

THOUGHTS FROM THE STREET

SVB Leerink Global Healthcare Conference 2020

Zurich, March 3, 2020

All Eyes on COVID-19

We attended the 9th Annual SVB Leerink Global Healthcare Conference in New York from February 25 to 27, 2020, which hosted over 200 healthcare companies. As the spread of COVID-19 hit the markets this week, it was also the number one topic at the conference. Implications for sales, supplies and products, as well as measures to control and contain the outbreak were widely debated. Everyone we talked to acknowledged that the virus outbreak has and will continue to have an impact but the important unanswered question is: how severe will it really be?

The overarching topic that was addressed in almost every discussion was the global spread of COVID-19 and its implications for healthcare companies and systems around the world. Here, we reflect on some key points that were discussed in connection with the COVID-19 outbreak.

Implications for Healthcare Companies

One of the major concerns for healthcare companies is potential shortages from extended closure of factories and businesses in China. Many pharmaceutical companies have production sites in or source APIs (active pharmaceutical ingredients) from China. And even for manufacturers located in Europe or the USA, there is a high probability that some basic chemical ingredients or raw materials come from China. Similarly, many medical technology companies have manufacturing facilities in or source technical components from China.

However, it has proven to be difficult for companies to quantify the actual impact of COVID-19 on their supply chain because the overall scope of the disease spread is still unclear. We heard many different views in the past few days, depending on the business model and sourcing strategy of the specific companies. Kristoffer Berg, Director of Investor Relations at Novo Nordisk, for example stated that although the company does have a production site in Shenzhen, they do not anticipate any shortages in the near term due to very high inventory levels at the factory. Susan Ringdal, EVP of Strategic Planning and Global Affairs at Hikma, on the other hand noted that they are now more concerned with potential shortages because, although they have a very diverse network of suppliers and only source a minority of APIs in China, they cannot rule out the possibility that one of their API suppliers outside China will run into shortages of basic chemical ingredients. Jay Saccaro, CFO at Baxter International, cautioned on the potential impact on direct sales in China, as people in the hardest hit regions do not go to the hospital for anything else than to treat COVID-19 infections. On the other hand, he mentioned that their dialysis and IV business could be positively impacted by the virus outbreak.

Overall, companies take the virus outbreak very seriously and are closely monitoring and attempting to manage its impact on their operations.

Implications for Healthcare Systems

With the intensified global spread of COVID-19, questions on how to manage the current outbreak were broadly discussed during the conference. Peter Marks, Director at the Center for Biologics Evaluation and Research, FDA believes that the development of a vaccine will be too slow to prevent a potential pandemic and that disease control (i.e. limiting the infection rates) is therefore key to halt the spread of the virus. Dr Scott Gottlieb, former Commissioner of the FDA, also concludes that limiting infection rates by improving diagnostics testing capacity is crucial. Additionally, he views the development of a novel therapeutic backstop that limits negative health impacts on infected patients as an integral cornerstone of a comprehensive strategy to control the outbreak.

Bottom line

Most healthcare companies acknowledge that the outbreak already has or is likely to have an impact on their operations and sales this year. However, the magnitude is still unclear and exceedingly difficult to predict. Nevertheless, we see opportunities for healthcare companies, especially in the diagnostics space. Furthermore, COVID-19 clearly emphasises the importance of a reliable healthcare system for the protection and health of the population and for the sustainable growth of a nation. Therefore, we are convinced that healthcare companies' importance will be further strengthened in the mid- to long-term.

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