Merrill Insight™ Video | Healthcare M&A Spotlight

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Speakers:

- Joseph Katz, Director, Healthcare M&A, PwC
- Kimberly Ha, Founder & CEO, KKH Advisors
- Laurie Burlingame, Partner, Life Sciences, Goodwin Procter
- Taylor Phelps, Managing Director, Healthcare Raymond James
- Abby Roberts, Content Marketing Director, Merrill Corporation

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Abby Roberts: Healthcare. No sector can cite such high hopes or deep despair. It is a gambling den of broken dreams and sky-high winnings, an industrial complex with gaping inefficiencies, a wind behind the sales of insurance in consumer sectors, a looming presence we've become ever more familiar with as we age. Finally, for those of us in the M&A capital markets industry, it is a money-laden, recession-resistant land of opportunity.

Hello, my name is Abby Roberts, director of content at Merrill, and this is the fourth in our Merrill Insight Video series, Healthcare M&A: Patent Cliffs, Pricing, and Politics. Before we begin, a few housekeeping items. There will be four live polling questions in Audience Q and A's throughout the panel. Please click on the PowerPoint, answer the polling questions and put in your questions in the Q and A box throughout. You'll see a number of widgets at the bottom of your screen. You can find resources, including CLE instructions and forms, for you legal eagles out there. Sign up for a demo of our new DatasiteOne due diligence platform on the last widget to the right. You can also answer a short survey either now through the clipboard widget, or after the webinar on topics you'd like to see going forward. Finally, last but not least, don't forget to sign up for next month's video webinar, What do Associates Want? In that panel, we'll use findings from a survey on bankers and legal associates to find out what criteria they use to pick their employers today, and lots of other interesting stuff. You can find the registration information on the link icon below. And, if you're interested in becoming a panelist on that video or in other upcoming panels or know someone who might, email to me directly at AbbyRoberts@MerrillCorp.com. We've got a great line-up for the rest of the year, including topics on industrials, M&A technology, due diligence best practices, and more.

Very quickly, thanks so much to our Goodwin Procter panelist and firm. We have CLE accreditation for those of you in New York and California. You can find all of the CLE instructions and CLE forms at the bottom of the Resources widget. Though, moving on, I'm very excited to introduce our panelists today, starting with Laurie.

Laurie Burlingame: Thanks, Abby. Good morning everyone, my name's Laurie Burlingame. I'm a partner in the Life Sciences Corporate Group at Goodwin Procter, an international law firm. I represent private and public biopharmaceutical companies from across the spectrum of life sciences, including pharmaceuticals, medical devices, diagnostics. I help companies with start-up matters, private financing such as VC financings, high wealth individual financings. I also help companies go public, help them keep getting money when are public, help them with corporate governance activities. I also am involved in mergers and acquisitions. So, anything that a life science company kind of needs, we can help them with. In a former life, I was a practicing scientist in molecular biology.

Abby Roberts: That's cool. And Joe, our UK representative.

Joseph Katz: Yes, good afternoon everybody. Joe Katz, I'm the healthcare M&A director at PwC in London. I work on a mixture of healthcare services, pharmaceutical services, and some pharma on the generic side. I act for both private equity and corporate clients. I joined PwC at the beginning of last year, and prior to that I did 10 years at NM Rothschild & Sons doing a mixture of midmarket private equity and healthcare. I was seconded Assistant Secretary to the UK Takeover Panel and prior to my career at M&A I was a practicing lawyer at Slaughter and May in London.

Abby Roberts: Fantastic, thanks Joe. Kimberly?

Kimberly Ha: Probably the only non-lawyer on the panel, but happy to be here. I actually was a pharmaceutical journalist covering the M&A sector for about 10 years. I actually started off in Hong Kong covering pharma M&A, then moved to New York, and then moved to FTI Consulting, a management consulting firm where I advise a number of companies on crisis communications, investor relations, and strategic communications. And most recently, I basically founded my own firm, KKH Advisors, where I advise my clients, our clients, on strategic communications, investor relations, and also connect them with investors for fundraising.

Abby Roberts: Wonderful. And Taylor?

Taylor Phelps: Thanks, good morning everybody. I'm Taylor Phelps, I'm with Raymond James. I've been in healthcare since 2006, and it's really all I've ever done. I spend my day as an M&A banker, so I facilitate transactions on behalf of middle market companies, particularly within healthcare services, where I spend all of my time. Within that area I focus on, almost exclusively physician services in the pharmacy channel. But we've been, we're a national investment bank, one of the largest middle market firms in the U.S., and we have about 50 people in our global healthcare team.

Abby Roberts: That's impressive. Alright, so moving on. We like to start out each of our videos with an audience polling question, because you really are our fifth panelist and the most important in a lot of ways, and we also like to start out with a kind of M&A market temperature check. So, our first polling question today is, what is your confidence in the M&A market for the next 12 months? Positive, neutral, or negative? Just a reminder to click on the PowerPoint to fill the survey out, and while everyone's filling it out, I'm going to start by just asking Joe, what are you seeing?

Joseph Katz: Sure, yeah, I'll preface this by saying that obviously, as the only UK representative here, my view might be a little different to the American representatives on the panel, but I think on a 12-

month view, we're certainly very positive on the M&A market. There's a lot of dry powder within private equity funds looking for a home, and on the leverage side there's a lot of money in credit funds available for transactions, in addition to the more conventional roots of finance, such as the senior banks. We're also seeing a lot of corporates ready to invest for the right assets. And, I think, perhaps most interestingly we're seeing a lot of new capital entering the market, be that family offices or infrastructure funds, looking to invest in healthcare companies which they see as having infrastructure-like characteristics. So, yes, as I say, on a 12-month year we're pretty positive.

