth rate.
- **Backlog:** Not counting on the backlog for growth in 2024. Expects the full backlog to be worked through by the end of 2024.
- **Inflation:** Starting to normalize. Not seeing input costs come down but they are not increasing.
- **Financial targets:**
  - Revenue growth 100-200 bps above the market (4%).
  - EPS growing faster than revenue.
  - FCF growing faster than EPS.
- **2024 guidance:** Committed to at least 5% growth in 2024.

## Zoetis (ZTS)

- **Market growth:** Expects a 4%-6% CAGR. Market drivers: Increased medicalization, growing human-animal bond, innovation to treat chronic diseases, expanding global population and animal protein demand, advancing sustainable agriculture.
    - **2022:** $45 bn.
    - **2027:** $55-$65 bn.
    - **2032:** $70-$85 bn.
- **Clinics:** U.S. Vet clinic revenue grew 7.5% over the last 4 years. U.S. Vet clinic visits grew 0.3% over the last 4 years.
- **Pain:** Expects peak annual revenue of $1 bn+ from Librela and Solensia.
    - **Market:** Expects the global OA pain market to be $2.0-$3.0 bn by 2032.
    - **Librela:** Full launch in the U.S. began in October.

# HY Healthcare Conference Takeaways

## Acadia Healthcare Company, Inc. (ACHC)

- **Overview:** Leading pure behavioral health provider with 54 acute facilities, 33 specialty facilities, 157 opioid use disorder outpatient clinics and 9 child treatment center facilities.
- **Industry:** US serious mental illness and substance use disorder grew by 15% in 2022.
- **Modernizing Opioid Treatment Access Act**: Currently under discussion in Congress. If passed, the act is expected to increase access to a physician/psychiatrist that needs a prescription and a retail pharmacy willing to fill the prescription.
    - Not expected to increase competition due to the need of a pharmacy that can fill all the prescriptions and the number of prescriptions needed from a board certified physician/psychiatrist.
- **Opioid Settlement:** $54 billion are expected to be distributed over the next 15 to 20 years. Only a few billion have been dispersed so far.
    - Viewed as a 2025 phenomenon with small opportunities in 2024.
- **Labor:** Over the last 12 months base wage inflation has been declining.
    - The company has been improving employee satisfaction through better engagement and driving a sense of purpose.
- **Beds:** The company expects to go from 670 incremental beds in 2023 to 1,150 in 2024/2025.
- **Joint-Ventures:** The company announced its 21st joint-venture with Ascension Seton (Austin, Tx).
    - This is the company's second joint-venture with Ascension Seton.
    - 11 joint-ventures are currently under development.

- **Capital Allocation:** Strategy focused on deciding what market to enter and how to enter the market.
    - The company decides what market to enter based off the regulatory environment, labor, payor behavior and competitors.
    - The company enters the market either through bed additions, JV partnerships or M&A (especially in certificate of need states).
- **Long-term Growth Drivers:** 1) Joint-Ventures; (2) Facility expansions; (3) De novo facilities; (4) M&A; and (5) Extending the continuum of care.

## AdaptHealth Corp. (ADAHEA)

- **CPAP:** Set up 40,000 patients per month on CPAP therapy. Resupply revenues are expected to grow as more patients are set up on CPAPs.
- **Diabetes:** The company is continuing to invest in its diabetes sales group to focus on primary care physician groups.
- **Respiratory:** As COPD continues, a patient will eventually need to be on ventilation which is also in the company's portfolio.
- **GLP-1:** Management thinks GLP-1s will have a material effect on the Diabetes and Sleep populations in five to 10 years.
    - Conducted a survey of 100,000 patients showing that 17% of the patients were on GLP-1s.
    - An October 2023 survey suggests that only 3% of US Sleep patients on GLP-1s no longer required CPAP therapy.
        - Management believes that the total addressable market is still sizeable and opportune despite potential GLP-1 headwinds.
- **Contracts:** Management expects larger/more chunky contracts similar to Humana in three to five years due to it being more capital efficient.
- **Cost Reduction:** Recognized $25 million of a $40 million cost reduction plan in FY23. Management expects to realize more savings in FY24.
- **Free Cash Flow:** Management expects to continue generating free cash flow exiting 2023. The company will use free cash flow to pay down debt and then M&A later on.

## AMN Healthcare Services, Inc. (AMN)

- **Labor:** Management believes the physician shortage is equally as deep if not slightly worse than the nursing shortage.
    - The company is focused on: (1) offering flexible work environments; (2) aiding retired physicians to return to the work force; and (3) finding excess capacity even within individual employees.
    - Mid-level support (midwives, nurse practitioners, etc.) will be a significant growth opportunity.
- **MSDR:** The MSDR acquisition is expected to become accretive in 2024 and fill existing demand.

