

# ECKUITY CAPITAL



**SORRY,  
WE MIGHT  
BE WRONG**

February 2025

# SORRY, WE MIGHT BE WRONG

## The Fallacy of Data

We have repeatedly mentioned in our previous articles that when our opinions differ from facts, based on data, we change our opinions, not the facts. While Eckuity has been holding on to this supposedly logical idea for many years, we wonder if that is always true.

Isn't "gut feeling" a thing that many successful alpha-CEOs are credited with pursuing in spite of evidence to the contrary from marquee consulting firms and data geeks? While we are not championing (or challenging) that construct, sometimes you may want to "gut check" the data in front of you.

As a long-time investor in the Healthcare sector, our business depends on our understanding of healthcare trends, disease prevalence, uptick in co-morbidities, insurance claims, and a host of other data patterns. We evaluate companies based on current market unmet needs, and future unmet needs. These assumptions are based on hours of research, analytics, and gathering market data. But what if that data is misleading?

## Check Your Sources

Most of the data around disease trends, hospital admissions, increase or decrease in co-morbidities, and other health related data is sourced from large reliable databases that collect their data directly from hospitals and health insurers. While the data from hospitals is generally direct patient data, in this article we'd like to focus on the data from insurers, particularly Medicare Advantage.

## Medicare Advantage

Medicare Advantage, the \$450-billion-a-year system in which private insurers oversee Medicare benefits, grew out of the idea that the private sector could provide healthcare more economically. It has swelled over the last two decades to cover more than half of the 67 million seniors and disabled people on Medicare.

Under Medicare Advantage, insurers can add diagnoses to ones that patients' own doctors submit. Medicare gave insurers that option so they could catch conditions that doctors neglected to record. According to an analysis by the Wall Street Journal, many diagnoses were added for which patients received no treatment, or that contradicted their doctors' views.

In these cases, the government pays insurers extra money to cover the costs of caring for patients who are diagnosed with certain conditions. Patients are typically

diagnosed by the doctors and hospitals that treat them. But Medicare allows insurers to tack on additional diagnoses after reviewing medical charts and sending their own nurses to visit patients at home. The insurers make new diagnoses after



reviewing medical charts, sometimes using artificial intelligence. They pay doctors for access to patient records, and reward patients who agree to home visits with gift cards and other financial benefits.

## How the payments are made – where data may be deceit

The government pays insurers a base rate for each Medicare Advantage member. The insurers are entitled to extra money when their patients are diagnosed with certain conditions that are costly to treat.

That gives insurers an incentive to search for additional diagnoses. The result is that many of their patients seem sicker, at least on paper.

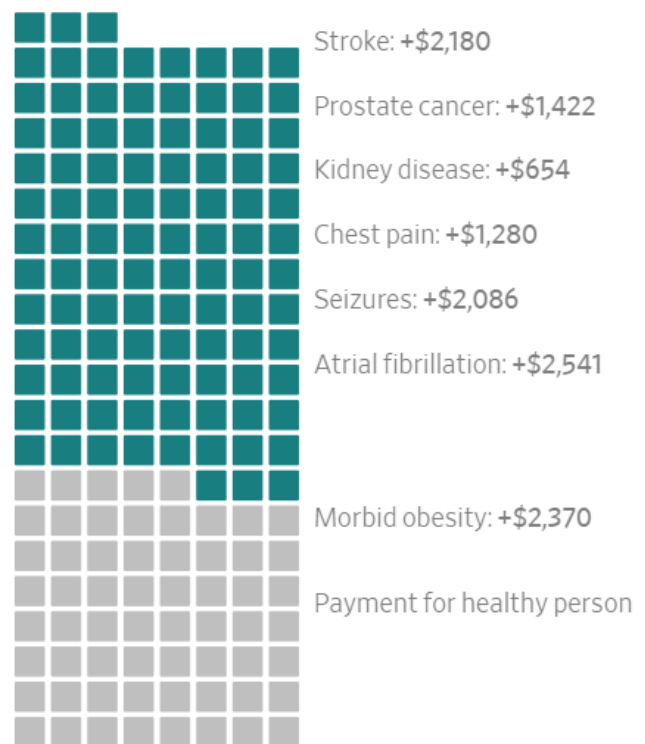
Medicare pays nothing for some diagnoses.

