

JAKE SIEWERT

This is Exchanges at Goldman Sachs where we discuss developments currently shaping markets, industries and the global economy. I'm Jake Siewert, global head of corporate communications here at the firm.

Today, we're going to dive into the healthcare landscape and specifically what's on the minds of top pharma CEOs. We're joined in the studio by Marshall Smith, global head of healthcare group in the firm's investment banking division. Marshall, welcome.

MARSHALL SMITH

Thank you very much, great to be here.

JAKE SIEWERT

So let's start, help us understand like what's going on in the room when you're talking to large pharma CEOs today around the world. What are the top

questions they're asking of you, what's on their minds?

MARSHALL SMITH

So, I would say the general theme is trying to set course in an otherwise unpredictable, highly uncertain world. And so that's, as it relates to the macro environment, certainly as it relates to markets and then ultimately, specific dynamics that are affecting the healthcare and pharmaceutical industry.

And so global uncertainty, trade policy and trade war invariably permeates and I'd say causes a level of uncertainty generally that is making it difficult to set course for I'd say any organization, but certainly for healthcare companies and certainly for pharmaceutical companies. That of course bleeds into markets. And so, as the equity markets from a broader

industry perspective continues to chug higher, the equities environment for healthcare companies has also been pretty choppy.

So for example, biotech companies have sold off pretty materially. Pharmaceutical companies have had some multiple compression. I'd say the general mindset is we're hearing from institutional investors, it's a certain level of wariness being longer or being overweight in healthcare and pharmaceutical stocks heading into next year.

JAKE SIEWERT

And they're basically just worried about the election?

MARSHALL SMITH

They're worried about the election, , which is the uncertainty as it relates to healthcare policy here in the U.S. in 2020 and beyond. And so, of course, drug pricing and sort of any legislative intervention on drug

pricing is front page news, it's top of mind, it's being discussed each and every day. And as the election cycle continues to grind on, it is a topic that is getting lots and lots of air time and probably the volume on that debate or that dialogue is going to continue to get louder, right.

And so there are different views as to how to affect drug pricing. Obviously, there's a couple of different bills taking different approaches. My own personal assessment is it's, and I think I'm not alone in this regard, but I think a lot of people think that it's unlikely that actually either or some variant of those are likely to be enacted before the election. I think it's low likelihood, but very likely as the election cycle plays through. And it is reasonable to assume that there's some form of legislation that is potential post election.

Now the problem is it can either be relatively

benign for participants in the industry, for pharmaceutical and drug companies in particular, or it can have a lot of detrimental impact. And the problem is nobody really knows for sure and we won't for some time to come. And so that creates a general, I'd say risk aversion from an investor perspective that is certainly casting a shadow over the industry right now.

Now, from an executive's perspective, when you're sailing into uncertain waters, it no doubt affects how you make your own decision making and setting course for your organization.

But I'd say one thing that ultimately is, I'd say core to basically every strategic discussion that we're privy to is it's really around understanding that innovative pharmaceuticals or innovative therapeutics is the core value proposition in the industry for drug companies. And so, to be guided

by developing drugs that are novel, that have differentiated clinical benefit, that hopefully and importantly are addressing unmet medical needs, that's all super important, and that is at the core, defining the strategies for these various companies.

Ultimately, if you think about the recent transaction activity that you can point to across the industry, basically every participant in the industry, every major company understands that at the end of the day, the most important thing is to have as many products as possible that are delivering that differentiated clinical benefit and really contributing value to the system. And if you can have as large of a portfolio as possible, or as high a percentage of your aggregate portfolio of product offering as possible, then you are going to be very well positioned regardless of how things ultimately play out.

JAKE SIEWERT

So, let's talk a little bit about growth, sluggish growth basically in big pharma, really across the industry. How are they looking at organic growth, in-house R&D and their own efforts to grow new drugs and new solutions for their consumers?

MARSHALL SMITH

So you really have to kind of peel back the layers of the onion to get at the issue of growth and pharma. Because there is a very significant part of their business that is still driven by the innovation that they themselves are able to create. And they've having huge, sometimes breathtaking effect. So they have a number of franchises within each of their respective portfolios that are growing quite well.