- **Capital Allocation:** M&A will be very important to supplement organic growth. Criteria for M&A is: (1) accretive to margins and revenue growth; (2) ROIC > Cost of capital; and (3) Adj. EPS accretion in the first full year.
    - The priority is investing back into the business (capex of 2%-3% of revenues) with a priority on digital/technology.
    - Acquisition strategy is focused around either adding additional size/scale or creating offerings that fit a new market need.
- **Guidance:** Long term growth is focused on investing in innovation, leveraging total talent solutions, and sustaining financial discipline.
    - As mix improves and higher margin business outpace over the next several years, management expects Adj. EBTIDA margins to sustain at 15%.
    - Management expects a total achievable market of $43 billion, comprised of a $36 billion US healthcare staffing market and $7 billion in other addressable markets.

## Amneal Pharmaceuticals, Inc. (AMNPHA)

- **Retail:** Consists of prescriptions filled by retail outlets. Market is estimated to currently be worth $25 billion and is expected to grow to $29 billion by 2030.
    - Used to be larger but shrunk due to pricing pressure and consolidation. Expect pricing to improve but not significantly.
- **Shortages:** Not expected to get better immediately due to production and pricing needing time.
- **Competitors:** Largest US competitor in affordable medicine is Teva. The largest European competitor is Sandoz.
- **AvKare:** Acquired the business with gross margins around 12% to 13%. Management views 15% to 17% gross margins as sustainable long-term.
- **Biosimilars:** Targeting $200 million of biosimilar revenues by 2025. 60-65% expected to be from Avastin, Releuko and Fylnetra.
    - Management is focusing the portfolio towards oncology.
- **Rytary:** Has only penetrated with movement disorder specialists currently (5% of Parkinson's patients). Working on marketing and expanding licensing in Europe, Brazil and Canada.
- **Gentes:** Currently does $20 million in revenues. Management expects to double its revenues or the next couple of years.

## Avantor, Inc. (AVTR)

- **Laboratory Solutions:** Total addressable market of $55 billion and is expected to grow in the low-single digit range.
    - No longer seeing China headwinds affecting laboratory solutions.
- **Bioscience Production:** Comprises one-third of revenue but roughly two-thirds of company profit.
    - Most of the revenue is recurring in nature.

- **Biopharma:** Seeing more new advanced antibodies and a growing pipeline of monoclonal antibodies.
- **Drug Approval:** 2024 viewed as a strong year for drug approvals due to advancements in monoclonals, gene therapies and Crispr.
- **Semiconductors:** Semiconductor headwinds were similar to the overstocking headwinds experienced in life sciences.
- **Cost Savings:** Expect $300 million of annual run rate gross cost savings by FYE26.
    - Expect to realize $75M of savings in FY24 but it is not expected to fully offset inflation.
- **Capital Allocation:** Allocating all free cash flow towards debt paydown. Targeting under 3.0x net leverage.
- **M&A:** Viewed as a meaningful growth driver. Will engage in M&A again once balance sheet is in a better state.
- **1Q24 Margin:** Expected to be sequentially lower than 4Q23.
- **Normalized Outlook:** Anticipate profitability to stabilize as destocking and mix normalize over the next 12 to 24 months.
    - Target Adj EBITDA margins of over 20%.
- **Long-term Financial Targets:** Organic revenue growth in the mid-single digits with Adj EBITDA margin expansion of 50bps to 100bps

## Bausch + Lomb Corporation (BLCOCN)

- **Margins:** Margin recovery will not be linear, view FY24 as an investment year and see larger margin improvement in FY25
- **Pharmaceuticals:** Very promotionally sensitive products with only 1.5M patients walking out with prescription compared to 30M patients diagnosed
    - Miebo (Evaporative dry eye treatment) will take ~1-2 years before achieving managed care access through demonstrating demand
- **Xiidra:** Inflammatory dry eye treatment with 97% of Novartis field force now fully integrated and expect growth in FY24
    - Has 70% managed care access
    - Will take 18-24 months to see the full benefit of the acquisition
- **Contact Lenses:** Several exciting programs in development
    - Distribution issue has been fully resolved this quarter
- **Surgical:** Margins compressed due to (1) Covid supply chain disruption, (2) buying high priced componentry continuing into 2024, and (3) launching first premium IOL this year
    - Product launches supplemented with external science/innovation will make the segment competitive
    - Should have a full-price portfolio by FY25