Abby Roberts: Interesting. Alright, I'm going to give the audience a couple seconds to finish up, and while I do, Laurie, what's your view on the U.S. side of things?

Laurie Burlingame: Yes, I'm really, too, on UK's side. I'd say that we have strong confidence in the state of the M&A market for the next 12 months. The year started off very well, with some very high-profile mergers and acquisitions, particularly in pharmaceuticals and biopharmaceuticals. There seems to be quite a bit of capital out there to deploy. We feel like there's some pent-up demand for M&A, given the election year. Somebody else had started but didn't complete because there was some concern over what was going to happen in the political environment. Those deals have seemed to come back. Also, some other things are, there are a lot of pharmaceutical companies that are in need of assets, because they have patents that are expiring on key drugs. There's also a lot of consolidation in the pharma industry, therefore they're sort of looking to target specific areas, and so are looking to build up their pipelines in those target areas. Finally, there's some thought that with the change in the tax law for repatriation of profits, that some of that money will at least be used for some M&A activity. 'Course, that's speculation right now, but we'll have to see going forward whether or not that actually ends up being one of the drivers, but overall quite positive over the next 12 months.

Abby Roberts: Alright, well let's see what our audience had to say. As expected, most people are positive, with some neutrals. And I have to say, I'm seeing more neutrals this month that I saw last month. So, that's a little bit interesting. We're going to move to our next question, which is, we are seeing a huge bump in activity. In fact, I think PitchBook recently said that there's been a huge year-over-year uptick just in closed deals for the first quarter of 2018. So, what are the major drivers behind that activity? Taylor, I'm going to kick it off with you.

Taylor Phelps: Yeah, I mean, I think, within healthcare, all of the persistent themes as I would call them, remain. You have good demographic trends, you have regulation encouraging consolidation. So, the mom-and-pops are scaling up. And you have all of this, sort of, everybody's getting bigger.

Abby Roberts: Yeah.

Taylor Phelps: Right? And that has been going on for a long time, and continues to go on, and still has a long way to go. The new thing that really has happened over the last 10 years is what I would call, kind of vertical integration. So, insurance companies becoming hospitals, insurance companies buying physicians, pharmacies becoming distributors, distributors becoming manufacturers. So, there is a ton of transformative M&A right now within the healthcare delivery chain, and that's a fairly new phenomenon. I mean new, as in 10 years new. Not new, as in two years new. But that trend is absolutely picking up and should continue. I mean, don't be surprised to see, wake up five years from

now, and the hospital that you go to is going to be owned by an insurance company. So, the level of, sort of vertical consolidation.

Abby Roberts: Uh huh.

Taylor Phelps: Should continue for the foreseeable future, and then maybe in us five years from now you can see a great deconsolidation. They could then sell the assets off. But right now, yeah, the delivery chain has been, sort of radically reoriented.

Abby Roberts: And it's interesting, because we were talking about this earlier, and it reminded me that, actually, we had an insurance panel a couple months ago, and when we asked the audience what insurance areas were ripest for disruption, healthcare won by a huge margin.

Taylor Phelps: Yeah.

Abby Roberts: So, it's kind of interesting how you have these tangential sectors.

Taylor Phelps: It's easily the health insurance companies who've changed their business model so fundamentally over the last eight years, that it's really kind of a sight to behold. I mean, all the stocks are up 500, 600%, whatever it is. I mean, they've all just totally skyrocketed. And a lot of that's because they've reoriented themselves to be more, not just payors, but risk takers in the actual delivery of healthcare, and participating in that model. So, it is definitely changed in a significant way. Whether it's good or bad, that's debatable, but whether it is changed is really not.

Abby Roberts: Yeah, and I have to say, looking into that sector there's so many interesting up-and-coming companies, too. As someone in M&A I keep looking at them and I think, ah, there's going to be a lot of activity there. But, moving on to other topics. So, Kimberly, what's your take on drivers?

Kimberly Ha: Sure, so, I mean I can speak on behalf of pharma biotech company. I think, as Laurie mentioned, continues to be just complete patent cliffs. Coming up, I think we've got, like 200 billion dollars' worth until 2022. This year alone, 31 billion dollars' worth of drugs are going off-patent. I think, just downtown, Pfizer, their drug, Lyrica, is going off-patent in December. So, I think, the other main factor really is the tax reform changes. So, I think, if we look at the S&P 500, we've got, Merck, Gilead, Amgen, Pfizer, all these companies have, over 85% of their overall cash reserves overseas right now. So, I think, I would be hard-pressed to think that, some of that cash won't be coming back into the U.S. I think, if you look at it from an innovation standpoint, there are a lot of companies here that are pretty much ripe for acquisition, and these companies are hurting right now. I mean, if you look at a Deloitte Report, it was shocking, but the internal rate of return on R&D investment continues to decline. It was only 10% in 2010, and last year it dropped to 3.2%. So, something has definitely got to change in the industry, in terms of how R&D is conducted. And, we don't really know the answers. So, I think, everybody kind of has to work together. But, M&A is super strong this year. I mean, Japanese pharmaceutical maker Takeda, starting off with acquiring Shire for over 60 billion dollars or something. So, to your question, geographic expansion, I think, trying to get a stronger foothold for the Japanese drug maker in the U.S. market. Getting in the rare diseases, such as hemophilia. So, I think, between the tax reform changes, weak pipelines right now, we're going to see this continued M&A activity

through this year. I mean, this is one of the strongest years, in the last year, since I've been following the industry.

