ACKMAN’S HEALTHCARE PLAYS: WHAT ACTIVIST INVESTORS TEACH US ABOU SYSTEM DYSFUNCTION

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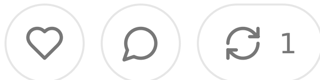

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ABSTRACT

Bill Ackman's healthcare investments offer a unique lens into both the opportur and limitations of applying traditional financial activism to healthcare markets. the catastrophic Valeant partnership to more successful plays in insurance and COVID testing, Ackman's track record reveals fundamental truths about health market dynamics that matter for early-stage investors. His advocacy for drug pri reform and insurance market transparency stems directly from painful lessons a how healthcare companies create and destroy value differently than other sector This essay examines Ackman's major healthcare positions, his public statements reform, and what his experiences teach us about building defensible healthcare businesses. For health tech angels, the key insight is that Ackman's failures cam treating healthcare like any other industry while his successes came from understanding its unique structural constraints. The businesses that survive act scrutiny and regulatory pressure are the ones solving real inefficiencies rather t exploiting information asymmetries or regulatory capture.

Introduction: The Activist as Diagnosti Tool

Here's something most people don't think about when they're watching billionai hedge fund managers fight each other on CNBC: activist investors are essentiall doing free market research for the rest of us. When someone like Bill Ackman ta massive position in a company and then spends months or years publicly articul everything wrong with that company's business model, strategy, or market positi they're building a detailed thesis based on access to information and analytical resources that most early-stage investors can't match. And when they're catastrophically wrong about something, that's even more valuable information.

Ackman's healthcare investments are particularly interesting because they span full range from complete disaster to significant success, and his evolution on healthcare policy issues maps pretty directly onto those experiences. The guy wh partnered with Valeant Pharmaceuticals on a roll-up strategy that imploded spectacularly is the same guy who later became a vocal advocate for drug pricing transparency and insurance market reform. That's not a coincidence. You learn a about how healthcare markets actually work when you lose billions of dollars be they work like normal markets.

For health tech investors, Ackman's healthcare plays are worth studying not bec we should copy his strategies but because his very public wins and losses illumi structural features of healthcare markets that matter for startups. When an activ investor with unlimited resources and top-tier advisors gets destroyed in a healt play, that tells you something about the limits of financial engineering in this se When they succeed, that tells you something about where there's genuine value creation versus where there's just value extraction that eventually blows up.

The other reason Ackman matters for our purposes is that he's been unusually v about healthcare reform in ways that go beyond just talking his book. His public statements on drug pricing, PBM reform, and insurance market transparency ha helped shape the policy conversation in ways that create opportunities and risks startups. Understanding where he's coming from and why gives you a better sen where regulatory pressure is likely to focus and what kinds of business models a vulnerable versus defensible.

The Valeant Disaster: A Masterclass in What Not to Do

Let's start with the big one because you can't understand Ackman's later positio healthcare without understanding how badly Valeant burned him. This is proba the most expensive education in healthcare market dynamics anyone has ever re

The basic Valeant story is well-known but worth recapping. Valeant was a pharmaceutical company with a pretty straightforward strategy: acquire drugs w

established markets and limited competition, jack up the prices as much as poss use the cash flow to fund more acquisitions, repeat. They stripped out R&D sper because why invest in new drug development when you can just buy existing dru and raise prices? They used aggressive tax strategies and accounting to juice rep earnings. They partnered with specialty pharmacies that helped them maintain control over distribution and pricing.

Ackman's Pershing Square took a major position in Valeant in 2015 and actually teamed up with Valeant on a hostile takeover attempt of Allergan. The thesis wa Valeant's platform model for acquiring and repricing drugs was capital-efficient scalable. Traditional pharma companies waste billions on R&D where most drug Valeant's approach was to let other companies take the development risk and the acquire the winners and optimize pricing. From a pure financial perspective, it l brilliant.

The problem, and this is the key lesson, is that the entire model depended on be able to raise drug prices in an environment with limited pushback from payers, providers, patients, or regulators. Valeant was essentially arbitraging a market fa where drugs with inelastic demand and limited alternatives could be repriced w consequences. But that arbitrage opportunity existed because the market had nc mobilized to close it. Once Valeant's pricing practices became a major public controversy, the regulatory and reputational environment shifted fast.

