HEALTHCARE INDUSTRY – GROWTH OPPORTUNITIES IN AN UNCERTAIN ECONOMY

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Written by: Dennis Wassung, Jr., CFA®
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INTRODUCTION

The healthcare industry, both in the United States and globally, is a complex set of sub-sectors, always impacted by government regulations, government agencies, and concerns about exploding costs. However, beyond those challenges (and others, of course), the healthcare industry also represents a relatively defensive sector of the economy – and includes many facets of companies that can grow their businesses in a range of economic environments.

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Accordingly, in our growth equity strategies, we seek out interesting growth opportunities in multiple segments of the healthcare industry – as these companies can offer growth in a tough economic environment, as well as offer some defensive portfolio characteristics in volatile equity markets. To reinforce these ideas, review current portfolio holdings, and find new investment ideas, I recently attended the Morgan Stanley Global Healthcare Conference in New York.

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**Medical Devices and Technology**

A great deal of innovation occurs in the medical device segment, where companies apply new technology to solve medical need. Great examples of this concept include the advances in robotic surgery, orthopedics, intravenous imaging and cardiac treatments such as stents and valve replacements, just to name a few.

A wide range of large and small companies participate in this part of the healthcare industry, and continuously improve the treatment options and outcomes for patients across a large set of health conditions.

**Biotechnology and Pharmaceuticals**

Biotechnology is typically considered a very high-risk area within healthcare; however, biotech is also a significant source of new drug discovery and development activity, bringing new drugs to the market to better treat numerous diseases and medical conditions. In recent years, there has been great concern with some of the world's largest pharmaceutical companies having some of their largest revenue-generating drugs reach the end of patent protection -- in other words, there was a large "patent cliff".

While this presents significant issues for those companies losing their patent protection, the opportunity in finding and successfully developing new drugs is massive (and so is the opportunity to supply new generic drugs in place of the patented branded drugs). Much of the new drug innovation comes from biotechnology companies. While these companies come in multiple shapes, sizes, and levels of risk, they can offer interesting growth opportunities.

**Efficiency and Productivity, and Electronic Medical Records**

As we all know, the healthcare industry is a massive business, with costs that seemingly always grow much faster than expected. Unsurprisingly, there is a great deal of waste, fraud, and outright errors that represent a large amount of dollars -- in the many billions of dollars. This opens the door for companies to offer solutions -- software, services, etc. -- that help reduce some of this waste and excess cost, effectively improving the efficiency and productivity of the industry.

One facet of this opportunity is the government's mandate that the U.S. adopt "electronic medical records" technology. This is a very large project, and offers a sizable growth opportunity for those companies that offer "healthcare information technology", or healthcare IT, solutions. The government's mandate will be rolled out in multiple phases, which drives a multi-year business opportunity for the healthcare IT segment.
GENOMICS AND PERSONALIZED MEDICINE

As detailed in a separate, specific Cabot whitepaper published recently, the genomics industry is a new, fast-growing research area with a great deal of interest. Each year it takes less time and costs less money to sequence a person's complete genetic code. With a huge research effort underway across numerous companies and institutions, the use of this technology is rapidly evolving. The goal is to offer a more personalized medical treatment and diagnosis capability, but there is still a long way to go. This will no doubt be an important area to watch in the coming years.

GLOBAL OPPORTUNITIES

While most of the investment opportunity discussed above was focused on the U.S. and other developed healthcare systems in Europe, Japan, and other countries, there is also a large opportunity to bring advanced healthcare solutions to the emerging markets countries. China, Brazil, and India just to name a few, offer additional, large healthcare markets as governments more aggressively support and invest in their local healthcare systems. Emerging markets healthcare will likely represent an important growth and investment opportunity looking forward.

CONCLUSION

As we continuously look for exciting growth opportunities for our clients, the healthcare industry always offers a healthy set of options. When incorporating the uncertain economic environment of the last few years and potentially the next couple as well, finding growth opportunities that have the potential to perform well in any economic environment becomes even more important. We believe the areas of the healthcare industry discussed above offer the opportunity to do just that -- succeed in a tough environment. On our clients' behalf, we continue to explore and invest in the healthcare industry in a number of areas.

Contact us at (978) 745-9233 or send your email to info@eCabot.com if you have any questions regarding this white paper.

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