We are providing key themes and takeaways from our recent Health Care Conference in New York. The conference featured fireside chats and presentations from 88 companies (76 public, 12 private) as well as Baird-sponsored investor dinners with management teams. This research note summarizes macro themes, key takeaways, and stock implications from Baird's seven health care research teams.

- **Healthcare Supply Chain & Pharma Services.** Multiple CROs said RFP activity remains solid despite recent capital markets volatility. Company-specific considerations aside, pharmaceutical distributors appeared less concerned about generic inflation comparisons. Specialty pharmacy remains the most exciting growth sector in our coverage. We were most positive following CAH, DPLO, and Q updates.

- **Life Science Tools & Diagnostics.** Scientific discoveries and technological advances are enabling a new era in diagnostics, driven by interest in personalized medicine, rising healthcare costs, and an aging population. Tools companies continue to see growth opportunities in China and aren’t expecting meaningful spillover from equity market turmoil there.

- **Healthcare IT.** Optimism around various HCIT growth drivers remains high, with several vendors reiterating >10% long-term growth targets despite softer YTD results. Near-term bookings environment seems more favorable for large/urban healthcare systems (vs. rural) and MU-3/ICD-10 potentially represent a growth catalyst for some vendors in 2016.

- **Medical Technology.** Domestic end markets are generally healthy and in some cases continuing to improve (dental), while Europe sounds stable and emerging markets seem to be holding in fairly well, especially for lower-end/government-backed areas. On a company-specific basis, we left feeling best on NUVA/HSIC and believe COO’s “issues” remain at least partially misunderstood by many.

- **Human Capital Technology & Services.** Increasing patient census levels have left providers understaffed and increased the desire for staffing and workforce solutions. Additionally, health costs remain a burden for employers and strategies are evolving to drive lower costs through consumerization by leveraging technology and adopting more affordable plans.

- **Facilities & Services.** Takeaways include: (1) utilization/volume outlook for 2H15/2016 in general feels okay/good, despite more challenging comparisons; (2) consolidation remains a major theme/point of emphasis, given active deal pipelines; (3) hospital ACA benefit is expected to be long-term driver of growth; and (4) potential IMD benefits are sizeable.

- **Biotechnology.** Attending companies remain enthusiastic about opportunities given a flexible regulatory environment and increasing M&A fervor. However, the durability of drug pricing continues to concern investors. With volatility expected to persist, we think it’s a stock pickers’ market.
Baird Healthcare Research ‘Best Ideas’

In addition to industry-specific commentary included on pages 3-9, we provide a sample of Best Ideas across Baird’s seven attending Health Care Research teams in the context of macroeconomic commentary/key themes highlighted at this year’s annual Health Care Conference. While the companies listed below were not all in attendance, our aim is to provide a “road map” for investors to use in conjunction with the macro and industry-specific commentary detailed herein. The complete list of featured stocks with summary investment theses and risks can be found at the end of this research note (pages 10-13).

Baird Health Care Research Best Ideas

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Please contact your Baird sales representative and/or the individual Analyst(s) for additional information on these or other covered companies.
Summary:

Capital markets volatility does not appear to be impacting CRO demand – multiple CROs noted that RFP activity remains solid. Company-specific considerations aside, pharmaceutical distributors appeared less concerned about generic inflation comparisons. Healthcare utilization improvement continues at a low-single-digit rate with ambulatory trends outpacing acute. Specialty pharmacy remains the most exciting growth sector in our coverage. We were most positive following CAH, DPLO, and Q updates.

Key Highlights:

- **AmerisourceBergen (ABC) takeaways.** Customer base – Despite some previously known losses, confidence is high as recent technology and infrastructure investments are driving best-ever service levels. Biosimilars – ABC’s Oncology Supply business is distributing first U.S. Biosimilar, Zarxio (launched early September). WBAD JV – Priorities are: 1) add more generic sourcing scale, 2) work together on broader private label solution (BluePoint is only in independent pharmacy), and 3) consider sourcing front-store products.

- **Cardinal Health (CAH) takeaways.** Cordis – On track for FY2Q (December-end) close. While Cordis is part of preferred product strategy, associated services (e.g., bundling, total cost of care analytics) are also an important consideration. Generics – Should remain a growth engine for some time as more customers choose to transition generics to distributors. CAH believes the current discussion around generic inflation is bigger than reality (largest driver of GM% pressure is mix change).

- **Diplomat Pharmacy (DPLO) takeaways.** Competition – DPLO frequently participates in PBM-driven narrow networks alongside larger competitors. Limited distribution – Oncology networks continue to narrow and DPLO’s participation here is critical to long-term outperformance (oncology is ~40% of mix). M&A – Virtually all deals have outperformed and future activity remains likely. PCSK9s – DPLO has access to both (Praluent – limited [-12], Repatha – open).

- **ICON (ICLR) takeaways.** Customer mix – Pfizer relationship remains strong but revenue contribution is nearing steady state with future growth likely low-single-digits. Revenue growth from all other clients should improve starting 2H15 given TTM 1.3x net book-to-bill. Central lab – Gross margin is near group levels after several years of repositioning activities while bookings remain solid. Shifting competitive landscape does not appear to be impacting ICLR. Margins – Blocking and tackling (i.e., resourcing, technology) likely continues to push operating margin toward 18%-19% goal NTM.