Now, these are large, multinational organizations with a huge portfolio of products, some of which have either reached kind of the end of their life or

are already at this point, post patent expiry that are still kind of within their portfolios and many of those are kind of no growth or negative growth. And so the entirety of their business may be slower growth, even though they have some pretty significant growth assets within their business.

But I would say ultimately, the important thing is everyone one of those companies and every one of the leaders of each of those respective companies really understands the value proposition within the drug space and really understands that at its core is innovation, at its core is addressing severe unmet medical need. And if they're able to do so, and as I just referenced, they've been very successful in my opinion in doing so, particularly over the past five years. And they're going to be able to affect in a very positive way their growth outlook.

JAKE SIEWERT

So how about M&A or inorganic growth? For a long time, we saw, you know, we go through waves certainly of M&A in this industry. Is it safe to say that right now, M&A is the preferred growth strategy or there's been a lot of large-scale deals recently.

MARSHALL SMITH

Yes.

JAKE SIEWERT

What's driving that activity?

MARSHALL SMITH

Let me split that into two parts. So first of all, just regular way, M&A consolidation of assets, acquisition of other growth assets by any of these companies, it's just part of their growth strategy. It's not a primary part of their growth strategy. And so there's the organic development and then of course, there's the inorganic sourcing of growth opportunities.

Largely, the latter is large pharma or large biotech buying smaller biotech companies. And, these smaller biotech sort of quadrant of the industry continues to be remarkably productive. And so there's been a ton of capital flowing into smaller and younger, younger biotech companies. There's been a lot of talent flowing into that part of the sector, and they, they've done a great job at developing new drugs with huge impact. And, pharmaceutical companies and large cap biotechs of course see that, and say look, this is an appropriate and important way for us to supplement our organic growth opportunity.

MARSHALL SMITH

The large cap M&A I would say is kind of a different flavor of ...

JAKE SIEWERT

The big strategic M&A?

MARSHALL SMITH

The very large, kind of north of \$50 billion, there's

been a couple this year, 80 plus, and so those really are kind of, of a different ilk. It's not are there other interesting assets out there that we can go in have them sort of bolt on and supplement our portfolio. It's do we need to completely transform the composition of our business and change the next five to ten-year outlook and potentially offset some of these headwinds that the industry at large is facing.

And so I would say there are sort of bigger picture dynamics that are driving some of the large cap consolidation.

JAKE SIEWERT

So talk a little bit about cancer drugs, specifically. Our very first podcast was on the topic of immunology with Goldman Sachs research analysts. How are pharma companies thinking about their strategy to diversify, bolster their own oncology pipelines.

MARSHALL SMITH

So first of all, I would say that as I reference the success and innovation, we've seen huge, huge progress in the battle in oncology. And so, what we need to I'd say contextualize is that oncology of course is a broad category. It's a number of different diseases that comprise it. And if you go kind of tumor type by tumor type, indication by indication, you'll find a number of different examples where pharma companies and biotech companies have been able to really change the face of disease.

As a result, because of the tremendous amount of innovation that's taken place not just in the past five years, but over the past kind of 30 years, the elucidation of the underlying biology that, that underpins various tumor types and obviously, the intervention or treatment of these tumors, and ultimately the development of therapeutics against

that, has I'd say been significant and generated a fair amount of return.

JAKE SIEWERT

So you mentioned at the top that the industry's very focused on the political uncertainty that affects their industry and it's an industry that has a long history of being in the regulatory spotlight.

How are the boards and CEOs thinking about how to navigate through that uncertain landscape?

MARSHALL SMITH

Let me take those in turn. So first of all, as it relates to drug pricing. It's a big unknown, right. And I think pretty much every CEO within the industry and every board recognizes that the uncertainty that's at play, is trying to prepare for an operating environment one year, two year, three years hence, that is a lot different than it is today.

I mean we have a couple of different bills that have

been put forward on Capitol Hill, unclear as to what they ultimate

legislation, if any, will come to pass. My own personal view is that it's very likely something post-election, rather than before. But nonetheless, I think there's a recognition that there is likely to be drug pricing pressure in the U.S., whether it's driven by legislation or market forces or both.

And so it comes back to some of the things I was talking about earlier, which is the prioritization of innovation. If you have a drug that addresses an unmet medical need and has huge impact for the patient and their families, that drug is going to get paid for, right. That drug should and will likely command, you know, a fair, if I could put it this way rate of return for the pharmaceutical company or biotech company that developed it. That company should be able to price the drug accordingly.