But insurers can add ones that do pay, even if a patient's treating doctor doesn't agree.

Private Medicare insurers got about \$4.2 billion in extra federal payments in 2023 for diagnoses from home visits the companies initiated, even though they led to no treatment, a new inspector general's report says. Each visit was worth \$1,869 on average to the insurers, according to the Office of Inspector General for the Department of Health and Human Services.

Annual total

**\$16,267**



## Data Issues Across Multiple Disease States

Diabetic cataracts are a complication of diabetes that occur when uncontrolled blood sugar damages the lens of the eye, clouding a person's vision. For example, UnitedHealth members were about 15 times as likely to have that diagnosis as the average patient in traditional Medicare, according to another report by investigators.

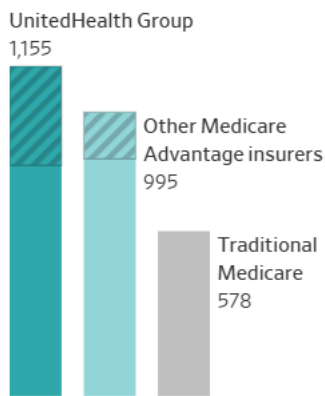
Eye doctors interviewed by the investigators said it was implausible that such a large share of patients could have the relatively rare disease.

The government paid all Medicare Advantage insurers more than \$700 million from 2019 to 2021 for diabetic cataracts. Most of the diagnoses were added by insurers.

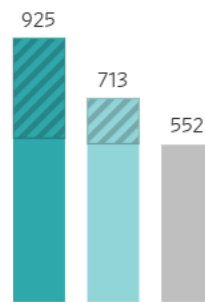
Patients diagnosed per 10,000 beneficiaries

▨ Insurer diagnosed

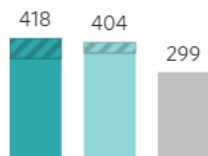
**MORBID OBESITY**



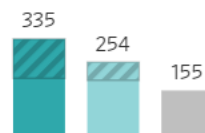
**HEART FAILURE**



**DEPRESSION**



**EMPHYSEMA**



Medicare Advantage insurers diagnosed all sorts of diseases at high rates.

So, if one doesn't pay attention, as an equity investor, when we evaluate a digital health company focused on depression or a medical device company focused on heart failure, our assumptions for the addressable market size, and the subsequent Serviceable Addressable Market (SAM), and Serviceable Obtainable Market (SOM) may be vastly skewed.

## White Space and Market Penetration Fallacies

According to one study by WSJ, more than 66,000 Medicare Advantage patients were diagnosed with diabetic cataracts even though they already had gotten cataract surgery, which replaces the damaged lens of an eye with a plastic insert – which is anatomically impossible because once a lens is removed, the cataract never comes back. Another 36,000 diabetic cataract patients didn't receive any medical services or prescription drugs related to diabetes.