- **OTC Consumer Business:** Believe growth will continue with investment in the team
- **China:** China is 9-10% of the portfolio primarily serving contact lenses; expect minimal impact from VBP and are optimistic in ability to execute in the market with investment in direct to consumer
  - Expect less than originally guided $100M Fx headwind in FY24
- **Supply Chain:** Expect to see real improvements over the next 12-18 months
  - See an impact on free cash flow conversion in FY24 due to manufacturing/supply chain investments before returning to stable levels in FY25
- **Leverage:** Expect to return to 3.5x leverage by the end of FY25
  - Tuck-in acquisitions will continue but no larger deals (in the billions) until leverage target is hit
- **Spin:** Bausch's board is working through legal issues; hope for an outcome in the coming months but do not view the spin not happening as a possibility

## Catalent, Inc. (CTLT)

- **Total Addressable Market:** Total Addressable Market is expected to grow from $72 billion in FY23 to over $90 billion in FY26.
- **Outsourcing:** Growth is driven by increased demand for prefilled syringe capacity through GLP-1s.
  - Largest CDMO in late-stage gene therapy; adeno-associated viral market has 65-70% outsourcing.
  - Larger players are expected to continue to win business away from smaller players.
- **Biotech:** Slow biotech funding muted near-term new modality early clinical progression.
  - Expect funding to return in 2H24 as cost of capital comes down and inflection points in markets/IPOs materialize.
- **PCH:** Cyclical depending on products phasing in vs phasing out. FY23 was lower than expected but FY24 is expected to grow above mid-single digits.
  - Will see growth in Consumer business due to share gain.
- **Biologics:** Margins suffered due to the COVID cliff/correction. The company built infrastructure and expects margins to normalize by the end of the year.
  - Signed with a large gene therapy customer contract on a 6-month rolling forecast; near-term is set in terms of guidance but the long-term depends on label expansion.
- **GLP-1:** Expected to grow from less than $100 million in 2024 to over $500 million in 2030.

  - Management believes the TAM for GLP-1 will grow to ~$100 billion in 2030 from ~$6 billion in 2023.

  - Management is devoting resources to bringing facilities online across the globe. The company expects almost all of prefilled syringes will eventually be GLP-1.

- **Gene Therapy:** Pipeline is growing and will reach an inflection point in the next couple of years. The share of late-stage programs is increasing, where the revenue per program is far greater than early-stage.

- **Brussels/Bloomington:** Brussels is better than the company expected. The Bloomington facility situation was more complex but management expects normalization by the end of the fiscal year.

- **Leverage:** The company is focused on: (1) increasing utilization; (2) returning to historical margins; (3) generating positive free cash flow; and (4) achieving a target leverage of 3.0x.

- **Outlook:** Management is focused on execution in manufacturing and generating FCF.

  - Concentrating production in the Midwest is expected to boost margins and improve productivity.

  - The company expects to at least hold current market share.

## Centene Corporation (CNC)

- **Medi-Cal:** Will provide coverage to ~700,000 undocumented immigrants. The company has been staging in that population over the past couple of years.

- **Core Business:** The California commercial book is not part of the company's core business but it integrates well with its overall California business.

- **Acuity Adjusters:** Management noted that the company received acuity adjustments in 27 out of 30 states.

  - One of the three remaining states is notorious for taking its time.

- **Marketplace Membership:** Expect 200,000 to 300,000 Medicaid members to transition to Marketplace. The company expects to end the year with ~200,000 members transitioned and to have the number increase to 300,000 after redeterminations.

- **Medicaid Redeterminations:** Re-joiner rates have consistently been in the mid-20% range. The company is seeing the re-joiner rate tick up, but not significantly.

- **Medicare Utilization:** Has been coming in-line with expectations but has been elevated since May 2023.

- **Margin Opportunities:** Management views improving its STAR ratings as the best way to improve its margins.

- **Value-based Care:** Some states are working to create value-based arrangements and using RFPs to encourage it.

## Charles River Laboratories International, Inc. (CRL)

- **DSA:** Comprises about 30% of the outsourced SA market. It grew mainly through M&A in addition to taking market share.

  - Management thinks that 50% of the market will eventually be outsourced.

- **Industry:** Speed is prioritized by most customers. Many customers seek to reduce the drug development timeline by 2 years.

- **Backlog:** Has elongated to 18-24 months. The company is targeting six to nine months overtime.

- **Non-human Primates:** Working on better vetting the supply of NHPs. The company increased its ownership stake in a majority-owned NHP supplier to 90%.