Abby Roberts: It's exciting times. Just a quick reminder, for our audience to put in your questions for Q and A, because we're going to have a Q and A section coming up fairly shortly. We're not doing it the traditional way and just leaving it for the end. So, give us some questions. And, moving on to our next question, which is very similar in a lot of ways, which is just, what are the hottest areas, investment areas, right now in healthcare M&A? And, Joe, I'm going to ask you to kick this one off.

Joseph Katz: Sure, yeah, I mean, in the UK there's been a massive increase over the past couple of years, and it was from quite a high point already in our sect for asset-backed healthcare services. So, it would be that specialist psychiatric care, or specialist children's services, which we kind of classify on the sort of more business-to-government end, if you will. I think that has been driven by the presence of low return investors, family officers, and infrastructure funds. You're also seeing a lot of interest in the more business to consumer-esque healthcare services companies, such as dentists. A large veterinary transaction announced about an hour before this panel started. A lot of private equity are looking for platforms in both dentistry and the veterinary space. There's also a lot of private equity interest in finding a pharma services platform. I think that's really driven by desire to capitalize on increased outsourcing, which is a trend that it's very hard to ignore. I think the interesting point around that, is people being able to find something that they can really scale up on. And I think those who are able to find that will be the real winners on that side of things.

Abby Roberts: And Laurie, what about on your side?

Laurie Burlingame: Yeah, in terms of the pharmaceutical market, oncology, and in particular amino oncology continue to be red hot areas. Some of the reasons for that are, basically the money that comes into the system, starting out with NIH money going into academic labs remains very, very high, and therefore, these inventions eventually find their ways into start-ups, and then eventually into larger corporate companies for further research and development. Also, some of the drugs that have come out of pharmaceutical companies in the amino oncology area, for example the CAR-T treatments, have had very good efficacy in some forms of blood cancer, and therefore, people are continuing to build on those treatments to come up with CAR-T version two, to come up with biospecifics in other forms of, sort of, vaccines that are targeting the immune system to help fight cancer. So, we believe that amino oncology and oncology will continue to be very strong investment areas going forward. There are some other pockets that are also pretty hot. For example, some rare diseases, such as spinal muscular atrophy. Several companies have been very successful raising money around that target. There's some metabolic areas that remain hot, such as diabetes and ways to deliver insulin, or new mechanisms of action to deal with insulin. And then overall, in terms of healthcare, I'd also say that there's a pretty high interest in digital healthcare and electronic healthcare, and actually getting money to those companies that are sort of merging IT and healthcare together and solving problems that way.

Abby Roberts: Interesting. And, moving on to our next polling question. And I have to say, I stole this from Laurie, who has a really interesting blog on this, which is, I think the healthcare sector is a lot more emotional than a lot of sectors, and as a consequence there can be some lopsided investment. So, I really wanted to ask in this segment, not just what the hottest areas are, but what sector is most

neglected by the healthcare boom right now? And, you have audience choices for the polling of medical devices, diagnostics, antibiotics, and home healthcare services. And while you are all filling this out, I'm going to start by asking Kimberly what she thinks.

Kimberly Ha: I think, if you look, what's shocking is the level of underfunding in terms of antibiotic drugs, and I think a huge reason, really, is, this market is rampant with generic competition. So, when that happens, pharma tends to pull out, but if we look at it from a public health perspective, there needs to be just an increase in R&D in antibiotic drugs. If we look at a recent bio report that came out, I think just a couple days ago, coming out from the BIO conference in Boston that's happening right now, depression drugs, pain drugs continue to be heavily underfunded. If we look at just VC funding, last year, out of the 330 companies that received funding, a third of that went to oncology companies. So, as Laurie mentioned, oncology, gene editing, continue to be very, very hot sectors from an investment standpoint. But, the companies that lose out, out of that, I think was something like eight or nine billion dollars of investment last year. Only, like 300 million dollars, or something, went into new depression drug research. So, I think, if you look at where the paying points are in healthcare right now from a public health perspective, definitely, the need for abuse-resistant pain medications. So, I think, it's interesting for me to sort of see where the R&D is. You know, it's going to continue to be oncology, just because of everything that's happening right now, and all these high exit premiums. So, that's my take. Antibiotics, depression drugs, and pain drugs.

Abby Roberts: Interesting. And Taylor, what about on the services side of things?

Taylor Phelps: Yeah, I mean, I totally agree with the home health choice on that question. And I think that, it's really not rocket science, but every dollar spent on home health, theoretically is keeping a patient out of the nursing home or the hospital. And, whether it's medical home and health, or more significant therapy, or if it's just non-medical type of assistance, so daily living activities, I think there's the potential for consolidation there, with a little bit more data. You could even bring hospitalists in if you are looking for a little bit more, kind of house call actual physician care for something that's a little more acute. But I think these aging boomers are going to want to stay in their home. I don't think they're going to want to go to the nursing home. And, because of that, with the evaluations the way they are almost everywhere else in healthcare, I think there's still some pretty good areas that you could invest in within home health, and actually do quite well. So, I think the thesis is really simple, but it works. And I think it's going to persist, especially over the next 15 years.

Abby Roberts: Great. Alright, now let's see what our audience has to say. Alright, it looks like most people agree with Taylor.

Taylor Phelps: Right, I'd swallow that.

Abby Roberts: Yeah, yeah yeah.

Taylor Phelps: It's a little more complicated.

