Big Healthcare Companies Jump Into Blockchain -- but Don't Expect Their Stocks to Soar Because of It

It's a giant leap for blockchain in healthcare, but not even a tiny step for the stocks of the companies involved.

Keith Speights (TMFFishBiz)
Apr 10, 2018 at 6:31AM

Last year, a tiny biotech changed its name to include the word "blockchain" and changed its focus to blockchain technology. The stock promptly skyrocketed -- then its bubble burst, with most of the big gains evaporating.

A few days ago, several big healthcare companies announced an alliance for a blockchain effort that could be a much bigger deal than that biotech-to-blockchain roller-coaster ride. **UnitedHealth Group** (NYSE:UNH), **Humana** (NYSE:HUM), and **Quest Diagnostics** (NYSE:DGX), along with privately held healthcare payer solutions company MultiPlan, are joining forces for a blockchain pilot.

Could this effort be a giant leap forward for the use of blockchain technology in healthcare? Maybe, but it's probably not even a baby step for any of the stocks.

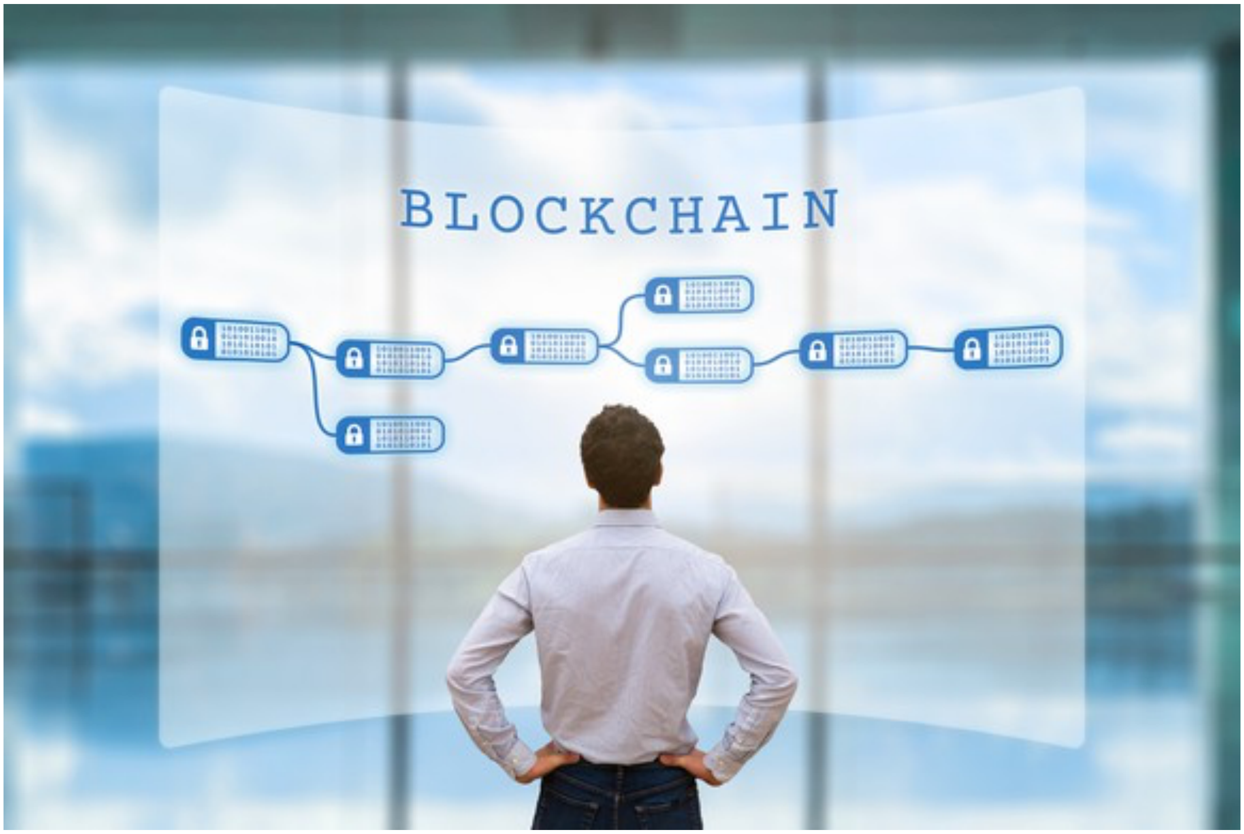

IMAGE SOURCE: GETTY IMAGES.

