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HD **What's Next for Healthcare --- From biotech to managed care, companies are focused on new challenges—and opportunities. What's at stake, and where to invest now.**

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Thanks to vaccines, treatments, and preventive measures, the Covid crisis has eased, even if the pernicious virus persists. The pandemic's evolution gives healthcare companies a chance to focus on other issues, including drug-patent expirations, pricing pressures, regulatory changes, and deal making. For investors, a bear market in stocks adds another wrinkle—and an opportunity to snap up shares of the industry's most promising companies on the cheap.

This year, Barron's annual healthcare roundtable focuses on emerging themes across the industry, from the ability to "interrogate" biology with computational tools to the evolution of value-based care. The challenges are many, but the news is good, not only for innovative biotech and cash-rich pharmaceutical companies, but also for nimble managed-care providers and purveyors of much-needed medical devices and life-sciences tools.

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The roundtable, which took place in mid-September on Zoom, features four panelists: Jorge Conde, a general partner at the venture-capital firm Andreessen Horowitz; Ann Gallo, a healthcare portfolio manager at Wellington Management; Neal Kaufman, manager of Baron Capital's Baron Health Care fund (ticker: BHCFX), rated five stars by Morningstar; and Chris Schott, a healthcare analyst specializing in pharma stocks at J.P. Morgan.

An edited version of the conversation, including a look at the panelists' favorite stocks, follows.

Barron's: Postpandemic, what are the most important trends and emerging themes in your coverage areas? Ann, lead off, please.

Ann Gallo: I'm happy to do so. Utilization is an important driver of growth in healthcare. As more people schedule procedures, utilization is approaching prepandemic levels. We could see growth take off from current rates. This would be especially beneficial for healthcare-facility stocks hit hard by Covid, and many medical-device companies. That's a big, important theme.

Another important theme is the continued tension between the level of innovation in pharmaceuticals, biotech, and medical technology and our ability to pay for it. That has always been the catch. The transition to value-based healthcare is accelerating, and will have implications as we try to move from a world in which we're paying for volume to a world in which we're paying for the highest-quality care at a value sustainable to the system.

A third trend is digital healthcare. As companies embed digital tools in their operations, digital healthcare will become an important driver of growth and efficiency.

Chris, what is on your horizon?

Chris Schott: I'm focused on the innovation cycle we have seen. Can it continue? Covid demonstrated the value of the biopharma industry and what it can deliver in terms of vaccines and therapeutics. But what we are grappling with now, especially in my large-cap pharma coverage universe, are companies coming up on a large patent cycle.

Innovation is occurring in these companies' pipelines. We have hundreds of newly minted biotech companies, as well. In the next few years, as we pivot away from Covid, who will be the winners and losers? Which pharma companies have expanded that innovation across their portfolio to deal with the patent cycles they're facing? Which ones have to get more aggressive in business development and an external search for assets? And, can we support the number of biotech companies that came public in the past few years, or do we need to see consolidation?

Jorge, what is happening in your world?

Jorge Conde: It has been fascinating to see how robust early-stage innovation continues to be. If we are on the other side of the Covid pandemic, two things stand in stark relief.

One, technology—specifically, biotechnology—helped save the day. The ability to invent and develop Covid vaccines so quickly reflects the fact that biology is becoming increasingly programmable. And that means the innovation cycle is going to continue or, more likely, accelerate and compound. If we can program a messenger RNA vaccine for a spike protein, we likely can do it for many other things beyond infectious diseases.

The other realization, which Ann alluded to, is how broken the healthcare system is. We saw the cracks in the system during the Covid pandemic. We couldn't deliver essential services, testing, or necessary products. The need for innovation is more apparent than it has been in a long time.

A third thing that interests me is the environment for early-stage companies. It is a wonderful time to start a company because the technology is robust. The challenges of getting a company off the ground have been reduced dramatically. It is much easier to start a biotechnology company in 2022 than it was in 2002. And, there are deep pools of both public and private capital to help drive that innovation.

