Research @ Citi Podcast, Episode 17: Dawn of a Healthcare Revolution?

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Transcript:

Lucy Baldwin (00:01)

Welcome to the Research @ Citi podcast. I'm Lucy Baldwin, Global Head of Research at Citi. In each podcast episode, we bring you our thought-leading views and analysis across asset classes, sectors, and economies from around the globe.

I'm delighted today to be joined by two of our global healthcare team, Joanne and Geoff. And, gosh, today, we've got a lot to tackle, folks. Plenty's been happening in your global healthcare sector, of course, since the U.S. election. Much of that we're going to dig into in terms of possible policy implications, what you're seeing more broadly post-pandemic thematically across the space, whether that's to do with GLP-1s, whether it's China, whether it's demographics. So I'm sure we're going to have a great conversation. But maybe just to set the scene, Geoff and Joanne, you can tell us a little bit about yourselves and the teams that you run and the sectors that you cover. Geoff.

Geoff Meacham (00:57)

Great. Thanks, Lucy, and thanks for having me on the podcast. So I'm Geoff Meacham. I've been at Citi for just several months now. We have rolled out on the U.S. major pharmaceutical space and also the U.S. large-cap biotech space. And we'll cover probably a much bigger sector sort of distribution of SMID biotech as well. So all biotech all things and major pharma. Joanne?

Joanne Wuensch (01:21)

Yes, thank you for hosting us, Lucy. I cover medical technology research in the United States here for Citibank. I arrived a little bit— almost five years ago and work closely with the non-therapeutics teams here at Citi.

Lucy Baldwin (01:36)

Well, of course, there's much discussion at the moment, Joanne and Geoff, around the policy environment for healthcare in the United States. Clearly we just had the U.S. election, we've had Trump back in the White House, and we know we are dealing with a red wave. We also know who Mr. Trump has nominated to come in and be in charge of the healthcare sector and healthcare services. Can you just lay a little bit more information out for us in terms of the landscape as you see it today, the policy path that is likely to be followed as we go into 2025 and beyond? Maybe if we start with you, Geoff.

Geoff Meacham (02:15)

Yeah, that's a good question, Lucy. I would say the nomination of R.F. Kennedy, Jr., I think it was somewhat controversial, and there still is some debate whether he can actually be confirmed. But if you look at what he said specifically policy-wise, prior to the nomination,

there are some non-controversial items. So I don't think anyone's going to be debating food safety, for example. I think that is a reasonable way to, say, innovate at the FDA or to raise the bar. And then on vaccines as well. Perhaps there'd be a higher hurdle to get vaccines or let's say, new drugs approved from a safety and tolerability perspective. But I don't think there's going to be a lot of disruption in currently approved drugs. There was a fear from some investors that you would see pulling of some drugs, and I think that's super unlikely. I think what you could see, and it depends on the people underneath the leadership of FDA, sort of your middle-level bureaucrats, that could add some volatility to approvals and the regulatory process. But overall, though, the mandate that President Trump is going to have is to disrupt — and I think that's going to happen at HHS and FDA and CMS — but I think there's less wiggle room versus other departments to disrupt just because healthcare overall is such a sort of foundational component of the economy. But I don't know — Joanne, what do you think about that?

Joanne Wuensch (03:46)

I mean, similarly, in medical technology, it's largely outside of the political realm. We've seen over and over that MedTech consumption is more tied to product introductions and patient flow and human need for managing healthcare. The one area, I think, politically that we are a little bit more sensitive to is sometimes the timing of FDA approvals. We've found in different administrations, either the FDA cycle is somewhat elongated or somewhat shortened, depending on the current mood.

Lucy Baldwin (04:20)

That's great context. Thank you both for that. Just to take this in another direction, when you think about innovation, capital formation across your space, the likely pipeline for companies coming to market, M&A, et cetera, clearly it doesn't sound as though you feel that the changes post-election in the space are going to be any sort of major headwind to that, and, if anything you would suggest, I assume, that the outlook for innovation remains pretty constructive and pretty upbeat. Is that a fair comment, Geoff?

