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How to invest in the digital health revolution

ASX: EDOC

Betashares Digital Health and Telemedicine ETF

Introducing the Betashares Digital Health and Telemedicine ETF (ASX: EDOC)

Due to population ageing and rising income levels, healthcare spending is expected to continue to grow faster than global economic output over coming decades.

Traditional ways of delivering healthcare tend to focus on illness treatment rather than prevention, with private services often expensive and difficult to access for all but the most well-off. Growing healthcare demands in the public sector are also placing strains on government finances.

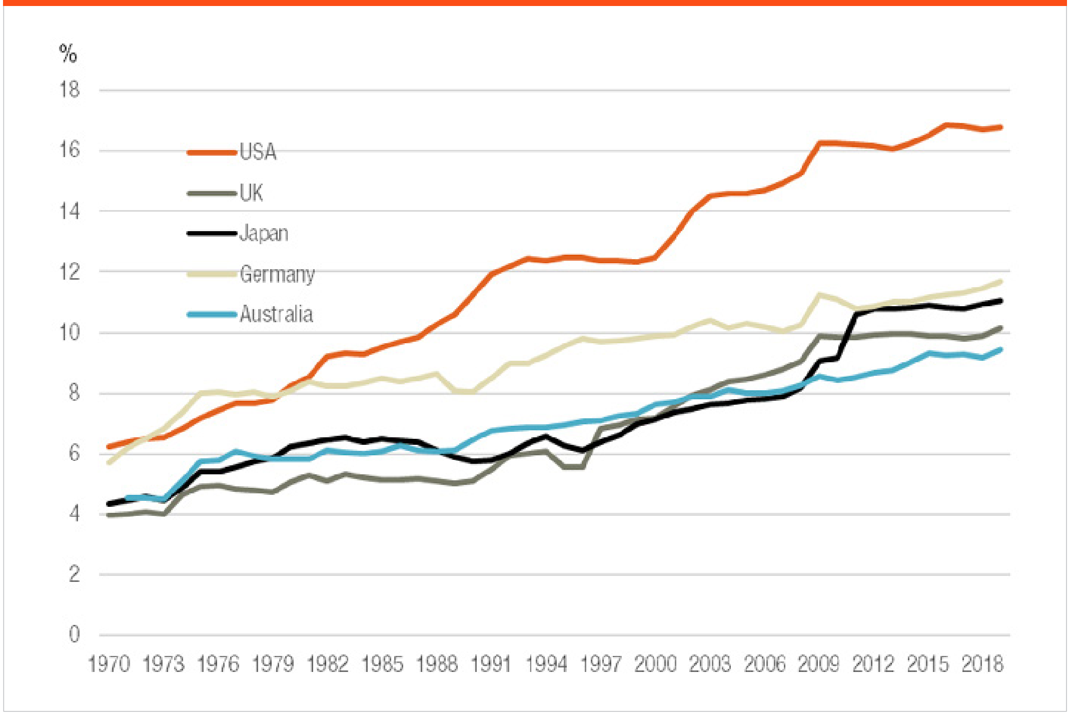
Accordingly, healthcare is a sector ripe for technological disruption, with potentially high rewards for innovative companies able to deliver faster, cheaper and more effective services to the many in need across the community.

To tap into this growth potential, Betashares is pleased to introduce the Digital Health and Telemedicine ETF (ASX Code: EDOC), which provides exposure to the leading global players in this rapidly evolving area of the healthcare industry.

Rising healthcare spending

Overall healthcare spending has been growing strongly in many economies over recent decades. According to the latest OECD estimates, in the United States alone total (public and private) healthcare spending increased from 6.2% of GDP in 1970 to 16.8% by 2019.