We'll return to the subject of financing, but first, let's hear from Neal.

Neal Kaufman: One thing we're focused on—and it isn't specific to healthcare—is: In a higher-inflation world, which companies have pricing power? Even if inflation starts to come down, it seems likely to be more of an issue than in the past. We are focused on companies that have the ability to raise prices to offset inflationary pressures.

Another theme is the use of technology to enable drug discovery. A lot of companies have come public in the past year or so that are focused on using artificial intelligence, computational platforms, or machine learning to speed the pace of drug discovery, at a lower cost and with an improved likelihood of success. There are plenty of private companies in this field, as well.

We are also focused on the development of blood-based early-cancer-detection tests. Illumina [ILMN] has entered this market through its ownership of Grail, although there are questions about whether it will have to divest Grail. Grail has a multicancer-screening blood test on the market; people can pay for it out-of-pocket. A host of other companies are working on single-cancer blood tests.

You run a diversified healthcare portfolio. Which industry subsectors look most attractive now?

Kaufman: Ann mentioned value-based healthcare, as opposed to volume-based. Many publicly traded, large-cap managed-care companies are involved in efforts to become more risk-based providers of healthcare as opposed to purely insurance companies. We have investments in Humana [HUM] and UnitedHealth Group [UNH]. Both are involved in this shift, either through ownership of primary-care clinics or a move into the home-care services space.

Outside healthcare services, we have historically liked the life-sciences tools subsector. Many companies in this area provide products and services to biotech and pharma companies. They have recurring revenue with high margins and good cash-flow characteristics. Unlike biotech companies that are purely product-driven and have clinical-event risk, many of the tools companies have more predictable business models. A lot of life-sciences tools companies benefited from Covid, so they have a bolus of Covid revenue starting to taper off. That is reflected in poor stock performance, year to date, but this remains an attractive area for long-term investments. A lot of these stocks are at valuation levels that haven't been seen in years, so there are plenty of investment opportunities.

Ann, same question: What are you prioritizing in your portfolios?

Gallo: Right now, 50% of the investible opportunity set within healthcare constitutes medical technologies and services, and 50% is in pharma and biotech. In our portfolios, over the past year, our biopharma exposure has been slightly skewed in favor of larger cap versus SMID [small- and mid-cap] names, relative to our historic positioning. Within medtech and services, our largest subsector bet is managed care, followed by medical devices and life-science tools companies.

The reason I recommend managed care is the attractive fundamental backdrop. Premium prices have been rising at, or slightly above, the trend in healthcare costs, and the feared bounceback in postpandemic procedure volumes is unlikely to happen due to capacity constraints in the system, including labor shortages. The Medicare Advantage market still provides attractive growth opportunities as the population ages and more people transition from traditional fee-for-services Medicare to managed Medicare run by the private sector. We see a relatively benign political and legislative environment for a while.

A big part of my investment process is to play subsectors off one another. Within healthcare services, there are probably 10 subsectors. We find a lot of correlation within subsectors, but not necessarily among them.

Our second-largest overweight is medical devices, and the third is life-science tools. The medical-device business was hit hard during Covid as people delayed elective procedures. We're starting to come out of that, and are seeing some stabilization in supply costs and supply-chain blockages.

At the same time, there is a ton of innovation. Boston Scientific [BSX], which we own, had a rocky couple of years during the pandemic, but now is generating above-market growth in all of its key divisions. It is positioned to grow broadly for some years into the future.

Where else do you see opportunity?

Gallo: Edwards Lifesciences [EW] manufactures medical devices focused on structural heart disease. It is exiting the pandemic with its leading TAVR (transaortic valve replacement) franchise well positioned for continued growth after the recent lull. Over the next decade, two newer and currently smaller markets, mitral and bicuspid valve repair, will join TAVR as important growth engines.