- **INC Research (INCR) takeaways.** Astellas – Signs point to early positive performance under the renewed Astellas contract – INCR won seven full-service studies YTD. INCR expanded from a three-pronged functional-service arrangement (included study start up and data management) to a full-service relationship during June. Margins – On the margin front, INCR remains focused on a number of productivity, resourcing, and efficiency initiatives including IT vendor consolidation, facilities footprint, and offshoring. 96%+ visibility into 2H15 revenue target is unchanged.

- **Owens & Minor (OMI) takeaways.** New leadership – CEO Cody Phipps brings significant logistics experience (formal strategy update likely at December investor day). CFO Randy Meier helped lead turnaround in International and is now also President, International and also leads Clinical and Procedural Solutions (Medical Action, ArcRoyal). Domestic – Decent environment with better volume but continued choppy supplier pricing and occasionally aggressive large customers. International – OMI expects to build off of three consecutive profitable quarters and remains upbeat on turnaround.

- **Premier (PINC) takeaways.** GPO – Above market growth expected to continue on share gains (new and existing customers) and ambulatory growth, however, PINC also long-term focused on expanding value-add services outside of GPO. M&A – While first-year expectations are modest, CECity and Healthcare Insights have catalysts on the horizon (e.g., MACRA legislation). ROIC hurdle implies triple-digit bottom-line growth for these assets in years 2-3 vs. year 1. PINC still has “well north of a couple billion” acquisition capacity when considering leverage comfort.

- **Quintiles (Q) takeaways.** Overall – Trends appear largely unchanged since the late-July 2Q15 report which should support the expected acceleration in Product Development’s constant-dollar organic revenue growth during 2H15. Central lab – Early customer feedback on the Q2 central lab joint venture with Quest Diagnostics is favorable and integration activities are tracking as expected; central lab bookings were above corporate average during 2Q15. Capital deployment – Focus remains on, in order, internal investment (e.g., IT), M&A, and repurchase.
Life Sciences Tools and Diagnostics

September 11, 2015 | Health Care / Life Sciences

Summary:

Scientific discoveries and advancements in technology and informatics are enabling a new era in diagnostics, driven by growing demand for personalized medicine, rising healthcare costs, and an aging population. Oncology and infectious disease are common areas of focus, and reimbursement remains a key topic amongst diagnostic companies. Tools companies continue to see growth opportunities in China and aren’t expecting any meaningful spillover from equity market turmoil there.

Key Highlights:

- **EXAS positioned for continued success.** Colorectal cancer screening is a large, unmet need, with about 50,000 deaths and about 140,000 new cases diagnosed in the U.S. each year, ~60% of which are caught late stage. Cologuard performs better than other stool-based options, yet is more patient-friendly and affordable than colonoscopy. The test has seen impressive uptake thus far, with ~80,000 cumulative orders through 2Q. Management announced that 19,000 physicians have ordered Cologuard at least once (2Q-end: 14,700), and 1,000 have ordered Cologuard 20+ times. Management also discussed recent progress in commercial coverage expansion (BCBS of Rhode Island; 500K covered lives), and we believe EXAS also recently signed a contract with Priority Health (600K+ covered lives). Increasing sales force productivity, upcoming USPSTF draft guidelines (we view A/B rating as highly likely), and additional commercial coverage wins should help drive volume growth going forward. EXAS recently provided USPSTF with additional data from a prospective study in the Alaska Native population, further increasing the odds of a favorable rating, in our view.

- **CPHD weakness looks overdone.** CPHD is a leading molecular diagnostics player, with one of the industry’s broadest test menus and particular strength in sexual health, hospital-acquired infections, and virology. Management sounded confident when discussing 2H15 guidance, specifically mentioning that 4Q15 is implied at 29% of annual revenue vs. 28% historical average, with the QQ step-up coming from flu, instrument seasonality, improving sales force productivity, India HBDC order, and order timing. CPHD also tried to clear the air on the recent CFO transition, which we continue to believe was a fit issue, rather than a sign of a business issue. The company remains confident in its 2017 financial targets and continues to show excitement around the recently announced point-of-care Omni system (2016 launch, but can target moderately complex accounts immediately through GXI upgrade program).

- **CERS’ technology gaining momentum.** Pathogen reduction’s proactive approach has many advantages over the current reactive testing paradigm. Since FDA approval in 2014, Intercept has garnered support from key industry leaders and blood centers, with five U.S. customers announced thus far and significant interest in CERS’ Phase IV study. Management announced that SunCoast Blood Bank is now at 100% routine production, which we estimate equates to ~$480K of annual revenue for CERS. The company expects updates on additional European contracts, U.S. outpatient reimbursement coding decisions, and an updated FDA draft guidance by 2015-end. CERS is also pursuing several FDA label extensions (expected 2016) and plans to file for CE Mark for red blood cells in 2H16 (~$5B opportunity).
Summary:

Optimism around various HCIT growth drivers remains high, with several vendors reiterating >10% long-term growth targets despite softer YTD results. Near-term bookings environment seems more favorable for large/urban healthcare systems (vs. rural) and MU-3/ICD-10 potentially represent a growth catalyst for some vendors in 2016.

Key Highlights:

- **High-level takeaways.** Commentary from CERN and HMSY was incrementally positive, in our view, and we highlight key takeaways from our covered companies below. From a high-level, our key observations include: (1) Optimism around various growth drivers remains high, with several HCIT vendors reiterating >10% growth outlook despite YTD softness. (2) Near-term bookings environment seems more favorable for large/urban healthcare systems (vs. rural), and MU-3 potentially represents a growth catalyst for 2016.

