Gabelli Funds
One Corporate Center
Rye, NY 10580-1422
Tel (914) 921-7798
www.gabelli.com

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Healthcare at a Crossroads

Review of Gabelli's 2019 Healthcare Symposium

Source: Composite, Gabelli Funds

Jing He
(914) 921-7798
jhe@gabelli.com

Kevin Kedra*
(914) 921-7721
kkedra@gabelli.com

**Kevin Kedra is an analyst with affiliate g.research*

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One Corporate Center
Rye, NY 10580-1422
Tel (914) 921-7798
www.gabelli.com

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Healthcare at a Crossroads: What's the Path Forward?
Gabelli Healthcare Conference
November 22, 2019 – The Paley Center – New York City

On November 22nd, Gabelli Funds and Columbia Business School co-hosted a unique healthcare symposium to provide a platform for industry and academic leaders to address critical issues facing the healthcare industry today. The panelists consisted of executives from the healthcare ecosystem, including providers, payers, pharmaceutical companies, pharmacy benefit managers, wholesalers and academia. Specifically, the symposium addressed the 2020 election and its implications for the healthcare system, drug pricing and affordable medicine, and healthcare transformation using data and technologies.

Conference Agenda

Welcome
Bunny Ellerin, Director, Healthcare and Pharmaceutical Management Program,
Columbia Business School

Panel 1. Election 2020: Implications for Healthcare Access and Coverage
Professor Linda Green, Columbia Business School
Catherine MacLean, MD, PhD, Chief Value Medical Officer, Hospital for Special Surgery
Steven Safyer, MD, President & CEO, Montefiore Medicine
Charles E. Smith, MD, Chief Medical Officer, CIGNA National Accounts
Moderator: Jeff Jonas, Portfolio Manager, Gabelli Funds

Panel 2. Drug Pricing: Supporting Innovation while Keeping Medicines Affordable
Steve Collis, Chairman & CEO, AmerisourceBergen
Sumit Dutta, MD, MBA, Chief Medical Officer, OptumRx
Professor Frank Lichtenberg, Columbia Business School
Jon Selib, Senior Vice President, Global Policy, Pfizer
Moderator: Jing He '15, Senior Biotechnology Analyst, Gabelli Funds

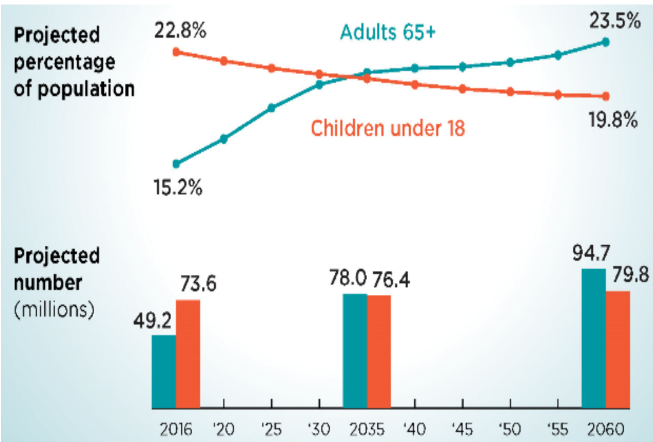
Panel 3. Leveraging Data & Technology to Transform Care
Allon Bloch '97, Co-founder & CEO, K Health
Emmanuel Fombu, MD, MBA, Global Strategy & Innovation Leader, Johnson & Johnson
Manisha Shetty Gulati, Chief Operating Officer, Clarify Health Solutions
Daniel Trencher, Senior Vice President, Product & Strategy, Teladoc Health
Moderator: Kevin Kedra, Senior Healthcare Analyst, G. research

BACKGROUND
Healthcare spending comprises 18% of the US GDP or $3.7 trillion. It is projected to grow at a 5.5% CAGR from 2018-2027 and to reach nearly $6.0 trillion by 2027. On a per capita basis, health expenses reached $10,000 per year in the US. The major drivers of the industry growth include economic and demographic factors as well as scientific breakthroughs.

