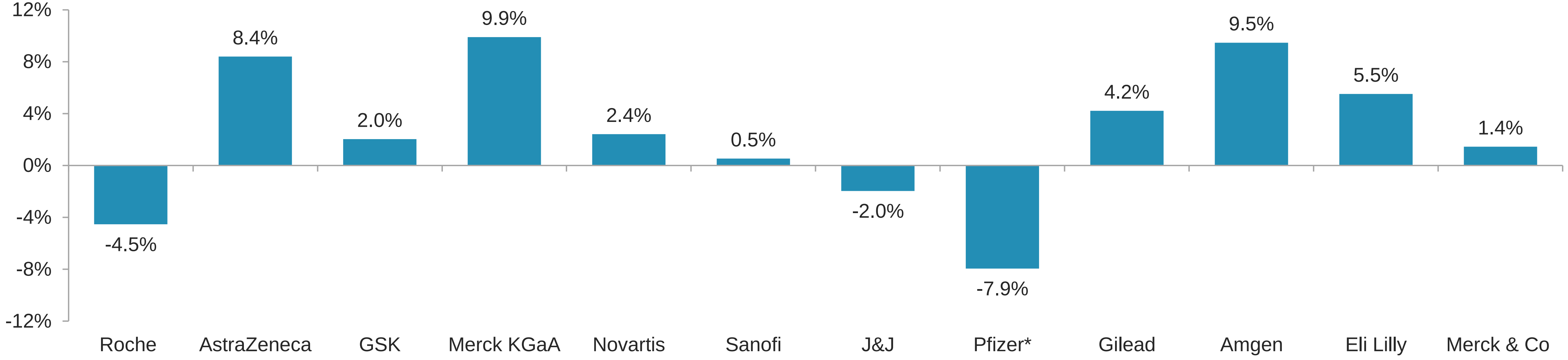
Pharmaceutical & MedTech: Edging Toward Normalcy

Healthcare, like other sectors, hit by COVID-19

- COVID-19 marred 2020, bringing life to a standstill for months due to lockdowns and social restrictions, and severely impacting the global economy.
- The pandemic hit almost all sectors, from oil & gas to automotive; healthcare was no exception.
- The pharmaceutical and MedTech sub-sectors in healthcare were also hit. Companies in these sub-sectors performed weakly in 2Q20, with MedTech players seemingly affected more than pharmaceutical companies.
- Both sub-sectors recovered in 3Q20 (pharmaceuticals rebounded faster than MedTech), aided by easing of social restrictions and strong demand for COVID-19-related antibodies and products.
- With several countries approving vaccines and initiating mass inoculations, the global economy can be expected to move toward normalcy.

Pharmaceuticals sub-sector rebounds strongly

9M20 y/y change in revenue of select pharmaceutical companies



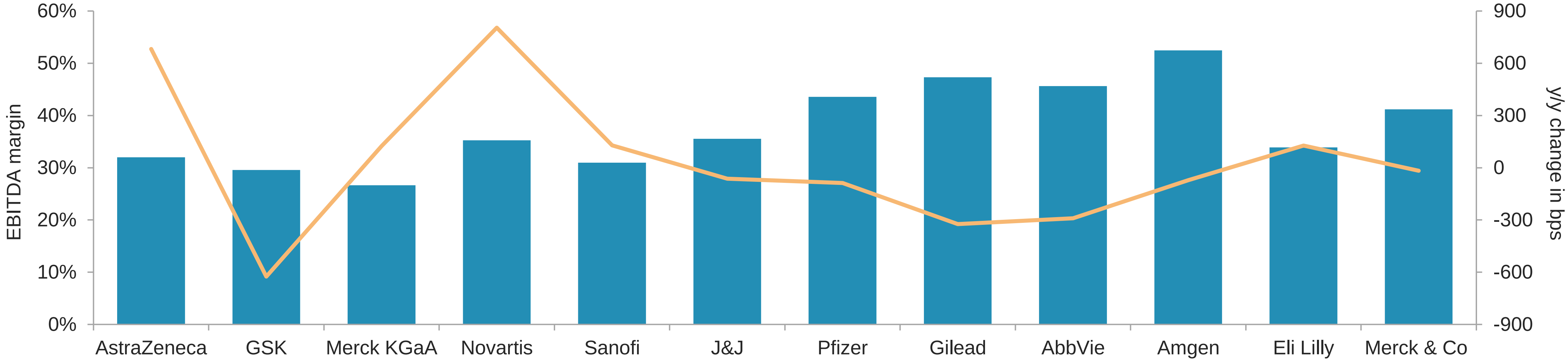
***Note**: AbbVie and Bristol-Myers Squibb excluded due to significant growth in revenues due to M&A activity; *Pfizer revenue decline partly due to deconsolidation of the Consumer Healthcare business*

- Most companies under consideration registered a y/y increase in revenue, which was driven by growth in sales of COVID-19-related products, oncology medication, influenza vaccines, specialty care products, and animal health products.
- Regular testing services and vaccines were hit by the pandemic, while destocking and reduced new patient starts impacted the top line, particularly in 2Q20.