  - Pricing is driven heavily by supply and demand. Both are expected to normalize over time.

- **Cell & Gene Therapy:** Went back into the CDMO space due to customers wanting CRL to manufacture in addition to development and testing.

  - Believe the business can grow at a double-digit rate while having attractive margins.

- **M&A:** Focusing potential M&A on expanding the company's ability to service customers. The company feels comfortable about its current leverage.

  - Technology partnerships grant CRL exclusive first claims to acquire the partner.

  - A majority of its potential targets are private equity owned and are expected to come onto the market soon.

- **Outlook:** The company expects 150 bps of operating margin improvement between 2023 to 2026.

## Embecta Corp. (EMBC)

- **COVID:** COVID had a disproportionate effect on older members of the population. Older Type 2 diabetes patients are more likely to do insulin injections.

  - The company still has not measured the impact of COVID on its business.

- **Patch Pump:** 510(k) filing was in-line with expectations. Not expecting any revenue contribution in FY24.

  - Continuing work on a closed loop patch pump for Type 2 diabetes. Type 2 requires 100mg of insulin a day.

- **Separation:** Expect to be substantially done by the end of FY24.

- **GLP-1 impact:** ~1% of patients switched from long-acting insulin to weekly GLP-1 treatment. Expected be partially offset from GLP-1s needing pens/pen needles, vials/syringes and autoinjectors.

  - GLP-1s are expected to delay the need for insulin but not eliminate the need.

  - The company is a global leader in pen needles and insulin syringes and has co-packed and co-promoted needles in some countries with generic GLP-1s.

- **Strategic Priorities:** (1) strengthen and optimize the core business by maintaining revenues and managing costs; (2) complete the separation by completing the ERP implementation and exit TSAs with BD; and (3) invest in growth through patch pump development and M&A/partnership opportunities.

## Fortrea Holdings Inc. (FTRE)

- **Market Growth:** CRO market is expected to grow at 3% to 5% in 2024 and 2025. It is expected to reach a long-term industry growth rate of 6% to 9%.
- **Pharma Industry:** Outsourcing demand is expected to be resilient going forward. Large pharma companies are driving innovation via in-house research and acquiring biotechs.
    - Management views the acquisition of biotechs as a positive due to more funding being allocated to the biotech space.
- **Margins:** Management attributes half of the margin gap to competitors to size/needing to expand the business and the other half to reducing SG&A.
    - Historically Labcorp put technology expenses into the gross margin. Now Fortrea records technology costs in SG&A.
- **Enabling Services:** Two attractive businesses in the segment: (1) patient access and (2) IRT (helps with drug supply and randomization in a doctor's office).
    - IRT's next generation product is expected to roll out in mid-2024.
- **TSAs:** Exited 40% of TSAs in the first 6 months, which is ahead of schedule.
- **Book-to-Bill:** Had a 1.2x book-to-bill for the first two quarters of operation. If maintained, it would translate to high-single digit revenue growth.

## Fresenius Medical Care AG & Co. KGaA (FMEGR)

- **Overview:** The largest dialysis services network globally, treating over 50% of US home hemodialysis patients.
- **Dialysis Patient Population:** See growing incidents due to an ageing global population and hypertension.
    - Expect to return to pre-COVID population growth rate of 2%-3% by 2025.
    - 46% of patients "crash" into dialysis.
- **Pricing/Contracting:** Confident on getting better rates going forward and not afraid to walk away from unprofitable contracts.
    - Historically not a price taker, instead placing focus on volumes.
- **Labor:** US labor and wage inflation has mostly stabilized. There are still a few pockets in the US where staffing is challenged.
- **GLP-1 Effectiveness:** Proven to help control Type 2 diabetes and to be a positive for improving cardiovascular health.
    - Slows the progression of kidney disease and allows chronic kidney disease patients survive to end stage renal disease
- **GLP-1 Accessibility:** Price of GLP-1s has been slowing uptake and side effects will affect patient choice

  - Only 8% of patients have been prescribed a SGLT-2 in pre-chronic kidney disease

- **GLP-1 Impact:** Pricing is slowing GLP-1 uptake and side effects will effect patient choice

  - Not expecting any near-term impact. Think it will take at least a decade to see any impacts

- **CONVICE study:** 3-year trial performed across 61 dialysis centers in 8 European countries. It showed that high-volume hemodiafiltration had a 23% mortality rate reduction vs high-flux hemodialysis

  - The technology is not yet available in the US

- **Capital Allocation:** Continuing to focus on deleveraging

- **Ratings:** Committed to maintaining an investment grade rating.

