

Investment Opportunities in Respiratory Illnesses

The latest crisis in markets has been driven by the COVID-19 outbreak and has resulted in a number of large moves in stocks related to the news. It ranges from the speculative surges in companies making protective masks like **Lakeland (LAKE)** and **Alpha Pro Tech (APT)** to large cap Biotech companies searching for treatment & vaccines like **Gilead (GILD)**, **Regeneron (REGN)** and **Moderna (MRNA)**. The shutdown in global travel has resulted in major weakness in the Airlines, Hotels, Theme Parks, and other Venue stocks, while the idea that Telecommuting will be in more demand can benefit newer Tech companies like **Zoom (ZM)** and **Slack (WORK)**. You can also go 2nd-degree like **Gardner Denver (GDI)** and **Regal Beloit (RBC)** which make pumps for ventilators and are seeing a surge in demand. **Allied Motion (AMOT)** is another industrial with 14% of sales tied to the medical markets including respiratory ventilators. **Aptar (ATR)** is a \$6.6B packaging leader which strong ties to Pharma that is the lead maker of pumps and metered dose inhaler valves for asthma. Another strong performer since the crisis has been **TelaDoc (TDOC)** the leader in telehealth which I previously made the case for [here](#). While the moves in the protective mask names are more of a fad and not sustainable there is a case to be made looking at respiratory illness from a broader perspective as these kind of outbreaks are likely to continue to occur while also many people have compromised respiratory systems from smoking and the rising concern of poor air quality due to climate change. WHO estimates 7M deaths per year are a result of air pollution.

The top respiratory illnesses are Asthma, COPD, Chronic Bronchitis, Pneumonia, Lung Cancer and Cystic Fibrosis. The main areas of focus to look at are Biotech and Med-Tech companies focusing on treating these illnesses. A publication from WHO in 2017 notes “About 65 million people suffer from chronic obstructive pulmonary disease (COPD) and 3 million die from it each year, making it the third leading cause of death worldwide. About 334 million people suffer from asthma, the most common chronic disease of childhood affecting 14% of all children globally. Pneumonia kills millions of people annually and is a leading cause of death among children under 5 years old. Over 10 million people develop tuberculosis (TB) and 1.4 million die from it each year, making it the most common lethal infectious disease. Lung cancer kills 1.6 million people each year and is the most deadly cancer. Globally, 4 million people die prematurely from chronic respiratory disease. At least 2 billion people are exposed to indoor toxic smoke, 1 billion inhale outdoor pollutant air and 1 billion are exposed to tobacco smoke.”

A number of Med-Tech names involved with respiratory care make for quality investments on this theme of rising incidences of respiratory illness. The Respiratory Care Devices Market is projected to reach USD 31.8 billion by 2024 from USD 20.6 billion in 2019, at a CAGR of 9.1%. This includes Therapeutic (Ventilator, Mask, PAP Device, Inhaler, Nebulizer), Monitoring (Pulse Oximeter, Capnograph), Diagnostic, and Consumables.

Res-Med (RMD) is a larger cap name of interest, a market cap of \$23B, and focuses on respiratory disorders. Although it is well known for its focus on Sleep Apnea, it also has exposure to other respiratory illnesses and has built out a leading software ecosystem connecting over 12 million patients. It sees a major opportunity in COPD with 380M worldwide seen having COPD and largely undiagnosed in high-growth markets such as China, India, Brazil and Eastern Europe may add another 100M. A great med-tech competitor to ResMed in the Sleep Apnea market is **Inspire Medical (INSP)**.

We have the full spectrum of solutions for respiratory care



Patient Management



AirView™ for Respiratory

Digital Therapeutics



Propeller

Portable Oxygen



Mobi™

High-Flow Therapy



AcuCare™ high flow

Bilevel Ventilation



AirCurve 10™

Non-invasive Ventilation (NIV)



Lumis™



Stellar™

Life Support Ventilation



Astral™



Astral™ with RCM

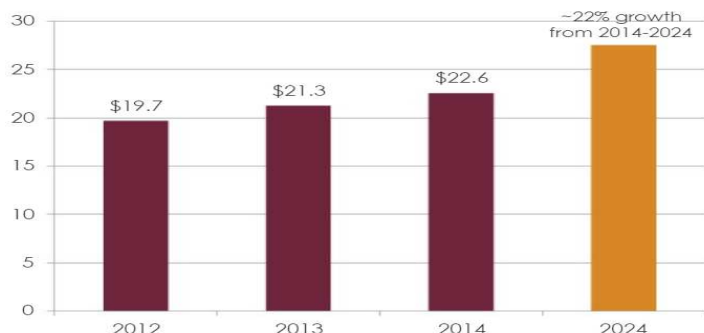
Masimo (MASI) is another high quality med-tech growth name with some exposure to respiratory markets via its patient monitoring systems that tie into IV pumps and ventilators. MASI has a market cap near \$9B and trades 40X Earnings and 9.6X Sales with revenues seen rising around 10% in 2020 and 2021. It is an innovative company expanding its product portfolio and increasing its total available market with a focus on Hospital Automation and Opioid Safety.