Source: *Aranca Research*

Pharmaceutical margins resilient despite challenging environment

9M20 EBITDA margin and change in margins of select pharmaceutical companies



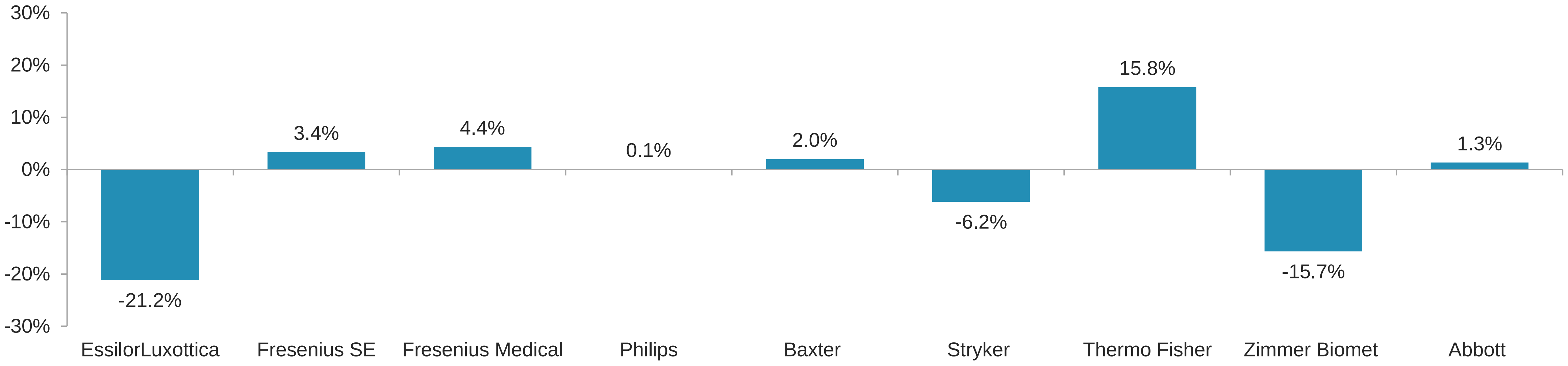
***Note**: Bristol-Myers Squibb excluded due to significant improvement in margins due to M&A activity*

- Margins for most companies under consideration remained resilient due to an increase in revenue, even as higher operating expenses continued to pose a challenge.
- More than half of the companies studied, witnessed an increase in free cash flow (FCF), supported by a decrease in working capital requirements; also, capex either declined or remained flat for most.

***Source:** S&P CapIQ, Aranca Research*

MedTech recovers faster than expected

9M20 y/y change in revenue of select MedTech companies



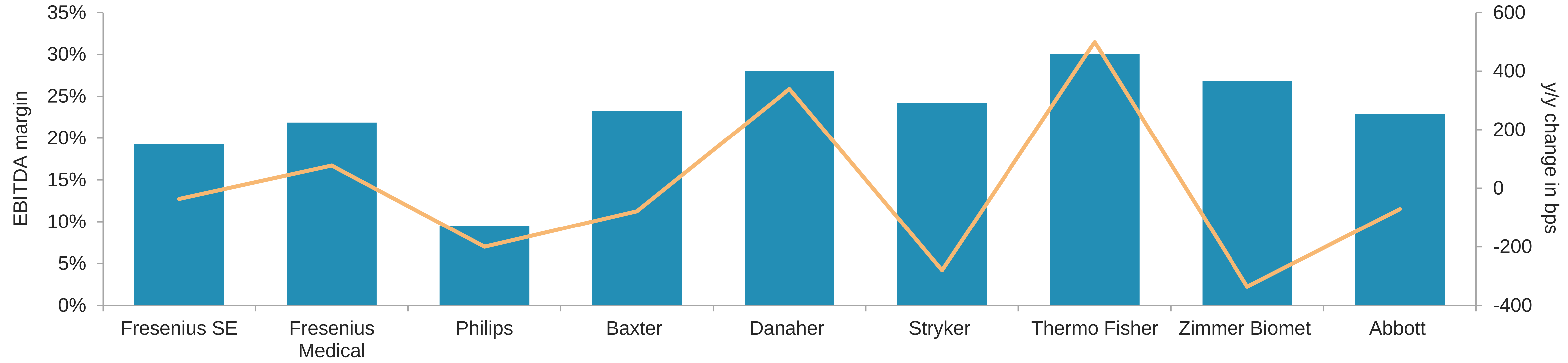
Note: *Danaher excluded due to significant growth in revenues due to M&A activity*