Abby Roberts: Now, well you won.

Taylor Phelps: Sure.

Abby Roberts: But, Kimberly, you came in second, so that is exciting. And now we're going to move to a quick audience Q and A. We're not going to be able to get all of the questions, because actually, you guys have been sending in a lot of top, great ones, so thank you. I'm going to start with a quick one for Kimberly, which is just, what exactly is the Deloitte Report? That was mentioned with the decline of IRR.

Kimberly Ha: Sure, I think it was a report that either came out this year, it was a report that I read recently this year, so I don't know if there's a way to communicate with the audience members, but I'm happy to share a link to the report.

Abby Roberts: Okay, great. And, next question, which, Taylor do you think you can handle this one?

Taylor Phelps: Yeah.

Abby Roberts: Alright, views on consumer healthcare as an investment, are they better for corporates or private equity?

Taylor Phelps: Right now, probably for private equity. You know, as it relates to corporate, it depends on what the business model is. If they're interested in being closer to the patient and trying to bend costs of the overall supply curve, then, the overall, I guess, cost curve, then certainly. If their model is in-patient hospitals, then probably not. So, I think it just depends, but I think within private equity there is certainly a trend towards getting close to the patient, offering the patient more choices, setting up different avenues of which to access the patient, utilizing technology if possible, and then giving the patient more cost-effective solutions when they actually have an issue, they need to see a physician or go through, from a public health standpoint. So, it's there, and the thesis works, it's just, it's overly broad, in the sense that it just depends on, the devil's in the details.

Abby Roberts: Right. This question is going to be for Laurie, so prepare yourself. How are biosimilars going to impact the sector? This is a big one.

Laurie Burlingame: Yeah. Yeah, I think that'll be a pretty big impact. We're definitely seeing a lot of work, a lot of companies getting into that, and, I think people continue to watch and want to see when you might expect a biosimilar to come to market. So, definitely there's going to be pricing pressure on the branded biologicals, and so hopefully we'll be seeing pricing coming down.

Abby Roberts: Right. And this one was, I'm actually going to address this to both Joe and Taylor. Can you comment on role of strategy in the physician services space, and what's the end game? And Joe, do you want to give a couple thoughts on this from your perspective?

Joseph Katz: Yeah, I think that means something different when you ask the question in the U.S. versus the UK. I think, if I understand the question correctly, talking about physicians' strategy within existing companies, I think, we are increasingly seeing, sort of doctors' views taken into account. We're also seeing more and more of doctors moving into leadership position and becoming more and more entrepreneurial in the way that they're acting. You know, we run a sort of incubation program for some

start-ups, and it's very very encouraging to see more and more doctors appearing there as founders, as opposed to necessary business people, which is what we've seen before.

Abby Roberts: Okay, great.

Taylor Phelps: Yeah, I mean, I think that it's totally different in the U.S. and the UK, particularly the drivers of consolidation have got to be very different. I mean, the U.S. has a lot of payor contracting involved, right. In the UK you're just not going to have that, because you're dealing with nationalized healthcare plans, right, or services. And the consolidation around physician services within the U.S. is really, in all of the sectors is continuing and heating up. You're seeing a tremendous amount of consolidation, in really anything that ends in the word -ology. So, whether it's dermatology, ophthalmology, cardiology, pulmonology, people, or whether it's single specialty or multi-specialty, people are getting bigger, and their benefits to scale. In that regard, there's also benefits to being able to coordinate, kind of the care within individual practice in a more efficient way. So, if you get bigger, you can do that more effectively, and if you do that more effectively, it helps everything. The end game, though, is a tough question, because there was, and this is probably the impetus for the question, there was a similar roll-up in the mid-90s that totally failed. And, given that it was physician practice management, getting bigger and bigger, and then everything collapsed. There are a few things that they did differently than they are doing now. The main thing is risk-taking. So, back then it was more of a shift in the risk model, where the payor would shift all of the risk to the physicians, and the physicians would become care managers of, basically the entire healthcare spin of the patients they were managing. That fell apart for a couple reasons. I think, one, they got desperate to grow, and so they started lowering the rates at which they would accept that risk, meaning that they would manage a population, I'm making up numbers, manage a population for a million dollars, whereas last year they were doing it for a million and a half. Right, because they wanted to bring out more growth. And it ended becoming a situation where they went underwater, and the doctors decided they had already sold their practice and they were making less, so once the non-compete ran up, they quit. This is getting really technical, but--

Abby Roberts: No, but it's interesting. I'm, like fascinated, actually, so.

Taylor Phelps: This time it is structured a little bit, I think, effectively more sustainable than that.

Abby Roberts: Mmm hmm.

Taylor Phelps: You're not seeing that risk shift yet into the extent, you are seeing a risk shift. It's being done at a rate that substantially mirrors, kind of, the reimbursement rates that are set by Medicare, so it's coming off of something that's a little bit less arbitrary, and therefore, theoretically, would be more sustainable. Having said all that, I mean, I worry about it every day. If the physician practices get bigger and bigger and there becomes some sort of a need, the new generation of physicians decide they want to own their practice, which would be a total change in, kind of, the way their heads are right now, at least, from a global standpoint as we see it, then things could get a little bit dicey for companies that are scale physician services. I don't see it happening, but, yeah, I mean, I worry about it, because it did happen before. Everything blew up.

Abby Roberts: Alright, so, I'm going to move on now to our next polling question, which is, how have you or your clients considered raising capital on the Hong Kong stock exchange? Yes, we are exploring it. Not yet, but it's on my radar. Or, no. So, Kimberly, what's going on with the Hong Kong stock exchange, and why am I asking this question?