- **HMSY key highlights.** Management seems highly confident in the company’s superior COB/TPL capabilities (both matching and recoveries), underscored by the New York reprocurement and our recent checks. In short, HMSY does not believe competitor(s) have a novel TPL "mousetrap." HMSY is still awaiting additional information ahead of a potential protest for the New Jersey TPL contract; we believe NJ’s evaluation may have assumed both bidders could generate similar recoveries for the state. Early results from the prepay clinical pilot are encouraging, and HMSY remains confident in the company’s 20% commercial growth outlook for 2015.

- **CERN key highlights.** Management commentary was relatively bullish, in our view, with CERN highlighting the strong bookings environment and positive implications from the recent DOD contract award. According to management, the DOD contract will generate attractive margins given the higher software mix; additionally, CERN believes the award has already created additional momentum with sales/bookings. CERN believes the company’s value proposition and commitment to interoperability played a key role in the DOD award. Finally, despite lower YTD revenues (~3% underlying growth), management continues to believe ~10% revenue growth with ~100bps of margin expansion is an appropriate long-term outlook for the company (translates to ~13-15% EBITDA growth).

- **CPSI key highlights.** The weak system sales environment for the small/rural hospital market remains a challenge, but CPSI is confident this is a market-wide issue and is not specific to the company (e.g., MEDITECH revenues down ~15% YTD). MU and ICD-10 uncertainty has resulted in delays in hospital decision-making and implementation for 2015, but this could become a growth tailwind during 2016 as hospitals make required investments. Additionally, CPSI believes finalization of the MU-2 modifications (i.e., extending 90 day attestation period) is “too little too late” to impact 2015. CPSI continues to believe 10% is an appropriate long-term growth outlook, with TrueBridge services representing one of the largest growth opportunities for the company.

- **MDRX key highlights.** Incremental details were relatively limited, in our view, with management highlighting the sustained improvement with recurring revenue growth and margin improvement opportunities. Current EBITDA margins are ~16-18% and management believes ~20% and above is a realistic target over time. Hosting margins will benefit from $6-$7M in negotiated savings beginning next year (previously disclosed), and management believes the current agreement with Atos (formally Xerox) is now “competitive.”

- **Private and non-covered company presentations:** Evolent (EVH), Vocera (VCRA), Craneware (CRW.L), Phreesia (private), Advanced ICU Care (private). Please contact a member of our research team for additional details.
Summary:

Domestic end markets across most covered sectors are generally healthy and in some cases continuing to improve (dental), while Europe sounds stable/low growth and emerging markets (even in China) seem to be holding in fairly well, especially for lower-end/government-backed areas (low-end drill/fill dentistry, for example). On a company-specific basis, we came away feeling best on NUVA and HSIC and believe COO’s “issues” remain at least partially misunderstood by the market.

Key Highlights:

• **U.S. end-market demand stable to improving across most device categories.** Nearly all of our presenting companies pointed to healthy domestic end-market dynamics, with specific commentary ranging from stable but low growth (core orthopedics, spine, radiation oncology) to nicely improved/back to pre-recession levels (namely dental), with an improving macro backdrop of steady job gains, solid consumer confidence levels, and still healthy consumer spending levels all contributing. COO (contact lenses) was the one company still pointing to fairly sluggish domestic end markets, but as we discussed in recent days these end-market issues largely feel transient (and in some cases, self-inflicted) due to UPP policies instituted by many companies last year and other factors that have recently created greater-than-normal channel inventory headwinds.

• **Europe trending in right direction.** For those of our companies with European exposure, tone was broadly one of being cautiously optimistic about most end markets (excluding Middle East/Russia). Dental and orthopedics demand sounds stable to slightly improving in the major European economies, while contact lens demand is growing slightly better, closer to mid-single-digits (channel inventory issues not a problem in Europe as UPP is a U.S. factor).

• **Emerging markets (unsurprisingly) a mixed bag.** Comments on medtech in emerging markets included some pluses and minuses, with China concerns growing, especially in higher-end/self-pay markets such as high end dentistry. In government funded areas such as lower-end drill-and-fill dentistry and to a lesser extent radiation oncology, demand in China sounds like it has been holding in fairly well in recent months, although VAR CEO Dow Wilson was quick to note that stock market volatility in China over just the last few weeks is an issue he’s incrementally worried about. Outside of China, healthcare consumption in Russia sounds weak but not getting worse, while Brazil/Latin America commentary was limited but didn’t sound great.

• **Product pipelines full.** Maybe a reflection of improving cash flow trends and/or less distractions as end market trends have improved in recent years, but new product pipelines across our coverage list feels as robust as we can remember in a number of years. Nearly all of the manufacturers that presented at our conference highlighted notable recent or soon-to-be-launched products that should provide incremental growth tailwinds over coming quarters, including: VAR (new hardware/software coming at next month’s ASTRO conference that could drive a “significant upgrade cycle”), NUVA (new IGA platform in early launch stage in U.S. and select European markets), EXAC (18 new products over the next year, 3x the normal product launch activity), TNDM (t:slim G4 received approval earlier this week, Odyssey expected mid-to-late 2016, G5 likely 2016/2017), WMGI (Augment recently received FDA approval), and XRAY (stepped up new product investment that sounds to be higher risk/higher reward).

