COMMENTARY

February 2, 2018

Dear clients and colleagues,

Global Alpha ended 2017 and began 2018 with a heavy schedule of corporate meetings via conferences across Europe, North America and Asia. In Europe alone, we met over 80 companies from across the continent. In particular, we attended the SEB Northern European conference in Copenhagen, Denmark. Scandinavians tend to do things a bit differently. Refreshingly, companies were asked by the conference organizers to make sure they explained their 20-year plan in their investor pitch. Consistent themes came up: digitalization, demographics and automation.

One area that seems ripe for dramatic change is health care services. Corporate anecdotes at the conference indicate we're nearing a tipping point where payers and service providers seem ready to deliver care in a drastically different way. As we write these lines, JP Morgan, Amazon and Berkshire Hathaway are announcing a combine effort to enter health care services and offer low-cost products from insurance to telemedicine.

Backdrop

Health care costs continue to rise and affordability of service continues to decline. The cost of developing a new drug has now surpassed $2.6 billion. Adding to the problem, demographics indicate that in most developed countries, the floodgates are about to open as baby boomers reach an age when health care expenses increase. The per capita cost of health care is rising at over 4% per year, and costs will accelerate more quickly as the number of patients grows. The US leads the way in health care spending at $9,829 per capita. This is followed by Switzerland ($7,919) and Norway ($6,647) as well as Germany, Ireland, Sweden, Austria and Denmark which all spend over $5,000 per capita.

In the last 15 years, we were promised widespread cost efficiencies from health care information technology (HCIT), but there has been no real savings. The problem is that HCIT had to build its data system before it could be useful at delivering solutions. The American Action Forum estimates that since 2009 $50B has been spent just to implement electronic medical records. The good news is that 96% of hospitals and 78% of physicians are now certified in EHR (Electronic Health Record) technology. As we start to overlay the internet of things, artificial intelligence and telehealth, there comes renewed hope of cost control.

Telehealth hits mainstream in 2018 for North America

Seventy-five percent of health care delivery organizations (HDO) in the US and Canada are either operating or planning to launch a telehealth service in 2018. Telehealth encompasses a wide range of health diagnostic and management technologies that deliver health care to patients remotely. This includes video- and voice-telemedicine, remote patient monitoring and health apps. The Hanover Research group recently polled 300 clinical and IT professionals responsible for health and tech investments, and according to the survey, half of the participants reported increased cost savings to their practice or facility from implementing telehealth services, and over half reported that telehealth improved the efficiency and timeliness of care delivery.

However, hurdles such as physician reimbursement and the cost of implementation could still impede the remaining organizations from providing telehealth to consumers.

At the usage forefront, the US Veterans Affairs (VA) has established the Care Coordination/Home Telehealth (CCHT) program aimed at coordinating care for veterans with chronic conditions. Findings published in Telemedicine and e-Health indicated that the program reduced admissions and bed days of care. Specifically, in comparative studies on the 17,025 patients enrolled in the VA CCHT program in 2006 and 2007, VA found that there was a 25% reduction in bed days of care and a 20% decrease in the numbers of admissions. As of 2017, VA was providing telehealth services to more than 677,000 veterans, and that is only a fraction of the 5.6 million veterans receiving VA health care.

Investable examples

Back to the conferences we attended, Finland is a sparsely populated country with a shortage of general practitioners. Individuals living in rural regions can wait as long as a year before obtaining an appointment to see a doctor. The lack of key health services represents important opportunities to Scandinavian companies operating in this field. Finland provides universal health care mostly through a public system. A private system is also in place where the government pays contractors to take complete charge of primary health care services for a specific region. The advent of telehealth is seen as a highly profitable solution for these private contractors who can increase patient satisfaction and increase the profitability of delivering quality medical care.

Sweden is thinking even further ahead. Swedish health care service leader Capio is betting on machine-learning doctors. Equipped with a database that includes answers to 100,000 questions, this automated system is pretty much acting as a general practitioner through a telehealth portal. Started in 2017, the digital platform has treated 250,000 patients to date. It is believed that 90% of all medical appointments can be processed this way, and at one-third the cost.

We continuously follow the impact of technology in health care to identify investment opportunities. In the past, Global Alpha has owned Orpea in European health services. Orpea is a European leader in dependency care with over 82,000 beds across 800 facilities. Orpea is now a European large cap company.

Presently, Global Alpha owns LNA Santé in its EAFE micro cap strategy. This French owner of 48 senior care facilities has interesting plans to revamp government-owned senior care facilities, improving the services while also offering advanced technology in home health services. LNA Santé recently took on the legendary Merieux family as investors. The Merieux's are deeply rooted in the French health care system. They are the founders of Sanofi, Merial and BioMerieux, and their support will certainly add clout to LNA Santé endeavours.

In Asia, the Global Alpha EAFE funds own Raffles Medical Group, an integrated health care organization based in Singapore. With over 100 clinics and medical centres, as well as Raffles Hospital in Singapore, the company operates in 13 cities across Asia.

In North America, Global Alpha owns Extendicare, which owns and operates the largest network of home health services in Canada. Representing 31% of its revenues, home health is Extendicare's fastest growing division. We can expect telehealth to further help consolidate Extendicare as a Canadian home health leader in the future.

Have a great weekend.

The Global Alpha team