So, what is more likely and going to be affected by legislation or market forces or both, as it relates to drug pricing, drugs from old technology, so drugs that were approved kind of 10, 15, maybe even 20 years ago, drugs that are not particularly differentiated relative to other alternatives that are treating a particular disease, and certainly drugs that don't offer meaningful additional clinical benefit.

And so, that's why I think you're seeing pharmaceutical companies define their strategies the way they have been, which is, okay, let's make sure we're addressing really underserved, unmet markets or unmet medical needs, or let's make sure if it is a reasonably served indication or disease, let's make sure we have a step function change in the benefit that we're bringing to bear.

JAKE SIEWERT

So, obviously the emphasis is on the technology and the new and solving new problems. I mean it's hard to generalize because it's a very complex and huge industry, but is there one particular area where you think technology is particularly reshaping this industry?

MARSHALL SMITH

, let me break that in different pieces. So there's drug discovery technology, right. And so what we've seen over the past 20 years is a dramatic acceleration of the understanding of underlying biology and the development of drugs against, and now better elucidated understanding of various diseases. So, sequencing of the human genome, for example, a major, major breakthrough, but once it was initially sequenced, it really had to be better understood. And so in the decades hence, a lot of work has gone into that and I would say that we're really starting to see an acceleration of discovery and innovation based

upon that.

Related to that is developments on the true tech side, so computational bandwidth, computational power, right. That ties inherently drug discovery that allows for sort of faster, more comprehensive, higher fidelity sequencing of genes or any particular tissue type or biopsy, for example. It allows for, once you get fast, robust, cheaper price points for sequencing a biopsy from a patient, so for example, a cancer biopsy. We get to then say the practicality of treating patients at a genetic level is here is now.

JAKE SIEWERT

Customization almost, yes.

MARSHALL SMITH

Certainly, the personalization of medicine. Of course, it's a word that's been thrown around for a long time now, but it very much has become here and now. So that's not possible without the real

acceleration or the real sort of I'd say change in both the cost and power of computation on the true tech side.

JAKE SIEWERT

So Marshall, the pharma industry has always been very global, a lot of cross border mergers between Europe and the U.S. over the years. But China is increasingly playing a big role in the industry, both obviously on the domestic front, but globally.

What's driving that and what is Chinese policy trying to, how are they trying to shape their industry there?

MARSHALL SMITH

Well, I think what you see in China is just because of the scale of it. So first of all, you may be aware it is a huge priority for China and the Xi Jinping

Administration to make sure that they, I'd say in a robust, comprehensive way, develop their healthcare industry, again, all components of the healthcare industry. But probably, with a near term priority on therapeutics, which includes not just drugs, but things like gene therapy.

So a couple of things in China. So first of all, the flow of capital towards healthcare in China has been pretty massive. The, I'd say the flow of talent into China healthcare has been pretty remarkable. And so what you're seeing is what they call the returnee movement. So a number of very smart, very talented people that have spent kind of like 20, 30 years working within a Western healthcare company, largely multinational pharmaceutical company, developing a huge wealth of expertise, coming home and starting or leading various local companies, particularly biotech companies. And so that's been super impressive to watch.

But what these companies have also been able to demonstrate is not only a level of sophistication at drug discovery, but also an ability to develop drugs, I'd say, to run the clinical development in a comprehensive, but very, I'd say expedient way. And I don't mean they're rushing it. But you just think about like in China, for the magnitude of the numbers, if you want to run and enroll a trial in lung cancer, unfortunately, the ability to do that and find patients is particularly straightforward. And so the ability to actually enroll and execute trials in a differentiated way has been interesting to observe.

I would also say that another thing I've observed and perhaps it's an analog to what we've seen in the tech industry to not focus on yesterday's technology and to keep trying to advance that, but then to say okay, what is the frontier and invest and make very quick differentiated gains there. So, for

example, one large institutional investor, he's saying this in a humorous way, but I think there's some truth to it. He says you can't throw a baseball standing on a street in Shanghai and not hit a gene therapy company, right. And so there's huge investment taking place in kind of the cutting edge of biotech in places like Shanghai and elsewhere in China.

JAKE SIEWERT

So when you look across all the different sectors within the healthcare industry, what's not getting enough attention?