Abiomed [ABMD] is a name we've just started to get back into. The company's key product, the Impella pump, enables a patient's heart to rest and recover during cardiac failure and high-risk procedures by improving blood flow. Given the nonelective nature of these procedures, Abiomed's sales reps were among the few to have access to hospitals during the pandemic, enabling it to expanded its reach into new centers, while fortifying existing relationships.

Insulet [PODD], in the diabetes area, is another company we like. Its Omnipod 5 is the first and only tubeless automated insulin-delivery system on the market. When integrated with a continuous glucose monitor, it basically functions as an artificial pancreas.

What do you make of the efforts of tech giants such as Amazon.com [AMZN] and Apple [AAPL] to enter the healthcare market? Do they pose a threat to traditional healthcare companies?

Gallo: I've seen every generation of technology throw money at healthcare and then get out of the business. It is different now, especially for cloud-computing companies, because the move to value-based care will prevent information from remaining siloed. That said, companies outside the healthcare-services world often underestimate how dysfunctional and confusing healthcare is. Expertise is critical, and a lack of it has been a barrier to success.

Amazon announced about six years ago that it was getting into the drug-distribution business, but it was my conviction at the time that the advantages Amazon brings to consumers in other industries didn't exist within drug distribution. Years later, they have changed their approach.

Eventually, the tech behemoths will break in, but you don't need to be a tech company to leverage the advances in technology that we're seeing. The existing healthcare infrastructure companies will make a bigger impact with new technologies and AI. You can count on one hand the number of new entrants into healthcare services over the past 20 years that have a large, successful company to show for it.

Coming from Silicon Valley, Jorge, you must have thoughts about this.

Conde: Healthcare is hard. The system is complicated. But technology is coming, and it will increasingly transform the way we access healthcare in this country, the way we pay for it, the way it is delivered, and the way we experience it. Technology is giving existing providers superpowers, of a sort.

If you are a physician, there are powerful applications in which tools like AI can make you better at delivering care. For example, Bayesian Health's research-backed AI platform integrates every piece of available data to equip physicians with accurate and actionable clinical signals that empower them to diagnose, intervene, and deliver proactive, higher-quality care.

We are also focused on creating modern fintech rails for the healthcare system, whether to fix billing problems or create better price transparency or collect bills in systems operating at relatively low margins.

And, there is a lot of innovation happening in technologies to enable virtual first care, which will be an important catalyst in the shift to value-based care. Many companies in these areas are born with a technology-first approach to delivering what we would call full-stack care.

It has been a roller-coaster year for biotech stocks, which fell for many months, then recovered some, and are now sliding again. What caused the swings, and what might prompt investors to re-engage?

Schott: A lot of young biotech companies came public during the pandemic. There was excitement around innovation. Then, with interest rates going up and the economic outlook growing more challenging, there was a rerating of some of those businesses. Coming into the year, Big Pharma stocks were undervalued relative to the broader market. Pharma valuations have since normalized a bit, but there are still opportunities in the group.

Across the biopharma world, there are a lot of innovative companies now trading at valuations we haven't seen in a long time. There will probably be a great opportunity to re-engage with companies whose shares have fallen 30%, 40%, 50% in the past six to nine months.

Where do you see value in biotech?

Schott: Among companies in my coverage universe, we like Horizon Therapeutics [HZNP], which had one of the best product launches in that category with a drug called Tepezza for treatment of thyroid eye disease. The product went through a growth challenge this year, after going from zero to $2 billion in revenue in two years. We think the drug has more room to grow, and could generate $3.5 billion or $4 billion a year at the peak. The stock has fallen from around $120 to $60 in the past year, and now trades for less than 15 times earnings. Horizon made some acquisitions, and now has five or six drugs in Phase 2 development. At the current multiple, you're effectively getting the pipeline for free.

