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# In good health

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One of the most exciting sectors for small-cap investors is healthcare. Many companies in this space are in the vanguard of innovation – with hi-tech solutions driving radical change. This ranges from the development of groundbreaking medical devices and drug treatments, to fundamental improvements in the way healthcare is administered and delivered. Through our rigorous bottom-up investment process, we have found many such market-leading names.

## The heart of the matter

Two companies in the medical tech industry that illustrate our process are **Japan Lifeline** and **Abiomed**, both of which produce devices used to rectify heart conditions. Due to a number of reasons – demographics, lifestyle, diet – heart-related issues are unfortunately an area of structural growth. Both companies are technological innovators in this sector and offer cutting-edge solutions to cardiovascular conditions.

For example, Abiomed's breakthrough, FDA-approved Impella device is the world's smallest heart pump. This means surgeons can perform less invasive procedures, resulting in better patient outcomes compared to traditional intra-aortic balloon pumps. As a result, Abiomed has an effective monopoly in this area, driving market-beating results. Future growth also looks encouraging, with Impella set to launch in new geographies. The company intends to use the device to correct a variety of different heart defects.



## Setting the pace

Similarly, Japan Lifeline is a manufacturer and distributor of pacemakers. As part of its operations, it spends a considerable amount of time and resources talking with doctors and other medical professionals in order to identify gaps that exist within their respective fields. Using this information, Japan LifeLine has developed a series of specialist products (sutureless valves, endoscopic laser balloons, etc.) designed to fill those gaps. As with Abiomed, these treatments are highly targeted, thereby reducing

damage to the surrounding organ and increasing procedural efficiencies. The company also provides training and education to doctors, helping them make use of its existing and new products. With a dedicated, well-resourced sales team and a strong pipeline of future devices, our view is that the future looks promising for Japan Lifeline.



## Counting the pennies

Of course, it's not all about state-of-the-art devices: there are also numerous smaller companies that are changing the way that medical care is considered and delivered. In the US, rising healthcare costs are causing government and commercial payers to shift health plans away from fee-for-service reimbursement towards payment models that reward high-quality and cost-effective care. And that's where **Evolve Health** (EVH) comes in. It provides a technology platform, clinical knowledge and operational infrastructure to help hospitals deliver such successful clinical and financial outcomes. Its signature product, Identifi, is a purpose-built system that aggregates and interprets data, manages care workflow and engages with the patient population to deliver effective and efficient care. This is a growing and important trend in US healthcare and we think EVH is well-placed to thrive in this environment.

Elsewhere, **NMC Health** is a leading private sector healthcare provider in the United Arab Emirates. Started in 1975, it now operates a nation-wide network of hospitals and other care facilities (medical centres, day-centres and pharmacies). Like many companies in the medical world, the company has something of a pioneer spirit. With a growth mindset, management continues to demonstrate an ability to identify under-served geographies (currently Saudi Arabia, Oman and Egypt) and find ways to expand into them (IVF delivery, long-term care and contracts to operate and manage facilities). In our analysis, this strategy should help diversify country-specific risk and deliver material growth over the coming years.

## Pep talk

One of the great things about smaller companies is that many are founder-owned – this means they are run by people who really know their businesses, markets and competitors. Swiss firm **Bachem** is one such company. It is dominant in the provision of services to pharmaceuticals groups involved in the development of new drugs based on peptide technology.



Peptides are naturally occurring amino acids that are used in a variety of drugs to treat obesity, diabetes and cancer. The global peptide therapeutics market was worth US \$21.12 billion in 2016.<sup>1</sup>

**Note:** stocks in bold are held in either Standard Life Investments' UK Opportunities, UK, European (SICAV), Europe ex-UK or Global Smaller Companies Funds

<sup>1</sup> Source: PRNewswire September 2017 <https://www.prnewswire.com/news-releases/peptide-therapeutics-market-global-industry-analysis-trends-market-size-forecasts-to-2023-300527983.html>

<sup>2</sup> Company Data, Vontobel Equity Research, October 2017

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However, there is potential for peptides to be used in other areas, such as cardiology, neurology and vaccines. Most treatments are currently delivered by injection, but there is considerable work being carried out to allow oral delivery. This would meaningfully expand the market.

Bachem is well-placed to participate in this growth. Indeed, its customers have 93 drugs at phase 3 trial stage (compared to 57 in 2015) and 10 potential new major chemicals in development. In addition, the company is a major outsource provider (holding 27% of the current market<sup>2</sup>) and we expect this sector to develop as 'big pharma' increasingly looks for third-parties to manufacture its drugs.



## Final thoughts...

These are just a handful of the intriguing, high-quality small-caps operating in the medical sector. Irrespective of their field of speciality, these enterprises all share the characteristics that we look for in an investee company – they are well managed, with track records of offering market-leading products and/or services that we believe can deliver sustainable long-term growth. Our job as investors is to continue to apply our rigorous process which seeks to discover these larger companies of tomorrow – today.