MARSHALL SMITH

It's interesting, I think there's such focus across various components of the industry and most of the key issues I think are very sort of top of mind, whether it's a lot of the innovation that's taking place in the drug space, the potential for true price

pressure, or pricing legislation and specifically here in the U.S. for the drug space, the consolidation, the vertical integration, , in the healthcare services sector, some pretty interesting developments in life sciences and life sciences tools, a large rerating of companies across the medical device landscape. So all of that, I think has garnered a lot of attention and a lot of visibility.

I would say that as more and more, technology within the healthcare space, specifically within the therapeutic space is becoming, I'd say here and now, that it is, there are obviously benefits that come with this, but there are some untoward effects that we really need to be mindful of. What am I referring to? So one area of course, is gene therapy, right. The potential benefit associated with gene therapy is enormous, right. There are so many diseases out there that are

devastating, certainly impact overall quality of life and for the most part, quite often life expectancy. And these are horrible diseases that really haven't had any kind of effective therapy to date.

JAKE SIEWERT

So, Marshall, tell me a little bit about how you got into this field. You were a liberal arts major I think?

MARSHALL SMITH

I was.

JAKE SIEWERT

And then, how did you find your way into finance and then specifically into healthcare?

MARSHALL SMITH

The simple answer is by accident.

JAKE SIEWERT

Yes, okay, like many things.

MARSHALL SMITH

Yes. So I was one of those kids growing up, I always thought I was going to be a doctor. I grew

up in a family of physicians, my mom was a nurse. They met when they were respectively at med school and nursing school. And I'm the youngest of five kids and all my siblings grew up to be physicians, they're physicians today.

JAKE SIEWERT

Oh, so you're a black sheep?

MARSHALL SMITH

I am a black sheep. I was labeled a black sheep from a very young age. So I grew up with that distinction. But I grew up, importantly with medicine at the dinner table. And so it was a pretty regular event for us to have dinner together as a family every night, or as often as possible.

My dad would come home from the hospital, we'd have dinner together, all seven of us sitting around the table, And so, invariably, we ended up talking about medical cases at dinner pretty much every night.

JAKE SIEWERT

That's a good education.

MARSHALL SMITH

It was pretty cool, but I didn't know anything otherwise and so I just, you know, biology, medicine and medical science, treating patients, like that's kind of what we grew up learning at the dinner table.

I would say that, as many colleagues of mine have heard me tell this story, my dad was an infectious disease specialist and a very good one. And he was, for 55 years at the same hospital in Newark, inner city Newark. And he, as a result, just as sort of fate would have it, he ended up treating some of the first HIV infected patients in the U.S., before the disease was understood, before it was characterized, they really ...

JAKE SIEWERT

Before it had a name probably, yes.

MARSHALL SMITH

Certainly before it was called HIV. And so, as I said, the dinner table setting, there was a stretch there where he would come home at night, and he's otherwise, a pretty talkative guy, but he'd come home at night, he was just kind of losing himself into his meal, and just sitting there quietly, and clearly distressed. And so this went on for a couple to a few nights. And my mom, who was a super strong woman, really remarkable lady, one night, she kind of hit the limit and she said, enough. And reprimanded my dad and said what's going on, and drew him back out into basically talked about what was going on.

And then he just started saying, like I don't know what's going on, we have a number of patients, we have an increasing number of patients in the hospital, their immune systems are shutting down, they're losing a lot of weight, they're having various

complications that we just can't explain and can't figure out. And that was the frontend of the HIV epidemic and he was right there in the middle of it.

And so, like those memories are, when you grow up with them, those were etched in my memory. And it was also similarly, he had a lot of impact on a lot of lives of patients and it was a pretty regular occurrence for us, me and my siblings, to be with my parents or to bump into somebody in the neighborhood or in the community, and they'd say, your dad, and my mom was very involved in my dad's practice. Your dad, or your parents saved my life or saved my mom's life or saved my father's life. And so you grow up with that, and you see like wow, that is like remarkably powerful. And it certainly motives you to kind of do the same. And so you want to help people, you want to help your community.

And so I always thought I was going to be a physician. Now, we talked about some of the changes of healthcare and the healthcare industry. So that's not just a recent thing, right. So healthcare in this country in particular has been changing for many decades.

