

ECKUITY CAPITAL

ECKUITY
COMMENTARY



**EVERYTHING IS
PEANUT BUTTER**

A LOOK AT THE IMPLICATIONS
FOR THE HEALTHCARE MARKET
IN THE NEW US REGIME

December 2024

EVERYTHING IS PEANUT BUTTER

A LOOK AT THE IMPLICATIONS FOR THE HEALTHCARE MARKET IN THE NEW US REGIME

In 1959, the US FDA published a proposed standard of identity, or regulatory definition, for peanut butter. It was not able to finalize the standard, however, until 1970, after a federal district court of appeals dismissed legal challenges from the peanut butter industry. The case stopped shy of the Supreme Court.

It took us over a decade to define peanut butter, and the healthcare lobby has gotten stronger since then. Bottomline, we do not expect a complete overhaul of the healthcare industry in the US regardless of who is appointed as the next secretary of the Health and Human Services.

There is a sense of unease and an anticipation of the unexpected in the healthcare venture and private equity sector since Trump floated RFK Jr. as his candidate to lead the HHS. As HHS secretary, Kennedy would be in a position of authority over the appointed leadership of the Food and Drug Administration, the Centers for Disease Control and Prevention, the National Institutes of Health, and the Centers for Medicare and Medicaid Services. All of those, alongside a long list of lesser-known agencies, are within HHS.

We believe that within the healthcare businesses, vaccine development may be impacted more than any other sub-sector. But we do not expect a complete overhaul of the segment. Vaccines are still important and any new vaccine with high efficacy remains an investable asset. But we don't expect approvals to be as rapid as we saw during COVID. New approvals will take time and will only be approved after rigorous clinical trials.

Kennedy would arrive at HHS at a moment when vaccine hesitancy is on the rise in the U.S. Influenza vaccine uptake has been dropping since the Covid-19 pandemic, particularly among younger people. During last year's flu season, 55.4% of children aged six months through 17 years received a flu shot in the U.S., down from 57.4% in the 2022-2023 flu season. The number was 63.7% in the 2019-2020 flu season, right before the pandemic.

One explicit power Kennedy would have at HHS is to shape the Advisory Committee on Immunization Practices, the powerful group of experts that advises the CDC on how FDA-approved vaccines are used in the U.S.

The ACIP designs the vaccine schedules that lay out the shots that children should receive throughout their childhood and adolescence. Though patients might be able to access an FDA-approved vaccine that lacks an ACIP recommendation, insurers are only legally required to pay for shots recommended by ACIP.

Today, ACIP's members include prominent experts in medicine, health policy, epidemiology, pediatric infectious disease, and other related areas. Those members serve four-year terms; the terms of four of the 15 current voting members expire next year. (source: Barrons). If Kennedy is confirmed as HHS secretary, he will have the ultimate say on who takes their places.

There are, however, some views of Kennedy that we do agree with. For example, he advocates the removal of ultraprocessed foods from school lunches and for limiting the use of agricultural pesticides. We do not foresee any issue with healthcare investing if these measures are implemented.



Positive impact on multiple investing segments. We believe that the upcoming administration will have a strong positive impact on many of our coverage areas including AI, care coordination, and wellness industries.

Managed-care: Kennedy's critical stance toward the pharmaceutical and insurance industries suggests a potential tightening of regulations. Managed-care organizations might face stricter oversight regarding their practices, including network adequacy, patient outcomes, and cost-sharing structures, necessitating adjustments in compliance and operational strategies.

Additionally, with an emphasis on integrating alternative and holistic therapies into mainstream healthcare, managed-care plans may need to expand their coverage options to include such services. This shift could require adjustments in provider networks, reimbursement policies, and patient education initiatives to accommodate a broader spectrum of health services.

It will be highly cumbersome for MCOs to shape strategy with the upcoming policy changes without the help of AI. We believe younger companies that can develop strong use-cases to quantify the risks and rewards and understand the patient and provider behavior will be able to significantly help MCOs in making these decisions. We remain bullish on investment in this sector.

Medicaid Managed Care: Kennedy's focus on preventive health measures and alternative therapies may influence Medicaid managed care programs. He has proposed reallocating funds toward preventive and holistic health approaches, which could alter coverage priorities and reimbursement models within Medicaid managed care, affecting how services are delivered and compensated.

A big challenge faced by the wellness industry is the lack of reimbursement which leads to lack of investments. As wellness becomes more mainstream, we expect significant dollar inflows in this industry which can lead to formal Principal Investigator led trials and approvals similar to the regulated pharmaceutical industry. This presents an immense investing opportunity for the venture and private equity industry.

What will not be impacted. Almost everything else.

We see no impact on early drug discovery, MedTech, and diagnostics industries. The FDA is staffed by thousands of credentialed scientists whose work is insulated by law and process. Only a handful of political appointees work at the agency. It is very hard to drive seismic change at the FDA, given the degree to which the FDA is a law-based bureaucracy. There are laws that govern what the agencies have to do.

Companies and industry groups could take the administration to court, should they find a reason to argue the moves are unlawful. The full force of industry pushback has yet to spin up.

Writing a rule is a labor-intensive process that can take years and that removing a drug from the market can happen only through an "extensive legal process."

Changing labels would be labor and time intensive. It took us over a decade to define peanut butter.