Hill-Rom (HRC) has a \$6.5B market cap and makes a number of medical equipment used in hospitals including a respiratory care unit that includes Vest System, VitalCough System, MetaNeb System, Monarch, and Life2000 systems to assist patients in the mobilization of retained blockages. HRC trades 15.55X Earnings, 2.23X Sales and 29X FCF with revenue growth of just 1.1% forecasted for 2020 but seen accelerating starting in Q4 through 2021. Hill-Rom acquired Breathe Tech for \$130M last August, a maker of wearable ventilators.

Medtronic (MDT) is a large cap medical technology name that has some exposure to many of these markets, but also so large it may not be as much of a needle-drive, and not the kind of pure play I am looking for on this theme. Similar can be said for long time favorite in med-tech **Teleflex (TFX)** which has respiratory care products but overall is diversified. **Philips (PHG)** is also a big player in Respiratory care for its Healthcare segment.

Innoviva (INVA) with a \$1.36B market cap trades 11.55X Earnings and 5.2X Sales with revenues seen rising 10% Y/Y in Q1. It has multiple commercial respiratory products for COPD and Asthma markets.

Global Long-Acting Bronchodilator Sales¹
(in \$B USD)



• COPD Market Growth Drivers²:

- Expansion of aging population
- Patients diagnosed earlier

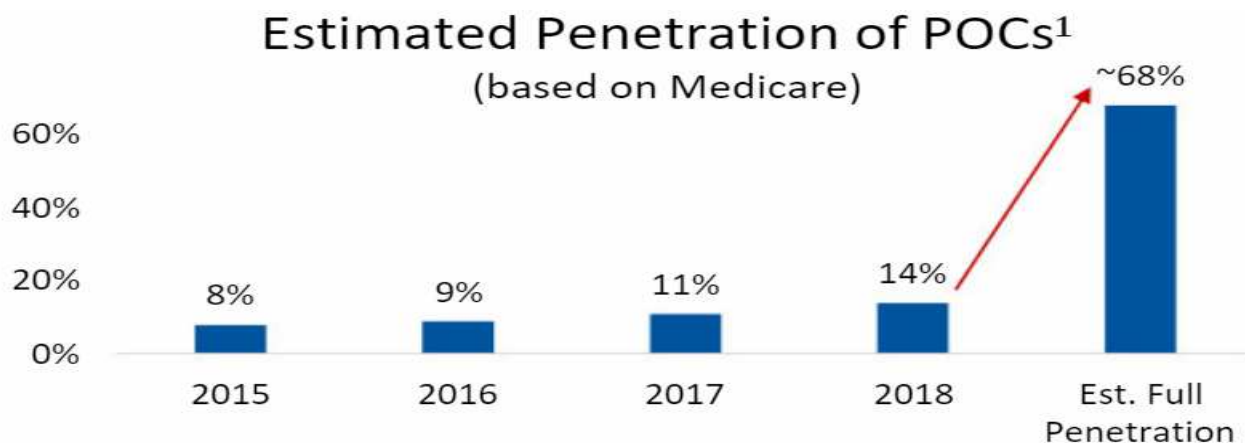
• Large, stable Asthma market²

- Data from 2014 suggests that across the US, Japan, and EU-5, ~60% of ICS/LABA sales were for use in Asthma

• **BREO®** and **ANORO®** Medicare Part-D and commercial U.S. coverage steadily increasing since launch

	Medicare Part-D	Commercial
BREO®	93%	86%
ANORO®	87%	93%

Inogen (INGN) is a \$1B company that is fairly well-known as a maker of portable oxygen concentrators for patients with chronic respiratory conditions. Its light-weight portable systems improve quality of life for patients. INGN shares have corrected sharply the past two years but now trade 39X Earnings and 2.77X Sales with revenue growth seen reaccelerating in 2020 and 2021 to 6.6% and 10% respectively. Revenue growth and margins both look to have troughed as its Direct-to-Consumer business stabilizes.