The three topics selected at the conference are of interest to investors as well as professionals in the healthcare industry. Healthcare is front and center during this election cycle from Medicare for All to President Trump's push for price transparency. Drug spending is 15% of total healthcare spending and pricing has become a pressing bipartisan issue. Data and technology have led to new and often unexpected entrants into healthcare industry such as Haven Health, the Amazon, Berkshire Hathaway and JPMorgan initiative.

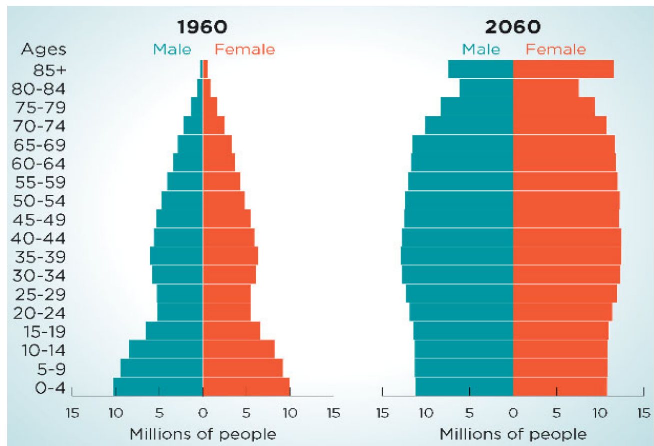
Demographics. Senior adults (>65 years old) are projected to reach 78 million and outnumber children in the US by 2035 (Exhibit 1 and 2). This demographic transition creates increasing demands for new healthcare services and medicines to improve quality of life. Diabetes, heart disease, cancer and Alzheimer's disease are the four leading causes of death for senior adults in the US. We expect increasing demand for care in these therapeutic areas due to the shifting demographics.

Exhibit 1 U.S. Projected Population of Senior Adults



Source: U.S. Consensus Bureau

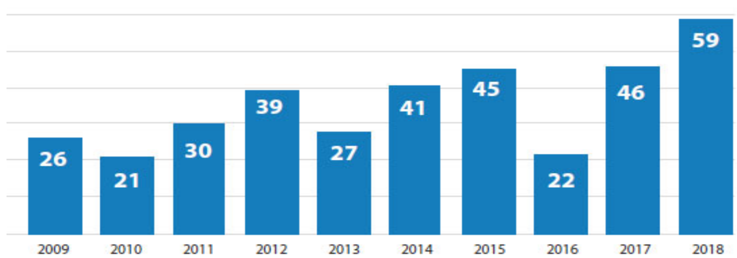
Exhibit 2 U.S. Population by Age in 1960 vs 2060



Source: U.S. Consensus Bureau

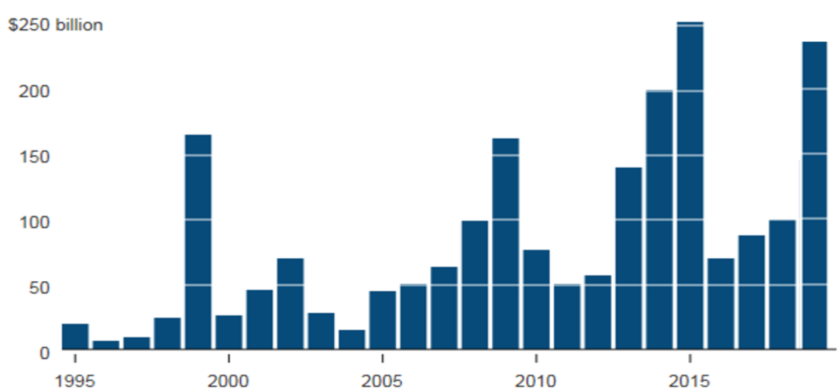
Technology Breakthroughs. In the past decade, genetic testing has opened the door to personalized medicines. Breakthrough therapies such as immuno-oncology have turned certain types of cancers into chronic, manageable conditions. Moreover, cell and gene therapies have demonstrated the potential to cure some of the most difficult-to-treat diseases with one infusion. These innovations led to a record-high number of novel drug approvals by the FDA in 2018 (Exhibit 3). As a result of increasing interest in new therapies from large pharmaceutical companies, biotech merger and acquisition activity has picked up quickly in 2019, totaling $230 billion of deal value to date (Exhibit 4).