And so when I was in college, I went to Amherst College and I hadn't yet picked my major, now my oldest brother is ten years older than I am. So he was already through, not just med school, he was through his residency, so now he's a practicing physician, and through his eyes, I could start to see the practice of medicine changing. And I said, well, I don't know exactly what I want to do. I love medical science, but maybe I'll focus on an education that would prepare me for a career in business, and maybe I approach medicine from that angle.

And so at Amherst, I studied economics and English. I had a wonderful experience at Amherst. It was a great education. And then coming out of Amherst, I similarly was going to say, okay, well let me try to be, have a well-rounded education that again sets me up for a career in business. I was going to do my JD and MBA. I started the JD/MBA program at Georgetown. I was sitting in my one L classes realizing, well, geez, it might have been helpful or valuable to actually go work and then go back into graduate school, but I went straight from Amherst to Georgetown.

So I came out of law school, enjoyed that education, I thought it was really a valuable education. I came out of law school, the only job I could get in '94, which was when I graduated, was, it was hard to explain why I went to law school not to be a lawyer. But I ended up practicing law for a little bit. And then I was going back, the plan was

to go back and get my MBA.

So this is the mid-90s now, and I basically stumbled across a job in what turned out to be biotech investment banking. It was a newly formed healthcare group back in UBS,

And I got there, I got the job just because I had a general interest in healthcare, and then it turns out, I was able to focus on, and being a biotech banker basically from my first day as an associate.

And so now, I was a focused biotech banker at a time when the industry was still young and developing and I was able to get a lot of exposure and a lot of experience. And I was able to really connect with clients because they said wow, you seem really impassioned about what we do. And for me, it was just like incredible.

JAKE SIEWERT

It was how you grew up, yeah.

MARSHALL SMITH

This is the frontier of medical science and I got to participate in it. And so basically, I got to grow up with the biotech industry and so it's been a wonderful, wonderful run.

JAKE SIEWERT

Twenty-five years.

MARSHALL SMITH

Twenty-five years, yes.

JAKE SIEWERT

So, you obviously still spend a lot of time with clients, but you're also managing a big team. How do you think about balancing those two roles?

MARSHALL SMITH

Always looking for more time in the day. So, yes, we have to spend a lot of time with clients. That means you're on the road quite a bit. But I'm constantly mindful of the fact that being present and being connected with your team is super

important. I think we've been able to build a really special team within our healthcare banking effort. We are constantly focused on the culture of that team. We try to stay very well connected to our people.

I think what we try to also instill in them is an understanding of what the mission is. And as I've just kind of alluded to as it relates to my own background, we very much focus on making sure that as we talk to our team, that they understand that our mission is really twofold. It's to work with the most important healthcare companies and hopefully on some of their most important transactions. But it's also for them to understand that what our clients are doing is super important and affecting the lives of patients and their families.

And you can pick any company within the healthcare industry, and that is true, whether it is

an insurance company, whether it's a hospital, certainly, whether it's a drug company. Pick any company across any sector in healthcare, and I would argue that they're touching the lives of patients and their families. And so at the end of the day, we're helping our clients help patients and their families. And to make sure that our team understands that mission is super important. So it's being present as much as possible, given the constraints of the job, but also making sure that everybody's bought into the mission.

JAKE SIEWERT

So, we usually ask on this show, whether people have advice for young people starting their careers these days. So it would be useful to hear what you have to say to young people on your team and also talk about whether mentors along the way, how you found mentors and who really made a difference in your career.

MARSHALL SMITH

My general advice to the younger folks in our team is follow your passion and always take advantage of every opportunity that's given to you. And so if you follow your passion, you're going to be more motivated and you're going to be able to bring a lot more energy to whatever your role is day in and day out. And taking advantage of every opportunity that's given to you is, look, for example, like our team that has the opportunity to work, and now I'm being biased, but inarguably I think one of the best platforms in all of investment banking, and I'd like to believe within our healthcare team, one of the best healthcare franchises within all of investment banking. I don't mean that in a conceited way. I just mean like to be able to do what we do and work with the companies that we get to work with, that's a pretty awesome opportunity.

JAKE SIEWERT

Well, Marshall, thanks for joining us today.

MARSHALL SMITH

Thank you, Jake, great to be here.

JAKE SIEWERT

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