



BIOTECHNOLOGY AND ITS ROLE IN THE HEALTHCARE SPENDING ISSUE

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Traditionally, investors looking for less volatile, more consistent long-term returns have sought the safety of healthcare. This downturn has been different. During this downturn, healthcare showcased deep disappointments, including drugs failing to gain FDA approval (Sepracore, Watson, and Imclone), potential financial fraud (Elan and Andrx), and earnings disappointments (Alpharma and Bausch & Lomb).

However, most companies in the healthcare industry are still the epitome of the American Corporation. They deliver life-enhancing therapies; operate their enterprises responsibly, and direct high percentages of profits into the research and development of new drug candidates, ensuring consistent earnings growth. This downturn may prove to be one of the most attractive buying opportunities since 1993. Key issues driving demand for healthcare haven't changed. There is still the aging of the most populated portion of the American society-- baby boomers.

Progress in information technology enables faster discovery, development, and approval processes. Consequently, more drugs and medical devices are in various stages of clinical evaluation or awaiting approval than ever before. But attached to this progress, there are serious cost issues. Healthcare spending in 2002 will be approximately 14% of our gross domestic product (GDP). At the current rate of spending (10% growth/yr. for healthcare vs. 2.5% growth/yr. in GDP), the ratio of dollars spent on healthcare as a percentage of GDP will grow to 25% by 2007. 50% by 2018 and 100% by 2029. Obviously, this can't continue. What are we to do? There are two foreseeable solutions.

First, inefficiencies in delivering healthcare must be attacked, and secondly, more proactive healthcare must be developed. Enter molecular biology and genetic engineering. Currently, biotechnology is one of the most significant culprits in rising healthcare costs. Discovery, clinical trials, manufacturing and distribution make new compounds costly to bring to market. But over the long run, biotechnology and genetic engineering are our best hopes for bringing down the cost of healthcare. If we can remedy chronic illnesses before they require extensive treatment, costs can be drastically reduced. Consider proactively eradicating diabetes, neurological abnormalities like Alzheimer's, and cardiovascular disease, including hypertension! We must not impede the healthcare process by establishing pricing controls. This will curb research and development-- and imagination. There is little question that healthcare costs are spinning out of control, but we must keep in mind that the main cause of cost increases in the healthcare system today may just be our savior tomorrow.



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