Exhibit 3 **FDA's Annual Novel Drug Approvals 2009-2018**



Source: FDA.gov

Exhibit 4 **Value of Acquisition of Biotechnology Companies**



Source: New York Times

TAKEAWAYS FROM THE CONFERENCE

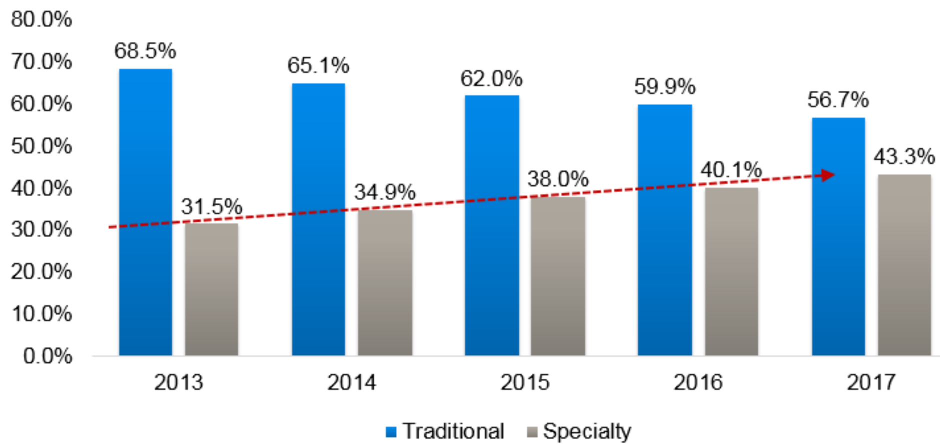
Panel 1 - Election 2020: Implications for Healthcare Access and Coverage

- The panelists unanimously agree that Medicare for All is not realistic in the foreseeable future, regardless of which candidate is elected in November 2020. If Democrats retain the House and win the Senate, they still won't have the margin needed to pass since the majority of Democrats are against it. The US has 50 states that act as 50 countries with over 300 million people.
- The goal of the healthcare system is to achieve universal coverage instead of Medicare for All. Some states such as New York are already very close to universal coverage. Despite the rhetoric around Medicare for All, 54% surveyed don't want to lose their current insurance plan. The "Public Option" that more moderate candidates propose is vague and lacks clarity. We can't expand coverage before we reduce costs. Affordability is still a big concern and social status often determines health.
- Elizabeth Warren's $2 trillion annual budget needed for Medicare for All is impossible to achieve: $1 trillion from taxes yet to be raised and another trillion from cost savings, immigration reform, and more is equally difficult.
- Hospitalization is the largest contributor to total healthcare spending. Therefore, the industry should focus on getting and keeping people out of hospitals instead of waiting until the last minute to provide them with treatment. Hospitals are trying to shift care to outpatient centers and the home. Telemedicine provides huge cost and efficiency improvements for the system.
- The Hospital at Home model is much less expensive, and research has demonstrated that it can generate as good or even better results than being treated in hospitals. Nowadays, patients can receive infusions or sonograms at home. However, the payment system has been an obstacle, as a lot of the home care is not compensated adequately. Telemedicine has just started to be compensated by Medicare. The system is still experimenting with care at home and it needs to encourage people to get treatment at home.
- Hospital for Special Surgery (HSS) has participated in a bundled payment program for hip and knee replacement, which has been a win for patients, Medicare and HSS, in both cost savings and high quality of care. As a result of the payment program, HSS was able to invest in infrastructure such as HSS at Home to improve compliance and to reduce post-surgery cost, such as using telemedicine for physical therapy. Health systems like HSS will respond to the right pricing model and payment model.
- As an example of how the bundled payment works, the Centers for Medicare and Medicaid Services (CMS) may set reimbursement at $25,000 for all care provided two days before a patient is admitted to 90 days after a surgery. If the actual costs turn out to be $24,000, the hospital will keep $1,000; if the cost is $28,000, the hospital loses $3,000.
- The biggest challenge for bundled payment is that most of the programs are too risky. HSS can participate since they have the highest volumes and some of the best outcomes in the US. Community hospitals – with lower volumes and often sicker patients – cannot make the program work since just one or two patients who are particularly sick can wipe out all the savings. It is even more challenging to use bundled payment for medical conditions, which are much less predictable than surgeries.
- Medicaid expansion has dramatically reduced the number of people declaring bankruptcy due to medical costs. There are 36 states and DC currently covered and 3-4 more states are expected to expand in the next year or two. It will be a gradual process but all states are expected to be covered in 10 years. Texas didn't expand Medicaid but they have waivers which sometimes work better than Medicaid. Providers are still unhappy with Medicaid's low reimbursement rates and are losing money on these patients.
- In terms of the Affordable Care Act, more people need to sign up and incentives need to be created to enroll more people to better balance the risk pool. Premiums and deductibles are still far too high for people who earn too much to qualify for subsidies.