Total Healthcare Spending (% of GDP), current prices: 1970-2019



Source: OECD Health Statistics, June 2021

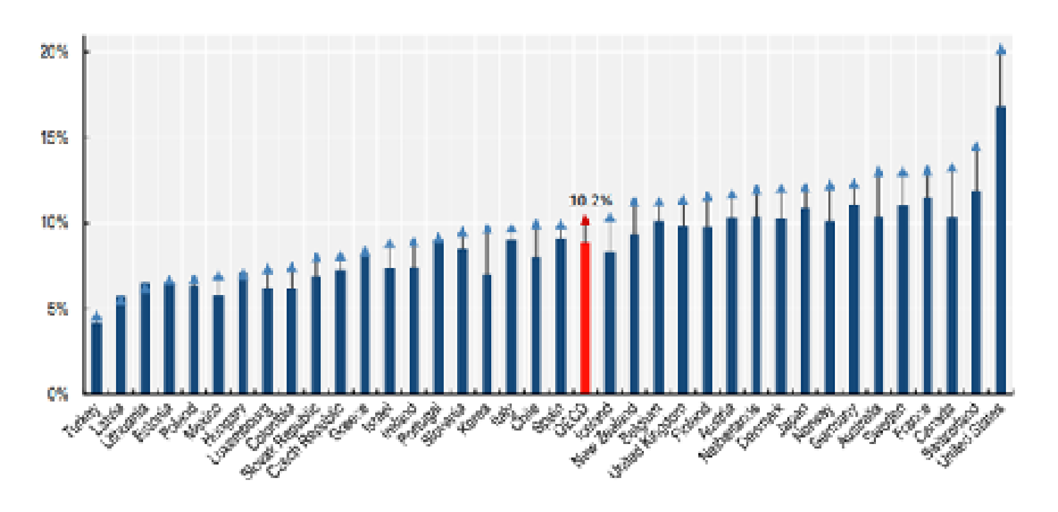
Early OECD estimates suggest healthcare spending ramped up significantly in many countries in 2020 due to the COVID crisis. In the United Kingdom, for example, healthcare spending is estimated to have increased from 10.2% of GDP in 2019 to 12.8% in 2020[1].

There are several factors underpinning the strong growth in healthcare spending. For starters, healthcare spending tends to rise along with age and living standards. The global population is ageing: United Nations projections indicate the percentage of the population aged over 60 years will rise to 28% by 2100, from only 13% in 2017. Thanks to productivity growth, per-capita incomes also continue to grow, with strong growth especially anticipated in emerging countries as their living standards converge toward those of developed countries.

[1] OECD Health at a Glance, 2021

Reflecting these trends, according to OECD projections[2], health spending among developed economies is forecast to reach 10.2% of GDP by 2030, compared with 8.8% in 2015. In the United States, healthcare spending is projected to reach 20% of GDP by 2030 – or twice the OECD average. Growth in healthcare spending in emerging markets is likely to be even stronger as a share of GDP.

Healthcare Spending (% of GDP) by OECD: Projections from 2015 to 2030



Source: Healthcare Spending Projections to 2030, OECD, May 2019. Actual outcomes may differ materially from projected outcomes.

Scope for technological innovation

The traditional way of delivering health services appears ripe for technological innovation and disruption.

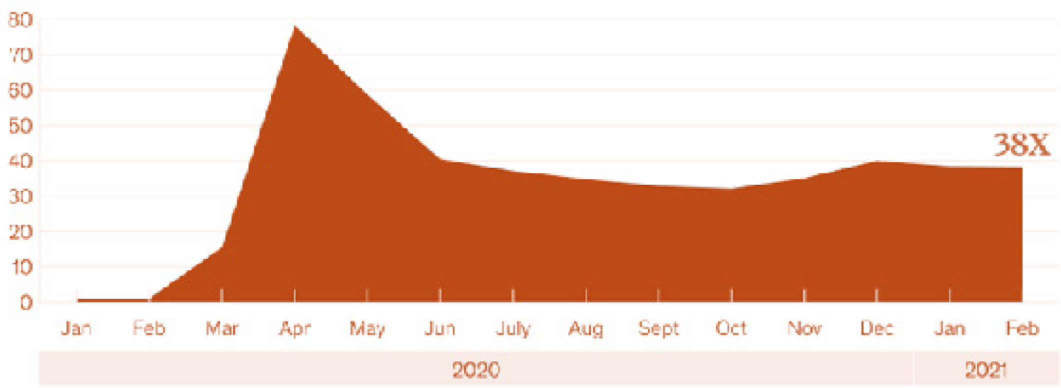
For starters, seeing and assessing patients has long relied on direct human-to-human contact. This can give rise to cost and accessibility problems as it requires medical professionals and those seeking services to be geographically close. Cheap and easy to use video-conferencing technologies – sometimes referred to as 'telehealth' now means many more of these interactions can be conducted online – with both parties able to be physically located anywhere in the world.