Geoff Meacham (04:55)

Yeah, I think that's completely right. If you look at the SMID-cap biotech space, for example, what really has been a major headwind from the macro perspective is really just higher interest rates, higher inflation, and higher discounts looking to some of these products that are five to eight to ten years away. If the macro does improve, I think you're going to see much, much higher tolerance for risk. And there's a lot of companies, I'd say, in the SMID biotech space that have been baking in the oven for several years. And so I do think ‘25 could be a banner year overall for capital market, and for biotech. When you look to M&A, maybe more of the same. There is some debate whether new leadership at FTC is going to allow for bigger deals or maybe have an easier path. I'm not— it's hard to say on that, but in general, though, what I would say is that Innovation is still there. I still think we're in the middle innings, let's say, of an innovation cycle. We have a lot of gene and cell therapies that are very, very interesting, GLP-1s, which we'll talk about, tons of label expansion potential. There's just a lot of different categories, still in development, but have really nice setups for a robust treatment effect. Joanne, what do you think?

Joanne Wuensch (06:14)

So what we're seeing is a fair amount of medical technology innovation, particularly in sort of a post-pandemic environment, and then in general, looking forward. I mean, and it goes really across most of our sector. At the core of it, there's new demand for artificial

intelligence, more demand for robotics. In cardiology, we see increasing use of things such as pulse field ablation to treat atrial fibrillation or new heart valves in tricuspid in the mitral positions that allow for better surgeries. Diabetes management, a very large, almost mainstream acknowledgment of the benefits of continuous glucose monitors or diabetes pumps. So it's really sort of an exciting time in MedTech to be looking at these new technologies coming out. It's interesting, M&A is a little bit slower over the last 18 months than I would say it's been over the last five to ten years. And we are seeing a little bit more, not just how do we buy in or these companies buy in assets, but how do you have the right portfolio? And we're increasingly see some sales of assets or spin outs of assets as companies sort of right size. What is the group products that managements want as they go to talk to hospitals.

Lucy Baldwin (07:29)

Fantastic. And Joanne, just maybe to pull on that thread a little bit more around the post-pandemic drivers of the sector and the innovation that you see coming through, clearly lots of headlines this year around GLP-1s and the impact that they could have, not just to your sector, but of course, to many other sectors that could be impacted if the use of these becomes increasingly widespread globally. Talk us through how revolutionary or how much of a step change you feel this class of drugs is going to be and the impacts that you're seeing in your space. And, of course, feel free to tell us if you think there's just too much hype here, and actually, we should be focusing our attention on other things, but maybe, Joanne, if you can kick us off.

Joanne Wuensch (08:13)

Well it’s funny you ask that because this time last year, that's all I talked about. Every single meeting was all about GLP-1s. And it got to a stage where I think people really absorbed that this is a new class of drugs and it has great opportunities. But for MedTech, the impact is far less than people feared. And in fact, in some odd ways, we're seeing a benefit from it. So for example, there are patients whose BMI are just too high and haven't been able to have surgery, and by taking a GLP-1 and lowering the body mass index, are actually able to get on the table. So instead of a headwind to certain procedures, it's actually turning out to be a tailwind in some cases. Also, in other areas such as in continuous glucose monitors, which allow for the patient to better manage their blood glucose level, and we're starting to see a really large combination factor of how do we think about taking a pharmaceutical product for better lifestyle weight management, as well as better monitoring. So I think it might be a little bit too overdone for MedTech, but I pass it to Geoff to talk about what he's seeing on his side of the world.

Geoff Meacham (09:20)

Yeah, on the drug side, I mean, I think GLP-1s to us, it still looks like it's early, early innings. I recognize that in the diabetes field, Lilly's Mounjaro, for example, was approved several years ago, and it has had unbelievable demand. But in obesity, we're just officially rolling out for Novo, as well as Lilly. The thing that I kind of look to is when you look at the number of indications that potentially these drugs— the number of diseases that it could treat, it's not just diabetes and obesity. Obviously, near term, we have sleep apnea, we have heart failure because those are successful Phase 3 outcomes for really both companies. But even beyond that, though, you know, looking at diabetes prevention, looking at things like chronic kidney disease, and then a much broader sort of swath, let's say, of cardiovascular diseases, potentially hypertension, as well as acute coronary syndromes, there's a lot of indications that these drugs can treat, and it's not just about the weight, it's about lower heart rate, lower

lipids, lower risk of stroke, heart attack, lower death rates, cardiovascular death. So a lot of this data has either been published or is coming. That to us suggests that there's still a lot of room for growth, and I'd say just from a technology standpoint, there still are some new pockets within GLP-1s that we could still see a lot of capital allocation and innovation. So one of them would be longer-acting therapy, so monthly or potentially quarterly. That's still some time away. And then orals — there hasn't really been clean and safe and well tolerated oral that we've seen in a large-scale study. Lilly has a number of those coming next year, but it's pretty far ahead of others when it comes to the oral space.

