



COVID-19: EUROPEAN HEALTHCARE INVESTMENT THEMES

1 May 2020

COVID-19 STOCK MARKET IMPACT

Healthcare has both been one of the strongest performing sectors in Europe over the past few years, and one of the most resilient so far during the COVID-19 crisis

European stock market impact by sector

| Sector | Total return '17-'19 ¹ | Total return Q1 2020 ² | CDS impact Q1 2020 | Commentary |
|---|-----------------------------------|-----------------------------------|--------------------|--|
| Travel and Leisure | 10% | -38% | 254% | Large hit to valuations and creditworthiness, as business is on hold |
| Transport and Infrastructure | 42% | -30% | 164% | Plummet in transport demand, in some cases approaching 100% |
| Manufacturing/ industrials | 26% | -25% | 80% | Affected by supply chain disruption on top of disruption in general demand |
| Retail and consumer goods | 10% | -25% | 48% | Large loss for in-store retailers, somewhat mitigated by shift to online |
| Cross Sector Average³ | 12% | -22% | 79% | n/a |
| Financial services | 33% | -21% | 43% | Large impact in equities and IBD; FICC and Market infra more stable |
| Technology | 27% | -16% | 42% | Limited demand impact and compatible with remote supply chain |
| Energy | 17% | -19% | 26% | Demand and supply shocks in power and utilities |
| Healthcare⁴ | 28% | -9% | 4% ⁵ | Essential sector, comparatively resilient to downturns |

1. Including dividend; 2. Until 27/03/2020, including dividend; 3. MSCI Europe for stock returns, simple average of CDS spreads for different sectors for CDS impact; 4. Excludes NMC Health; 5. North American CDS index as European equivalent is not available

Source: Datastream, Oliver Wyman analysis

STOCK MARKET IMPACT WITHIN HEALTHCARE

Companies related to healthcare provision have been the hardest hit in the sector as almost all elective activity has been suspended to focus on containing and treating COVID-19

European¹ returns over Q1 2020

%, including dividends

| Sub-sector | Q1 2020 return | Companies included |
|--|-------------------------|---|
| Biotech and Pharma €1,460 bn ² | Biotechnology -5% | Research and development, and early commercialisation of biological substances for drug discovery and diagnostics |
| | Pharmaceuticals -7% | Manufacturers of prescription and/or over-the-counter drugs and vaccines (excludes vitamin producers) |
| Medical Tech and Services €340 bn ² | Med Tech -12% | Manufacturers and distributors of medical devices (e.g. MRIs, X-rays machines) and medical supplies used by healthcare providers and the general public (e.g. lenses, bandages) |
| | Outsourced Services -6% | Companies that operate and manage outsourced medical labs and testing services |
| Healthcare Providers ~€60 bn ³ | -25% | Owners and operators of primary healthcare, hospitals, retirement and nursing homes, and other healthcare providers |
| Average Healthcare | -9% | |
| Cross-sector average | -22% | |

Notes: 1. Countries analysed include among others: Germany, Denmark, Spain, UK, France, Italy, Belgium, Netherlands, Greece | 2. Consolidated market value (MVC) | 3. Excludes NMC Health.

Source: Datastream, Oliver Wyman analysis, FTSE Russell

6 UNDERLYING DRIVERS WITH IMPLICATIONS FOR HEALTHCARE SECTOR

| | | Implications for Healthcare Sector going forwards | |
|---|----------|--|---|
| | | Life Sciences (Pharma and Med Tech) | Healthcare Providers |
| COVID crisis-specific drivers | 1 | Resumption of activity paused temporarily during crisis | Paused development programs and clinical trials will restart |
| | 2 | Change in underlying demand file | Increased demand for vaccines and therapeutics for COVID and other similar infectious diseases |
| | 3 | Extreme supply chain pressures | Companies will seek to de-risk API and manufacturing supply chains from over reliance on Asia |
| Ongoing structural drivers accelerated by COVID | 4 | Adoption of digital solutions to move away from traditional face to face and bricks and mortar models | Accelerated move to multichannel customer engagement Further shift of content focus to scientific and medical data and information |
| | 5 | Healthcare system cost sustainability | European pricing reconsidered if COVID triggers US Gov't push for lower drug prices Passing regulatory approvals will need to be quicker and less costly |
| | 6 | Big data and analytics revolution | Expedited adoption of AI in drug development – for drug discovery and new indications |