• **Balance sheets providing optionality.** Capital allocation plans don’t seem to have shifted for any of our companies in attendance, although we did sense a greater willingness from most to take on greater balance sheet leverage should the right opportunity arise. To that end, though, market valuations remain lofty, making any hurdle rates or deal-related financial targets harder to achieve.
Summary:

Increasing patient census levels have left providers understaffed and increased the desire for temp/perm staffing and workforce solutions to efficiently ramp and manage increased staffing levels. At the same time rising health costs remain a burden for employers and health benefits strategies are evolving to drive lower costs through consumerization by leveraging technology and adopting more affordable plans like HSA qualified HDHPs.

Key Highlights:

- **Strong demand remains for clinicians.** AHS continues to experience a strong demand environment that is expected to continue in the intermediate-term. Recruiter hiring continues to meet strong demand and recruiter capacity is up roughly 50% yoy for nurses, additional hiring was recently completed. While recruiter additions will be a drag near-term to margin, they will be a benefit in 2016 as they complete their 6-9 month ramp process.

- **Increasing appetite for workforce solutions.** As hospitals continue to see an increase in patient census the increase in internal staff levels is increasing the appetite for solutions to assist in staff recruitment (RPO) and labor optimization solutions. AHS’ RPO solution continues to gain traction with clients, while small at ~$20mn, significant runway exists for this solution to grow. Further, its recent acquisition of Avantas addresses the employer need for labor optimization and is being well received by its client base.

- **Adoption of HSAs remains robust.** Adoption of HSA qualifying HDHPs continues to ramp as employers drive consumerization of healthcare to lower costs. While typically offered as one of several plans in the employers benefit package, the HSA adoption curve steepens over time as employees become more educated to the benefits. HQY’s differentiated ecosystem positions it nicely to capture an increasing share of new HSAs and it continues to benefit from competitive takeaways.
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Summary:
Provider commentary indicated: (1) utilization/volume outlook for 2H15/2016 in general feels okay/good, despite more challenging y/y comparisons; (2) consolidation remains a major theme/point of emphasis, given active deal pipelines; (3) ACA benefits for hospitals are expected to be long-term driver of growth; and (4) potential IMD benefits are sizeable.

Key Highlights:

• **Utilization messaging generally positive.** Our impression is commentary from presenting companies (hospitals, psych, PPMs, ASCs, post-acute) generally suggests core trends remain good; however, given challenging y/y comps, growth rates are likely to moderate. Expectations surrounding the continuation of underlying volume improvement in 2H15 and 2016 (albeit at lower y/y growth rates) were also encouraging.

• **ACA tailwinds poised to be long-term driver.** Hospitals reiterated that the ACA will be a multi-year tailwind into 2016, even in the absence of additional expansion states. HCA remarked that its 2Q15 earnings call “commentary” suggesting ACA benefits “level off” was largely misinterpreted and that while the ACA benefit will not provide the same level of y/y growth, 2016 Open Enrollment sets up as a good potential source of upside. The prospect for additional Medicaid expansion is higher in 2017 vs. 2016.

• **MCO consolidation manageable near-term risk.** Hospitals all generally agreed that proposed mergers would not be a long-term positive for the industry. Near-term risks are low, as the MCO contracting efforts provide good visibility. LPNT remarked that fee schedules look fairly similar in markets where consolidating health plans have a presence.

• **Psych outlook encouraging.** Policy/regulatory tailwinds (IMD, MHP, EHB, ACA) appear to have garnered increased momentum recently, and management is optimistic the pending Medicaid MCO rule will be finalized. Additionally, both ACHC/UHS mentioned acute care hospitals are increasingly interested in JVs for existing IP psychiatric beds/units. ACHC mentioned 10 active JVs are in development (~5+ deals per year adding 500-1,000 beds annually).

• **Development activity remains robust.** In general, consolidation and factors driving consolidation are at record levels. For urban acute providers, UHS remarked that M&A opportunities have picked up vs. past years. In regard to rural hospital markets, CYH indicated it recently pursued 20-25 opportunities that fit the Quorum spin-out well, and LPNT indicated it’s been encouraged by its pipeline. AMSG, MD, and TMH were bullish on deal activity remaining elevated for PPMs going forward. On the post-acute side, HLS continues to seek out hospital partners for IRF JVs, and home health pipeline opportunities continue to accelerate, but many are cautious ahead of the 2016 final reg. AMED remarked it anticipates considerable consolidation to take place in the hospice/home health industries as VBP, Medicare rate cuts, ICD-10, and CMS Star Ratings are implemented (200 opportunities today vs. 15 in the past).

• **Other highlights.** (1) THC is working hard to utilize cross-selling opportunities for Conifer services within USPI JV NFP relationships. (2) ACHC foresees its geographic mix approaching 60% US and 40% overseas proportion (currently 81%/19% on revenues). (3) AMSG remarked that anesthesiology could become the next “frontier” of consolidation (dialysis 70%, neonatology/childcare 40%, anesthesiology <10%). (4) HCA seemed optimistic on continued/strong IP demand (albeit at lower y/y growth levels). (5) AMED is likely to wait for consolidation to come to them naturally via market exits by smaller providers due to ICD-10, Medicare rate cuts, VBP, and CMS Star Ratings.

