

December 7, 2018

Dear clients and colleagues,

Like most developed countries, the U.S. healthcare industry is facing what many are calling a “demographic earthquake”. According to the U.S. Census Bureau’s 2017 National Population Projections, by 2030, all baby boomers will be older than age 65.

As the population ages, the old-age dependency ratio (ratio of those >65 to those of working-age (ages 15 to 64)), is projected to rise. By 2020, the ratio will be about 3.5:1. This means that by 2020, for every retirement-age person there will be three-and-a-half working age individuals. This ratio is expected to drop to 2.5:1 by 2060.

Clearly, the U.S. healthcare industry will be heavily impacted by this demographic trend. On the one hand, there will be more demand for healthcare services, creating opportunities in these types of businesses. On the other hand, there will likely continue to be shortages of trained healthcare providers, particularly geriatrics specialists.

Clinician labor markets are tight. The unemployment rate for nurses, physicians, and several allied health professions was <1.5% in 2017, with a 10% average vacancy rate for nursing positions. Further, 39% of nurses are baby boomers and are expected to retire in the next few years.

According to the U.S. Bureau of Labor Statistics, healthcare occupations (e.g. home health aides, physician assistants, nurse practitioners, physical therapist assistants, etc.) are expected to account for a significant share of new jobs through 2026, much more than other occupations, as the aging population continues to drive demand for healthcare services.

The healthcare industry is also seeing many technological innovations, from wireless devices, cloud computing and connectivity, to Internet of Things (IoT), and robotics. The healthcare system may have to evolve from its current “sick-care” system to one of monitoring patient’s medical needs around the clock. As ongoing medical care is needed for a larger number of people, robotic process automation will continue to grow. This automation could also reduce costs and medication errors, and provide better patient care.

How is Global Alpha positioned to take advantage of this healthcare trend?

As you know, demographics is an important theme in our investment process, as we actively seek to identify companies that we believe will be favorably influenced by population shifts. Over the years, we have highlighted in our commentaries a number of companies that are expected to benefit from the “aging” trend. This week, we highlight another such company – Omnicell.

Very few companies address the physical handling of medication, which is where most errors occur. Omnicell, a leader in automated dispensing cabinets. Its products are sophisticated appliances with a high degree of software content (80%). These appliances help track, store, acquire, dispense and administer medications and supplies in a hospital setting.

We previously highlighted Omnicell in our weekly commentary of February 12, 2016. At that time, we described our expectation that its product innovation should be a good growth driver for the company. Since then, Omnicell has continued to realize topline growth and margin improvements through continuous innovation.

Omnicell is experiencing strong demand for its platform because its product portfolio covers the healthcare system's diverse needs and it seeks to remain ahead of the curve on delivering new solutions. For example, the company continues to invest in its long-term technology strategy.

In doing so, Omnicell is helping clients reduce costs by using robotics to replace labor and at the same time, to provide a better patient experience. Using Omnicell products, medication is tracked as it moves throughout a healthcare facility, and ultimately, as a patient's care moves across the continuum to other outpatient services and specialty pharmacies.

For example, Omnicell recently launched its XR2 product. XR2 is a robot designed to sort and dispense medications at pharmacies, dramatically reducing the time needed for such a low value task and serving to reduce medication errors (recent studies estimate up to 40 errors per hospital floor).

We will continue to identify and invest in other healthcare names, which we believe will be positively impacted by current demographic trends and the increasing demand for improved healthcare services.

Have a great weekend.

The Global Alpha team