INVESTMENT THEMES ARISING IN LIFE SCIENCES

| | Driver | Rationale | | Investment Themes |
|---|---|--|---|---|
| 1 | Uptick in clinical trial activity as suspended trials restart | <ul style="list-style-type: none"> • Clinician resource and trial site capacity has been redirected to COVID-19 management, causing 1,110 FDA clinical trials to be suspended since February 2020¹ (vs. 311 in all of 2019) • As clinicians and trial sites return to normality, Biotech and Pharma companies will be under investor pressure to rapidly kick-start their development pipelines | > | <ul style="list-style-type: none"> • Any companies that ensure trials are executed more quickly and efficiently: <ul style="list-style-type: none"> – Potential targets include CROs, CDMOs, trials data analytics platforms etc. that can design or run trials smarter, or leverage smaller data sets |
| 3 | Supply chain restructuring in developed countries | <ul style="list-style-type: none"> • Restructuring API supply chains to reduce reliance on China and India (up to 80%+) is one of the top management priorities of Big Pharma companies | > | <ul style="list-style-type: none"> • API manufacturers in lower cost European and other Western countries |
| 4 | Greater need for focused and digital HCP engagement | <ul style="list-style-type: none"> • Clinicians' availability for sales reps will be diminished due to their increased workloads, in addition to likely social distancing restrictions in clinical settings • The Medical Affairs channel will continue to gain importance for Pharma as clinicians' engagement preferences continue to favour towards bespoke scientific guidance | > | <ul style="list-style-type: none"> • Platforms and tools that optimize multichannel commercial activities to reach customers • Platforms and tools that effectiveness of the Medical Affairs channel (e.g. Key Opinion Leader targeting, etc) |
| 6 | Highlighted potential for faster and lower cost drug development | <ul style="list-style-type: none"> • Pharma will continue to be under increasing pressure to reduce the time and cost associated with bringing new products to market • The accelerated efforts for developing COVID-19 vaccines and treatments will highlight the potential for faster and lower cost drug development | > | <ul style="list-style-type: none"> • Technology platforms that leverage data and AI for <ul style="list-style-type: none"> – Development of new drugs, including molecule design and screening – Repurposing existing drugs and revisiting previous clinical trial data |

Note: 1 As of 22 March 2020

Source: clinical trials.gov; Oliver Wyman market interviews, research and analysis

INVESTMENT THEMES ARISING IN HEALTHCARE PROVIDERS

| | Driver | Rationale | | Investment Themes |
|---|---|---|---|---|
| 1 | Building pent-up elective demand | <ul style="list-style-type: none"> Focus by healthcare systems on treating COVID-19 patients and enforcement of social distancing is building a back-log of pent-up demand (est. 1.6MM additional per month in the NHS) from procedures that are being postponed Experience from SARS in Asia suggests this back-log can take several years to work through, in part because of patient behaviour due to infection concerns | > | <ul style="list-style-type: none"> Outsourced service providers for e.g. ambulatory surgery, dermatology, ophthalmology etc as health systems seek to be able to flex up and down capacity without committing to permanent capital expenditure |
| 2 | Greater demand for Mental Health provision | <ul style="list-style-type: none"> Half of medical and care workers in the UK have reported their mental health has already deteriorated, with further impacts expected post crisis e.g. PTSD The crisis also feeds several drivers for declining mental health amongst the public | > | <ul style="list-style-type: none"> Mental health platforms or facilities and other solutions that cater to specific mental health demands that arise from COVID |
| 4 | Increased baseline adoption of telehealth and other digital health solutions | <ul style="list-style-type: none"> Social distancing has driven healthcare professionals and consumers to engage with digital health solutions e.g. Teladoc's volume has doubled Although not necessarily a permanent inflection point for widespread adoption, this has proven the utility and value of digital health propositions - will increase the baseline usage | > | <ul style="list-style-type: none"> Digital health offerings which can prove their value through increased convenience for the consumer, across telemedicine, remote monitoring, at-home diagnostics, at-home pharmacy delivery etc. |
| 5 | Reduced revenue and uncertain financial future | <ul style="list-style-type: none"> Prioritisation of COVID-19 treatment has reduced income streams for providers as elective procedures and non-elective appointments have been postponed or cancelled | > | <ul style="list-style-type: none"> Consolidation opportunities as a number of smaller providers do not have the financial resources to survive temporary hiatus and uncertain path to "new normal" |

Source: YouGov; Institute for Public Policy Research; Health Service Journal; Teladoc; Oliver Wyman market interviews, research and analysis

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