Kimberly Ha: So, I think, if you look at what's happened. In the last 25 years the Hong Kong stock exchange hasn't made any significant changes to their listing requirements until most recently, I think in April, where they basically said that, look, if your biotech company got zero revenues you could list on the exchange. If you've got dual class shares, you can list on Hong Kong stock exchange. And, I think, if you look at just the number of IPOs last year, the Hong Kong Stock Exchange, it was like the third busiest exchange by sheer number of IPOs. I think, the total count was like 174 listings last year. So, I think, although a lot of people are really excited about these changes, I think the majority of companies that you'll see listing on the exchange are predominantly going to be pharmaceutical companies, and a lot of these large, major tech companies. I think, this was really a reaction, at least personally I think, to the fact that, look, the Hong Kong Stock Exchange lost Alibaba to the New York Stock Exchange, which was, not only a huge slap in the face for China, I'm going to say, so they were like we're not going to let this happen, again. So, you've already seen, I think, major tech companies coming down China pipelines. Xiaomi is definitely one that said that they're going to list on the Exchange. You've got, I always mispronounce this Chinese pharma company, but, I want to say, like Ascletis, or something like that. You've also got, like Fosun Pharma's biologics division. Previously they said that they would list in the U.S., and then most recently now they're listing in Hong Kong. So, it's an interesting question. I think that some of the clients I'm working with, at least U.S. biotech companies, they are interested in the Hong Kong Stock Exchange. Obviously, from a validation standpoint, if you can get two to three times the pace, then it's kind of a no-brainer. But, long-term it's sort of like, do we even have experienced bankers, and the number of bankers, I think, according to worker's report recently, there's fewer than 20 experienced healthcare bankers in Hong Kong. So, how are you going to deal with that volume, right? And also, are they experienced investors in Hong Kong that look at that tech. I don't know, I think the jury's still out on that, and I think U.S. companies are kind of in a wait and watch period. I think a lot of companies are coming down from, Chinese pharmaceutical companies are looking at putting their filings together. So, I think you'll probably start seeing more activity. I would say, in the August, September timeframe. And, it's sort of like in the next 12 months. People are waiting. Personally, I think that, picking the contrarian view here, I think it's going to be kind of like, a fad. So then, when we start seeing a couple blow-ups from a validation standpoint over pricing, I think we're going to start seeing some go back there.

Abby Roberts: Okay, well let's see what the audience has to say. No, okay, most people. But, we still have a nice portion that are exploring a listing, and it's on their radar. Laurie, does this surprise you? Do you also think this is a fad?

Laurie Burlingame: Hard to say, really, but I do definitely agree with Kimberly regarding valuation point. We have clients that have been asking about it and are interested in learning more about potentially either doing a dual listing in the U.S. and Hong Kong, or they're already U.S. listed, adding a Hong Kong listing. So, there are people who are considering it, and these are life science companies, some in the U.S., some based in China, but with U.S. operations. So, and a lot of them have high

valuations, and so they want to be able to maintain that valuation as they go into the public market and not take any step-downs. So, the sort of dual listing process is one way they feel that they might be able to take advantage of it. But, obviously, we're sort of in the infancy here of doing these, sort of dual listing-type transactions with the Hong Kong Exchange, and therefore, there's process to be developed. One of the issues when you do a dual listing is that, say you only raise money on one exchange at a time, then you have to, sort of, shut down listing on the other exchange to make sure that's there's no, sort of issues going on that exchange, and trading while they know you're doing an offering on one of the other exchanges. So, I expect that there's a lot of process that still needs to be developed around how this is all going to work, but, I think, only time will tell what's going to happen, but there's definitely still some interest. I agree with Kimberly that we're not going to see a ton right away. I think that there are some companies that are also potentially seeing this as a way to gain some sort of access and view into the Asian markets, particularly the China market, which they see as very, very hot in a very growing market for biopharmaceutical sales and pharmaceutical sales. So, the potential to get a higher profile over there would be beneficial. Yeah, I think stay tuned on this question, for sure.

Abby Roberts: And that's just an interesting point, I think, Laurie, that you raised here's the last one, which is getting that visibility that, I know at least I'm sure Kimberly has talked to so many CEOs over the years who, sort of saw that as a key reason to list on the Hong Kong Stock Exchange. Alright, so moving along. And Laurie, I'm going to start with you here. What is the 21st Century Cures Act and why should we care?

Laurie Burlingame: Sure, so the 21st Century Cures Act is basically an attempt to modernize, sort of, the ability to get innovative medical products to market, whether it be pharmaceuticals or medical devices, diagnostics. So, there's a lot of concern. A lot of patients will say that it takes too long for pharmaceuticals that are needed for life-threatening illnesses in order to reach the market. And the FDA has obviously developed some fast tracks for particular classes of drug or actions, but this is sort of an overall attempt to make development timelines faster and more efficient for patients. So, there's actually a lot of different provisions of this act, but the notion is to sort of take patient's point of view and look in a more patient-centric focus towards the development pipeline in bringing things to market. Of course, still keeping the rigor in the system around the science and making sure that there's evidence to support it. For example, a few provisions that are in this act, there's 4.8 billion dollars that's earmarked for this precision medicine effort. So, basically the notion that we're going to need to have, people react in different ways to drugs and not one drug will serve everyone in the same way. So, therefore, trying to take a more personalized view towards the development of medicine, whether that would be through stratifying patients in clinical trials to see if they have markers that are known to respond to drugs, so that people get better efficacy right off the bat. Another provision of this act is that, in some cases, instead of doing full-blown clinical trials, which is what takes a really long period of time, particularly if you're looking at some diseases that you have to wait years before you see what the outcome is, there's the ability to use real world evidence, or data summaries, patient observations, observational studies, in order to derive the data that the FDA needs to decide whether or not a treatment can go forward at that point in time. So, we'll see how that all plays out and how useful that ends up being in the long-term. There's also some provisions that deal with insurance itself, and coverage of, who's covered, for example children with preexisting conditions can't be denied treatment,

denied insurance coverage. So, it's a really broad range of topics are covered in the 21st Century Act. But really, like I said, the goal is to bring more innovative treatments to market faster, and to have a more patient-centric view.

