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Obamacare

Sectoral Winners and Losers

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OBAMACARE

HOSPITALS AND ELECTRONIC HEALTH RECORD COMPANIES OUTPERFORM MEDICAL DEVICE MAKERS LOSE OUT

Touted as one of the biggest healthcare reforms in the US, the Patient Protection and Affordable Care Act, has been the subject of countless political debates and discussions. As Republicans and Democrats continue to battle over the Patient Protection and Affordable Healthcare Act (popularly known as Obamacare), certain sectors have emerged as clear winners and losers from the current state of implementation of the Act. This report aims to identify the sectors that have benefitted and been adversely affected due to the implementation of Obamacare (beginning March 2010) and highlight the key drivers behind these trends.

HOSPITALS OUTPERFORM AS RISING PERCENTAGE OF INSURED PATIENTS LEADS TO REDUCTION IN UNPAID MEDICAL BILLS

"I think the Affordable Care Act has been more positive for the hospital industry than analysts had expected or even the industry expected it to be." [1]

– Megan Neuburger
Fitch Ratings Analyst for Profits Hospital Sector

Hospitals have turned out to be the major beneficiaries of the implementation of Obamacare. With the Healthcare Act aiming to extend insurance coverage to 30 million uninsured Americans by 2019[2], hospitals have been witnessing a steady decline in uncompensated care. This has, in turn, boosted the top and bottom line of hospital operators, which is clearly reflected in the outperformance of hospital stocks over the last few years.

Declining Uncompensated Care for Hospitals

With more states opting for insurance exchanges and expanding Medicaid coverage over the last 18 months, hospital players are recording a drastic fall in the size and number of unpaid medical bills. Studies indicate that uncompensated care expenses for the US hospitals stood at USD 50 billion in 2013[3], with the federal government covering about 60% of these medical bills. However, with the implementation of Obamacare, 10 million Americans became newly insured in 2014[4]. Consequently, hospitals provided treatment to more paying patients, which resulted in wiping out USD 5.7 billion of uncompensated care[5].

Earnings Outperform as Uninsured Patients Decrease and Medicaid Business Grows

As an increasing number of patients were enrolled under the insurance scheme, hospital operators recorded the sixth consecutive quarter of new revenue from previously uninsured patients, during their second period earnings in Aug 2015. While HCA Holdings (HCA) recorded a 55% drop in uninsured patients and 30% expansion in the Medicaid business across five states[6] , uncompensated care expenses for Universal Health Services (UHS) declined for the sixth consecutive quarter as UHS recorded a 17% YoY drop in costs for doubtful accounts[7]. These trends have helped hospital operators raise their earnings forecast, as investors increasingly bet on their stocks to continue outperforming. This is clearly highlighted by the hospital stock performance, with UHS and HCA advancing 189.7% and 159.1%, respectively, compared to a 40.6% rise in S&P 500 from Nov 2012 to Oct 2015.

1 http://www.latimes.com/business/la-fi-obamacare-dividend-20141214-story.html
2 http://cbo.gov/sites/default/files/cbofiles/attachments/03-13-Coverage%20Estimates.pdf
3 http://www.latimes.com/business/la-fi-obamacare-dividend-20141214-story.html
4 http://www.latimes.com/business/la-fi-obamacare-dividend-20141214-story.html
5 http://www.latimes.com/business/la-fi-obamacare-dividend-20141214-story.html
6 http://www.latimes.com/business/la-fi-obamacare-dividend-20141214-story.html
7 http://www.forbes.com/sites/brucejapsen/2015/08/02/as-obamacare-takes-hold-unpaid-hospital-bills-vanish/

COMPULSION TO MAINTAIN ELECTRONIC HEALTH RECORDS RAISES SOFTWARE SALES

The implementation of Obamacare in 2010 mandated each healthcare provider across the US to maintain electronic health recording (EHR) to improve patient health information, track healthcare spending and lower healthcare costs. This boosted the adoption of EHR software and raised demand for healthcare informatics professionals since 2011.

