Industry Top Trends Update

Health Care

Positive rating actions likely to outpace negative ones in 2H

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What's changed?

Accelerated pace of disruption post-pandemic. We project mid-single-digit percent growth for the industry post-pandemic. However, the pandemic has accelerated various industry changes, such as the use of telehealth, homecare delivery, and value-based care. How permanent these shifts are will have longer-term implications for the industry and individual players.

Improved operating performance is driving the net positive rating actions. We took 44 positive rating actions on the U.S. health care sector in the first half of 2021 versus only 13 negative actions, a dramatic reversal from the net negative actions in recent years. This shift reflects both recovery from declines that had prompted negative rating actions last year and improved operating performance.

The sustainability of cost savings is uncertain. Contributing to the improved operating performance was companies' cost-cutting and increased efficiency during the pandemic. The question is how sustainable these cost savings are.

How is recovery taking shape?

All health care subsectors largely recovered by the end of 2020. Patient and procedure volumes in many areas are within 5%-10% of pre-pandemic levels. The largely successful vaccination program has lowered infection and hospitalization rates, lessening strain on health care systems and providers. As a result, we project credit metrics will be largely restored by year-end 2021.

We expect COVID-19-related tailwinds to gradually subside. Pandemic-related tailwinds for select players—in the life science, medical products, and diagnostic industries—will gradually subside in the second half of the year. How aggressively companies reinvest the windfall in the form of M&A will affect ratings.

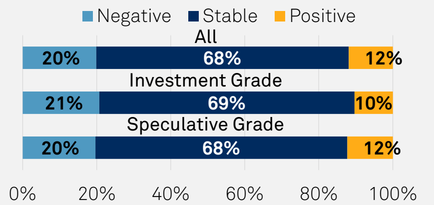
What are the key risks around the baseline?

Heightened pressure to control health care costs. U.S. health care spending was projected to grow at 5.3% pre-pandemic, and while spending likely declined in 2020, it will resume its ascent in 2021 and beyond. With President Biden's initiatives on the pandemic, unemployment, and infrastructure largely revealed, health care is likely next on the agenda.

Pharma will receive increased focus. Despite the political divide in Washington, pharmaceutical pricing reform continues to have bipartisan support. Legislative moves could have an impact on the industry.

Merger and acquisition activity resumes. Health care M&A, heavy in recent years as industry players sought to improve their competitive positions in the increasingly disrupted industry, has largely resumed. This started in the third quarter of 2020 for pharma and medical devices and in 2021 for the services sector. Given high valuations, credit metrics will likely be stressed despite the improving operating performance, leading to pressure on ratings.

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	29	123	152
Downgrades	1	0	1
Upgrades	2	11	13

Ratings data as of end-June, 2021

COVID-19 Heat Map

Estimated Recovery To 2019 Credit Metrics	
Health care - Pharmaceuticals	1H 2021
Health care - Medical Products	1H 2021
Health care - Services	2H 2021

Potential Neg. Long-Term Industry Disruption	
Healthcare - Pharmaceuticals	--
Healthcare - Medical Products	--
Healthcare - Services	Yes

2020 v. 2019

Revenue Decline	EBITDA Decline	Incremental Borrowings
Health care - Pharmaceuticals		
0% to 5%	0% to 10%	No increase
Health care - Medical Products		
0% to 5%	0% to 10%	No increase
Health care - Services		
10% to 15%	10% to 15%	5% to 10%

2021 Estimates v. 2019

Revenue Decline	EBITDA Decline
Health care - Pharmaceuticals	
≥2019	≥2019
Health care - Medical Products	
≥2019	≥2019
Health care - Services	
0% to 10%	0% to 10%

Latest Related Research

– The Health Care Credit Beat: U.S. Economic Recovery Doesn't Have to Follow Herd Immunity, June 11, 2021