Abby Roberts: I mean, I think that sounds really like exciting stuff, and I actually want to get Joe's perspective, because I think this is one of those areas where what happens in the U.S. will have a huge global impact, as well.

Joseph Katz: Yeah, I think that's right. I mean, Laurie's given a much more eloquent description of the act than I ever could. But, to make a couple of observations, I think, on the one hand, if you go outside in, I think it's really emblematic of the way the world is going. I mean, if you go back 20, 25 years, if you were in a smaller country, which pharmaceutical companies were necessarily targeting for trials, and you had a serious condition, it was a very, very low likelihood that you might know that there was a pioneering treatment being developed on the other side of the world, likely in America, unless your physician had some particular links in with the people conducting the trial. The world has massively moved on from there. We've had a massive rise in patient advocacy groups, in online forums, and patients themselves are now actively pushing to gain early access. And I think that this is to some extent reflected in the passing of the act. I think the other point that I would make with my M&A hat on, is really, how does one make the most of this act if you are a company involved in the sector. As Laurie says, the act covers a lot of different areas. There's things around psychiatric care, and there's things around expanded access inter alia. But on that expanded access piece, I think it's going to be very interesting to see how companies implement those measures. A lot of pharmaceutical companies and CROs don't really have the capability in house at the moment. So, do they develop that capability in house by hiring people who know the rules in depth and have the, sort of distribution capabilities, or do they look to acquire some of the players who are doing it themselves on an outsourced basis at the moment. And I think that's a super, super exciting area, and one that's definitely primed for growth. Not just alongside the 21st Century Cures Act, but all those outside end factors that I mentioned, as well, such as patient advocacy groups.

Abby Roberts: Alright, so we're moving to our final polling question, which addresses, kind of, the elephant in the U.S. room here, which is, how concerned are you about the long-term impact of the U.S. administration's move to lower drug prices on innovation, and R&D, and sort of the market overall? Are you very concerned, somewhat, or not concerned at all? And, Taylor, what do you think people are going to say?

Taylor Phelps: I think they're going to say they're very concerned. I am personally not concerned. Well, I mean, make sure I answer that correctly. I don't care, I don't think that the high prices of drugs in the U.S. are anywhere near as big a problem as everybody else seems to think that. And I know I'm about to kind of annoy people that may be passionate about this, but it's still kind of somewhere between 15 and 20% above where all healthcare's spend. When you have a patient that goes through a drug therapy, generally, you would hope that that is reducing the need for other services. And finally, I mean, I think that, and this is the huge one, that if you look at the last 30, 50, 25, 10 years, the innovation has been just amazing. And it's almost all happened here in the United States. The innovation that's happened overseas has been on products that had been invested in with the

expectation of entering the U.S. market and making a lot of money. So, I think that if you, sort of are upset about that, then you're probably not seeing the entire picture. I mean, Hep C has been cured. AIDS has moved from a terminal condition to more of a chronic, stable condition, even for patients that are on Medicaid or don't have any money at all, live in other countries with substantially lower GDP per capita than we do. So, I think that the amount of, oncology across the board, and a long way to go, but with certain kinds of leukemia and things like that, used to be total death sentences, and now they're very, very manageable. I am frankly not all that concerned with the environment that we live in right now. I mean, I still think their patent cliffs, there's still ways, if you look at the trends on the overall drug trend, versus the overall medical trend, it's not that drugs are just skyrocketing by the medical trend. I mean, they're growing faster now, and it's all based on especially biologicals, but they used to be relatively flat, sort of, brand inflation without a generic deflation. And now it's modestly higher. I don't view that to be a huge deal. So that's one, as it relates to Trump's specific plan to kind of lower drug prices. So, that's the global plan. I kind of like the, I don't know the specifics, I don't know if he has the specifics yet for, kind of all that he wants to do, but the comment that he made about IP, I do think is relatively interesting, because he wants to effectively, kind of control the IP that is produced in the United States to make sure that, overseas the patents aren't ripped off or exploited or things like that. I don't know how that would work, but I do know that what we hear solutions here in the U.S., like let's import the drugs from Canada, what we're really talking about is, we're going to make the drugs here, send them to Canada, they're going to repackage them and then send them back to us, because our regulations here don't allow us to price them as effectively in the U.S. That's just stupid. So, I would imagine there is somethings he could do to, or we could do, to make that more effective. I'm just not sure what, about making sure that the overseas exploitation of U.S. patents is down to a minimal.

Abby Roberts: Interesting. Alright, I'm going to see what the audience said. Somewhat wins, not a real surprise, but there are actually a lot of people who say they're very concerned. Kimberly, what do you think about these results? Does this make sense to you?

Kimberly Ha: Did most people say that--

Abby Roberts: Most people said they were somewhat concerned. A lot of people also said they were not concerned. And 16%, which I still think is pretty high, said very concerned.