Panel 2 - Drug Pricing: Supporting Innovation while Keeping Medicines Affordable

- Drug spending is approximately 15% of the total healthcare spending in the US. 90% of the drug units are generics and 10% are innovative specialty drugs. Over the last ten years, generic pricing has declined 14% because of healthy competition, and out of pocket costs have also declined. On the other hand, specialty pricing went up 350% and these drugs are now the top-selling categories (Exhibit 5).

Exhibit 5 **Specialty vs Traditional Drugs as % of Total Drug Spending**



Source: IQVIA National Sales Perspectives, 2018

- Consumers are not benefiting from drug rebates. Taking insulin as an example – the net price is falling but the list price is going up. Yet patients are not seeing the benefit directly because they can't get rebates. The pharmaceutical industry believes that rebates should be passed to consumers, where they have different views from pharmacy benefit managers (PBM) historically. PBMs now agree and have started to be thoughtful about passing rebates to consumers.
- Biosimilars, the generic version of biologic drugs, are one of the solutions for expensive specialty drugs that the panelists were very enthusiastic about. Biosimilars will not collapse pricing like generics, but a 10-30% drop in pricing is expected at initial launch. For multibillion-dollar drugs, the savings are still significant.
- Although biosimilar adoption is slow in the US compared to EU, the panelists anticipate increased use in the future, which will eventually reduce the high cost of branded drugs such as the current best-selling drug, Humira. It should be easier to switch patients to biosimilars for oncology as compared to chronic diseases like multiple sclerosis.
- Pharmaceutical companies including Pfizer, Amgen and Teva have robust biosimilar pipelines. The hurdles to launch are patent protection (longer in US than EU) and patient services required for biosimilars. For example, if there's a biosimilar available, pharmacists cannot change the prescription due to interchangeability issues, whereas generic switches could happen at the pharmacy. There should be policies put in places to promote biosimilars, such as lowering copays for patients to ensure that there is greater incentive to prescribe biosimilars.
- The cost savings of innovative drugs are usually overlooked, as they can significantly offset hospital cost and long term care cost. Given that hospitalization is the largest portion of the healthcare spending, such innovation should be reimbursed despite the high price tag.
- Breakthrough treatments, such as gene therapy to treat rare diseases, can significantly improve quality of life and reduce hospitalization. The industry has to make sure that generics and biosimilars can drive down price, so there is room for the system to pay for the next innovative product. This would be positive for companies such as BioMarin and Bluebird Bio who are about to launch their gene therapies.