Lucy Baldwin (11:17)

And, Geoff, just to build on that, maybe beyond GLP-1s, what's the most exciting innovation that you're seeing across the piece, when you look across the whole of the biopharma complex? And in particular, how would you frame the sort of digital health, AI integration? And obviously a lot of people are very excited there for sort of practical AI applications, whether that's for diagnostics, drug discovery, care delivery. What are you actually seeing and hearing from your companies?

Geoff Meacham (11:47)

Yeah, when it comes to the use of AI within the drug development continuum, there's a lot of room in the discovery piece, so the pure R of R&D. There's disease pathways that are correlated that we don't know that they are. You could, maybe enhance the features of a certain molecule to lower the risk of a safety event, or to improve the efficacy. I would say there's maybe only incremental advancements on the drug and the development side of things. So once a drug goes into a Phase 1 or 2 or 3 trial, maybe you could find a few new biomarkers that predict efficacy, but that process is fairly well established, and already is pretty technology heavy. And the other end would be for AI would be just enhancing the commercial piece of it. So finding the right pockets of demand, either from geographically or from physicians, so I think I kind of view it in the biopharma world as a bit of a barbell, right? So just in the very early stages, and then in the later stages. The middle, I think, I'm not sure that the AI is going to have too much of a groundbreaking kind of impact. I don't know, but Joanne, in the development part in your space, though, AI has obviously played a much bigger role.

Joanne Wuensch (13:07)

Yeah. I would also put AI and robotics into one bucket. Robotics have been around for a couple of decades now, but it's really becoming far more mainstream. So we're seeing not just hips and knees done through robotic surgery, but also shoulders and spine and in soft tissue, we're seeing, you know, increasing utilization across your gynecology and prostate and hernia repair. As it relates to AI, it takes lots of different forms, to your point. I mean, it's part of the R in research and development. It's part of the sort of the SAAS aspect, or software as a service for other companies, and it's really sort of how do you best use your tools or what part is the tech of MedTech?

Lucy Baldwin (13:54)

That makes a lot of sense. And just to pivot to a different area of the market that I have to ask you both about, given we are post–U.S. election now, and there's a lot of focus on tariffs, on trade, on the potential relationship that the United States might have with China as we look forward. The importance of China for many of your companies — talk to us about how that has evolved and shifted over the last few years and how critical that market is, how you see that market, healthcare market, developing, obviously, amid reg changes, et cetera, talk

us through that. But also, if there's anything we should be aware of going the other way in terms of risks — is the U.S., to your mind, in any way dependent on China for imports of any critical drugs. Obviously, we see a lot of the numbers around more basic-level antibiotics, analgesics being imported into the U.S. from China. But talk us through how you see China from both sides in the U.S. relationship. Maybe Joanne, you could kick us off from a MedTech perspective.

Joanne Wuensch (14:58)

Sure. I mean, when you think about MedTech, I think, majority of the companies that I look at cover or generate 5% or less of their revenue from China. There are a couple that are— have higher numbers in the low double digits, but it's not a large percentage of MedTech revenue generation. You know, the types of things that we tend to look at a little bit closely is what's called VBP, or value-based pricing. And that's more of, what is the pricing mechanisms in the region for the sales of the products into that? And it goes across from hips to knees into the cardiology products. On the tariff side, not a lot of imports are coming in from that region, but it's, you know, obviously something we're sensitive to. Geoff?

Geoff Meacham (15:45)

Yeah, for China, for the biopharma group, I would say China is an impactful segment, but it's not really one that investors focus on unless there's a problem, really. So, for example, you know, Merck has a vaccine Gardasil that has had some supply issues in China the past couple of quarters, and it's become a clear focus. But it's not really viewed, as, I would say, a meaningful growth driver, but it does contribute to a lot of the bigger companies' P&Ls. Lucy, you mentioned going back to the pandemic, and that was one— China was a big factor, for example, in biomanufacturing and clinical, and clinical development from a CRO context. And I think most companies have moved, just to de-risk the supply chain, have moved some manufacturing, or most all manufacturing really, to Europe and to the U.S., just in case of some sort of supply chain disruption. So that is, I think, less of a factor to look at the Chinese impact on the drug development process. But in terms of the products, clearly, you know, it's one of the world's largest markets on volume, but it does come at a price. So the government does require pretty aggressive rebating, and some companies just aren't willing to go there. But eventually, I think that they do. So you do see some volatility going forward. But, for the most part, I'd say investors looking at these bigger caps just look at kind of U.S., some degree, European demand, and the Chinese kind of market ends up being, I think a bit of icing on the cake, so to speak, if it is a good growth region.