[2] Health Spending Projections to 2030: New results based on a revised OECD methodology. OECD Health Working Papers No. 110. May 2019.

According to McKinsey& Company[3], U.S. adoption of these services skyrocketed during the COVID pandemic when physical access to health professional was restricted. McKinsey estimates, for example, that the use of telehealth for office visits and outpatient care was 78 times higher in April 2020 than in February 2020, to reach 32% of all such visits. The use of telehealth for such visits thereafter stabilised at almost 40 times more than pre-COVID levels by mid-2021, or around 13 to 17% of all such visits.

Growth in telehealth usage peaked during April 2020 but has since stabilized

Telehealth claims volumes, compared to pre-Covid-19 levels (February 2020 = 1)[1]



[1] Includes cardiology, dental/oral, dermatology, endocrinology, ENT medicine, gastroenterology, general medicine, general surgery, gynecology, hematology, infectious diseases, neonatal, nephrology, neurological medicine, neurosurgery, oncology, ophthalmology, orthopedic surgery, poisoning/drug tox./comp. of TX, psychiatry, pulmonary medicine, rheumatology, substance use disorder treatment, urology. Also includes only evaluation and management visits; excludes emergency department, hospital inpatient, and physiatry inpatient claims; excludes certain low-volume specialties.
Source: Compile database; McKinsey analysis

Indeed, McKinsey & Company estimates that around US$250 billion, or 20%, of the cost of U.S. visits to doctor offices or hospital out-patient services could be done online, compared to only US$3 billion spent on such virtual services prior to COVID[4].

Another source of disruption is real-time remote monitoring of patient conditions through internet connected medical devices and wearables. This avoids the need for patients to travel to hospitals or doctor offices for check-ups, and more timely interventions when and if patient conditions warrant.

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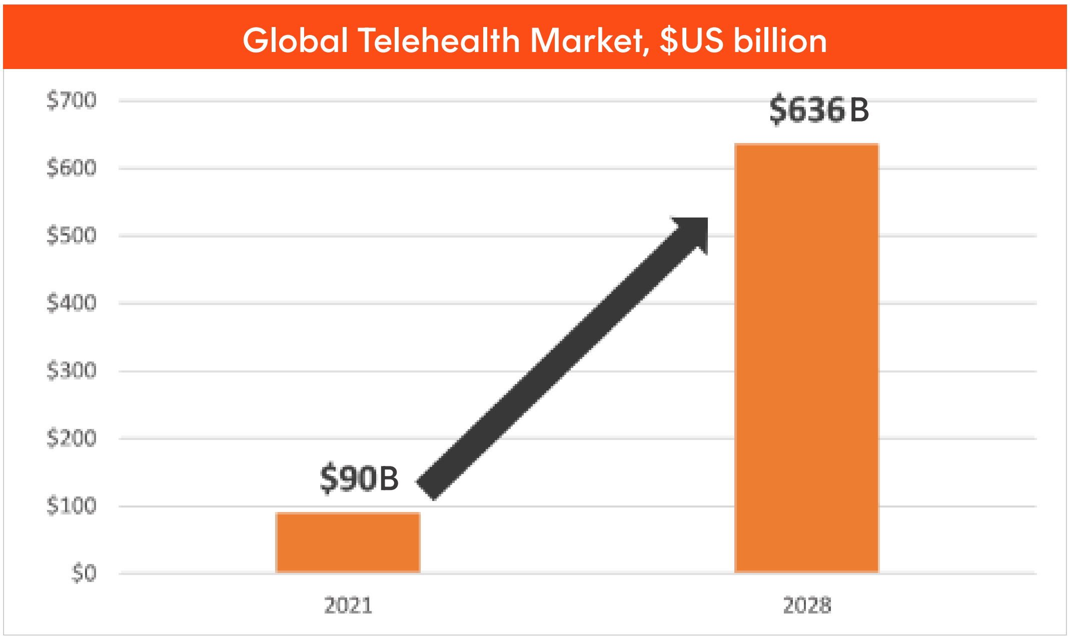
[3] Telehealth: A quarter-of-a-trillion dollar post-COVID reality? McKinsey & Company, July 2021. `

[4] See note 2 above.