By 2016, Valeant was facing investigations from Congress, the SEC, and federal prosecutors. Their specialty pharmacy relationships were getting scrutiny for potential fraud. Payers were pushing back on reimbursement. The stock went fr over 250 dollars per share to under 10 dollars. Pershing Square lost roughly 4 bi dollars on the position, one of the largest hedge fund losses in history. Ackman eventually admitted the investment was a mistake and that he had misjudged bo business model and the management team.

What makes this interesting for our purposes is understanding exactly what wer wrong from a market structure perspective. Valeant wasn't doing anything illega their pricing in most cases. They were operating within the rules of a system tha

allows drug companies to set prices with limited constraint. The problem was th
their business model was entirely extractive rather than value-creating. They we
making healthcare better or more efficient. They were exploiting information
asymmetries and market failures to transfer wealth from payers and patients to
shareholders.

That works great right up until it becomes politically unsustainable and regulat
decide to change the rules. The lesson for health tech investors is that business
models built on exploiting dysfunction rather than solving it are inherently frag
You might make money for a while but you're essentially betting that the dysfun
will persist and that you won't become the poster child for why the system need
reform. That's not a good bet in healthcare where the political pressure for refor
constant and the examples of exploitative behavior create momentum for regulat
action.

The other lesson from Valeant is about what happens when you strip out the act
value-creating activities to maximize short-term financial returns. Valeant elimi
R&D because it was expensive and risky. But pharma companies do R&D becaus
that's how the industry justifies its economic position in the healthcare system.
you're just a price-hiking machine with no innovation to point to, you lose the
political and social license to operate. That matters in healthcare more than in a
any other sector because healthcare companies exist within a broader ecosystem
legitimacy is tied to contributing to health outcomes not just generating financi
returns.

The Herbalife War and Healthcare Adjacent Plays

Before we get to Ackman's more constructive healthcare positions, it's worth tou
on the Herbalife saga because it shows his approach to market structure argume
and because Herbalife operates in a healthcare-adjacent space as a nutritional
supplement company.

Ackman famously went short Herbalife in 2012 with a massive presentation argu
that Herbalife was an illegal pyramid scheme that would eventually be shut dow
regulators. He took this very public position and then spent years fighting with
Icahn who took the other side of the trade. The whole thing became this enterta
billionaire cage match but underneath it was a serious argument about market
regulation and consumer protection in a category that touches healthcare.

Herbalife sells weight loss shakes and nutritional supplements through a multi-
marketing structure. Ackman's thesis was that the vast majority of Herbalife
distributors lose money and that the company's revenue comes primarily from
recruiting new distributors rather than retail sales to actual consumers. If true,
would make it a pyramid scheme under FTC rules. The healthcare angle is that
Herbalife markets products for health and wellness, targets vulnerable populati
including Latino communities with limited access to healthcare, and makes clai
about health benefits that may not be well-supported.

Ackman lost this trade in a big way. The FTC investigated and while they did fir
Herbalife 200 million dollars and require changes to their business practices, th
didn't shut down the company or declare it a pyramid scheme. Herbalife's stock
up, Ackman covered his short at a loss, Icahn made bank on the other side. From
pure trading perspective, Ackman was wrong.

But from a market structure perspective, the Herbalife fight illuminated someth
important about how we regulate health and wellness products. Supplements are
regulated very differently than drugs. The evidence standards are much lower. T
marketing claims can be aggressive. The distribution models can be structured i
ways that would never fly in traditional healthcare. There's this whole shadow
healthcare economy of products and services that aren't technically medical but
marketed for health purposes to people who often have limited access to or trust
the traditional healthcare system.

For health tech investors, this matters because there are a lot of startups operati
these adjacent spaces. Wellness apps, fitness tracking, nutritional coaching,
supplement subscriptions, biohacking products. The regulatory framework is of

unclear. The evidence base is thin. The business models sometimes depend on recurring revenue from customers who may not be getting value. You need to be thoughtful about whether what you're funding is actually helping people or just extracting money from them through sophisticated marketing.