Kimberly Ha: I mean, I think usually how I like to look at it is just, okay, how did the industry react when he actually gave his speech back in May. I think the industry was kind of bracing itself for worst case scenario.

Abby Roberts: Right.

Taylor Phelps: Stocks went up.

Kimberly Ha: Stocks went up. PPM stocks went up. Basket stocks went up.

Abby Roberts: Sure.

Kimberly Ha: Fund managers were like, great, this is great news. The industry was like, hooray. So, I think if we look at what Trump actually said, the fact of the matter is that the U.S. is still the number one

driver of innovation and innovative drugs. And pretty much, we're kind of supplying the rest of the world with drugs. I mean, R&D expenditure, as we mentioned earlier, it takes a lot of money, right? To your point earlier, here at HCD, if we look at gene therapy, Spark Therapeutics and Pfizer, yes.

Taylor Phelps: It's amazing what they're

Kimberly Ha: It's amazing what they're doing.

Taylor Phelps: doing in gene therapy.

Kimberly Ha: They're curing

Taylor Phelps: Precision medicine, it's crazy.

Kimberly Ha: Pediatric blindness, here. I mean, kids who are blind.

Taylor Phelps: It's amazing.

Kimberly Ha: Right, I mean you can't put a dollar value on that, that's crazy. So, I mean, I think going forward everyone's kind of just still in a wait and watch period right now, but some of the proposals outlined was, okay, let's have more transparency on pricing. So, let's make pharmaceutical companies disclose the price of the drug in pharmaceutical ads on TV. So, that's kind of, that was interesting, interesting take, I guess, but I think a lot of the policies that he outlined, I mean this is years to implement. And so, personally, I don't know, I completely agree with you. I'm personally not that concerned with that. I think the industry is actually more concerned with Amazon, and what Amazon is going to do. I mean, the stocks, actually, today on Amazon in NASDAQ, they're moving into healthcare. So, if I were pharma, I'd be more concerned about Amazon then Trump right now.

Taylor Phelps: I also think that at that point, if you think about some of the examples of people exploiting pricing strategies in the U.S., they can get people really emotional, and rightfully so, right? Where you buy product for toenail fungus and then jack up the price by 2,000% overnight, but I just would encourage everybody to not take a sledgehammer when you can use a scalpel, right? I mean, there's some things that you could do, but if you're saying, well we just got to, sort of make sure that these pharmaceutical companies don't make so much money, I think it's naive to assume that that would have no impact whatsoever on innovation, which has been incredibly beneficial to the population, really, across the world.

Abby Roberts: Alright, so we're moving into our lightning round. Last question, and then we'll have a couple minutes for Q and A. And also, just a quick reminder for you guys, that there's a widget on the bottom that's going to let you sign up for our next webinar. You can also check out our demo widget. And finally, there's a short survey about upcoming topics. So, if you haven't explored all of the many widgets at the bottom, I encourage you to take a look. And lightning round, alright. We have an aging population. They're obviously no magic bullets, but if you could pick one area of healthcare investment focus to address it, what would it be? Joe?

Joseph Katz: Sure, I mean, look, I feel like a broken record, say it again, but I think the dynamics are different in various countries. That said, the underlying driver for this question, I think is the same in a

lot of places, and I think it's the same at both the U.S. and the UK, in that you have this challenge of an aging population. But, my answer to this is probably going to be a little controversial relative to others' views. I think the general perception, and I think it's right, is that one needs to heavily in more care at home. People keeping people in their homes longer, it's been shown to be cost efficient on a long-term basis. But at the same time, certainly in the UK there are, and I think elsewhere, of course, there are people who do need to go into elderly care homes. Senior homes, I think they're sometimes referred to in the States. And I think, if you look at the demand in the UK versus the supply, there is a big mismatch. And I think there is a big opportunity there for people. And so, somewhat controversial, as opposed to saying primary investment in care keeping people in the home. I would say, alongside that there needs to be a massive investment in the stock of care homes available to the population, as well. Certainly, from the UK perspective.

Abby Roberts: Okay. Laurie, what do you think?

Laurie Burlingame: Yeah, so I think a little different from Joe, but I think, basically home healthcare services, and keeping people in their homes as long as they want. I think people, the elderly, actually want to stay in their homes, and we can have decreased costs by keeping people there. So, anything that can help them to remain self-sufficient, whether it be, people with arthritis might have problems picking up things, and so, I know there's some investment in, sort of mechanical arms that can help them to be able to do that through brain waves, and all sorts of interesting technology that's really interesting and exciting. Helping people, remind them to take their medication when needed, because if you're not compliant with medication, that's kind of when issues arise, so the ability to do that, and just anything else that's going to help them to remain healthy and in their own homes, and keep them out of the expensive care-giving system.

Abby Roberts: Taylor.

Taylor Phelps: I completely agree with that. Obviously, I mentioned home health earlier, so I agree with all of Laurie's comments. I would all say just broadly, care management. I think that, whether you're in the hospital or in the ER, I think that the triage of patients could be much better coordinated. I think hospitalist is a really good example. I mean, if you go, walk around a local hospital, and see what the doctors do in the hall as they go by, they visit patient rooms, I think that you'll find out pretty quickly that it's terribly uncoordinated, and it's just a complete mess, and so you end up with patients staying there too long, not being discharged and triaged appropriately, and then not really having any idea what to do when they are discharged. So, there's so much hay to be made there, they could bend the cost curve. And the other, I think, is we talked about drugs as medication therapy management. So, if think about, I think like two million or something in patient visits are from elderly people that had a problem with the medication they were taking. I think you can probably coordinate a lot of those issues better at home if there is more interaction, more constant management of people that are on 10-12 kinds of medication, including some that may cost thousands of dollars. Now, I don't know what we're dealing with there, but once you have that kind of investment being made, it probably is better for you to then invest the money to actually follow up and make sure that everything is going appropriately. So, I would say, medication therapy management. Certainly, coordination within acute care. I think hospitals are

going to have to get smaller. And, triage patients faster, discharge them faster. And, agree completely on home health.