• **UHS dinner meeting.** Key takeaways: (1) Behavioral policy/regulatory tailwinds could be big, particularly the proposed Medicaid MCO rule (IMD exclusion lift for 70-75% of Medicaid adults); (2) acute strength likely moderates a bit in 2H15 against tough comps; (3) UHS sees ACA tailwinds as sustainable; and (4) deal activity appears to be picking up, and we get the sense UHS has been recently active in its stock.
Summary:

Attending companies remain enthusiastic about opportunities given a flexible regulatory environment and increasing M&A fervor. However, the durability of drug pricing continues to concern investors. With volatility expected to persist, we think it's a stock pickers' market.

Key Highlights:

Below are a few tidbits about a selection of our attending companies:

Gilead

- The company continues to pursue a triple combination therapy for Hep C to keep their competitive edge. Gilead remains committed to innovation in the HCV space and will likely pursue a combination of sofosbuvir/velpatasvir/GS-9857 as the first all-oral pan-genotypic regimen. Management indicated that upcoming data for this triple combo could help set yet another bar for future treatments.
- Management’s closing comments hinted at an oncology deal. Management acknowledged lacking a “beachhead” in oncology but indicated they are looking at correcting that. Given the $10B debt raise following those comments, we believe an acquisition could be in the near future.

Celgene

- With the recent better-than-expected launch of the oral drug Otezla for a number of inflammatory diseases, including psoriatic and rheumatoid arthritis and the acquisition of Receptos, Celgene has transitioned from a pure oncology company into a company solidly diversifying into immunology and inflammatory diseases.
- Celgene management disclosed that the deal with Receptos was a long-time coming, and discussions had been in progress for a little under two years. The final catalysts that solidified the timing of the deal were the release of safety data for the lead asset, ozanimod, an S1P1 inhibitor, for MS, as well as availability of longer-term Phase 2 data for ozanimod in ulcerative colitis. As things stand, Celgene is poised to take on the other two main assets in the Receptos pipeline, a Phase 2 asset for Eosinophilic esophagitis, an orphan disease, and an oral preclinical GLP-1 for Type 2 Diabetes and NASH.

Curis

- CUDC-907 continues to progress towards initiation of a Phase 2 trial, hopefully this year, in combination with rituximab in patients with relapsed/refractory DLBCL. Given results from the last trial which showed potential in transformed follicular DLBCL patients and patients presenting with specific biomarkers, the trial population may be enriched with those who are most likely to be responders.
- The next major catalyst for Curis, the one that we see the largest potential for, is the oral PD-1/PD-L1 inhibitor developed through the company’s Aurigene collaboration. Given the recent approval of multiple anti-PD-1/PD-L1 antibodies and the onslaught of other checkpoint-targeting antibodies in the pipeline, we see oral inhibition of the PD-1/PD-L1 interaction as a major value driver.

Intercept

- Intercept continues its focus on liver health through the ongoing development of its FXR agonist. The company has filed an NDA for obeticholic acid (OCA) for the treatment of primary biliary cirrhosis, but, even more exciting, the company is on the cusp of entering a Phase 3 trial for OCA in nonalcoholic steatohepatitis (NASH), which we believe carries a huge market potential. Liver health is becoming a large issue across the country with growing obesity and diabetes rates, and we see a lot of potential for growth within this market.
- Management was enthusiastic about the NASH opportunity and highlighted that the FLINT study is the only randomized study in the NASH to successfully hit the primary endpoint, received breakthrough designation from the FDA and is starting a large Phase 3 study.
Best Ideas / Risk Factors

Healthcare Supply Chain and Pharma Services:

- **Cardinal Health (CAH):** Core performance and outlook in U.S. Pharma (80%+ of EBIT) is strong and CAH grew revenue ~1.5x-2x faster than peers in CYQ15. The Medical segment will be messy near term but strategic catalysts are set to ramp later in FY16. As for sector dynamics, we are still positive on drug distributors since the group has diverse growth drivers including utilization, generics penetration, strong brand pricing, and specialty. Risks include changes in brand and generic price inflation, continued medical underperformance, customer concentration, and acquisition integration.

- **Charles River Laboratories (CRL):** CRL remains the contrarian CRO call with ~70% of sell-side analysts neutral or negative. Cyclical tailwinds for early stage work remain in place, CRL continues to get high marks in our surveys and channel checks, and execution remains generally solid. Ahead, we believe less-bad performance in Research Models could be an underappreciated catalyst while momentum in other units (e.g., Safety Assessment, EMD, Avian) likely continues. CRL’s acute focus on cost controls lends earnings support. Additional accretive M&A activity would not be surprising. Risks include the biotech funding environment, large client M&A, seasonality, foreign currency, and acquisition integration.

- **Diplomat Pharmacy (DPLO):** Specialty market dynamics (limited distribution, pipeline, inflation) remain very favorable. While it may be too early to call M&A victorious, bears may be reconsidering their stance as all deals outperformed 2Q15 expectations. We believe the recent macro-driven pullback created an opportunity to add to positions. We are comfortable getting more aggressive <25x NTM EBITDA or roughly $35 per share. Risks include acquisition integration, narrow networks, supplier and Rx concentration, and premium valuation.

- **INC Research (INCR):** Post-IPO performance has been stellar and 2Q15 was no exception. The midpoint of INCR’s 2015 EPS guidance now sits 38% above the initial range. Organic revenue growth is tops among CROs and recent bookings trends, including the Astellas expansion/renewal, lend confidence in above-average growth continuing. Bottom line, momentum is palpable and guidance still seemingly leans conservative. Risks include bookings volatility, financial leverage, future private equity share distributions, and premium valuation.