What they're doing

The companies stated that they're working together on a pilot program to use blockchain technology to improve the data quality and lower the costs associated with healthcare provider directories. Currently, healthcare payers like United Healthcare and Humana maintain their own provider directories, as do healthcare providers like Quest Diagnostics.

Maintaining separate provider directories might not seem like a big deal. However, it can cost companies a lot of time and money when differences crop up between the different directories. An analysis published in *Health Plan Week* in 2017 estimated that the annual cost of updating provider data is a whopping $2.1 billion. The federal government can even fine health insurers for not keeping provider directories up to date.

So, how could blockchain help lower costs and improve the process of maintaining healthcare provider directories? Instead of multiple directories maintained by each organization, blockchain would enable a common provider directory that could be updated by all of the parties. This directory would be distributed across multiple computers.

Keep in mind that the effort at this point is only a pilot. However, blockchain isn't new to several of the participants. UnitedHealth Group subsidiary Optum, for example, announced plans to hire a blockchain director in 2017. Optum senior distinguished engineer Mike

Jacobs participated in a discussion at CES 2018 in January titled, "Healthcare Has Problems: Blockchain Has Answers." The alliance partners should find out this fall if blockchain has the answer to the problem of provider directory maintenance.

A giant step forward?

There are several reasons I think this effort is important. For one thing, it's the first national blockchain alliance in healthcare. Involvement of huge companies like UnitedHealth Group, Humana, and Quest Diagnostics is a significant endorsement of the potential for blockchain in healthcare.

What is especially notable is that direct rivals are working together on the initiative. I wouldn't be surprised to see other insurers and large healthcare providers join in if the pilot is successful.

By the way, I fully expect the pilot *will* be successful. Updating a common provider directory is a perfect application for blockchain technology. My colleague Sean Williams wrote in February about "blockchain's catch-22" -- blockchain's ability to scale can't be proven as long as businesses only test on a small scale. In this case, though, I think the pilot will lead to a much larger implementation relatively quickly. There's too much money to be saved, and it simply makes a lot of sense.

But perhaps the most significant implication of this blockchain pilot is what it could mean for the future of healthcare. As great as improving provider directory updates would be, the real prize is in updating and accessing patient data. Imagine an electronic health record for every patient that could be securely updated and accessed by any healthcare provider.

A success with this first blockchain pilot could -- and I hope will -- lead to future collaborations on shared maintenance and access of patient data. Yes, there are all kinds of privacy issues to be resolved with patient data that make the effort related to provider directories look like child's play. However, the potential is there for blockchain to dramatically improve patient data access and maintenance.

Don't put the cart before the horse

Will the stocks of UnitedHealth Group, Humana, and Quest Diagnostics soar if the blockchain pilot works well? Don't count on it. There's still a lot of hype about blockchain, but none of these companies are tiny players that are likely to see their share prices move much based on the results of a technology pilot.

However, there is also a real value for businesses in applying blockchain technology in ways that improve processes and reduce costs. I can envision a future in healthcare where blockchain could make a big enough difference that the bottom lines of companies are positively impacted. For now, the best thing investors can do is monitor the progress of the latest effort at applying blockchain in healthcare and look for more down the road.

Keith Speights has no position in any of the stocks mentioned. The Motley Fool recommends UnitedHealth Group. The Motley Fool has a disclosure policy.

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ARTICLE INFO

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Health Care

STOCKS

UnitedHealth G…
NYSE:UNH
$230.32 $6.04 (2.69%)

Humana
NYSE:HUM
$289.95 $2.33 (0.81%)

Quest Diagnost…
NYSE:DGX
$101.23 $1.47 (1.47%)

3 Top Healthcare Stocks to Buy in April

April could be the perfect time to pick up shares in these top healthcare stocks.

