

Covid-19 financial implications for device and supply

Medium-term scenarios that all health care suppliers should prepare for

With the global spread of Covid-19 comes an entirely new set of challenges for medical device and supply companies. The industry is already experiencing a range of ripple effects—from shifting product demand to disruptions to manufacturing processes. While some of this impact was felt immediately, several scenarios could have significant financial consequences but have yet to play out.

No one can predict all the ways Covid-19 will influence the industry, but leaders are already asking about the medium-term and long-term implications of the pandemic on their businesses. To help medical device and supply companies plan for and mitigate the financial consequences of Covid-19, we've compiled a list of the likely situations suppliers will encounter as a result of the pandemic.

Demand for medical devices and products



Force

Lower demand for surgical supplies and devices

Lower demand for supplies and devices used in basic or preventative care

Lower demand for capital equipment (outside of device and equipment required to manage Covid-19)



Magnitude depends on

- Extent of elective surgery delays or cancellations
- Impact of economic recession on consumer willingness to schedule elective procedures

- Magnitude and length of the economic recession
- Changes in individuals' health insurance coverage

- Impact of the outbreak on hospital operating margins and cash on hand



Questions to consider

- What surgical procedures will be rescheduled, cancelled, or moved to an alternative site?
- How will consumer health care behavior change alongside changes in income or insurance status?
- How will consumers' utilization of health care services change with rising unemployment and greater financial hardship?
- Will consumers stop seeking basic services to avoid transmission of the disease?
- What is the correlation between hospital operating margin and investment in capital expenditures?
- Will financial losses due to outbreak management impact hospitals' ability to invest in new – and costly - medical technologies?

Demand for medical devices and products (continued)

Challenge	Magnitude depends on	Questions to consider
Uncertain medium-term demand for PPE, ventilators, and diagnostic tests	<ul style="list-style-type: none"> • Duration of the outbreak – and the potential resurgence of cases • Supply re-usability 	<ul style="list-style-type: none"> • When cases subside, will providers have purchased so many non-reusable supplies (e.g., ventilators) that they are over-supplied for the next year?
Increased demand for technologies that enable remote monitoring or surveillance	<ul style="list-style-type: none"> • Length and extent of outbreak • Length of social distancing period • Effectiveness of telehealth during outbreak • Insurance coverage and regulatory policies around telehealth after the outbreak is controlled • Provider and consumer willingness to continue using telehealth 	<ul style="list-style-type: none"> • What service lines are most suited for virtual care or care at home? • How will payer, provider, and consumer sentiment around telehealth change once we're out of crisis mode?

Disruptions to suppliers operational, commercial, and corporate strategies

Pressure to ensure redundant and/or geographically dispersed manufacturing capabilities	<ul style="list-style-type: none"> • Impact of supply shortages on overall response • Extent to which shortages are tied to breakdowns in overseas manufacturing • Resources available to support redundant manufacturing • Providers' desire to mitigate risks by demanding redundancies (or favoring vendors with capability to manufacturing products domestically) • Efficiency losses through redundant or geographically dispersed manufacturing 	<ul style="list-style-type: none"> • How consolidated are device and product supply chains in any given product line? How at-risk are they to future disruption? • How have manufacturing capabilities been impacted by factory closures in foreign markets? • Have manufacturers with US-based manufacturing been better able to support demand? • Can losses in efficiency through redundant manufacturing be offset by protection against future disruptions? • Will health care providers start to favor those suppliers, either through vendor selection or via contract terms, whose manufacturing processes demonstrate their preparedness for future similar situation?
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Disruptions to suppliers operational, commercial, and corporate strategies (cont.)