- The companies under consideration registered a y/y growth in revenue, driven by growth in sales of COVID-19-related products and testing services, acute care products, specialty care, diabetes care, and renal care.
- Elective procedures grew sequentially but remain affected due to COVID-19-related restrictions and delays.
- Most companies reported revenue higher than the consensus estimate in 3Q20; this indicates recovery was faster than initially expected.

Source: *Aranca Research*

MedTech margins still slightly affected by pandemic

9M20 EBITDA margin and change in margins of select MedTech companies



- Margins for most companies under consideration remained flat or declined, primarily due to higher operating expenses.
- Despite the hit to margins, FCF at most companies increased, primarily due to a decrease in working capital requirements, while capex remained largely flat.

Source: *S&P CapIQ, Aranca Research*

Several important vaccines, antibodies launched to combat COVID-19

Company	Product	Approval information
Pfizer & BioNTech	Vaccine	Approved for emergency use in the US, the UK and EU, in addition to other countries
AstraZeneca & Oxford University	Vaccine	Approved for emergency use in the UK, the EU, India, among other countries; expected to receive more approvals in the coming weeks
Moderna	Vaccine	Approved for emergency use in the UK, the US and EU, in addition to other countries
Gilead	Veklury	Full use approval granted in October 2020 by the FDA; Veklury approved in around 50 countries
Eli Lilly	Bamlanivimab & Baricitinib	Both granted FDA emergency use approval in November 2020
Regeneron	Casirivimab & Imdevimab	Both granted FDA emergency use approval in November 2020

Source: *Moody's Report on Global Healthcare, December 2020; Aranca Research*

Outlook positive; however, pandemic, policy changes could pose risks

- **COVID-19 vaccine makers and related product providers to benefit:** The strong demand for COVID-19 vaccines bodes well for vaccine makers such as Pfizer, AstraZeneca, and Moderna as they continue to sign agreements with more countries. These companies are expected to benefit from the profits generated from vaccine sales, as well as ESG-related benefits, although social pledges may limit profits to an extent. Similarly, suppliers of antibodies and other COVID-19-related products, such as Gilead Sciences, Eli Lilly and Regeneron, are expected to benefit.
- **Pick-up in procedures expected to continue:** Procedural volumes are expected to continue to recover as patients return to healthcare providers with the easing of social restrictions. Volume recovery would be supported by a return of patients seeking treatment for non-deferable chronic diseases. Recovery in procedural volumes and the strong demand for COVID-19 testing services are expected to spur sales of medical products and devices in the medium term. Testing volumes are expected to remain high until large-scale vaccination drives are initiated. The demand for COVID-19 testing services is expected to benefit companies such as Abbott Laboratories, Roche, and Becton Dickinson, as well as life sciences players such as Thermo Fisher Scientific.
- **Recovery contingent on containment of COVID-19 spread:** A global recovery is contingent on the containment of the spread of COVID-19. A further spike in cases, as seen in some countries now, could lead to re-imposition of lockdowns and social restrictions, which would in turn derail recovery.
- **Changes in healthcare policies could be a risk:** With the newly elected leadership in the US and the Democrats pushing for Medicare for all and the uncertainty about changes in healthcare policies, pharmaceutical companies could find themselves on a rocky path. Democrats seek to lower drug prices by giving the government the authority to negotiate drug prices; they could also look to use budgetary savings for Medicare benefits. The party may seek to roll back the Republican push for non-ACA-compliant health insurance plans and probably slow down the pace of new drug approvals.
- **Large pharmaceutical companies to continue facing pricing pressure:** China's volume-based procurement (VBP) plan, which is focused on cutting prices of generic drugs, could pose a risk to large pharmaceutical companies. The program, currently covering 32 provinces or cities, will likely be extended to other areas in the country. Large pharmaceutical companies would continue to face pricing pressure in the near term, which they could mitigate by introducing new, innovative medicines.

BUSINESS RESEARCH & ADVISORY

INVESTMENT RESEARCH & ANALYTICS

FIXED INCOME RESEARCH & ANALYTICS

VALUATION ADVISORY

TECHNOLOGY INTELLIGENCE & IP RESEARCH

PROCUREMENT & SUPPLY CHAIN INTELLIGENCE

inquiry@aranca.com