ALEX BERNSTEIN: Hello, I’m Alex Bernstein and you’re listening to The Alger Podcast: Investing in Growth and Change. In our recent health care podcasts, we’ve been focusing on the companies racing to develop COVID-19 therapies and vaccines. But how has the rest of the health care landscape fared? The diagnostic and managed care companies, for example. To help answer this question, I’m talking with Alger Health Care Analyst Matt Margolis. Matt, thanks for joining me this afternoon.

MATT MARGOLIS: Thanks, Alex.

ALEX: Matt, can you talk about the impact the current economic environment has been having on the companies you follow?

MATT: There’s a lot going on. The constant across those groups is that this deferral of health care utilization is having a relatively dramatic impact on the companies’ financials, operations and outlook and trying to understand how quickly some of this deferred care returns. Are people comfortable going back to the hospital to get treated? How are the operational challenges of implementing safety protocols, how that’s impacting the capacity of the health care system to actually take care of patients in a safe way? So, if you just purely think about one of the areas that’s getting obviously, a lot of attention is diagnostics and how critical the diagnosis of COVID has become. The companies that manufacture the diagnostic kits and products that go into these tests, they also manufacture a lot of other diagnostic tests that are routinely used pre-surgery for screening purposes at routine office visits, post-surgery for chronic conditions. There’s diagnostics that get done routinely, and a lot of those things stopped happening effectively for two months across the country and in other parts of the world. So, while there’s this benefit per se of this increased testing volume for COVID, there’s been a negative headwind from some of this routine and deferred care that’s not happening. So that’s having various kinds of impacts.

There are going to be unfortunately providers and hospitals that are not going to survive. The ones that do that are in good financial positions will potentially strengthen their local market presence by either buying some distressed assets or purely just taking market share from those providers that are no longer in business.

ALEX: I know patients are now shifting to virtual visits with doctors? What are you seeing there?

MATT: There’s been this explosion of telehealth care, and as people weren’t able to access their providers in person, they went to the phone and the videoconferencing to meet with their physicians, and that is going to be the lasting impact of this on the health care delivery system. Patients are happy with how telemedicine is working for them. Physicians for the most part are happy with how it’s working for them because their patients are happy, and doctors know when patients are happy. That brings them referrals, and it keeps their business intact and vibrant, and so there’s going to be a continued robust use of telehealth for the foreseeable future. Under the loosening of the restrictions during this pandemic period, essentially a telehealth visit is identical to an in-office visit with the exception that the provider can’t obviously perform any procedures or do any invasive diagnostic test, but otherwise the visits are the same from a reimbursement perspective, and who doesn’t like not waiting in their doctor’s office for 45 minutes for their doctor to come see them? So, people are really enjoying the flexibility and convenience of telehealth. Certainly, there are some specialties within health care that make a lot more sense for telemedicine as opposed to others.
ALEX: Can you give us an example?

MATT: Diabetes is something that for the most part can be taken care of with a telemedicine visit. Glucose levels can be sent to your provider electronically to analyze the data. They can make recommendations. There’s very little physical diagnosis that needs to be done, and so you can greatly expand the access to the endocrinology specialty using telemedicine. So the use of telemedicine has exploded recently across all specialties, and it will remain a robust part of the health care delivery system, although it certainly won’t replace going to see your doctor in person, and at least for the time being you certainly can’t do procedures and surgeries through your iPhone.

ALEX: Matt, I wanted to ask for the companies that you follow, are they adapting and evolving during this current environment?

MATT: I guess there’s a couple of different ways that companies are adapting. The first is how they’re adapting to operating in the current environment, and the second thing to talk about is how these companies see themselves operating on the other side of this environment.

So, in thinking about how these companies are operating today, just like we are, they’re all working remotely. For the most part, they’re all working relatively efficiently from a general administrative perspective, from a back-office perspective. A lot of these companies obviously have manufacturing facilities and production facilities, and even the ones that are more manual-type manufacturing and production, they have been able to operate.

In addition to that, there are sales and marketing operations, and those sales and marketing operations have very aggressively shifted to the virtual environment.

One of the things that has not been going on during this pandemic, are these large-scale medical meetings that can have ten, twenty, thirty thousand attendees. Those meetings are happening virtually, and so the hallway conversations, the run-intos of colleagues who work in other parts of the country, those things are not happening, and there is a lot of lost information sharing that doctors are feeling, that sales organizations are feeling, and so those types of things will come back. But I think the sales and marketing operations will have a much heavier reliance on virtual, so whether that’s training, education, regular communication, those kinds of things, I think that will stick with these companies for a while because I think they are realizing some efficiencies. If they don’t need to have people racking up travel-related expenses, I think they will maintain a more virtual type of relationship with their customers and clients.

ALEX: Matt, has any of this caused any shift in your investment philosophy?

MATT: Not really. The investment philosophy remains pretty consistent. I mean we’re always focused on companies that are disrupting markets or creating new markets, and certainly in the current environment there’s no shortage of disruption, and as we talked about with telehealth and some other areas, there are some very large rapidly-growing new markets that have effectively come out of nowhere, and so the investment philosophy hasn’t changed. What has changed is the intensity of the research process.

Things are incredibly dynamic. Things are changing on a daily basis, and I don’t mean in terms of stock prices but just in terms of the fundamentals, new products, regulatory approvals. Things are changing very quickly, and so being on top of the news flow from a company-specific perspective, being on top of the news flow from the industry, from the providers across the market has certainly intensified.

ALEX: I just wanted to ask: I know you and your wife have kids. How’s everyone holding up?

MATT: I have very young kids. I have a four-year-old and a two-year-old that are entertaining each other and, to be quite honest, I’ve been amazed about how easily they’ve adjusted to their new daily schedule. It’s been a real treat to be able to spend a little bit more time with them. They have opened some of the parks, so we have our Lysol wipes and we wipe down some of the swings, and we let them go on the swings, and they couldn’t be happier about that.

ALEX: Matt, thanks so much for talking with me this afternoon.

MATT: Thanks, Alex. Great talking to you.

ALEX: And thank you for listening. For more of our most current insights, please visit www.alger.com.
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