The digitisation and storage of patient health records is another innovation that promises to radically improve care, by making patient histories and other critical information readily available. Data systems can also improve the efficiency of care by allocating scarce medical resources – such as beds, doctors and equipment – to where they are most needed and by reducing the incidence of unnecessary or inadequate treatments. The OECD estimates that US$1.3 trillion, or 20% of annual healthcare expenditures across OECD countries reflects inefficiencies due to poor administration[5].

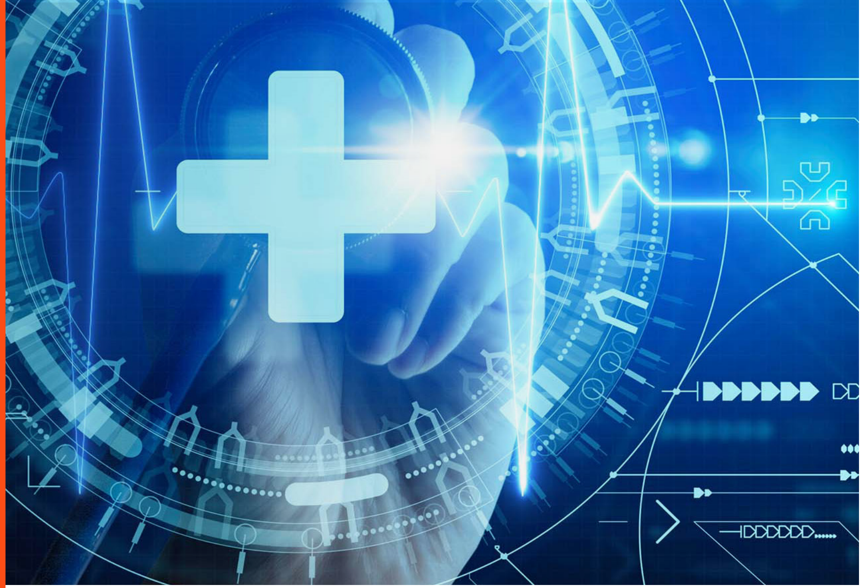
Reflecting this potential, the global telemedicine and digital health industry has already grown significantly in recent years, especially given the need for remote access to healthcare services during COVID lockdowns.

According to Fortune Business Insights, the global telehealth market alone was worth US$144 billion in 2020, though this declined to $90 billion in 2021 as some of the COVID-related surge in activity eased back with economic re-opening. That said, the market is projected to grow to US$636 billion by 2028, implying compound annual growth of 32% over seven years from 2021.



Source: Fortune Business Insights
Note: Actual outcomes may differ materially from projected outcomes.

[5] OECD, "Healthcare in the 21st Century," 2019.



Exposure to leading digital health innovators

The index which EDOC aims to track (before fees and expenses) provides exposure to up to 50 of the leading digital healthcare companies around the world.

To qualify for index inclusion, companies must derive at least 50% of their revenue from the digital health industry, covering areas such as telehealth, medical devices, wearables, remote patient monitoring and healthcare improvement solution software. Companies must also have a market capitalisation of at least $100 million. Stocks are weighted by a combination of their market capitalisation and revenue derived specifically from Digital Health, subject to certain minimum and maximum limits for diversification and liquidity purposes[6].

As evident in the table opposite, the current index constituents include well-known and successful medical device manufacturers such as Boston Scientific, Abbott Laboratories and Resmed. Peleton is also included in the index due to the health benefits of its workout equipment, while Teledoc Health is a leading provider of video-chat communications.