Todd Campbell, Sean Williams, And Brian Feroldi (TMFEBCapital)
Apr 13, 2018 at 6:31PM

There have been more stock market pops and drops lately and that might have you wondering what healthcare stocks can be bought to take advantage of this volatility. Buying healthcare stocks during periods of volatility can be smart because demand for healthcare products and services usually isn't discretionary. However, that doesn't necessarily mean it makes sense to buy every healthcare stock out there. To find out what healthcare stocks it might make sense to buy this month, we asked top Motley Fool investors what companies are on their radar. In their view, **Teva Pharmaceutical Industries** (NYSE:TEVA), **Novacure** (NASDAQ:NVCR), and **Galapagos** (NASDAQ:GLPG) should be at the top of your idea list right now. Read on to find out why.

Wall Street hates this stock, but I love it (and think you will, too)
Sean Williams (Teva Pharmaceutical Industries): One person's trash is another person's treasure I say, which is why I believe the recent weakness in Teva Pharmaceutical Industries is the perfect opportunity this April.

IMAGE SOURCE: GETTY IMAGES.

Let's face the facts, Teva has a long road ahead of it. The company is facing generic competition on its top-selling brand-name drug Copaxone, has dealt with numerous generic-drug pricing headwinds, overpaid for Actavis, which left it deep in debt, and settled a bribery scandal that resulted in the departure of its CEO and COO. To boot, it completely halted its dividend and has cut its profit expectations on multiple occasions.

Despite all of this, Teva is intriguing. It's still the largest generic drugmaker in the world, and generics are only gaining in demand and prevalence. As the global population ages, and both consumers and physicians look for cheaper prescription alternatives, pricing power should return to Teva's corner. By sometime in 2019, generic-drug pricing concerns should no longer be an issue.

Teva's uncertainty is also dwindling. Concern over Copaxone's exclusivity plagued this stock for years. Now that generic Copaxone has reached the market, the anticipation of the event is gone, and the future for the company is clearer. Even with Copaxone sales declining, other brand-name medicines, along with its generic portfolio, should help offset some or all of this weakness.

Management isn't being shy about cutting costs, either. Teva announced plans to cut about

14,000 jobs -- roughly a quarter of its global workforce -- in an effort to reduce its annual expenses by $3 billion a year (about 16%). When added to its dividend suspension, we're talking about more than $4 billion in annual cash outflow that Teva will now be able to bank on in an effort to reduce its debt. Along with divestitures of facilities and non-core assets, Teva has an opportunity to reduce its debt quicker than most investors probably realize.

And finally, Teva is relatively cheap as a result of its recent issues. The company is valued at a little over six times next year's earnings-per-share (EPS) projections, and only a tad over five times its cash flow per-share projection in 2019. I believe Investors with a long-term horizon should be pleasantly surprised by Teva.

Blazing new trails in the fight against cancer
Brian Feroldi (Novocure): Volatility may have finally returned to the stock market, but scores of healthcare companies are *still* trading near their 52-week highs. In times like this, I think that it makes sense to focus on healthcare companies that hold explosive long-term growth potential. That's why I continue to believe that Novocure is a solid bet.

Novocure is a cancer-focused company with an important twist -- instead of focusing on improving the traditional modes of cancer treatment (surgery, radiation, and chemotherapy) Novocure is championing the use of a brand new modality called tumor treating fields or TTFields for shorts.

TTFields work by producing an artificial electric field near a cancerous tumor. Believe it or not, this helps to disrupt cell division in cancerous tumor cells, which inhibits their ability to grow (and in some cases causes them to shrink). This is a highly appealing treatment option for many patients because the side effects of using TTFfields are minimal, especially when compared to traditional cancer treatments. What's more, TTFields can be used in combination with other cancer therapies to make them more effective.

While the medical community was highly skeptical of TTFields when they were first introduced, they have starting to enter the mainstream conversation after they were clinically proven to work. As a result, NovoCures's revenue growth has skyrocketed in recent years and its stock price has soared.