Electromed (ELMD) and **Beyond Air (XAIR)** are two micro-cap med-tech names I discovered with my research and both look quite interesting as longer term investments. ELMD with an \$89.6M market cap and revenues growing 9% in 2019, expected to rise 12.5% in 2020 and 12% in 2021. Shares trade just 23.3X Earnings, 2.72X Sales and 47.2X FCF. ELMD makes innovative airway clearance devices, its SmartVest High Frequency Chest Wall Oscillation system helps patients clear mucus from the lungs. It improves quality of life and reduces risk of infection for patients with compromised pulmonary function due to chronic diseases and conditions such as bronchiectasis and other diseases under the COPD1 umbrella as well as cystic fibrosis and neuromuscular disorders. XAIR is a \$93.3M medical device company that delivers nitric oxide delivery systems for respiratory diseases, and could be picked up as a coronavirus play. The Company is currently applying its therapeutic expertise to develop treatments for pulmonary hypertension in various settings, in addition to treatments for lower respiratory tract infections that are not effectively addressed with current standards of care. On its latest earnings call it made some interesting mentions, “While the company has never attempted to treat the specific coronavirus that is causing the current global alarm. We currently have confidence that our LungFit BRO system is effective in treating certain types of coronavirus based on data already generated. We look forward to the opportunity to test our system on the difficult-to-treat coronavirus strains. And hopefully, we will get a chance to test it on the coronavirus from China.” XAIR generated \$7.7M in revenues in 2019 with \$13.9M expected in 2020 and \$57M in 2021. XAIR sees market potential for its products across 3 indications at \$4.3B. LungFit PH for Pulmonary Hypertension is set for a Q4 2020 US launch, for Bronchiolitis in 2022, and for Severe Lung Infections in 2024.

VieMed (VMD:CN) is an intriguing small cap name in Canada that has grown revenues 49.7% in 2017, 39% in 2018 and set to grow near 40% in 2019. Its title of its January 2020 IR presentation is “leading the healthcare industry in home respiratory care.” It is the largest independent specialized provider of non-invasive ventilation (NIV) in the US home respiratory market. It has a service offering that includes 24x7 in home respiratory care including specialized respiratory therapists and medical devices. It is focused on the large and growing COPD market and sees favorable trends in the increasing need for effective homecare solutions to reduce hospital re-admissions.

It also recently listed on the NASDAQ under ticker VMD.