Abby Roberts: Alright, Kimberly, you're last, and then we have a little bit of time for questions.

Kimberly Ha: Sure, so I think if we talk about the aging population, dementia, Alzheimer's. I might be idealistic, but I hope that large pharma doesn't pull out of Alzheimer's, because it's been failure after failure for the last 10 years. Recently, Johnson & Johnson just had their major clinical trial blow up, and right after Christmas, in January, Pfizer made a huge announcement that they're pulling out of neurology research, so they're pulling out of Alzheimer's and Parkinson's research. So, I mean, hopefully we're not going to see the same pull-back that we saw in antibiotics. I don't think it's going to be the case, because if they do get this right, this is like, a huge unmet medical need, right? So, I think, if we look at from an investment standpoint, why don't we also look at delivery technologies, like how do we deliver drugs past the blood brain barrier more effectively, right? So, I think, maybe some of these drugs do work, but we can't get it across the blood brain barrier. And there are companies developing this. Denali, a smaller company back in my hometown, Vancouver, Bioasis, that is in the U.S. develop, working on this. So, I think Alzheimer's, I hope that large pharma and pharma companies continue to press forward in this area.

Abby Roberts: Yeah, I think that's so interesting, especially the brain barrier, because I recently know of someone where, the cancer was completely managed everywhere else, but then it got through to the brain, and so there was a whole other ball of wax. So, I think that's a real issue there. Alright, so we have time for probably one more audience question, and we have a lot of audience questions, so thank you all for all of the Q and A. It's been rolling by me, it's a ton. So, I apologize if we haven't gotten to your question, but this one is going to be for Joe. There's been a lot of consolidation in dental and veterinary areas, what's going to be, kind of the next area like that to consolidate?

Joseph Katz: I think that is an excellent question. I think, just to give a bit of background behind that question, I think there's been a lot of people who started roll-ups in those two sectors that have been super successful. I think it's important to remember, if you go back to just post-financial crisis, certainly in the UK, you could have bought veterinary chains extremely cheaply relative to where they're trading now. And dentists, as well. And the multiples have just massively, massively re-rated. So everybody, I think, certainly in the private equity community is asking, well, what are the new vets and dentists. I think there's a big opportunity in specialist clinics, and the question is where, exactly. I think, on the cosmetic elective surgery side, I think there's a big opportunity. I appreciate the fact that a lot of that is sort of self-funded, but nobody has really managed to roll-up that sector, and there's some quite good indications for the longer run there, notwithstanding the fact that it is funded by the consumer. I also think there's a big opportunity in IVF. You're sort of starting to see that, but it hasn't really really taken off. But, I think the macro picture behind that, a lot of women waiting to have children until later in life, and fertility rates consequently decreasing alongside that. I think there's a big, big IVF opportunity.

Abby Roberts: Yeah, now I think those sound very interesting to me. So, I think we have time for one more. And this is such a fascinating question, I have to just throw it out there, even if we don't have time to finish up. And Laurie, I'm actually going to pick on you for this, but what is one area for big healthcare needs or problems that people with money can try to fund or address?

Laurie Burlingame: That's an interesting one.

Abby Roberts: Yeah, I know, right?

Laurie Burlingame: Yeah, I mean it's pretty,

Abby Roberts: It's very broad.

Laurie Burlingame: It's really broad. I mean, one interesting thing is you see people sort of just going towards and investing in foundations that then turn around and invest in a particular disease of interest. So, that's sort of one way to get money into the hands of research, where if you're not an accredited investor, you may not be able to invest in private companies that are, sort of doing the cutting-edge research, where you might need to go into the public market, which you may not be that interested in buying one particular company due to the risk associated with that. So, I think that's an interesting model, and there are some foundations that are a lot more active in taking money that they get in, and then turning it around and funding research. So, there's people who do, like ALS research, funding ALS, because they know people who have the disease with ALS, and so, I think that's sort of a good way to get involved if you want, is to sort of fund at the very basic level, either foundations or even the basic research at hospitals in an area that really interest you.

Abby Roberts: Yeah, and I think it goes back to how this is kind of like a uniquely personal, uniquely emotional sector. Alright, so I think, unfortunately we've run out of time, because I'm reading through these questions that are so interesting, so I'm kind of sad about that. But, a couple of quick reminders. Reminder to register for next month's webinar on what associates want out of their careers. There's going to be the short survey. If you didn't fill it out already, it's going to pop up on your screen, so please fill it out. We always want to get your thoughts on ongoing topics. Or, if you're interested, again, in being a panelist, or contributing to some of the other content I put out, we'd love to hear from you. And, sorry, final note for you CLE legal eagles out there, and I'm so sorry I missed this before. We're going to pause here, and I'm going to give you CLE code, which is HEA6, again that's HEA6 for the CLE code, which Laurie's firm has just been fantastic about providing us with that CLE credit, which I, for one, will certainly partake of, and I hope you do, as well. So, I think that's it, and thank you for joining, and hope to see many of you next month.