



On the road.



With Alphinity Investment Management.

Europe healthcare insights

Who: Stuart Welch | Where: Denmark, Germany, UK, France, Hungary | When: March 2018

Where did you go?

I recently attended the Brambles investor day in London. Prior to the investor day I scheduled some healthcare related meetings throughout Europe, including attending the International Plasma Protein Congress in Budapest.

The healthcare meetings were with various industry participants including the offshore operations of Australian listed healthcare companies, their key competitors, hospitals and clinics, healthcare distributors, university professors and other key opinion leaders in the industry.

What were you looking for?

Insights into likely future developments for Brambles and the Australian-listed globally-focused healthcare companies: one of which we presently have a position in (CSL) and others that we don't presently own but may consider at some point in the future.

What did you discover?

CSL

CSL is a global healthcare company that produces a broad range of medicines, the vast majority of which are derived from human blood plasma collected from thousands of donors globally. In addition CSL operates one of the largest global influenza vaccines businesses.





The healthcare industry's most oft-repeated vision revolves around identifying and developing new medicines that address unmet clinical needs. This is historically something (we believe) CSL has been particularly successful at. CSL has successfully leveraged their research and development capability to recently launch a number of new products and to gain label extensions for some existing products.

The focus of the CSL-related meetings on this trip was exploring the market opportunity and potential for these new products and label extensions, together with gaining some further understanding of newly identified growth opportunities. Throughout the trip I met with competitors, key opinion leading doctors and some doctors running clinical trials of potential new treatments.

Overall, the outlook for CSL's recently launched products is attractive. Many of these new products are significantly more efficacious than previous treatments, meaning that CSL has potential to both grow the market while also taking market share from its competitors.

Cochlear

Cochlear is a medical device company that designs, manufactures and supplies cochlear implants and bone conduction implants globally to the hearing impaired. With 15% of all adults having some degree of hearing impairment the addressable market for Cochlear is large. However, unlocking the large addressable market opportunity is dependent on building awareness of cochlear implant vis-à-vis hearing aids, establishing referral networks and overcoming clinic capacity constraints and reimbursement limitations. Cochlear also competes aggressively on product features with its two main competitors.

The focus of the Cochlear-related meetings throughout Europe was exploring the competitive advantages of the various products available today, gaining a better understanding of upcoming new product releases and how the distribution channel is

evolving and incentivising uptake of the various products. Gaining these insights involved meeting with competitors, visiting cochlear implant clinics, visiting retail outlets and talking with Cochlear's partner GN ReSound.

While market dynamics differ by region, overall Cochlear have a superior product suite today which is enabling them to take market share from their key competitors Advanced Bionics & MED-EL. Cochlear's competitors have some new innovations planned which will improve their competitive position, although Cochlear is also continuing to innovate and aims to maintain product leadership. Meanwhile some market participants are increasingly leveraging their retail distribution footprint to capture volumes.

Brambles

At the Brambles investor day in London management provided a thorough business review. A key focus was management's efforts to restore US pallet operating margins as these were the source of some disappointment at the most recent result. The culprit has been higher transport and labour input costs, with these costs increasing further post reporting date. Some of these same cost pressures are also starting to emerge in Europe.

Brambles will be able to pass through some of these higher costs on to customers, albeit with a time lag. Brambles also intend to offset some of these pressures by improving the efficiency of their operations. We visited one of Brambles most automated CHEP service centres an hour outside of London. When pallets enter the service centre the screening, sorting and stacking processes are fully automated. Only the repair process requires manual intervention, although management believes they can automate this also. Brambles now intend to roll this same technology out across the US, which should increase capacity by 30% and reduce unnecessary transport costs caused by capacity constraints.



Brambles also elaborated on plans to improve visibility of pallet movements and supply chains by tagging pallets with devices that collect and transmit data (including location, temperature and humidity) to the cloud. This, in time, should enable Brambles to reduce pallet loss rates, better invoice customers, unlock transport synergies with customers and provide valuable product quality information for customers.

What does this mean for the Alphinity portfolio?

CSL remains a core holding in the portfolios. We feel recent product launches and label extensions, together with superior management foresight and operational performance relative to competitors, should underpin future revenue and earnings growth. While Cochlear is another well managed company with bright prospects, we feel this is appropriately reflected in the share price today, so it doesn't meet our investment criteria. There is a good chance that one day it will so we are keeping our eye on it. Likewise Brambles is a high quality franchise, however it will take some time before for the positive strides made by the new management team start to bear fruit and offset the accelerating cost inflation the business is experiencing.

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