## HealthEquity, Inc. (HQY)

- **New Customer/Partner:** Have a partner hospital in Massachusetts that started offering HSAs with 80,000 employees.

- **Market:** Optum and FIDO comprise 50% of the HSA market. Management noted that the remaining 50% of the market has continued to consolidate.

  - Optum recently lost market share but has offset it through M&A.

- **Legislator:** Management noted that Congress is open to getting more people HSAs due to the tax advantage and savings benefits.

- **Employer Savings:** HSAs save employees an average of 8% per dollar on payroll taxes.

- **Enhanced Rate Products:** Return is benchmarked against the 5-year US Treasury yield.

- **Capital Allocation:** Priorities in order: (1) organic growth; (2) M&A; (3) dividends/share repurchases; and (4) debt reduction.

- **Leverage:** The company expects to increase leverage temporarily by returning capital to shareholders and M&A.

- **Margin Outlook:** Margins are expected to grow in 2024 due to yield and revenue growth outpacing technology and development cost growth.

## Hologic, Inc. (HOLX)

- **Diagnostics:** Total diagnostics revenue growth ex Covid was ~4-5% adjusting for selling days.

  - Cytology presented a headwind with a customer adjusting inventory levels.

  - Molecular diagnostics is projected to grow quicker than the total division driven by cytology and perinatal.

- **Breast Health:** Segment is seeing continued recovery from supply chain challenges in 2022 and management feels good about working through the backlog in 2024.

  - Management expects a steady evolution towards recurring revenues.

- **Panther System:** Doubled installed base from ~1,700 units in 2019 to ~3,260 in 2023.

  - Assays are contracted for ~5 years with contracts typically being extended.

- **Surgical: Acessa and Bolder systems are expected to continue to drive growth.**

  - BV CT/TV growth is better than expected, however there is take-up across the entire menu.

  - MyoSure and Fluent continue to be key points of strength within Surgical.

- **International:** Company has shifted from capital/dealer to a diverse/direct model accretive to growth.

  - Confident in international Breast Health adoption for 3D despite a lack of radiologists outside the US.

- **Capital Allocation:** Management continues to believe share repurchases are an effective use of capital.

  - Prefer acquisitions for adding additional growth drivers.

  - Management expects segments of larger corporations to be spun off in 2024-2025 while private company valuations have not matched public companies.

- **Ratings:** Ratings agencies have shown comfort with the company operating within 2-3x leverage under normal circumstances.

  - Management has shown confidence in a ratings upgrade.

- **Guidance:** Management is still confident in 5-7% organic revenue growth ex COVID.

  - Expect to exit 2024 with operating margins in the low 30% range after working through high-cost chips in the backlog.

  - Will likely update guide with higher interest income.

## ICON plc (ICLR)

- **Industry Demand:** CRO market is growing at a 4% CAGR at the midpoint.

  - Expect global R&D budgets to grow at a 3% CAGR.

- **Central Lab:** Comprises about 5% of revenues. Management noted that clients are wanting alternatives in the marketplace, which include central lab offerings.

- **Backlog:** Backlog conversion rate has largely been driven by therapeutic mix.

  - Oncology and rare disease drug trials historically take longer than normal trials.

- **M&A:** Plan to continue M&A with a focus either in late phase, data and analytics or central lab.

  - M&A will be the company's top capital allocation priority.

- **Outlook:** Expect cost discipline around SG&A to drive improvements in profitability.
- **Long-Term Outlook:** Management noted that it expects to revenue growth at a CAGR midpoint of 6% to 2025.
    - Management expects EPS to grow at a CAGR midpoint of 17%.

## Integer Holdings Corporation (ITGR)

- **Cardiac Rhythm Management & Neuromodulation:** Grouped together due to the technology being similar, making it easy to vertically integrate.
- **M&A:** Management believes it has $250 to $300 million of annual acquisition capacity. Capacity is based off annual free cash flow and organic growth with acquired EBITDA.
    - Differentiated technology and capabilities are the most important criteria in an acquisition target.
- **Pulse Technologies:** Acquired the business for $140 million and closed the purchase on 1/5/24.
    - Pulse had FY23 sales of $42 million and Adj EBITDA of $11M.
    - The transaction is expected to be accretive to sales and Adj EBITDA immediately.
- **Leverage:** Target leverage of 2.5x to 3.5x. Management anticipates staying in the range post-acquisition.

