POLAR CAPITAL

James Douglas, Fund Manager

Polar Capital Global Healthcare Team

Gary Corcoran (GC), Head of Content & Corporate Communications, Polar Capital:

Jamie, the healthcare sector has lagged global equity markets over the past couple of years, but since August/September of last year, things have turned more positive. Why? What has driven that change?

James Douglas (JD), Fund Manager, Polar Capital Global Healthcare Team:

There is never one single reason for that sort of turn, so I'll maybe answer it by referring to both healthcare-specific reasons and more macro ones. On the healthcare-specific reasons, we are seeing some really interesting, exciting new product stories and they are driving positive revisions both at the top and the bottom line of P&Ls. That is the first thing. The second thing is we are seeing earnings breadth improve and that is quite important as we spend a lot of time looking at earnings revisions. Third, M&A is picking up. We have mentioned this before: if you look at the pharmaceutical industry, they are losing patent protection on a lot of drugs and they need to replace those and replenish their pipelines and so we are starting to see M&A pick up as well. They are probably three of the biggest reasons, and this was all coming off a sector that was attractively valued and pretty unloved, we thought, by the market.

On the more macro side, what we started to see was policy fear easing, particularly in the US. What I am specifically referring to is things like tariffs – a lot of large-cap pharmaceutical companies were going to the US administration and trying to broker deals that would protect them from those tariff headwinds. Finally, there had been some concerns about disruption at the regulatory bodies like the FDA, but actually we are seeing that body functioning well.

So those are all the ingredients we think were key behind driving the recovery.

GC: With that positive backdrop, where are you finding the most compelling opportunities now and where are you more cautious?

JD: Healthcare is very diverse and so we should be able to find interesting things at any point in any economic or regulatory cycle. Where we are positively disposed at the moment is biotechnology. We think the understanding of human biology is still very strong. We are seeing lots of exciting new product cycles. As I mentioned earlier, M&A is picking up as well. We are positive on healthcare services as well, or any subsector that will benefit from patient volumes and demand for products and services so we have some attractive opportunities there.

Where we are a bit more cautious at the moment, certainly relative to a couple of years ago, is healthcare equipment. It is not because there are not good companies, but we just feel valuations are a bit rich and some of the companies are maybe struggling to maintain top-line momentum. So, I would point to those three subsectors.

GC: Something else you have talked about as well is innovation, often seen as a long-term driver for the healthcare sector. What is different about this innovation cycle?

JD: I think they are all different. The thing that is really intriguing about this current one is the size of the markets these companies are going for: diseases like obesity and associated co-morbidities, such as fatty liver disease which would be one good example. Irregular heart rhythm is a very big market too and there is lots of innovation there. Another area is respiratory disorders.

We are seeing lots of innovation in areas where there are huge commercial opportunities and that is really one of the things that is so exciting at the moment.

GC: Bringing everything together, how do you think the healthcare sector is positioned for the next 12-24 months?

JD: We are optimistic. As you mentioned right at the beginning, we have had a challenging two or three years and that has really started to turn. What is that optimism based on? I think it is based on the fact that the fundamentals are strong, and by that we are referring to innovation and to the demand for products and services. The second thing is we are starting to see an inflection point both on an absolute and relative basis and hopefully that momentum can continue. Then, as I said, the policy fear in the US has been easing and we are heading into a mid-term cycle. If you look at history – and caveats apply – the mid-term years tend to be quite good for healthcare. They are all the ingredients we are looking at. We are not afraid of valuations at these levels and so that all adds up to something we think is quite optimistic.

GC: Wonderful, Jamie. Thank you.

James Douglas, Fund Manager

Polar Capital Global Healthcare Team

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