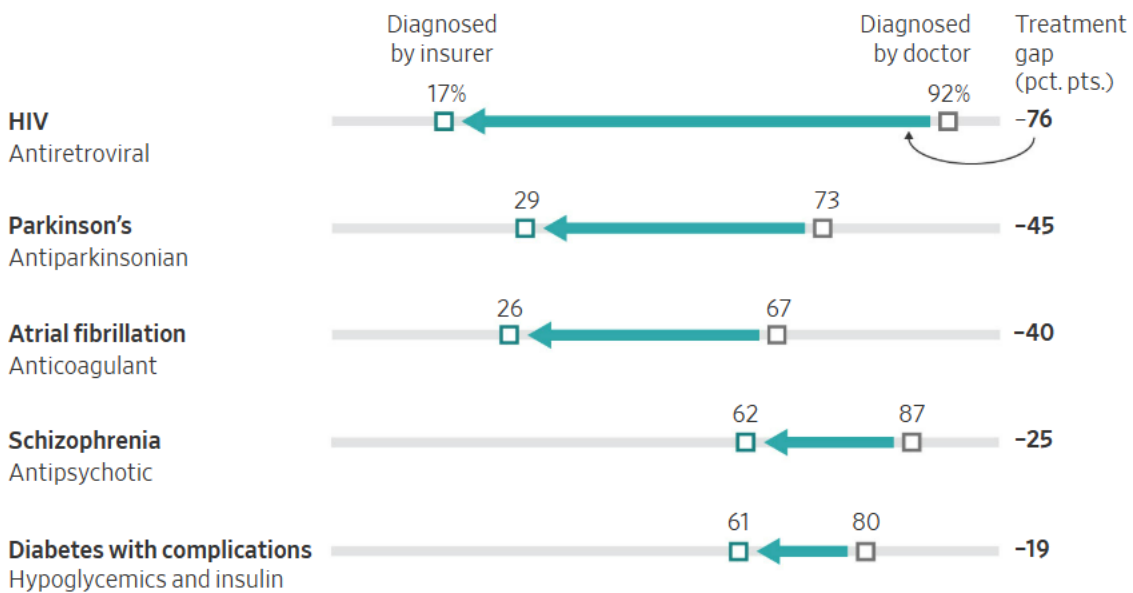
In another study, about 18,000 Medicare Advantage recipients had insurer-driven diagnoses of HIV, the virus that causes AIDS, but weren't receiving treatment for the

virus from doctors, between 2018 and 2021, the data showed. Each HIV diagnosis generates about \$3,000 a year in added payments to insurers.

Everyone with HIV should be on antiretroviral drugs, the only effective treatment, and nearly all Medicare patients whose doctors diagnosed the virus took the drugs. Less than 17% of patients with insurer-driven HIV diagnoses were on them. So, some biotech companies can argue that the reason there is 83% **“white space”** is because the existing drugs don’t perform as well, but ours does! And if we can have 5% market penetration, that will lead to X \$ million in revenue. Well, good luck with that.

### Treatment Gap

Patients diagnosed with various conditions by Medicare Advantage insurers received typical treatments for their conditions at lower rates than those diagnosed by doctors.



Note: Includes diagnoses from 2018-21. Patients diagnosed by doctors include both Medicare Advantage and traditional Medicare enrollees. Numbers are subject to rounding.

Between 2018 and 2021, nearly 50,000 Medicare Advantage patients completed a course of high-cost drugs that almost always cures hepatitis C, a virus that can cause serious liver damage. Insurers subsequently told Medicare that more than half of the patients who had received the drug treatment still had hepatitis C in a future year,

leading to millions of dollars in extra payments. The diagnoses came from the insurers' chart reviews and assessments, and from physician claims that insurers didn't correct.

But according to Douglas Dieterich, director of the Institute for Liver Medicine at Mount Sinai Health System in New York: "Real world evidence is a 99% cure rate."

## Co-morbidities

The main risk factors for people with diabetes developing cataracts are older age, long duration of diabetes, and decreased metabolic control. According to the Centers for Disease Control and Prevention (CDC), 32% of adults aged 45 and over who have diabetes also have cataracts.

But here is the rub. According to the so called "sources", people over 65 with diabetes are twice as likely to develop cataracts than people of the same age without diabetes. People under 65 with diabetes are three to four times more likely to develop cataracts than people of the same age who do not have the condition.

Cataracts are extremely common in the elderly—pretty much everyone gets them. Diabetes also is common, so it isn't unusual for old people to have both. But eye doctors say they rarely diagnose cataracts caused by diabetes in old people. It usually isn't possible to pinpoint the cause, and in any case, the treatment is the same.

For Medicare Advantage insurers, a big difference between the two forms of cataracts is that the government only pays extra for the diabetic ones.

Some insurers interpreted U.S. guidelines for recording diagnoses in the broadest possible way, labeling patients with diabetes and any kind of cataract with the more lucrative diagnosis. They did it even when doctors said the patients only had the old-age form of the disease or had no diabetic complications at all, the data show.

In summary, this is not to say that we should completely abandon the reliable sources that we have come to trust over decades. But with the advent of AI and conflicting incentives, we do need to rely a bit on our gut-check, on our intuition, and importantly, on common sense, and not let data overshadow all analysis, and eventually our investment decisions.

ECKUITY  
CAPITAL