

SPOTLIGHT CCI Healthcare's Marti Says M&A to Continue Among Medical Device Companies

Oliver Marti, managing director and portfolio manager at Stamford, Connecticut-based **Columbus Circle Investors**, spoke to Bloomberg's Hema Parmar about M&A activity in the U.S. health-care sector. Marti's CCI Healthcare unit manages approximately \$1 billion in long-short equity strategies. Comments have been edited and condensed.

Q: Tell me about CCI Healthcare.

A: We're part of Columbus Circle Investors, which has traditionally been a long-only institutional money manager. In 2001, CCI and I launched a health-care equity long-short strategy. My team invests across four main subsectors: biotechnology, pharmaceuticals, medical technology and health-care services.

Q: What are your strategies?

A: We have two distinct strategies. The one we launched in 2001 is more of an all-weather approach that invests across the full spectrum of health care. It enables us to spread some of the risk, allowing for lower volatility of returns. It invests only in public equities, typically about 50 percent large cap, 50 percent small- and mid-cap. In 2013 we started a more concentrated strategy with higher volatility but with the same focus of investing across all of health care in public equities. We try to generate alpha through bottom-up fundamental analysis and through a top-down view of the health care industry as well as the market environment overall. And then finally we look to take advantage by trading around positions during meaningful price movements.

Q: There's been a lot of M&A in health care. What kinds of companies might be targets?

A: In the biotech and pharma space, we're seeing very strong interest from buyers in the areas of the central nervous system – things like schizophrenia, Parkinson's disease, Alzheimer's. Oncology is also a very big area of M&A right now. And the area of liver disease is an opportunity for many companies looking to grow, whether it's Gilead or Bristol-Myers who already have

platforms in that area and are looking to build those out. The larger companies are the ones that have significant cash flow right now. I do see an acceleration.

Q: Are there M&A implications of the Supreme Court Obamacare decision?

A: It removes an overhang for many providers of care such as hospitals. Historically, health care has been delivered and paid for more on an individual-procedure basis. The move is now towards bundled payments for episodic care. Hospitals had some uncertainty whether Obamacare really was going to be fully intact. With the Supreme Court decision leaving Obamacare intact, we think a lot of these companies have a much better view and ability to go out and build their services. So we think that there will be more consolidation in hospitals. And when I say hospitals, I mean providers and that's very broad; there are hospitals, outpatient clinics, doctor groups, nursing homes, long-term care groups, in-patient rehab facilities. I'm talking about the continuum of care within the service area. And not just for-profit companies, but also not-for-profit and private for-profit companies.

Q: What's your forecast for M&A among medical device companies?

A: I believe there will be continued consolidation and it will occur across larger-cap companies. It will also occur within the small-, mid-cap companies. The reasoning on the large-cap side is really,

to me, one of defense. Many of these larger companies have maturing products. The innovation curve there has been stagnant and there has been material pricing pressure. So the need to acquire in the medical device space is more one of leverage, of being able to reduce the number of competitors and to add a more consistent layer of products that are being delivered to the customer. As a result, we're seeing more consolidation from that and also from the perspective of reaching faster-growing market segments and geographies. It's less about innovation and more about being able to adapt to the changing environment.

Q: What consolidation do you see in small- and mid-cap med-technology?

A: There is some real innovation occurring and, as a result, there is very high growth and also consolidation. It's in areas such as the spine, pain management, atrial fibrillation and peripheral artery diseases, and I believe you are going to see more of those deals in the ensuing 12 months.

Q: Are you increasing your allocation to these kinds of companies?

A: Over the last two years we've been increasingly finding attractive opportunities in companies that are innovating to take advantage of these demographic themes of aging. In our higher volatility and concentrated strategy, these tend to be an important part of the portfolio.

AT A GLANCE



Age: 44

Hometown: Vancouver

Professional Background: Health-care equity research analyst at Morgan Stanley (1993 to 1996), senior health-care analyst at Pequot Capital Management (1997 to 1999). Joined CCI in 1999

Education: Brown University, B.A.

Recommended Reading: CMS Inpatient Medicare Reimbursement Proposal

Favorite Restaurants: La Belle Auberge, Vancouver Restaurant de l'Hotel de Ville, Lausanne, Switzerland