## Jazz Pharmaceuticals plc (JAZZ)

- **Xywav:** Currently the only approved treatment for the full condition of Idiopathic Hypersomnia (including sleep inertia).
    - Reduced sodium continues to resonate with patients and providers.
    - A survey conducted by the company indicates that 70% of sleep specialists anticipate increasing the prescribing of Xywav for Idiopathic Hypersomnia.
- **Zanidatamab:** The company has rapidly progressed its indications and data readouts since acquiring it.
    - Initiated a rolling biologics license application for Zanidatamab for HER2 biliary tract cancer (BTC).
        - Management believes that coming to market in BTC will allow for a fast "come to market" strategy for other indications.
        - The biologics license application is expected to be completed in 1H24.
    - Management sees opportunities in BTC, gastric and early-stage diseases.
        - The potential in early-stage diseases is driven by patient ability to tolerate the toxicity.
- **Epidiolex:** Providers are seeing beyond-seizure benefits based off data from the BECOME study.
- **Rylaze:** Seeing some first line use from prescribers because it can be used in the short-term.

  - Began a European launch in 2023 and will continue to launch on a rolling basis going forward.

- **Zepzelca:** Viewed as the second line lung cancer treatment of choice. Management is focused on moving from a smaller second line population to a larger first line population.

- **Suvecaltamide:** Expect top-line data from the Phase 2b essential tremor trial in late 1H24.

  - Essential tremor has a high unmet need as there has been no newly approved essential tremor pharmacotherapy in over 50 years.

- **Vision 2025:** Targeting $5 billion of revenue in 2025.

  - $2 billion of the Vision 2025 target revenue is expected to come from sleep franchise.

- **Corporate development:** Targeting opportunities in 2024-2025 to drive top line revenue growth and diversification.

  - The company will also layer in R&D assets to further build out its pipeline.

- **Oncology Outlook:** Oncology expected to be a $1 billion portfolio in FY23 excluding Zanidatamab.

- **Oxybate Outlook:** Expect high-sodium AG royalty revenue to exceed $200 million in 2024.

## MultiPlan Corporation (MLTPLN)

- **CEO Transition:** New CEO comes with provider side experience across commercial/government and accelerating growth.

- **NSA:** Only a small portion of claims end up in arbitration where IDR process becomes clunky.

  - Management expects final regulations from CMS in 2024.

  - Revenue impact from NSA should be neutral.

- **BST:** Acquisition enables the company to target in-network claims (90-95% of claims) and go after Medicare Advantage and Medicaid populations.

  - Began developing a product with BST before acquiring them focusing on soling cost, utilization, and efficiency.

- **Growth Strategy:** Management believes growth will stem in 2024 from: (1) Pro Pricer; (2) Balance Bill Protection; (3) Itemized Bill Review; and (4) NSA.

  - Developing risk models to take a plan sponsors claim data and flag members that are candidates for procedures based on historical claims.

- **Capital Allocation:** Do not plan on doing sizable M&A in the future, however management is opening architecture for partnerships and smaller acquisitions.

  - Main focus remains on tilting free cash flow into debt retirement in preparation for a refinancing three years out.

- **Guidance:** Incremental $200-$275 million annual revenue is a mid-term view. Management expects core HST business to ramp quicker than Payment/BST.
    - Management believes margins will hold steady over time, balancing operational leverage and reinvesting back into the business.

## Option Care Health, Inc. (OPCH)

- **Overview:** 27% of revenues come from acute therapies and 73% of revenues come from chronic therapies.
    - Have over 50 distribution therapies in the portfolio.
- **Payor Relationships:** Have over 800 payor relationships with 14,000 contracts.
    - The company has contracts with the all of the top 10 national payors.
    - Management sees partnering with payors for higher quality care at a lower cost as the largest opportunity in 2024.
- **Reimbursement:** There currently is limited access to home infusion for Medicare Fee for Service members.
    - Management noted that it has bipartisan support in the House and Senate for greater coverage. The company expects a Congressional Budget Office score in 2Q24.
- **Procurement Benefits:** The company had $30 to $35 million of procurement benefits in 2023. These benefits are not expected to continue into 2024.
- **Palantir Partnership: P**artnering on the deployment of Palantir's AI platform for administrative functions, procurement and patient outcomes.
- **M&A:** Management noted that it sees a number of attractive M&A opportunities.
- **Share Repurchase:** Repurchased $75M of stock and fulfilled $250M repurchase authorization in 4Q23.
    - Announced authorization for an additional $250M of share repurchases.
- **Earnings Outlook:** Management reiterated its conviction around attaining its long-term double-digit earnings growth algorithm.

