

## HTEC Index 3Q24 Commentary

September 30, 2024

The [ROBO Global Healthcare Technology and Innovation Index \(HTEC\)](#) returned 8.96% over the quarter. The performance was fueled by strong earnings growth, with 76% of companies exceeding EPS estimates by a weighted average of 22.35%. Additionally, 77% of companies reported positive year-over-year sales growth, highlighting the overall strength of the sector.

This quarter marked the strongest performance of the year and the second-best since Q2 2021. Key drivers included exceptional gains from **CareDx** (+91.24%), **Axogen** (90.47%), and **Omniceil** (58.92%). The industry's ongoing de-risking and repositioning efforts throughout the year further contributed to the positive index performance. While visibility into 2025 remains limited, current valuations and estimates suggest a cautiously optimistic outlook.

The diagnostics segment emerged as the top performer, rebounding from a challenging year. **Exact Sciences** stood out, kicking off the quarter with a strong Q2 adjusted EBITDA that surpassed expectations, fueled by continued momentum from their Cologuard product. In September, they further cemented their position by announcing promising data from a study suggesting their blood test could compete effectively with **Guardant Health's** recently FDA-approved Shield test.

The genomics segment continued its strong performance in 2024, with **CareDx** leading the charge in its recovery towards pre-COVID-19 valuations. The company's impressive 91.9% increase this quarter built on its successful Q1 rally. Management raised guidance for both revenue and losses in their Q2 results, and they also announced the restoration of long-term Medicare coverage for their key products — AlloSure®, AlloMap®, and HeartCare®. Additionally, **Natera** exceeded expectations with impressive Signatera volume growth, significantly exceeding historical averages.

In other key developments, **Vertex Pharmaceuticals** received FDA acceptance for a new non-opioid pain medication, marking the first new class of medicine for acute pain in over two decades. Launch is expected in January 2025. In robotics, **Stryker** completed the acquisition of care.ai, a company specializing in AI-powered healthcare IT solutions. This move strengthens **Stryker's** offerings in wirelessly connected medical devices and healthcare IT.

The medical instruments sub-segment continued to face challenges from budget pressures. **Dexcom** experienced a significant 41% decline after slashing guidance due to a poorly executed sales force restructuring. However, the company remains optimistic about a turnaround by 2025, and their launch of the first OTC continuous glucose monitoring system presents an intriguing market opportunity.

The precision medicine segment saw a reversal of fortunes for **Moderna**. The company lost all its year-to-date gains and currently sits 40% down, following reduced estimates and cuts to their R&D initiatives, which the market perceived as overly ambitious. Despite these setbacks, **Moderna** maintains a robust pipeline in respiratory diseases and aims for ten product approvals by 2027.

Finally, while formal updates on 2025 are still months away for many companies, some positive signs are emerging. **Royal Philips** finally reported normalized lead times across all modalities, suggesting a potential easing of supply chain pressures that have plagued the industry. However, **Charles River** management highlighted ongoing restructuring efforts within global biopharma companies, leading to pipeline prioritization and cutbacks. These contrasting trends paint a picture of an improving environment with cautious management outlooks.

## Top Performers

### Axogen

Axogen, a pioneer in off-the-shelf tissue products for nerve repair, is the only company exclusively focused on this segment. In the second quarter of 2024, Axogen posted \$47.9 million in revenue, a 25.6% year-over-year increase, and a gross margin of 73.8%. The company also increased its annual revenue guidance to the \$182–\$186 million range and adjusted its gross margin guidance for the full year to the 74–76% range. Additionally, it reiterated the expectation of being net cash flow positive cumulatively for the period from April 1 through year-end.

### CareDX

CareDx, a leading provider of genomic-based healthcare solutions for transplant patients, has continued its positive trajectory following the appointment of a new CEO. The company's second-quarter performance was marked by increased adoption of their testing services, driven by growing clinician familiarity and understanding. Testing services volume experienced a significant high-teens growth in the second half of 2024, resulting in mid-20s year-over-year revenue growth. A key milestone during the quarter was the restoration of long-term Medicare coverage for their AlloSure®, AlloMap®, and HeartCare® products.