What Ackman Actually Understands About Healthcare Markets

After the Valeant disaster and the Herbalife fight, Ackman's approach to healthc seems to have matured quite a bit. His more recent public statements show some who actually understands some of the structural problems in healthcare markets is thinking about solutions rather than just arbitrage opportunities.

One of his key insights is about price transparency and market functioning. In m markets, prices are visible and competition works to drive prices toward efficien levels. In healthcare, prices are deliberately obscured through negotiated rates t vary by payer, complex billing practices, and the separation between the person receiving the service and the person paying for it. This creates opportunities for discrimination and rent extraction that wouldn't exist in a transparent market.

Ackman has been publicly supportive of price transparency initiatives including hospital price transparency rules and the CAA requirements for health plans. H argument, which is correct, is that you can't have functional market competition without price information. When every participant is operating with incomplete information about what services actually cost, you get massive price variation an inefficient resource allocation. Making prices transparent doesn't solve all of healthcare's problems but it's a necessary precondition for markets to work bett than they currently do.

He's also been vocal about PBM reform, which is interesting given his history wi Valeant's specialty pharmacy relationships. PBMs are supposed to negotiate low drug prices on behalf of payers but the incentive structures are perverse. PBMs more money when list prices are high and rebates are high, which encourages dr companies to raise list prices and offer bigger rebates. Patients on high-deductil

plans or with coinsurance pay based on list prices while the PBM and the plan c
the rebates. The result is a system that extracts value from the most vulnerable
patients to benefit intermediaries.

Ackman has argued for reforms that would require PBMs to pass through rebat
more transparently and align their incentives with actual cost reduction rather t
rebate maximization. This is pretty consistent with the broader push for PBM re
that's been building momentum in both parties. For health tech investors, the ke
insight is that there are significant business opportunities in fixing broken
intermediary models in healthcare. If you can build a better PBM, a better GPO,
better TPA, anything that actually aligns incentives and reduces costs rather tha
extracting rents, there's real value to create.

The Pharma Pricing Thesis and Why It Matters for Startups

Ackman's evolution on drug pricing is probably the clearest example of how his
thinking has changed post-Valeant. He went from backing a company that
aggressively raised drug prices to advocating for systemic reforms to make prici
more rational and sustainable.

His current position seems to be that drug pricing in the US is broken in ways t
harm both patients and the long-term health of the pharma industry. The system
allows companies to charge whatever they want for drugs with inelastic demand
limited competition. This leads to enormous profits on some products while cre
political backlash that threatens the entire industry. The instability of the curre
model is bad for everyone including drug companies because it makes the busin
environment unpredictable and increases the risk of heavy-handed regulation.

The better approach, in his view, would be some form of value-based pricing
framework where drug prices are tied to clinical benefit and cost-effectiveness.
basically the model that every other developed country uses. Drugs that provide
significant therapeutic benefit at reasonable cost get reimbursed at good prices.

that are marginal or overpriced get pushback from payers. The result is a more sustainable market where innovation is rewarded but rent extraction is limited.

For health tech investors, this has pretty direct implications. If we're moving tov value-based pricing models for drugs, we'll need much better infrastructure for measuring clinical benefit and cost-effectiveness. We'll need real-world evidence platforms, health economics modeling tools, patient-reported outcome measures registries that track long-term outcomes. There's a whole stack of health tech companies that become much more valuable in a world where payers and regulat are making evidence-based decisions about what to pay for rather than just acce manufacturer prices.

We're also likely to see more opportunities in alternative drug development and distribution models. Ackman has invested in or supported various pharmacy anc pricing startups that try to work around the traditional PBM-dominated channe Mark Cuban's Cost Plus Drugs is the most visible example but there are others. basic idea is to create transparent pricing for generics and off-patent drugs by cu out the middlemen and offering direct-to-consumer pricing. These models have limitations in terms of what drugs they can offer and how they handle insurance they demonstrate that alternative distribution channels are viable.

Insurance Market Dynamics Through a Activist Lens

Ackman's healthcare investments have included significant positions in health insurance companies, and his public commentary on insurance markets is instru for understanding where he sees value and dysfunction.