## Organon & Co. (OGN)

- **Nexplanon:** The company is targeting low-single digit revenue growth for the product, with it reaching $1 billion of steady state revenue by the end of 2025.
    - Didn't take pricing in 2023. Expecting to take price in 2024.
    - Planning on submitting for a 5-year formulary in 2025. Expected launch in 2026.
        - Will extend exclusivity until 2029
- **Jada:** 45,000 women have been treated with JADA since launch.
- **Humira/Hadlima:** Four to Five biosimilars launched in July 2023. Management sees Hadlima as the #1 biosimilar due to the value proposition.

  - 2024 is expected to be a year of market formation due to it being a pharmacy dispensed product. 2025 is expected to be a year where sales pick up.
  - Management sees there being three main Humira biosimilars based off formularies, usage and patient comfortability.
- **Hadlima Interchangeability:** Expected to help sales slightly due to specialty pharmacy patients getting sticker shock from the out of pocket cost of Humira.
- **Biosimilar Strategy:** Mainly focused on commercial partnerships. Due to partnerships generating high ROIC while keeping upfront costs low.
  - Management has a desire to further build its biosimilar portfolio. Will only partner if they will be the first or second to market with a biosimilar
- **Established Brands:** Expecting flat to slight revenue growth over time depending on international market performance. Due to a lot of international companies having issues around generic manufacturing.
  - Resulted in OGN having better volume and less price loss than expected.
- **Generic Pricing:** The US is viewed as the most aggressive in terms of taking pricing. Emerging markets and Japan are viewed as not as aggressive in terms of pricing.
- **China:** Expecting revenue growth in 2024. 55% of the business is in retail, which is seen growing over time due to public preference towards the efficiency of the retail channel vs the public channel.
- **VBP:** 25% of the company's portfolio is expected to go through the VBP process in the next two to three years. Fertility is not exposed to VPB due to it being in the retail channel and is expected to be a growth driver.
- **Cash Flow:** 2023 had $350M of one-time IT costs related to the separation from Merck. These costs are expected to be 40% lower going forward.
- **Dividend:** Management reiterated its commitment towards its dividend.
- **Leverage:** The company expects to end FY23 at 4.4x leverage. In FY24, the company expects to lower leverage by 0.25x.
  - The company has a target leverage of 3.5x.
- **2024 Outlook:** Management expects low-single digit revenue growth and to stabilize or grow Adj EBITDA margins.
- **Long-term Outlook:** Management views the business as capable of growing revenues in a low-single digit to mid-single digit range.

## RadNet, Inc. (RDNT)

- **Growth:** The company expects to see similar growth across both AI and Imaging driven by MRI, CT and PET/CT.
  - Management expects substantial price increases this year primarily driven by increased cost for equipment.

  - Early detection in cancer (breast, prostate, lung and colon), cardiovascular and diabetes is expected to rise with Medicaid payers using 3x more diagnostic imaging than commercial.

- **Geographies:** Geographic concentration allows for easier integration of smaller systems and larger pricing power.

  - Florida market is expected to grow through partnerships with health systems and acquisitions.

- **AI:** AI revenues are expected to be $11-$13 million in 2023 driven by the acquisitions of DeepHealth, Aidence and Quantib.

  - Management believes AI can create an underpinning operating platform driving a single solution for outpatient imaging to drive inpatient growth.

  - Labor issues in radiology could be partially addressed through enhanced AI adoption driving efficiency and productivity.

- **Joint Ventures:** Over a third of the company's centers are jointly owned as payors/patients are looking to outpatient imaging while hospitals are unsure how to operate/navigate the outpatient arena.

  - The national imaging market is estimated to be >$100 billion with hospitals performing 50% of all imaging. Of that portion, 50% is outpatient diagnostics that management believes could move into freestanding centers.

- **Capital Allocation:** Management expects the industry to consolidate over time and believes acquisition of smaller operators in the 3-6x EBITDA range has been a major part of growth.

  - 13 new de novo locations are expected to open over the next five quarters.

## Surgery Partners, Inc. (SURCEN)

- **Overview:** Independent pure play surgery operator, separate from a health system and health plan

- **Total Addressable Market:** Current $90 billion addressable market with over $60 billion of incremental market size entering in the coming years.

- **Industry Tailwinds:** Management sees growth opportunities through the aging population and the move to high value and higher quality settings of care.

- **Ophthalmology:** Since 2019 the specialty has been the lowest of the company’s core growth specialties (3.7% case growth per year).

- **Cardiology:** Expansion in cardiology has two main headwinds: (1) most cardiologists are locked into three-year employment agreements and (2) 20 states have not followed CMS in making PCIs and higher acuity ASC procedures available (due to certificate of need laws).