Lucy Baldwin (17:24)

And before I let you go, one big thematic question I have to ask you both about is demographics. Obviously, that has been a topic that investors have discussed and debated for a long old while now, but I know you've both done a lot of work on this space and how it impacts the sector. Maybe you could share your latest thinking on how the demographic challenges, opportunities are likely to unfold over the course of the next few years. Joanne, maybe you could kick us off.

Joanne Wuensch (17:54)

Sure. Thank you, Lucy, for that. I think one of the things that we really pay closely attention to is elective procedures, and during the pandemic, elective procedures really tanked as the hospitals and patients were looking at other things and caring for the Covid patients. And then there was a recovery stage. And so now what we're looking at is pretty heightened, if you will, procedures that are occurring outside of this pandemic environment. And I think

what's driving that is really the demographics. People are taking better care of themselves. They're getting older. The longer you live, the more you consume healthcare, the more you consume healthcare, the more that you're using MedTech. Geoff?

Geoff Meacham (18:37)

Yeah, in the biopharma space, I'd say you're right, Joanne. You mentioned the U.S. population getting older. There are a lot of indications that I think are at the forefront. I mean, we could do this podcast in ten more years, and we probably would still be talking about the need for more effective Alzheimer's drugs. And so, unfortunately, there just hasn't been a lot of progress really over the past 50 years. Now, we do have two new therapies on the market now. I think they're sort of a modest clinical benefit. They're not transformational in terms of their drug effect, for example, Hep C was years ago or GLP-1s are today. But that's— my sense is that demographics are going to really be a strong driver of mostly neuro indications. So, Alzheimer's, Huntington's, Parkinson's, the need for polypharmacy, multi drugs, I think we're going to really— going to have to enhance the treatment effect and all those indications. And then, you know, more broadly, when you look at diseases like inflammation, oncology, hematology, that really is sort of independent of really where we're starting. But as a population ages a bit, you're going to have more of a demand for many different types of categories from a commercial and a development perspective.

Lucy Baldwin (19:55)

Fantastic. Now, I know all three of us are very much looking forward to our global healthcare conference. What would you expect to be the main theme or themes that are going to be under discussion from investors — maybe that we haven't touched on today — at the conference? Joanne, what's your sense?

Joanne Wuensch (20:14)

So I think it's what we've just been talking about: the themes of new products, pipelines, what the new election may mean for healthcare, and specifically for medical technology. We have multiple panels throughout the three days on ophthalmology, oncology, diabetes that should be really quite interesting. And because we're so close to the end of the year, I think there's going to be a little bit of a bent of what can we expect in 2025. Geoff?

Geoff Meacham (20:45)

Yeah, I think that's completely right. What are the sort of leading indicators of companies looking to 2025? Are they directionally higher demand, lower demand? And policy, in the biopharma world for sure, I think, is going to be a major, major focus. And we're fortunate to have Scott Gottlieb, our fireside [chat] with him, just to talk through potentially changes at FDA, what that could mean to the drug approval process. But yeah, just a bit of a setup going into early part of ‘25, kind of a guidance and, kind of catalyst perspective, that's where we're going to be. The catalysts, I think, were really what a lot of investors are going to be focused on of what new data cards, for example, are turned over next year, and what new launches could happen and what that could mean to growth.

Lucy Baldwin (21:34)

Fantastic. Geoff and Joanne, thank you so much for joining me. As you say, it's a fascinating space with huge amounts of innovation to keep an eye on as we go into 2025 and lots of things for investors to mull over, as well as, of course, the policy landscape, which is ever evolving. So thank you both for a lively discussion. Much appreciated.

Geoff Meacham (21:53)

Thank you, Lucy.

Joanne Wuensch (21:54)

Thank you, Lucy. Have a great day.

Lucy Baldwin (21:56)

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