There are plenty of reasons to believe that the company's turbo-charged revenue growth rate will continue. TTFields are currently only approved for use in treating a deadly form of brain cancer called glioblastoma multiforme (GBM) but the company believes that they will eventually be used to treat mesothelioma, breast cancer, lung cancer, pancreatic cancer, and more. There's also plenty of room left for growth in GBM, too, as insurance coverage in the U.S. continues to improve and Novocure recently gained national reimbursement coverage in Austria and Japan.

Overall, Novocure's huge revenue growth and clinical results have convinced me that TTFields are the real deal. Since Novocure is the only company that is currently commercializing TTFields, I'm convinced that this company should be able to grow its top line rapidly for many years to come.

IMAGE SOURCE: GETTY IMAGES.

This biotech could be going places

Todd Campbell (Galapagos NV): If you can afford to take on some risk in your portfolio, then Galapagos NV is one top stock that might be worth picking up in April.

The company's got needle-moving data expected later this year from two major programs and, thanks to the market's recent sell-off, its shares are trading at a nice discount to where they were only two months ago.

There's no telling if the data will be good, but if it is, Galapagos could benefit significantly from milestone payments and royalties. For instance, its lead product, filgotinib, is licensed to biotech Goliath **Gilead Sciences** (NASDAQ:GILD) and is being evaluated in a variety of blockbuster autoimmune indications. Results from a phase 3 rheumatoid arthritis study should be available in the second half of 2018; since that market is worth more than $16 billion per year, the payoff for investors could be big. Galapagos will share in EU profits on filgotinib, plus it can collect 20% to 30% royalties on U.S. sales if filgotinib eventually wins an OK.

Galapagos also expects to report data soon for its triplet combination therapy for cystic fibrosis. It's developing this triplet with **AbbVie Inc**. (NYSE:ABBV)and the potential revenue opportunity in that indication is significant, too.

Currently, **Vertex Pharmaceuticals** (NASDAQ:VRTX) has the cystic fibrosis treatment market locked up, but if Galapagos succeeds, it could carve away at Vertex Pharmaceuticals' sales. In 2017, Vertex Pharmaceuticals' cystic fibrosis drugs brought in over $2 billion, and that was from only being able to treat about half of all cystic fibrosis patients. If Galapagos' cystic fibrosis drugs do reach the market someday, Galapagos can receive royalties of between 15% to 20%, plus up to $600 million in milestones. Galapagos can also choose to split profits in the EU with AbbVie.

Admittedly, Galapagos' trials could be a bust -- and that makes buying Galapagos shares risky. Nonetheless, the opportunity is large enough to suggest it can make sense to add a little of it to diversified portfolios.

Brian Feroldi owns shares of NovoCure. Sean Williams owns shares of Teva Pharmaceutical Industries. Todd Campbell owns shares of Gilead Sciences. His clients may have positions in the companies mentioned. The Motley Fool owns shares of and recommends Gilead Sciences. The Motley Fool has the following options: short May 2018 $85 calls on Gilead Sciences. The Motley Fool recommends Vertex Pharmaceuticals. The Motley Fool has a disclosure policy.

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Todd has been helping buy side portfolio managers as an independent researcher for over a decade. In 2003, Todd founded E.B. Capital Markets, LLC, a research firm providing action oriented ideas to professional investors. Todd has provided insight to a variety of publications, including SmartMoney, Barron's, and CNN/fn.

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ARTICLE INFO

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Health Care

STOCKS

VRTX

Vertex Pharma...
NASDAQ:VRTX
$158.70 $-2.69 (-1.67%)

TEVA

Teva Pharmace...
NYSE:TEVA
$18.06 $0.01 (0.06%)

GILD

Gilead Sciences
NASDAQ:GILD
$74.69 $0.53 (-0.70%)

ABBV

AbbVie
NYSE:ABBV
$92.60 $0.77 (0.84%)

GLPG

Galapagos
NASDAQ:GLPG
$95.60 $-5.47 (-5.41%)

NVCR

NovoCure
NASDAQ:NVCR
$21.55 (0.00%)