Top 10 companies in EDOC's index: 25th February 2022

NAME	TICKER	WEIGHT
DEXCOM INC	DXCM UW	9.9%
RESMED INC	RMD UN	8.2%
M3 INC	2413 JT	8.1%
BOSTON SCIENTIFIC CORP	BSX UN	8.0%
ABBOTT LABORATORIES	ABT UN	8.0%
INSULET CORP	PODD UW	4.2%
TANDEM DIABETES CARE INC	TNDM UQ	4.2%
TELADOC HEALTH INC	TDOC UN	4.0%
MASIMO CORP	MASI UW	3.9%
PELOTON INTERACTIVE INC	PTON UW	3.8%

Source: Bloomberg. No assurance is given that these companies will remain in the index or be profitable investments. EDOC's Index is the NASDAQ CTA Global Digital Health Index.

The benefit of largely weighting companies by their market capitalisation is that it provides exposure to many of the up and coming digital health companies of the future as they gain in market value – while reducing exposure to companies facing tougher times.

Through regular rebalancing, the Index which the EDOC ETF aims to track will maintain its relevance, providing exposure to up to 50 of the top digital health companies at any point in time.

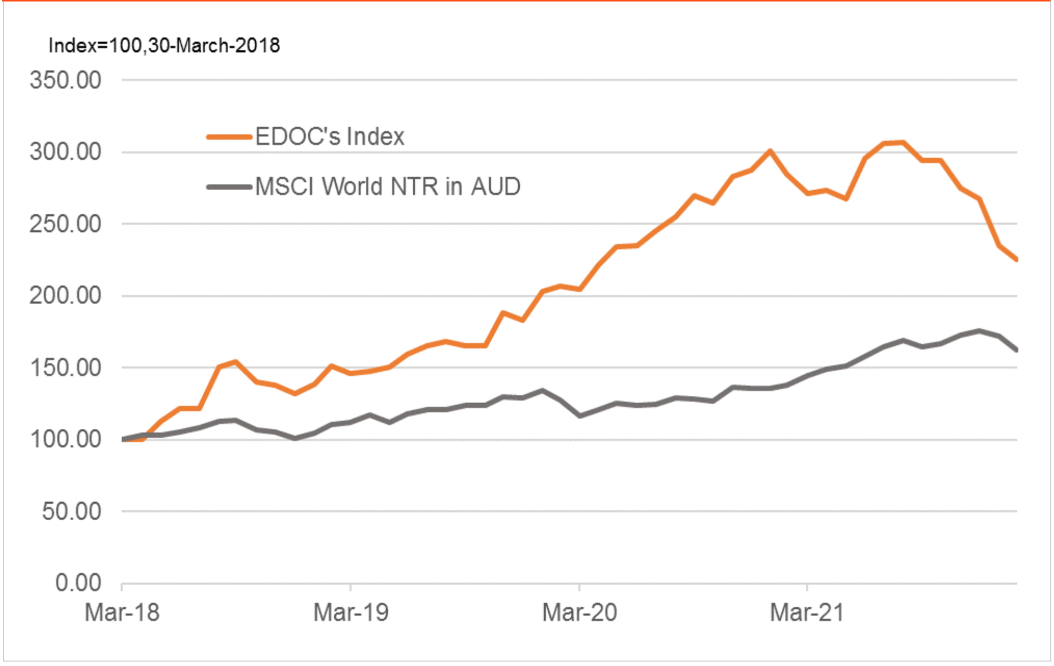
[6] No stock can have more than an 8% weight and no stock may have a weight of less than 0.3%, initially and as at each index rebalance. Only the top five companies may have a weight of greater than 4%, with all other stocks capped at 4%. For more information, please review the Product Disclosure Statement.

Historical Performance

As might be expected given the solid growth in digital health services, the investment performance of EDOC's Index has been relatively strong since its inception in March 2018.