In large-cap biopharma, a lot of companies I follow are trading at 12 or 13 times earnings. They are harnessing some of the same technologies we are so excited about, and getting almost no credit for it. Names like AbbVie [ABBV] come to mind. The stock trades for 11 times earnings. The company will have an earnings trough in 2023, but from there will see healthy growth for a decade-plus.

Royalty Pharma [RPRX] buys up drug-sale royalties, providing an alternative source of capital for the industry. It offers a diversified way to invest in some of the innovation occurring at smaller companies. The stock is up about 3% year to date, but has not participated in the broader rerating we have seen with a number of the major pharma names.

Jorge, do you see bargains among broken initial public offerings?

Conde: The main opportunity is in areas where we are starting to see concrete proof that a new modality, a new form of medicine, can work. Gene editing is one such area. Companies such as Verve Therapeutics [VERV] and Intellia Therapeutics [NTLA] have been able to advance into clinical trials to bring these therapies closer to patients.

One reason we've seen such a pullback in shares of early-stage companies is that a lot of them went public as preclinical companies. It is hard for public investors to analyze them, absent proof points.

Was it a mistake for venture capitalists to push preclinical companies into the market?

Conde: These platform-based biotech companies require time and capital to fully develop. Historically, they got that capital by accessing public markets. Increasingly, we have deeper pools of private capital available. Innovative platform companies probably could benefit from staying private longer, building out their technology, and going public when they have demonstrated the value of their platforms. In the future, companies are likely to stay private for longer.

How will the abundance of private capital influence biotech?

Conde: Many groups have raised large funds, which by definition tend to be long duration. There is a lot of dry powder, and in the next five years, we expect to see a lot of it put into play. The market has gotten much deeper and more sophisticated. Some funds want to invest in tech-centric platforms. Some of these investors are large sovereign-wealth funds. There is a diversity of sources of capital. The key thing is to figure out the right time to access public capital.

Gallo: We participate in public and private markets. I have been surprised that we haven't seen more M&A [mergers and acquisitions], especially given the patent cliffs some pharma companies are facing. Is there anything you're seeing in private biotech, Jorge, that suggests this could be a route?

Conde: One reason we haven't seen more active M&A is because of the evaluation cycle; it takes a long time to figure out what the right price is. Also, in a crowded landscape, it is hard to figure out where the diamonds are.

Schott: I have always viewed my large-cap names, the buyers of many of these assets, as companies that, rightly or wrongly, would rather pay a premium for a best-in-class asset after it has been derisked, rather than buy an early-stage company on the cheap. But I, too, am surprised that there hasn't been more M&A, just because there is so much cash sitting on the sidelines in pharma, and investors generally have been supportive of companies deploying that capital.

We are starting to see more partnerships in cases where companies don't want to buy whole platforms, but rather work on particular assets. Maybe they make an equity investment in a company, and if the technology is as advertised, there is a second-step transaction a few years down the road.

Pharma companies are probably going to hit a tipping point in the next two years, as the reality of their impending patent cliffs sets in. Most of these companies have less than one times leverage and are generating tons of cash flow. At some point, it's going to be tempting to put that capital to work via acquisitions.

What is the outlook for pharma stocks generally?

Schott: There are two perpetual pushbacks: Pricing is uncertain and will get worse over time. And, how can companies sustain themselves, given patent cycles? On the latter, I am more optimistic than the market. Today, companies' internal pipelines are productive, and there are literally hundreds of companies that the Big Pharma companies can acquire or partner with.

On pricing, we've had multiple years in which net pricing was down, given increased rebates issued by healthcare systems. Most of us assume these companies will have to operate in an environment in which prices decline a couple of percent in perpetuity. Innovative companies that can reinvent themselves will get premiums, and others will get valued accordingly. It was probably easier to make a bullish call on the drug stocks a year ago, when they were trading at such a steep discount to the market. Today, it is more of a stock-picking market. Investors need to pick the companies that aren't getting credit for their pipeline, or have shown a sustainable innovation engine that you don't see elsewhere. We are fairly constructive on the group.