Challenge	Magnitude depends on	Questions to consider
New approach to hospital inventory management	<ul style="list-style-type: none"> • Regulations to prevent stockpiling • Duration of the outbreak and fear of a potential resurgence 	<ul style="list-style-type: none"> • Will this experience upend providers growing preference for “just-in-time” inventory? Or will it be deemed a once-in-a-lifetime experience? • How will providers’ storage costs be impacted by product stock increases?
Lower than expected performance of new products due to fewer in-person marketing and training opportunities	<ul style="list-style-type: none"> • Cancellation of trade shows, conferences, and other in-person marketing opportunities • Extent of hospital restrictions on non-essential visitors 	<ul style="list-style-type: none"> • What percentage of sales are attributed to in-person marketing events? • What products require in-person training before being deployed into a facility? • What other opportunities exist to connect with potential buyers?
Delayed product releases	<ul style="list-style-type: none"> • FDA capacity to review new products • Whether manufacturing efforts are re-focused on Covid-related products 	<ul style="list-style-type: none"> • What in-pipeline products may require FDA review? • How has manufacturing capacity been impacted by increased demand for Covid products?
M&A activity within the device and supply sectors	<ul style="list-style-type: none"> • Impact of Covid-19 and the economic recession on company growth forecasts • Impact of supply chain disruptions on companies’ cost structure • Impact of Covid-19 on health care provider finances and the resulting total market of customers and buyers • Emergence of smaller companies as viable acquisition targets 	<ul style="list-style-type: none"> • What startups have emerged as potential “heroes” in this crisis (e.g., portable ventilators)? • Will larger companies view this as an opportunity to grow a more robust product portfolio? Gain redundant manufacturing capabilities?

Disruptions to suppliers operational, commercial, and corporate strategies (cont.)

Challenge	Magnitude depends on	Questions to consider
Internal restructuring	<ul style="list-style-type: none">• Impact of Covid and the economic recession on growth forecasts• Impact of supply chain disruptions on companies' cost structure• Hospital restrictions on non-essential visitors	<ul style="list-style-type: none">• Will companies that make products unrelated to Covid management be able to sustain sufficient cash flow amid declining volumes?• Will companies be able to re-allocate staff or flex roles to accommodate fluctuations in product demand and limitations on direct-to-provider interactions?• When operations return to normal, will providers have a different perspective on the relative value of supplier-provided services?

Changes to the provider-supplier relationship

Changes in size of hospital market and potential to grow individual customers' share of wallet	<ul style="list-style-type: none">• Hospitals ability to financially recover from Covid outbreak• Extent to which supply shortages as highlighted as dark spot of the nation's response• Hospitals' desire to retreat from sole sourcing as a risk-mitigation strategy	<ul style="list-style-type: none">• Will some hospitals be left unable to financially recover? Will they close or merge with another organization?• Will providers, after years of trying to limit vendor relationships, look to dual or multi-source in order to protect against future supply shortages?
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Reevaluation of the provider-rep relationship	<ul style="list-style-type: none">• Duration of hospital limitations on non-essential visitors• Impact of this period on hospitals' perceived value of rep interactions• Suppliers' ability to continue "business as usual" without typical rep interaction	<ul style="list-style-type: none">• How are companies moving in-person, provider-supplier interactions to virtual settings? What activities cannot be replicated virtually?• How will this period accelerate – or decelerate – companies shift towards key accounts models?• When normal activity resumes, will hospital leaders use this period as justification for further limiting rep interaction?
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Changes to the provider-supplier relationship (continued)

Challenge	Magnitude depends on	Questions to consider
Uncertain long-term future for non-hospital customers, including independent physician practices, ambulatory surgery centers (ASCs), and post-acute care providers	<ul style="list-style-type: none">• Extent to which individuals delay or avoid non-hospital or non-emergency care• Extent to which declining volumes force smaller practices to close or affiliate with larger groups• Extent to which non-hospital sites (physician offices, ASCs) are used to manage patient overflow or free up hospital capacity• Impact of the outbreak on the broader populations' desire to utilize post-acute facilities (vs. aging in place)• Availability of technologies or services that enable more remote or home-based care	<ul style="list-style-type: none">• If small practices are forced to close shop or align with larger entities, who will they choose?• If ASCs are leveraged to manage excess capacity, will they be able to compensate for losses from delayed or cancelled elective surgeries?• Will this crisis spur efforts to rebuild the post-acute industry or accelerate interest in seniors aging in place?