On a month-end basis, from end-March 2018, the Index which EDOC aims to track has delivered annualised $A returns of 23.0% to end-February 2022, compared with 13.2% for the MSCI World Ex-Australia Index.[7]

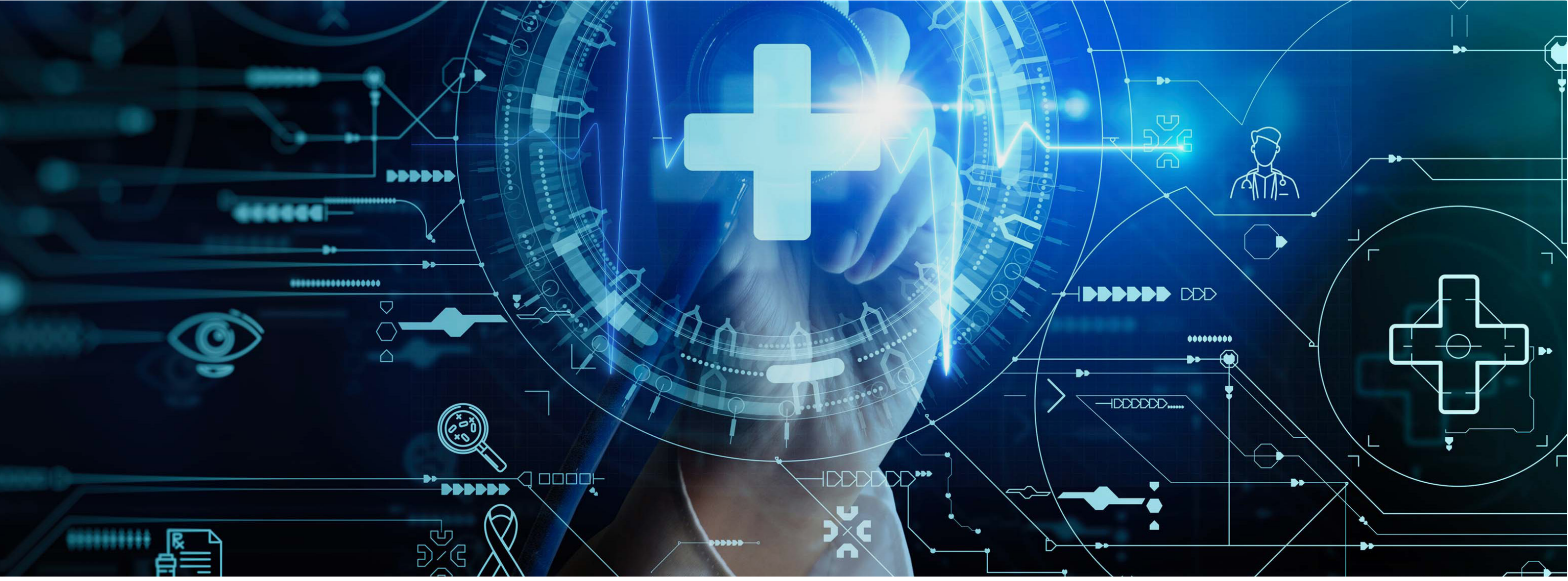
Relative Return Performance: March 2018 to February 2021



Source: Bloomberg, Betashares. Past performance is not an indicator of future performance. You cannot invest directly in an index. EDOC's Index is the NASDAQ CTA Global Digital Health Index.

With the rise in global interest rates and inflation over the past year – along with a moderation in telehealth activity following the 2020 COVID-related surge – high-growth technology companies within EDOC's Index have experienced a relative performance pullback since late 2021, even though the prospects for the industry overall have strengthened, presenting a lower entry point for investors interested in this opportunity.

[7] Past performance is not indicative of future performance of the Index or ETF and does not take into account ETF fees and expenses. You cannot invest directly in an index. The Index's performance can be expected to be more volatile (ie vary up and down) than a broad market index.



Summary

Due to population ageing and rising living standards, demand for healthcare services is expected to continue to rise solidly as a share of global GDP over coming years. As a highly fragmented and labour-intensive service, healthcare remains ripe for technological innovation that could reduce costs, improve quality and expand access for millions across the globe.

With this in mind, Betashares is pleased to offer the EDOC ETF, which aims to provide a cost-effective and easily accessible way to gain exposure to some of the leading innovators in the digital health sector.

There are risks associated with investment in the Fund, including market risk, sector risk, international investment risk and concentration risk. The Fund's returns can be expected to be more volatile (i.e. vary up and down) than a broad global shares exposure, given its more concentrated exposure. The Fund should only be considered as a component of a diversified portfolio. For more information on risks and other features of the Fund, please see the Target Market Determination (TMD) and Product Disclosure Statement, available at www.betashares.com.au.