

HTEC Index 1Q24 Commentary

March 31, 2024

The healthcare industry kicked off 2024 with its premier event, the J.P. Morgan Healthcare Conference. While the conference offered its usual mix of deals and pre-announcements, the biggest buzz surrounded artificial intelligence (AI) in healthcare. This was evident by the packed house at the Nvidia GTC conference. Overall, the sentiment leaned towards a year of greater stability. With fewer unknowns, the industry seems poised to experience some relief from budgetary and logistical pressures.

In Q1 2024, the **ROBO Global Healthcare Technology & Innovation Index (HTEC)** underperformed the VettaFi Full World Index with a return of 1.25% Vs 8.2% from the benchmark. This quarter saw 66.7% of the companies in the index beating EPS expectations with a weighted average surprise of 4.5%. The index is trading 4.35x EV/Sales, tracking close to the bottom of the COVID pandemic's 4.37x and below the historical average of 5.9x, offering a compelling valuation, with significant upside potential.

This March, **Intuitive Surgical** (+18.6%), from the **Robotics** subsegment, was granted FDA approval for the fifth generation of its multiport da Vinci robot, marking the culmination of over a decade of research. The DV5 replaces the current Xi system and has received clearance for a wide array of indications, introducing significant advancements in robotic surgery technology.

Big moves in **Process Automation** (+8.7%) this January. **Lonza Group** (+40.7%) announced their acquisition of one of the world's largest biologics manufacturing sites in California from Roche for \$1.2 billion. This strategic move will immediately boost Lonza's production capacity, benefiting customers and fueling future growth in their Biologics division. Another deal in the subsector was the announced acquisition of **Catalent** (+25.7%) for \$16.5 billion by Ozempic maker Novo Nordisk.

Genomics saw **Natera** (+44.4%) continue its impressive growth trajectory with their Signatera technology, a blood test for cancer cells, gaining momentum in US cancer centers, paving the way for liquid biopsies to become a standard part of cancer diagnosis.

Regenerative Medicine (+17.6%) welcomed **United Therapeutic** as the newest addition to join the ranks of **Artivion** (+20.9%) and **Axogen** (+13.8%). The company founded by its CEO to find a cure for her daughter's then untreatable disease, is now setting its sights on a groundbreaking goal: lab-grown organs. This technology has the potential to revolutionize the entire healthcare industry.

Despite a slow start, 2024 remains slated to be both a year of recovery for much of the portfolio and a year of great expectations and delivery on novel healthcare innovation. Estimated growth is very healthy across EPS and Sales this year and is expected to accelerate in 2025 and beyond (according to consensus estimates).

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