- **PRA Health Sciences (PRAH):** Post-IPO performance has been stellar and 2Q15 was no exception. Organic revenue growth is accelerating and near sector high. Core margin improvement is also strong and deleveraging should be a multi-year catalyst. 2015 guidance still looks conservative. RPS acquisition operational synergies have been harvested as expected though revenue synergies from cross-selling legacy PRA services into RPS’ large pharmaceutical client base represent upside potential. Risks include unique business mix relative to peers, financial leverage, acquisition integration, and future private equity share distributions.

Life Science Tools and Diagnostics:

- **Cerus Corporation (CERS):** Best idea based on significant market opportunity, advantages of pathogen reduction technology over current blood screening methods, and early interest in U.S. launch. Catalysts include Intercept platelets and plasma U.S. ramp following recent FDA approvals, updated FDA draft guidance for bacterial detection for platelets, continued growth in the European business, and red blood cell development work. Risks include regulatory and commercial setbacks for Intercept platelets and plasma in various geographies and clinical setbacks for Intercept red blood cells.

- **Exact Sciences (EXAS):** Best idea based on large market potential, superior characteristics of ColoGuard test relative to other colorectal cancer screening options, initial ColoGuard launch trajectory, and top-notch management team. EXAS has multiple near-term catalysts, including ColoGuard U.S. and European ramp, increasing sales force productivity, USPSTF guidelines update (expected fall 2015), and expanding commercial payor coverage. Risks include FDA and other government regulation, reimbursement, cash usage, intellectual property, and competition.
• **Thermo Fisher Scientific (TMO):** Best idea based on solid execution history, diverse end-markets, healthy margin expansion, and attractive financial profile. TMO should benefit this year from improving end-markets, continued LIFE synergies, new product launches, and incremental capital deployment. Current relative valuation is below long-term average. Risks include acquisition integration, IP development and defense, capex exposure, rapid technological change within industry, and foreign currency exposure.

**Healthcare Information Technology:**

• **Allscripts Healthcare Solutions (MDRX):** Investments during 2012-2014 have stabilized MDRX's installed base, and we are optimistic MDRX's structural advantages (large installed base, R&D, population health solutions) and margin improvement opportunities (professional services, hosting) should support an improving growth trajectory and FCF profile over the next 12-24 months. Key risks include: (1) Regulatory change, particularly around patient info, privacy, and provider payment rates. (2) Highly competitive market across MDRX’s key HCIT service offerings. (3) Balance sheet leverage. (4) MDRX’s relatively tumultuous corporate history and the potential for sentiment swings if challenges emerge.

• **Cerner Corporation (CERN):** We view CERN as a core long-term holding within the HCIT sector, and think the company's strong positioning and potential SHS upside outweigh moderate valuation concerns. 2Q results were mixed (modest revenue shortfall) but bookings remain strong; ultimately, we believe the recent selloff will prove to be a good buying opportunity as underlying growth improves during 2H15 and 2016. Key risks include: (1) Siemens integration. (2) Regulatory uncertainties and declining Meaningful Use payments. (3) Uncertainties associated with the DOD contract, installations, and potential customization. (4) Information security.

• **The Advisory Board Company (ABCO):** ABCO’s blended research/technology platform is unique among HCIT vendors and, in our view, the company’s positioning/growth is perhaps underappreciated. Recent growth concerns around Royall are overstated, ABCO’s core business is performing exceptionally well, and 13x EBITDA has proven to be a good entry point over the past three years. Key risks include: (1) Highly competitive market for HCIT-related solutions. (2) Balance sheet leverage. (3) Information security-related risks. (4) M&A-related risks.

**Medical Technology:**

• **DexCom (DXCM):** DXCM will likely be one of the fastest growing companies in all of medical technology over coming years and we see at least a 3-5 year path by which the company should be able to sustain 30-40%+ annual revenue growth, potentially tripling its revenue base between 2015-2020. We expect this growth to be driven by many factors, including improving technology (more precise, longer-lasting), growing ease of use (straight to phone display, fewer finger sticks), falling hurdles to adoption (broader insurance coverage, ongoing shift to easier-to-navigate pharmacy channel, eventual CMS coverage), and expanding indications (T2, ICU, gestational), and as this growth continues, we believe shares can maintain their strong momentum and DXCM’s revenue and market cap can exceed $1B and $10B, respectively, within the next few years. Risks include a challenging regulatory pathway, a large competitor in MDT, additive costs for patients associated with CGM use in general, current lack of Medicare coverage, and potential headwinds surrounding physician training.

