

Industry Top Trends Update

Health Care

Recovery is uneven and M&A may pressure rating headroom

What's changed?

Diversified, innovative, and adaptive portfolios will be a differentiating factor for health care companies. Continued, and in some cases accelerated, investments into product and process innovations during the pandemic have supported top-line growth and market-share gains. Cost and cash management are also helping to protect margins and cash balances, shielding credit metrics from significant deterioration and preparing companies for growth post-pandemic.

Pricing and reimbursement are back on the agenda. As health care systems start to recover, unresolved risks regarding reimbursement are resurfacing. Public debate focuses on the accessibility and affordability of medicine and quality care, including price transparency. Ensuring wider patient access while improving therapies' cost effectiveness is increasingly a goal for companies, and sustainability strategies are evermore integrated into operational management.

Sustainability-linked instruments are on the rise. The post-pandemic period is an opportunity for companies to review their policies and protocols, implement new technology to improve care and supply chain management, and to define their sustainability strategies. Sustainability-linked financial instruments can help companies raise funds while highlighting their green or social commitments and reinforcing their sustainability strategy to investors, lenders, and the public.

How is recovery taking shape?

Products and services related to elective procedures were the hardest hit, but are slowly recovering. Europe is lagging the U.S. in recovery, also due to summer holidays, but we expect a pick-up in second-half 2021, depending on COVID-19-related hospitalization rates.

Pharma remains resilient. It faced some slower performance in new treatments and diagnosis, but is seeing growth as patients return and treatments resume.

Health care services has benefited from government support. In France, for instance, reimbursement will last at least for the next 18 months. Recovery in dialysis services, which saw high patient mortality from COVID-19, will take longer, and providers turned to restructuring measures to manage margin pressure.

Diagnostic companies saw profits rise from COVID-19 testing, reflecting high demand and some favorable pricing. However, we expect this contribution to profits will materially decline in 2022, as the wider population gains immunity to COVID-19.

What are the key risks around the baseline?

M&A spending, as companies sit on significant cash balances and are taking advantage of favorable funding conditions. Increasing transaction volumes and high multiples are raising leverage and could pressure metrics and ratings.

Renewed debate around drug pricing and reform in the U.S. could hamper growth prospects for pharma companies over medium term.

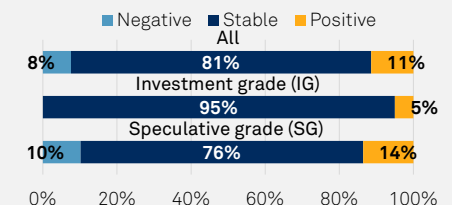
Latest Related Research

- [European Hospitals Turn To Sustainability-Linked Financing To Advance Their ESG Goals](#), July 1, 2021
- [EU's Vaccine Supply Boost Will Aid The Race Against COVID Mutations](#), April 28, 2021

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Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	19	60	79
Downgrades	0	3	3
Upgrades	0	1	1

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Estimated Recovery To 2019 Credit Metrics	
Health care - pharmaceuticals	No decline
Health care - services	2H 2021
Health care - equipment	2H 2021
Potential Neg. Long-Term Industry Disruption	
Health care - pharmaceuticals	No
Health care - services	No
Health care - equipment	No

2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
Health care - pharmaceuticals		
No decline	No decline	No Increase
Health care - services		
0%-5%	0%-10%	<5%
Health care - equipment		
10%-15%	15%-25%	<5%

2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
Health care - pharmaceuticals	
≥2019	≥2019
Health care - services	
≥2019	≥2019
Health care - equipment	
≥2019	≥2019