The Inflation Reduction Act contains several healthcare-related measures. How will they affect pharmaceutical companies?

Schott: There are three pieces regarding pharma. The Medicare Part D redesign, which caps seniors' out-of-pocket costs at $2,000 and creates a more predictable monthly expense for their medications, is something the industry has wanted. The benefit didn't really serve constituents well and will serve them much better when implemented in 2025.

The price-increase cap, which is tied to CPI, is neutral for pharma. The third part is selective drug-price negotiation. For most of our companies, this provision would initially clip prices in the final years before most drugs' patent expirations. It isn't hitting drugs early in their life cycle. The provision won't fully ramp up until after 2030. It reinforces the need for sustainable innovation, because if you stay static and have a big drug, the price eventually will be negotiated down by the government. I expect price negotiation to have a sub-5% impact on annual earnings per share for any given company.

Gallo: Chris, is there a risk that more drugs will be affected?

Schott: Larger drugs are going to be negotiated. By the time you get to the early 2030s, most drugs that generate more than 2% to 3% of companies' annual revenue and have been on the market nine to 13 years will get pulled into this list as it grows to 100-plus drugs. Again, this was fairly well anticipated, and it isn't the end of the world. We aren't going to global reference pricing, or other things that could have been implemented that would have been much more disruptive to earnings.

Gallo: What is fascinating about the price negotiation for select drugs is that potentially, for the first time ever, it gets to the real issue with drug pricing—the starting price of these drugs. Overall industrywide drug-price inflation has been in the low single digits for years. From an affordability standpoint, the bigger issue is that many drugs are initially launched at very high prices. Biologic drugs cost hundreds of thousands of dollars. They are highly effective for a small group of the population. This legislation is a blunt instrument, but it has the potential to get at this issue in the out years.

Chris, what are some of your top picks in Big Pharma?

Schott: Eli Lilly [LLY] is my kind of innovative pharma company. It isn't dealing with a patent cliff. Lilly is launching Mounjaro, to treat diabetes. It is a transformational asset. In the future, it will be launched to treat obesity. It could generate peak annual sales of $25 billion. This is a best-in-class diabetes medication. Patients lose more than 20% of their body weight. Over time, use of the drug will produce strong cardiovascular benefits. Payers might not want to pay for obesity medications, viewing obesity as a cosmetic market. We expect it to turn into a medical market.

Lilly's earnings could rise from about $8 a share this year to almost $30 by the end of the decade, and won't be done growing then. The patent cycle is mid-2030s and beyond. The company has invested consistently in its portfolio. It continues to work in several therapeutic areas. It has competitive advantages, including a best-in-class management team. At 38 times forward 12-month earnings, the stock trades at a premium to peers, but you can't find growth like this in other large-cap diversified pharma companies.

We also like AbbVie, a more controversial story.

How so?

Schott: AbbVie's patent protection on Humira will expire in 2023, and earnings will trough around the same time. The stock is trading for less than 12 times estimated trough earnings. Wall Street is focused on the patent cliff; we have been more focused on what happens after. AbbVie has multiple growth drivers. Looking past 2023, the top line is growing by mid- to high-single digits, and the bottom line is growing at a low-teens rate out to the early 2030s. The stock yields almost 4%. There is a strong argument for the stock to rerate as we go into 2023, and the Street has more visibility on trough earnings. AbbVie offers premium growth and an undervalued stock.

That's a good combination. Neal, what excites you in this market?

Kaufman: We like Bio-Techne [TECH], an $11 billion market-cap life-sciences-tools company. It has stable, organic growth and high margins, and can compound earnings over the long term. Its core business is selling proteins and antibodies for research use. Bio-Techne is a leading supplier of cytokines, a type of protein used in immunology research, a growing field.