• **Henry Schein (HSIC):** HSIC remains one of the most consistent performers both in dental and across our list, and remains well-positioned, in our opinion, to deliver 4-6% organic growth over coming years through a combination of 3-5% underlying market growth and ongoing share gains tied to management’s superior execution and exposure to higher growth areas including various dental specialty products (implants, orthodontics, endodontics), the rapid-growing corporate dental channel, and software/technology markets across dental, vet and medical. With margins also stable to improving and M&A opportunities robust, we also see a clear path to consistent low double digit earnings and cash flow growth over coming years, in turning helping drive consistent investor returns over time. Risks include general dental market risks, acquisition and integration issues, and flu vaccine market dynamics.
• **NuVasive (NUVA):** We believe NUVA is one of the best positioned companies across all of spine and should be able to grow revenue in the mid-to-upper single digits over coming years due to a host of factors including (1) new products that have launched in recent years (Precept, Bendini, Archon) or are just beginning to launch (IGA and its pre-op planning and real-time intraoperative assessment tools), (2) ongoing geographic expansion efforts, and (3) moderating secular headwinds (payer pushback and PODs). Add in expectations for 100bp+ of annual OM% expansion over the next few years as management increasingly leverages the company’s recent international infrastructure investments, in-sources manufacturing (30% currently, 60% next year, 90%+ eventually), and improves asset utilization, and we believe the company should be well positioned to deliver 15-20% annual EPS growth over the next several years and eventually regain the premium valuation vs. peers enjoyed in the late 2000s. Risks include the potential for increased payer pushback on a broad base of spine procedures, growing competition in lateral lumbar fusion, and risks tied to recent management changes.

**Human Capital Technology and Services:**

• **AMN Healthcare Services, Inc. (AHS):** AHS is the largest healthcare staffing firm in the U.S. currently experiencing the strongest demand levels since the early 2000s. Strong execution in this environment has led to accelerating growth for both its temp staffing and workforce solutions, along with expanding margins. The strong demand environment is expected to continue in the intermediate-term from a virtuous cycle as increasing patient census and voluntary quits increases the demand for temp and perm clinicians. Supporting the surge in clinician volume is AHS’ leading position as a provider of rapidly growing workforce solutions that further enhance its competitive position with a broad range of higher margin technology solutions (MSP, RPO, VMS, workforce optimization). Given the environment we expect solid top-line growth to continue (comps get tougher in 2016) with further margin expansion from growth in workforce solutions and operating leverage. Key risks for AHS are cyclical sensitivity, inability to recruit clinicians and physicians, changes in healthcare regulation, acquisition integration and bill/pay spread contraction for certain contracts in periods of high demand.

**Facilities and Services:**

• **Acadia Healthcare (ACHC):** ACHC is our top Outperform-rated idea based on: (1) its superior growth model driven by bed addition projects and accretive M&A translating into sustainable +30% earnings growth; (2) underappreciated tailwinds (i.e., IMD exclusion, Mental Health Parity, Essential Health Benefits, ACA); (3) PiC and CRC continued improvement; and (4) meaningful external capital deployment opportunities (US IP psych, UK, substance abuse). Risks include government reimbursement, managing rapid growth, M&A integration, and balance sheet leverage.

• **HCA Holdings (HCA):** HCA is our top Outperform-rated hospital idea based on: (1) solid near-term visibility and relatively conservative Street estimates for 2H15; (2) incredibly flexible balance sheet and efficient cash flow generation; (3) capital deployment upside; (4) ACA-driven upside over 2015-17; and (5) strong end-market dynamics and consistent volume growth. Risks include government reimbursement, ACA legal challenges, balance sheet leverage, and MCO consolidation.

• **Tenet Healthcare (THC):** THC is one of our top Outperform-rated hospital ideas based on: (1) strong volume growth underpinned by expansion of outpatient capabilities; (2) Conifer outperformance and upside; (3) ACA-driven tailwinds over 2015-17; (4) USPI tracking above expectations and potential Conifer cross-selling opportunities with NFP partners; and (5) guidance feels very good/beatable. Risks include government reimbursement, ACA legal challenges, balance sheet, and M&A integration (USPI) and put/call deal funding structure.

• **Universal Health Services (UHS):** UHS is one of our top Outperform-rated hospital ideas based on: (1) stable growth within Behavioral and underappreciated policy tailwinds (i.e., IMD exclusion, Mental Health Parity, Essential Health Benefits, ACA); (2) continued Acute recovery and stronger end-market dynamics coupled with ACA-driven upside over 2015-17; and (3) capital deployment upside (M&A, buybacks) and FCF generation. Risks include government reimbursement, ACA legal challenges, balance sheet leverage, and market concentrations (Las Vegas, Texas).
Biotechnology:

- **Curis Inc. (CRIS):** Curis has progressed towards a registrational study with its DLBCL therapy, CUDC-907, in combination with rituximab. High response rates in the Phase 1 study for CUDC-907 lead us to believe that the Phase 2 study, which is currently being finalized through discussions with KOLs, will be a positive milestone for the drug. Curis anticipates filing an IND for its oral PD-L1 inhibitor in the next few months, and management has indicated that a second oral checkpoint inhibitor is also underway in GMP tox studies, although the target has not yet been specified. We see this as an attractive development for Curis due to the limited non-PD1/L1 targeted checkpoint inhibitors in clinical development. With the prospect of having an internal oral checkpoint inhibitor combo in the clinic by the end of next year, we think Curis remains heavily undervalued. The risks are commercialization for Erivedge and its regulatory approval in Europe, competition in the oncology space, and clinical performance for CUDC-907.

- **Intercept Pharmaceuticals, Inc. (ICPT):** This year, Intercept has shed a lot of the volatility that investors saw in 2014 and is focused on the approval of obeticholic acid (OCA) in Primary Biliary Cirrhosis (PBC) and initiating a Phase 3 trial in NASH. The company submitted marketing applications in the US and Europe with decisions expected in 2016. PBC, an orphan disease, will prove to be a solid revenue-generating foundation for OCA and will provide the basis for OCA to target other indications. NASH presents a multi-billion dollar opportunity with over six million patients in the US alone. The REGENERATE 72-week Phase 3 trial testing OCA in NASH is due to initiate in 3Q15 and results are expected in 1H18. OCA, a FXR inhibitor, has displayed effectiveness in many aspects of the metabolic process during the clinical trials and is set up to target a number of different liver diseases and metabolic disorders. Risks are clinical development of all of Intercept's pipeline, regulatory approval for its candidates, commercialization of OCA, and competition in the NASH market and other metabolic disorders.