- It costs $2.7 billion to develop a novel drug, therefore the return has to be attractive. The U.S. is the country of choice to get treatment if one has a rare disease, and we should be proud of that. Artificial Intelligence and data analytics have the potential to speed up clinical trials. A more productive regulatory process is also a part of the solution for drug pricing.
- Pharmacy benefit managers (PBMs) are a critical feature of the healthcare system. They negotiate discounts based on the value of a drug. ICER in the US and NICE in UK put out public views of drug value, while pharmaceutical companies have their own views. PBMs build out analytical tools for modeling based on data from their care delivery business to help negotiate the proper pricing. The panelists also expect pharmaceutical companies to be more thoughtful on value-based pricing.
- The Trump administration is pushing pharmaceutical companies and hospitals to have greater transparency on price. However, economic studies have shown that secret pricing can prevent companies from engaging in price fixing and lead to lower prices for consumers. Therefore, rebates are not necessarily a bad thing.
- During the opioid crisis, PBMs were able to help reinforce CDC prescribing guidelines. PBMs are in a powerful position to drive changes as being in the middle is a tremendous advantage in these situations.

Panel 3 - Leveraging Data & Technology to Transform Care

- Many of the technologies that can improve healthcare – such as genetic testing, wearable and smart devices, and big data analytics – already exist. The bottleneck for the healthcare system has been the adoption and integration of these technologies into medical practice. The healthcare industry is notoriously slow to change, and this inertia is restricting broader access to potential advances in care.
- The current fee-for-service healthcare model is creating the wrong incentives for both patients and providers. Quality patient care should be at the center of any good healthcare system. Instead, our current system is built around billing and payments. This creates barriers to the utilization of technologies that have clear health benefits for patients but don't fall neatly into an existing billing code.
- Technology and data have the ability to improve outcomes while also improving costs. By focusing on "well care" instead of just "sick care," we can use diagnostics and predictive medicine to anticipate serious problems before they occur. An empowered patient tends to be a healthier patient, and healthier patients cost the system significantly less money than ones who are sick.
- Experts across all three panels seemed to agree that telemedicine is an important new application of technology to expand healthcare access while reducing costs. Companies like Teladoc allow a patient to see a doctor within minutes on their phone or tablet. These doctors can often address routine issues with medical advice and a prescription. For more serious problems, they can also direct the patient to the appropriate follow-up care.
- Utilization of "big data" through analysis and machine learning is becoming an increasingly important part of the healthcare landscape. However, the end products are only as good as the data they are being given. Existing biases in the healthcare system (including race and economic status) can manifest themselves in these machine learning processes. It is important for companies utilizing data-driven tools to implement quality controls with human oversight.
- Medical privacy is becoming an important topic with companies like Google, Apple, and Amazon entering the landscape. While these companies seemingly already know everything about us, healthcare information is highly personal and is protected under the law. There is also the legitimate concern that a person's healthcare information can be used against them by an insurance company or potential employer.
- There is always the risk of moving too quickly with a new technology, and we have seen negative consequences in healthcare with companies like Theranos. However, these dangers should be balanced against the risk of not moving quickly enough. Medical mistakes and poor access to care are both common in today's healthcare system, even if we don't have the tools to accurately capture their prevalence. Technical innovations in healthcare should be held to a high standard, but that standard should incorporate the flaws of the status quo.

Jing He
(914) 921-7798
jhe@gabelli.com

Jeff Jonas
(914) 921-5072
jjonas@gabelli.com

Kevin Kedra*
(914) 921-7721
kkedra@gabelli.com

**Kevin Kedra is an analyst with affiliate g.research*

ONE CORPORATE CENTER RYE, NY 10580   Gabelli Funds   TEL (914) 921-5000   Fax 914-921-5098

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800-422-3554 • 914-921-5000 • Fax 914-921-5098 • info@gabelli.com