The company has multiple growth drivers, including a platform technology that looks for cancer or transplant-rejection biomarkers in small extracellular vesicles called exosomes. Bio-Techne is a supplier to the cell- and gene-therapy market. It also has a protein-analysis business. Organic revenue growth has accelerated to the low- to midteens. The company is active in M&A, as well.

We think it can grow the business to $2 billion of revenue in the fiscal year ending on June 30, 2026. Assuming a 40% Ebitda [earnings before interest, taxes, depreciation, and amortization] margin, that's Ebitda of $800 million or more in the same fiscal year. Thermo Fisher Scientific [TMO] just paid 40 times Ebitda for a privately held competitor. Bio-Techne trades for 22 times the next calendar year's Ebitda. The stock could trade up to $600 a share in three to four years, versus around $300 today.

What else do you like?

Kaufman: Inspire Medical Systems [INSP] is a medical-device company with a roughly $5 billion market cap. It is focused on sleep apnea, a common disease in which the patient's airway is blocked during sleep; the patient wakes up throughout the night because of a lack of oxygen. This can lead to multiple health issues, such as stroke and cardiovascular issues, and higher healthcare costs. The first-line therapy is CPAP, but there is low patient compliance. Thus, there is a huge opportunity for better alternatives.

How large is the market?

Kaufman: Sleep apnea affects approximately 100 million people worldwide, and 17 million in the U.S. have moderate to severe sleep apnea. Inspire sells a small, implantable device that delivers electrical stimulation to the hypoglossal nerve, which moves the patient's tongue out of the air passageway while sleeping and allows more normal breathing to occur. The patient controls the system and can turn it on before going to sleep. The implant is done in a 90-minute outpatient procedure. It requires only two small incisions. Inspire has now secured broad insurance coverage for this device.

Inspire is targeting a market of approximately 500,000 patients in the U.S. Plus, there are international opportunities. This year, the company is going to sell roughly 15,000 devices, so there is a long runway for growth. The company could generate $360 million of revenue this year, up more than 50% year over year, despite the labor-shortage constraints in the medical-device market, with mid-80% gross margins.

This is an expensive stock on near-term numbers, but we see good long-term upside. Long term, if you assume just two implants per center per month at 2,500 centers in the U.S., at their average selling prices, combined with some international revenue, the company could be generating $1.5 billion to $2 billion of revenue at the end of the decade, with $700 million of Ebitda. It could be a $600 stock then, versus around $170 today.

Lastly, ICON [ICLR] has a market cap of roughly $16 billion. It is the second-largest CRO, or contract research organization. ICON provides outsourced drug-development and commercialization services to pharma and biotech. It is benefiting from growth in biopharma R&D spending and the trend toward outsourcing of clinical trials. Market share is shifting to large-scale providers like ICON as clinical trials become more complex and global. ICON has a long history of developing products and services embraced by customers. There has been concern about how the decline in biotech funding would flow through to their business, which has taken the stock down this year.

Is the concern warranted?

Kaufman: The concern is overblown, and ICON can still achieve its targets. Earnings will be up more than 20% in 2022, and the company could generate midteens or better earnings growth through 2025, with the possibility for acquisitions and share-repurchase activity.

Recent transactions in the CRO market have occurred at 20 times Ebitda. ICON trades for 14 times this year's expected Ebitda and less than 13 times next year's. On a price/earnings basis, the stock trades for 16.5 times this year's earnings and less than 15 times next year's. We expect ICON to earn roughly $18 to $20 a share in 2025, and think the business is worth 20 to 25 times earnings, which would get you to a $400 to $500 stock price in three years. The shares are trading below $200 today.

Let's get Ann's picks next.

Gallo: Insulet, which I mentioned, has a $17 billion market cap and is one of the leading diabetes-pump manufacturers. It shares the pump market with Medtronic [MDT] and Tandem Diabetes Care [TNDM]. Insulet is in the early days of commercially launching the Omnipod 5, which was cleared by the FDA in January, but was launched in only limited release until recently. Insulet is positioned to grow the market by taking share from MDI, or multiple daily injections. An added benefit of the Omnipod 5 is that it is sold through the pharmacy channel. This pay-as-you-go model lowers upfront costs for payers and consumers.