  - Expect cardiology to be a leading growth engine over time and greater than its orthopedic opportunity

- **De-novos:** Have 17 de-novos in the pipeline and expect to double-digit de novos per year for the foreseeable future.

  - Pipeline includes catheterization lab-based ASCs and opportunities for catheterization lab additions to ASCs.

  - Takes about 18 months for a de novo to be syndicated.
  - It takes roughly three months to get licensed and three to six months to get it to breakeven.

- **4Q23 Performance:** The company noted that it saw no unusual events during the quarter.
- **Labor:** Recruit 600 new physicians a year to their facilities.
- **Interest Expense:** The company's prior hedges that it had on its previous term loan remain in effect and fix the rate for another year and a half.
- **Leverage:** Target credit agreement leverage of 3.5x by 2025. Management noted that it has no concern in refinancing its 2025 Senior Notes and is looking opportunistically to refinance its 2027 Senior Notes.
- **Long-Term Revenue Growth:** Target 4%-6% topline growth (2%-3% case growth and 2%-3% volume growth).
  - Historically outpaced the 4%-6% due to acuity. The 4%-6% reflect a more normalized environment.
- **Long-Term Adj EBITDA Growth:** Target 11%-17% (mid-teens% at midpoint) Adj EBITDA growth. The company expects to increase its capital deployment towards this goal as free cash flow grows.

## Teleflex Incorporated (TFX)

- **Prostate Cancer:** The American Cancer Society estimates 288,000 new cases of prostate cancer in the US each year with incidents growing at a 3% CAGR.
  - Over 95% of urologists who treat BPH also treat prostate cancer. Of those urologists: (1) 20% use Barrigel; (2) 20% use another technology; and (3) 60% require further education.
- **Hospitals:** Management views the acute hospital space as attractive due to procedural volumes returning to pre-COVID levels and improvements in staffing levels.
  - The company expects the acute hospital environment to continue to improve going forward.
- **ASCs:** Management attributes the increase in ASC utilization to hospitals acquiring ASCs and believes that the most successful hospitals are integrated via inpatient, ASCs and insurance/health plans.
  - ASC utilization frees up space in inpatient and higher acuity areas, supporting Teleflex's growth
- **GLP-1:** Management estimates that only 1% of its total revenues are at risk from GLP-1s.
- **Strategic Priorities:** (1) Drive sustainable revenue growth; (2) achieve earnings and margin expansion; and (3) optimize its product portfolio.
- **Recession:** Management noted that it expects a mild recession in the US and Europe.

  - The company caters to older patients that are historically more resilient during recessions

- **China:** Focus on expanding UroLift into China. The company plans to begin ramping in 2024 and continue to accelerate in 2025.

- **M&A:** Management noted that the M&A environment was encouraging and it plans on being active in the marketplace.

## Teva Pharmaceutical Industries Ltd. (TEVA)

- **Austedo:** Confident on ability to achieve $2.5 billion of revenue. Reallocated resources in the business to better focus on Austedo.

- **Uzedy:** 2023 was focused on expanding reach by getting set up in the market via Medicaid and hospital formulary approvals.

  - Product profile has created traction with the physician for its ability to be administered quickly in the case of a relapse.

- **TL1A:** Had one of the first TL1As on the market, but the company didn't invest in it.

  - Now placing on emphasis on being first to market in the third and fourth indications.

  - Phase 2 data will come out in 1H25 at the earliest.

- **Humira:** Humira biosimilars mostly came into the market during the middle of the year when PBMs were already locked in a rebate/contract for the full year with Humira.

  - 2024 is expected to reflect a more normalized competitive environment and the impact Humira biosimilars have

- **Biosimilar:** Want to grow the pipeline via partnerships.

  - Have 5 biosimilars expected to launch by 2027.

  - Expanded Alvotech partnership to further expand biosimilar pipeline.

- **Olanzapine:** Completed Phase 3 recruitment and now waiting for data read out.

  - Phase 3 has progressed quickly due to overarching eagerness to get Olanzapine on the market.

- **ICS/SABA:** The need for a combination product is high. It is viewed as a $2.5 billion market. This assumes if only 30% of the total addressable patient population is being treated.

- **Generics:** Saw that only 60% of covered loss of exclusivities were profitable.

- **Teva API:** Business has been constrained due to its historical focus on serving the generics business.

  - Business is high margin and operates in an $85 billion market.

- **Operating expenses:** Operating expenses are expected to increase, but the company will remain disciplined on maintaining it as a % of revenue.

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