He's held positions in several major insurers over the years and his thesis genera centers on the idea that well-managed insurance companies with scale advantage generate consistent profits even in a highly regulated environment. Insurance is fundamentally a spread business where you collect premiums, invest the float, pa claims, and try to earn a return on both underwriting and investment income. In

health insurance specifically, you also have the opportunity to improve margins through care management, network design, and utilization controls.

The key insight from an activist perspective is that insurance companies can cre value through operational excellence and scale rather than just through pricing or risk selection. The companies that do well are the ones that have superior act capabilities, better provider networks, more effective utilization management, a lower administrative costs. These are defensible competitive advantages that do depend on regulatory arbitrage or information asymmetries.

Ackman has been critical of insurance market structures that create perverse incentives. For example, the ACA's medical loss ratio requirements were intende ensure that insurers spend most of premium revenue on actual medical care rat than overhead and profit. The rule requires insurers to spend at least 80 to 85 pe of premiums on medical claims depending on the market. But this creates an incentive problem where insurers benefit from higher total medical costs becau their allowed profit percentage is calculated against a larger base. If you're allow keep 15 percent of premium revenue, you make more absolute dollars when pre are higher even if you're paying out more in claims.

This gets to a broader point about how we structure incentives in healthcare. M the entities in the system make money when healthcare costs go up. Hospitals m more money when they do more procedures. Drug companies make more money prices go up. Insurers make more money when premiums go up. Even service providers like benefit consultants often get paid as a percentage of plan costs. T only entities with strong incentives to reduce costs are self-insured employers a patients, and they're the ones with the least power and information to actually d change.

For health tech investors, this suggests opportunities in business models that genuinely align incentives around cost reduction and quality improvement. Valu based care models where providers take risk for total cost of care. Benefits platf that get paid based on cost savings. Health tech tools that are purchased by emp and make money by demonstrating ROI. These models are harder to scale than

traditional healthcare businesses because the buyer is more sophisticated and th
value proposition has to be real rather than just marketed. But they're also more
defensible because they're creating actual value rather than extracting rents.

The COVID Testing Play and Public Hea Infrastructure

One of Ackman's more recent and successful healthcare plays was his investmen
and advocacy around COVID testing infrastructure. In the early days of the pan
Ackman became very publicly concerned about COVID before most mainstream
investors and institutions took it seriously. He went on CNBC in March 2020 an
basically said the economy needed to shut down immediately to contain the viru
which was pretty alarmist at the time but turned out to be prescient.

Pershing Square invested in several companies positioned to benefit from pande
response including Lowe's, which sold supplies for home improvement during
lockdowns, and Restaurant Brands International, which had drive-through
infrastructure. But more interestingly, Ackman became a vocal advocate for scal
testing capacity and using testing as a tool for economic reopening.

His argument was that you couldn't safely reopen the economy without massive
testing infrastructure to identify and isolate cases. This required both increased
testing capacity and faster turnaround times. The US testing system in early 202
completely inadequate with limited lab capacity, slow results, and regulatory ba
to scaling. Ackman used his platform to push for policy changes including emer
use authorizations for rapid tests, federal funding for testing infrastructure, anc
requirements for workplace testing.

This is interesting because it shows Ackman engaging with healthcare not just a
investment opportunity but as a public policy problem where the market failure
obvious and the need for intervention was clear. Testing is a classic case where
individual incentives don't align with collective benefit. There's huge social valu
widespread testing because it reduces transmission and allows for targeted
interventions. But individuals have limited incentive to get tested if they're

asymptomatic and testing is inconvenient or expensive. The market won't provic optimal testing capacity on its own.

For health tech investors, the COVID testing experience highlighted several important points. First, public health infrastructure is massively underinvested there are opportunities in building systems that can scale rapidly in response to emerging threats. Second, diagnostics are a critical bottleneck in pandemic resp and there's value in developing faster, cheaper, more accessible testing technolo; Third, the regulatory environment can change very quickly when there's sufficie political pressure and demonstrated need.