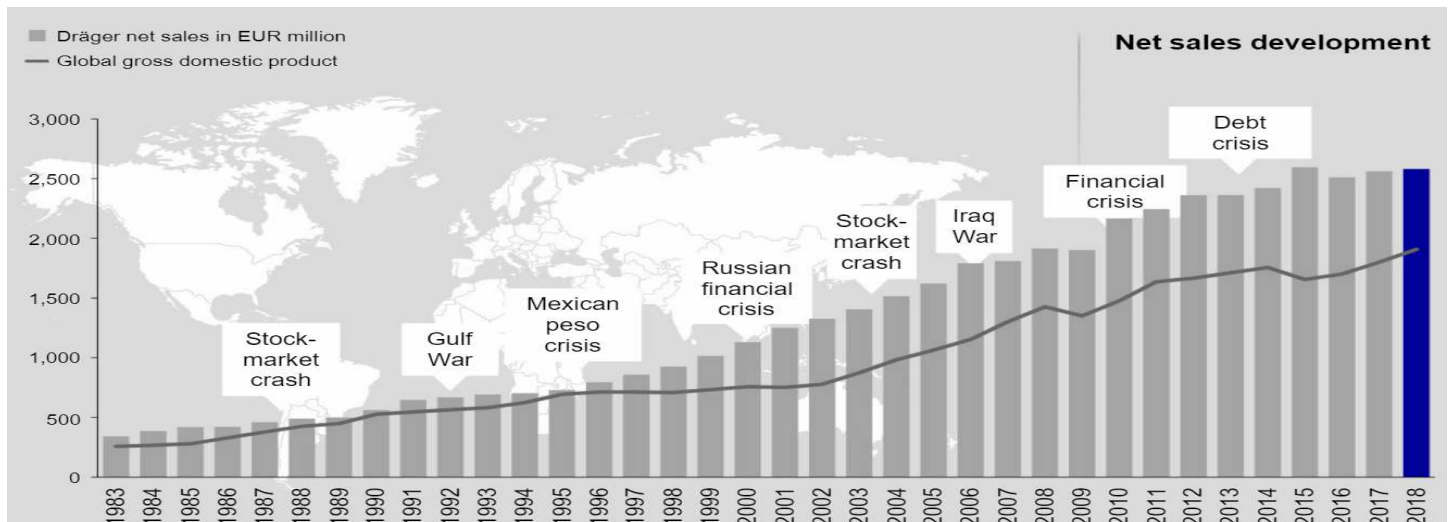


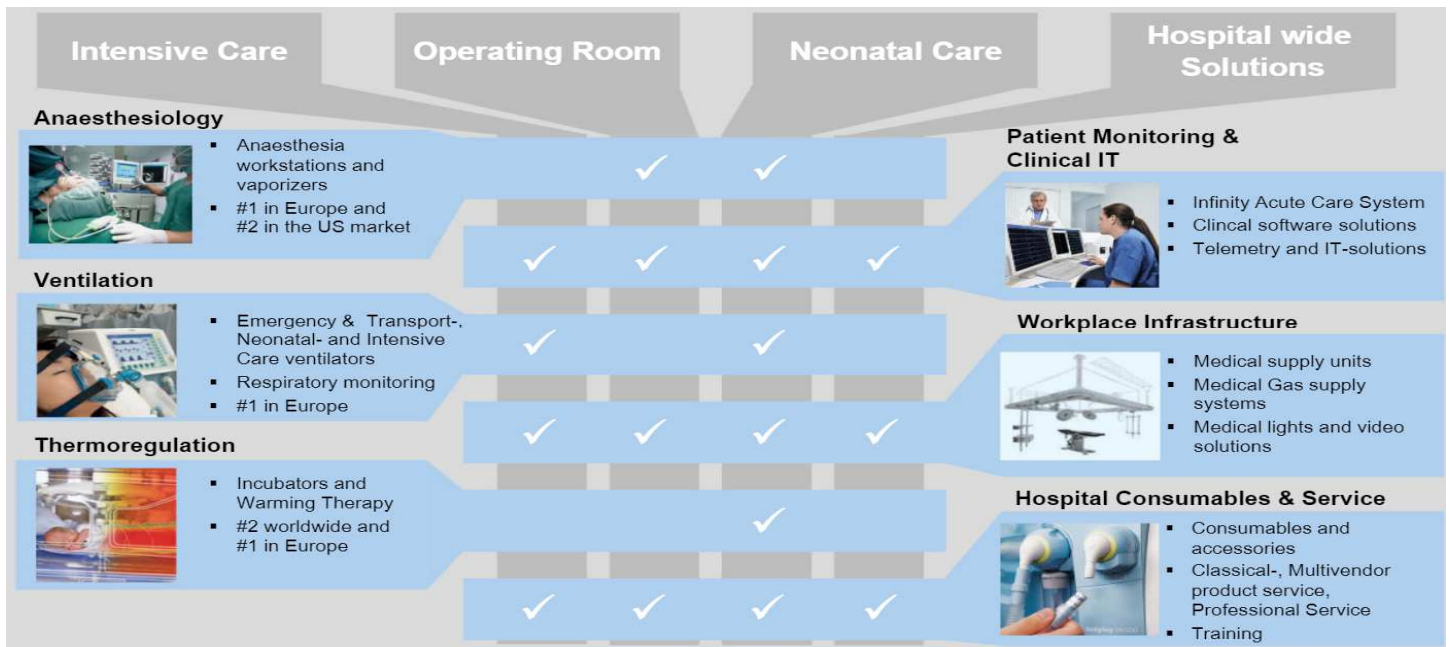
Itamar Medical (ITMR) is a small cap at a market cap of \$160M based in Israel that makes non-invasive devices. Revenues grew 16.8% in 2018 and seen rising 29% in 2019 and 31% in 2020 with shares trading just 5.75X Sales, attractive for that impressive growth. Shares are fairly thinly traded and its focus is mainly in the Sleep Apnea market. Its WatchPAT system is a faster and more comfortable way for diagnosis and monitoring.

Fisher and Paykel (FPH:NZ) is a foreign company that has seen shares rise sharply since 2019, a \$14.8B medical device company with revenues growing 4% in 2019 and 2020 after double digit growth in 2017 and 2018. Its focus is also on the sleep apnea market.

Getinge (GIND:SS) is a \$47B Swedish maker of healthcare equipment. It has a broad portfolio within cardiac, pulmonary and vascular therapies, intensive care products, as well as products and solutions for surgical workflows and hospital infrastructure.

Drägerwerk (DRWS:GR) is an intriguing German company that grew sales 3.8% in 2017 and 5.6% in 2018. It has a portfolio of products which makes breathing and protection equipment, gas detection and analysis systems, and noninvasive patient monitoring technologies. Medical accounts for 65% of sales while Safety is 35%. It serves Hospitals, Fire Services, Oil & Gas Industries, Chemical, Mining and other markets.





Sources:

https://www.who.int/gard/publications/The_Global_Impact_of_Respiratory_Disease.pdf

Company Investment Presentation via Investor Resources