Is the launch of anti-obesity drugs a long-term risk for Insulet?

Gallo: Anti-obesity drugs are so early in their launch that they aren't likely to have much of an impact on the diabetes market for many years. The approach eventually might be one of partnering, using the pumps to monitor weight loss.

I mentioned Boston Scientific earlier; it has a $55 billion market cap. From the time Mike Mahoney took over as CEO in 2012 through 2019, Boston's execution was nearly flawless. The company experienced a couple of hiccups in 2019 and 2020, including the withdrawal of its transcatheter aortic valve system, Lotus Edge. Coming out of the pandemic, Boston Scientific is demonstrating a lot of traction: Endoscopy grew 6% in the latest quarter, and cardiovascular, 8%. In the next few years, we'll see a lot of innovation coming from both internal efforts and strategic M&A. We expect to see outsize growth and the return of predictability.

Tell us about the valuation.

Gallo: Boston Scientific now trades for 15 times Ebitda. I see upside to the company's valuation, as I do for a number of medical-device companies dragged down by delays in medical procedures during Covid. Boston Scientific could see margin expansion, an acceleration of earnings growth, and multiple expansion.

Next, UnitedHealth is one of the best-positioned healthcare services companies in the world. There is a lot of growth left in the Medicare Advantage and Medicaid markets. These companies—United, in particular—have the data, technologies, and explicit mandate from corporations and government to help manage healthcare costs. There is strong visibility on earnings and cash-flow generation.

The company's business is split 50/50 between its traditional managed-care business and its Optum division. UnitedHealth and Optum are examples of what I mentioned earlier: established healthcare companies that have successfully adopted some of the latest technologies to empower physicians to use data when treating patients. Optum also has a next-generation pharmaceuticals-services business that is looking to enhance the existing pharmacy benefit management, or PBM, model. And, it has a strong provider business—including the largest set of physicians, clinics, and ambulatory surgery centers in the country.

What does that mean for the stock?

Gallo: The stock has done well. On a P/E basis, it is trading a few points above the S&P 500 index. With a combination of earnings growth and multiple expansion, the stock could have 20% to 30% upside.

Lastly, I mentioned that Abiomed and Edwards are two interesting cardiovascular medical-device companies. There is a lot of growth coming from Edwards' TAVR market. Edwards and others are currently running numerous clinical trials whose publication over the next two to three years should drive the stock higher. Edwards' stock has pulled back substantially this year and now trades for 24 times Ebitda. While not cheap, I find the valuation compelling for a franchise leader with this growth profile.

Becton Dickinson [BDX] trades for a lower valuation. Its business is half medical supplies and half life-sciences tools and technologies. It offers both an attractive value proposition and a nice growth outlook. The company had some operational and execution missteps in recent years, but has taken care of them and is showing solid traction across its businesses. The stock sells for 14 times Ebitda.

Jorge, which companies, public or private, excite you?

Conde: What I am most excited about as an early-stage investor is the way that technology, and specifically engineering and computation, is transforming both life sciences and the healthcare system. In life sciences, we are getting tools and abilities to interrogate biology much more deeply than in the past, and therefore intervene in ways that we couldn't before. One of the biggest growth areas in the past decade-plus has been around DNA sequencing. The ability to quickly sequence the human genome reliably at low cost is an engineering marvel, and one of the most powerful engines our industry has had.

We recently invested in a private company, Ultima Genomics, that offers a step-change in building a new sequencing platform. The company has said it can already sequence human genomes for less than $100. As the price continues to fall, that opens up all kinds of interesting tools and applications.