The companies that did well during COVID were the ones that had existing capabilities they could scale or pivot rather than trying to build from scratch. Al and BinaxNOW scaled rapid antigen tests. Cue Health and Lucira developed at-] molecular tests. Color and other genomics companies pivoted to processing CO\ tests at scale. The lesson is that optionality matters in health tech. If you're buil infrastructure or capabilities that can be applied to multiple use cases including emergency response scenarios, that's valuable even if it's not the primary busine: model.

What Health Tech Investors Can Learn from Activist Failures

The most valuable thing about studying Ackman's healthcare investments is not successes but his failures and how they illuminate the limits of certain approach healthcare investing. Activist investing works great in industries where financial engineering and operational improvements can create value without changing fundamental market dynamics. It works less well in healthcare where market dysfunction is often baked into regulatory structures and where attempting to e: maximum value from existing arrangements can trigger backlash.

The Valeant experience teaches us that business models based on exploiting mar failures rather than solving them are fragile. If your entire value proposition dep on information asymmetries, regulatory gaps, or misaligned incentives persistin;

indefinitely, you're vulnerable to reform. This doesn't mean you can't make mon these situations but it means you need to be realistic about sustainability and ex timing. If you're an early-stage investor backing a company that's essentially arbitraging a market failure, you need to be thinking about what happens when arbitrage opportunity closes and whether the company can transition to a more sustainable model.

The Herbalife experience teaches us about the importance of actually delivering to customers versus just extracting revenue through sophisticated marketing and distribution strategies. Healthcare and wellness products that don't improve hea outcomes will eventually face scrutiny. The customer base might be large and th lifetime value might look good in your model, but if people aren't actually gettir healthier or achieving their goals, the business is built on sand. This is particula important in direct-to-consumer health tech where user acquisition costs are hi retention depends on delivering real results.

The insurance investments teach us that sustainable healthcare businesses are b on operational excellence and genuine efficiency improvements rather than just pricing power or risk selection. The insurance companies that generate consiste returns are the ones that are actually better at managing medical costs and redu unnecessary utilization, not the ones that are just better at cherry-picking healtl members or negotiating higher premiums. For health tech companies selling int insurers or competing with them, the lesson is that you need to help them impro their fundamental operational capabilities rather than just offering point solutic

Conclusion: The Limits of Financial Engineering in Healthcare

Bill Ackman's healthcare investments tell a story about the limits of applying traditional financial strategies to healthcare markets. The approaches that work other sectors like aggressive cost-cutting, roll-up strategies, financial engineerin exploiting information asymmetries tend to blow up in healthcare because the m structure is fundamentally different. Healthcare is more regulated, more politica

sensitive, more tied to social outcomes, and less responsive to pure financial incentives than other industries.

The investments that have worked for Ackman are the ones where he's aligned w genuine value creation rather than value extraction. Supporting price transparer makes markets work better. Advocating for PBM reform reduces wasteful rent extraction. Investing in testing infrastructure improves public health outcomes. are cases where financial returns and social benefit are aligned rather than in ter

For health tech investors, the key lesson is to be very clear-eyed about whether t companies you're backing are solving problems or exploiting them. Healthcare h enormous dysfunction and that dysfunction creates both opportunities and trap: can make money exploiting the dysfunction in the short term but those business inherently unstable and vulnerable to reform. The businesses that compound va over decades are the ones that make healthcare more efficient, more transparent effective, or more accessible. Those are harder to build and often require longer horizons to prove out, but they're the ones that survive regulatory pressure and market evolution.

Ackman's current advocacy for healthcare reform is probably more valuable to t ecosystem than most of his actual investments. By using his platform to push fo transparency, PBM reform, and more rational drug pricing, he's helping create a environment where sustainable healthcare businesses can thrive and extractive c face pressure. That's good for patients, good for the system, and ultimately good investors who are backing companies solving real problems rather than just arbitraging dysfunction.

The window for building extractive healthcare businesses is closing as transpare increases and regulation tightens. The window for building truly valuable healt businesses is opening wider as we get better data, better tools, and more sophist buyers. That's the environment health tech investors should be positioning for. S the failures as much as the successes. Understand what makes healthcare differe from other sectors. Back companies that make the system better rather than just making money from it being broken. That's how you build a portfolio that gener

both returns and impact, which in healthcare turns out to be basically the same
over a long enough time horizon.

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