### Exact Sciences

Exact Sciences pioneered colorectal cancer screening with their non-invasive Cologuard Stool DNA test, the first multi-target stool DNA test for colorectal cancer covered by Medicare and included in the American Cancer Society guidelines. This quarter, the company posted Q2 adjusted EBITDA and revenue well ahead of consensus expectations, driven by the continued strength of Cologuard. The company also reiterated its FY24 revenue guidance and raised its FY24 adjusted EBITDA outlook. Additionally, this quarter, the company released data for its blood-based colorectal cancer (CRC) screening test, suggesting it could eventually compete with Guardant Health's Shield blood test, which received approval from the FDA in July.

## Bottom Performers:

### Moderna

Moderna, the leading mRNA vaccine manufacturer, has lowered its full-year sales guidance to a range of \$3–\$3.5 billion, down from the previous estimate of \$4 billion. The company attributed this revision to several factors, including very low European sales in 2024, potential revenue deferrals to 2025, and increased competition in the respiratory vaccine market in the United States.

The company's announcement of planned R&D spending cuts for the period of 2025–2028 has faced skepticism from investors, who question the management team's ability to accurately forecast future business conditions. The proposed 20% reduction in R&D spending has raised concerns about the company's long-term growth prospects and its ability to maintain a competitive edge in the pharmaceutical industry. Despite the reduced guidance, Moderna's CEO, Stéphane Bancel, reaffirmed the company's commitment to executing on the 2024–25 COVID-19 season and the launch of its respiratory syncytial virus (RSV) vaccine, mRESVIA.

### Ginkgo Bioworks

Ginkgo Bioworks, a leader in AI-driven cell engineering, offers platform services to help customers develop products, earning revenue through fees and equity. After regaining compliance with NYSE following a 1-for-40 reverse stock split, the company secured a \$93.7 million CDC contract. Ginkgo has also expanded its offerings by directly opening up its in-house assets to customers, aiming to extend its runway for long-term growth. These strategic moves followed substantial cost-cutting measures, including layoffs of over 400 workers.

### Integra Lifesciences

Integra, a leading provider of neurosurgery and tissue technology solutions, reported a robust second quarter, driven by strong market demand for its products. However, the company also identified operational and quality system gaps that require attention. To address these issues, Integra developed a comprehensive compliance master plan to enhance manufacturing quality compliance processes across the organization. This initiative will lead to increased spending in the second half of 2024, resulting in lower revenue and earnings per share expectations for the year.



**HTECTR Attribution by Index Category**  
 2024-06-28 to 2024-09-27

	Avg. Wgt	Return ↑	Contribution	Currency Impact
▶ Medical Instruments	18.41%	-4.89%	-0.92%	0.20%
▶ Precision Medicine	17.33%	-1.11%	-0.12%	0.27%
▶ Telehealth	2.99%	1.47%	-0.05%	0.01%
▶ Process Automation	14.76%	2.38%	0.36%	0.27%
▶ Robotics	8.00%	15.27%	1.18%	0.00%
▶ Diagnostics	20.04%	19.70%	3.68%	0.22%
▶ Data Analytics	2.31%	22.75%	0.44%	0.00%
▶ Genomics	11.87%	22.79%	2.56%	0.00%
▶ Regenerative Medicine	4.28%	51.69%	1.83%	0.00%
<b>TOTAL</b>	<b>100.00%</b>	<b>8.96%</b>	<b>8.96%</b>	<b>0.97%</b>

	2024 Q2 Growth	2024 Q2 Surprise	2024 Q2 % Beat	2024 Q2 % Miss	FY 2023 Growth	FY 2024 Est Growth	FY 2025 Est Growth	FY 2026 Est Growth	3-Year Est Growth
<b>EPS</b>	▲ 6.28%	▲ 22.36%	76.00%	15.97%	▼ -0.65%	▲ 8.04%	▲ 48.25%	▲ 25.75%	▲ 62.77%
<b>SALES</b>	▲ 8.49%	▲ 4.20%	74.71%	18.08%	▲ 5.16%	▲ 6.07%	▲ 9.79%	▲ 11.27%	▲ 30.76%
<b>EBITDA</b>	▲ 24.05%	▲ 21.32%	71.13%	18.30%	▼ -7.44%	▲ 11.56%	▲ 34.89%	▲ 18.32%	▲ 59.14%
<b>PROFITABLE</b>	73.87%	—	—	—	75.37%	76.92%	80.22%	83.04%	—

For 2024 Q2, 65 of 70 companies (93%) have reported. 48 companies (74%) have reported positive YoY EPS growth. 50 companies (77%) have reported positive YoY sales growth.

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