Growth of EHR Boosts Demand for Healthcare Informatics Professionals

The re-election of President Obama in 2012 confirmed the implementation of the Healthcare Act, which led to increased adoption of EHR software by healthcare providers. This, in turn, boosted demand for healthcare informatics professionals. The anticipated growth rate for employment of healthcare informatics technician is 22%[8] during 2012–22, relatively higher than the average for all occupations. Furthermore, as the population of the country ages, there would be higher need for medical treatments, procedures and tests, which would result in increased reimbursement claims from insurance establishments. The recording, organizing and managing of this information, besides extensive use of electronic health records (EHRs) by all types of healthcare providers, will continue to raise the need for healthcare informatics professionals.

After the establishment of the Obamacare Act, Cerner, one of the leading providers of EHR systems in the US, hired additional 3,000 professionals[9] during 2011–13.

8 http://www.healthcare-management-degree.net/faq/effects-of-the-affordable-care-act-on-careers-in-health-informatics/
9 http://www.kansascity.com/news/local/article319814/Cerner-says-it-is-capitalizing-on-health-care-reform.html

MEDICAL DEVICE COMPANIES RESORT TO JOB CUTS AND LOWER R&D SPENDING DUE TO DEVICE TAX

As a part of the Affordable Care Act, medical device makers in the US have faced the burden of a 2.3% tax levied on domestic sales of medical devices since 2013. The tax has had a far reaching impact on device makers, forcing them to cut jobs and spending on R&D and has led the industry players to spend millions in lobbying to repeal the onerous tax that is hindering the growth prospects of a vibrant and booming device making industry.

"We believe the medical device industry is a terrific industry for the US, we drive innovation impact patient's lives, and we also create a lot of jobs. And we have seen an impact of the medical device tax reduce jobs; we've seen a reduction in the investment from the venture capital industry. So we don't think an industry as valuable to the U.S. economy as medical device should have a medical device tax"

– Mike Mahoney,
CEO, Boston Scientific[10]

10 http://www.valuewalk.com/2015/03/boston-scientific-bsx-ceo/

Job Creation Takes a Hit

Over the years, device manufacturing has provided lucrative employment opportunities to trained engineers and workers in several districts across the US, including Minnesota, Michigan and Massachusetts. Post the implementation of medical device tax in 2013, industry body AdvaMed's surveys reported that device makers laid off nearly 19,000 employees[11] due to the tax burden. Boston Scientific announced 2,500 jobs cuts as the tax cost the company more than USD 75 million annually[12]. In Michigan, device maker Stryker Instruments announced the lay off more than 1,000 employees, while Minnesota-based St. Jude Medical has begun restructuring by cutting 300 jobs.[13]

The tax has impacted future job creation, as device makers have announced that they can only afford to hire less than half the employees they originally planned to add to their roster. This has significantly impacted the creation of more than 14,000 new jobs as per AdvaMed.

Innovation and R&D Impacted, with Small Device Makers and Start-ups Bearing the Major Brunt

"We've had to slow down our hiring in sales and R&D due to capital constraints. We are still funded, but many of my peers have had to close operations due to lack of funding. The tax puts further pressure on a start-up sector that is already under pressure due to regulatory and reimbursement uncertainties."[14]

– Ceterix Orthopedics
(small medical device manufacturer)

Amounting to nearly 29% of the industry's R&D spending in 2014, the tax has significantly impacted R&D spends that form the cornerstone of the US's innovation driven device making industry. A larger tax burden has resulted in device makers such as St. Jude Medical, Medtronic and B.Braun cutting back on R&D spending, shelving active research projects and reducing R&D hiring. However, small and medium size device makers and start-ups that account for more than 91% of the industry players have been affected the most. With much of the technological innovation coming from these companies, the tax has led to deep cuts in company R&D budgets and has negatively impacted development and approvals of new medical devices. As the tax is imposed on gross revenues rather than profits, even start-ups and smaller companies operating in the red have been forced to pay the tax, severely impacting their ability to innovate and survive in the intensively competitive medical device market.

11 https://gop.com/obamacares-midwest-miss/
12 https://gop.com/obamacares-midwest-miss/
13 http://thehill.com/blogs/congress-blog/economy-budget/194534-kill-the-medical-device-tax
14 http://advamed.org/res.download/835

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