- **Sarepta Therapeutics (SRPT):** Following the FDA acceptance of the NDA for eteplirsen, the next six months hold a number of important readouts for the company. The DMD therapy has shown efficacy and safety in each of its clinical trials. Two additional data points are due out in the coming months, results from a fourth biopsy and from a 192-week study Phase 2 study. With the PDUFA date of eteplirsen coming one month after that of BioMarin’s drisapersen, we believe both will be the subject of an FDA Advisory Committee meeting on November 23/24. Whatever the FDA decision is, we expect the two DMD therapies will be given the same ruling. We see a lot of risk/reward at current levels, given the high unmet need in DMD and the strength of DMD advocacy groups seeking an effective treatment. Risks include potential that the FDA does not approve eteplirsen and competition from BioMarin, Prosensa and PTC Therapeutics.

- **Vertex Pharmaceuticals (VRTX):** Vertex's Kalydeco has shown impressive growth in the cystic fibrosis (CF) market, and we believe current sales guidance from the company is conservative. After new successful negotiations with payers in Europe, we see a lot of upside for the Kalydeco brand going into the back half of the year. The drug remains one of the most significant breakthroughs for any disease in recent years and deserves the high price tag given the orphan population with a high unmet need. Orkambi, another potential blockbuster CF therapy, has launched in the US, and we expect the sheer amount of patients with the targeted F508del mutation (~40% of CF population) to create a huge growth opportunity. Risks include failure of development-stage CF therapies, emergence of new competition in the up-and-coming CF market, and commercialization of the CF franchise.
Appendix - Important Disclosures and Analyst Certification

Covered Companies Mentioned
All stock prices below are the September 10, 2015 closing price.

Acadia Healthcare Co., Inc. (ACHC - $74.90 - Outperform)
Agilent Technologies, Inc. (A - $35.86 - Neutral)
Allscripts Healthcare Solutions, Inc. (MDRX - $13.24 - Outperform)
Amedisys, Inc. (AMED - $40.37 - Neutral)
AmerisourceBergen Corporation (ABC - $102.03 - Neutral)
AMN Healthcare Services, Inc. (AHSAH - $35.12 - Outperform)
AmSurg Corporation (AMSG - $79.83 - Outperform)
Cardinal Health, Inc. (CAH - $83.01 - Outperform)
Cepheid (CPHD - $51.27 - Outperform)
Cerner Corporation (CERN - $61.81 - Outperform)
Cerus Corporation (CERS - $5.64 - Outperform)
Charles River Laboratories (CRL - $70.07 - Outperform)
Community Health Systems, Inc. (CYH - $52.16 - Outperform)
Computer Programs & Systems Inc. (CPSI - $45.68 - Neutral)
Curis, Inc. (CRIS - $2.69 - Outperform)
DENTSPLY International Inc. (XRAY - $52.29 - Neutral)
DexCom, Inc. (DXCM - $96.43 - Outperform)
Diplomat Pharmacy, Inc. (DPLO - $39.10 - Outperform)
Exactech, Inc. (EXAC - $18.32 - Neutral)
Exact Sciences Corporation (EXAS - $20.00 - Outperform)
HCA Holdings, Inc. (HCA - $85.26 - Outperform)
HealthEquity, Inc. (HQY - $30.82 - Neutral)
HealthSouth Corporation (HLS - $42.16 - Outperform)
Henry Schein, Inc. (HSIC - $134.85 - Outperform)
HMS Holdings Corp. (HMSY - $10.56 - Outperform)
ICON plc (ICLR - $77.26 - Outperform)
INC Research Holdings, Inc. (INCR - $44.52 - Outperform)
Intercept Pharmaceuticals, Inc. (ICPT - $192.82 - Outperform)
LifePoint Health (LPNT - $78.55 - Outperform)
NuVasive Inc. (NUVA - $52.53 - Outperform)
Owens & Minor, Inc. (OMI - $33.97 - Neutral)
PRA Health Sciences, Inc. (PRAH - $39.44 - Outperform)
Premier, Inc. (PINC - $36.79 - Outperform)
Quintiles Transnational Holdings Inc. (Q - $74.42 - Outperform)
Sarepta Therapeutics (SRPT - $34.45 - Outperform)
Tandem Diabetes Care, Inc. (TNDM - $12.89 - Outperform)
Team Health Holdings, Inc. (TMH - $58.50 - Outperform)
Tenet Healthcare Corporation (THC - $47.17 - Outperform)
The Advisory Board Company (ABCO - $48.23 - Outperform)
The Cooper Companies (COO - $148.57 - Outperform)
Thermo Fisher Scientific (TMO - $122.03 - Outperform)
Universal Health Services, Inc. (UHS - $134.70 - Outperform)
Varian Medical Systems, Inc. (VAR - $79.58 - Outperform)
Vertex Pharmaceuticals, Incorporated (VRTX - $132.00 - Outperform)
Wright Medical Group, Inc. (WMGI - $24.30 - Outperform)

(See recent research reports for more information)

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