On the intervention side, The Economist magazine recently published an article called "Gene Therapies Must Become Miracles of Medicine." It discusses the promise and challenges around potentially curative therapies like gene therapy. One of the biggest challenges is a limited ability to deliver genes into the body. When we try to dose gene therapies higher, we see all kinds of adverse events, including deaths. We are invested in Dyno Therapeutics, which is developing next-generation synthetic capsids.

Explain, please.

Conde: The most common way to deliver gene therapies is through viral vectors, which have evolved naturally. Dyno is using artificial intelligence to design synthetic AAV [adeno-associated virus] capsids, the viral delivery vehicles used in gene therapy that could do things natural capsids can't, like reach certain cells or evade the immune system. Instead of developing its own pipeline of products, Dyno wants to become the delivery infrastructure for all gene therapies. In effect, it is trying to become the FedEx for gene therapy. It is an early-stage company but already has partnerships with Novartis [NVS], Sarepta Therapeutics [SRPT], Roche Holding [RHHBY], and Astellas Pharma [ALPMY].

Shifting to therapeutics, we just discussed the new drug-pricing bill. We are investors in EQRx [EQRX], which is aiming to take a market- and technology-based approach to delivering lower-cost drugs for some of the highest-cost drug categories, including cancer. It has already demonstrated that it can develop a pipeline. It has licensed some promising compounds, and has several early-stage partnerships. And, instead of trying to commercialize drugs pushed toward physicians with a sales force, it is establishing a pull model with payers, whereby they guarantee access to high-quality drugs at dramatically lower prices. The company has developed what it calls a global buyer's club, and is on target to have something like 350 million covered lives with payers and health systems with which EQRx has MOUs [memorandums of understanding] in place by the end of this year. The question is: Can EQRx demonstrate that it can get these drugs approved more efficiently and quickly?

The company is trying to get Chinese-developed and tested drugs through the Food and Drug Administration, which doesn't seem to want to take China-only studies, at least in oncology. Does that damage the model?

Conde: They have multiple sources of compounds. Some are from China; others are licensed from U.S.-based companies, and others are in development through R&D partnerships. And, they are doing novel discovery programs in partnership with technology platform companies. There is a continuing dialogue with the FDA on how to get drugs approved when the data comes primarily from China. EQRx is making progress ex-U.S.

The stock has fallen about 50%. Why?

Conde: Mostly, because of the concerns you cited.

We are also investors in Komodo Health, which has built a software platform that injects data across the entire healthcare system. It has built what it calls a living Healthcare Map, covering north of 300 million interactions with the healthcare system. Komodo provides this data-analytics platform to life-sciences and healthcare-services companies to help inform decision making, identify where there is underdiagnosed disease burden, who prescribing physicians are for what class of drugs, and so forth. Komodo will be approaching more than $200 million in annual recurring revenue by the end of 2022, with software-like margins.

Finally, Devoted Health is a proprietary technology platform for the fastest growing, next-generation Medicare Advantage plans to deliver more efficient and effective care. It is an exciting area.

What impact will higher interest rates have on healthcare investing?

Schott: In my world of Big Pharma, there will be relatively limited impact.

Kaufman: The increase in rates has been reflected in stock prices. The biggest, most immediate impact is on the valuations of companies with long-duration cash flows that aren't yet here. Those stocks have borne the brunt of the market's downdraft in the past 18 months. If inflation remains a problem, companies with pricing power will benefit and be rewarded by the market.

Gallo: Most medical-device and life-sciences tools companies that operate with lower gross margins will have a tougher time passing on higher costs. I agree with Neal; it's in the stock prices. But this is the first time in my career when healthcare inflation is lower than overall inflation. It hasn't happened in decades. Also, managed-care companies hold a lot of cash in reserve, and their earnings will benefit, as rising rates will be a tailwind.

Jorge, we'll give you the last word.

Conde: As someone working on early-stage companies, we take a long-term view. The fever will break at some point. Innovation will continue, and the right ideas and teams will continue to get funded.

Thank you, everyone.

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