

# Trump and the politics of healthcare

By [Evan McCulloch](#)

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To recap what's been going on in the United States this year, in March, the US House of Representatives (House) bill to replace the Affordable Care Act (also called Obamacare) essentially stalled. There were not enough votes to pass the bill, and President Trump gave the House an ultimatum: Either get it done, or he would move on to other priorities. While they didn't get the bill passed then, they didn't move on either.

During the Easter recess, negotiations continued between the various conservative factions in the House, and eventually there was a compromise deal which succeeded in getting enough votes to move the bill to the Senate. Crafting a bill that can pass the Senate, however, will be more difficult and could meet significant delays, in our opinion.

The Senate is currently more moderate than the House and will likely pass its own version of the bill. If that happens, the two versions will need to be reconciled before going back to both chambers for a final vote. In addition, the current plan is to have the bill deal solely with budgetary matters so it can pass the Senate with a simple majority and avoid a filibuster, which limits the scope of what it can address.

We're long-term investors, but it's hard for us to envision a repeal or replacement of Obamacare in place by year end.

The Republicans have been attacking Obamacare for seven years now. On the campaign trail they promised to repeal it, and now some commentators believe President Trump is eyeing the notional savings from a repealed or replaced healthcare bill to fund tax reform, which is arguably a more popular agenda. Thus the delay in passing health care reform is impacting other legislative priorities as well.

Despite this uncertainty, the healthcare and biotech sectors have advanced since the US presidential election in November. Hillary Clinton, the Democratic candidate, had made the high cost of many prescription drugs a major issue of her campaign. There were fears that if she were elected president, she would propose legislation that would cap prices and negatively impact the pharmaceutical sector.

The Republicans had been opposed to changes in pricing of pharmaceuticals, so when Trump won (and more importantly when Republicans maintained control of both the House and the Senate), the likelihood of onerous drug-pricing legislation significantly dropped. Attempts to repeal and replace Obamacare could still impact companies in this space if Medicaid expansion is scaled back and people lose insurance coverage, but the current Republican plan doesn't call for changes in drug pricing. The absence of any significant legislation since the election has in part been driving the positive returns in the sector.

As a result, the industry has refocused its research-and-development efforts on finding drugs that deliver significant clinical benefits, in terms of new treatments or meaningfully better treatments, and the long-term winners are the patients.

## **Looking forward: Taxes and regulation**

We believe the possibility of tax reform will likely be the next big legislative issue to impact the biotech sector, but perhaps not in the way many people think. Most profitable biotechnology companies already have corporate tax rates in the 20%-25% range, so the currently proposed corporate tax rate reduction plan doesn't represent a huge change.

However, within the current tax structure and companies' use of offshore subsidiaries, cash often times get trapped overseas. Trump has proposed a tax break to incentivise US companies to repatriate this cash—that is, bring it back home—and use it to invest in their businesses.

Many US companies able to repatriate that cash could use it to deliver value to shareholders, potentially through share repurchases or dividends, or what we hope to see, more mergers and acquisitions (M&A), which can unlock value in several ways. It allows larger companies to bolster their pipeline with new products, and gives smaller companies access to expertise and personnel of more well established companies to increase their distribution efforts.

On the regulatory front, we don't anticipate major changes coming from the new US administration in this area. We believe new Food and Drug Administration (FDA) Commissioner Scott Gottlieb will be good not only for the FDA, but also for the pharmaceutical and biotech sectors.

The FDA continues to work closely with the industry and seems more committed than ever in getting important new drugs to patients quickly.

## **ABOUT THE AUTHOR**

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