

Industry Top Trends Update

Health Care

Patient volumes rebound, but outlook now murkier

What's changed post-COVID?

The discretionary component. The collapse in patient volumes, due in part to directives to conserve hospital capacity and patient fears, highlighted the discretionary component of health care and the uncertainty on pace of recovery.

Accelerated adoption of telemedicine. COVID-19 accelerated the shift to remote care from face-to-face consultations. This adds to the ongoing disruption (e.g. value based care, payor mergers) in health care.

Health care spending just became a bigger U.S. election issue. At 17.8% of U.S. GDP, health care spending was already a top U.S. election issue. Now with a weakened economy and record unemployment, there is greater pressure to reform U.S. health care, raising the uncertainty of adverse legislative changes.

What is the likely path to recovery?

Return of elective surgeries and procedures. Hospitals derive a disproportionate percentage of earnings from elective surgeries and procedures. The rebound in procedure volumes will not only benefit hospitals but also related sectors, such as physician practices, outpatient surgical centers, medical device makers, diagnostic companies, and laboratories.

Launch of a vaccine. While health care is already seeing a recovery in patient volumes, as delayed procedures can only be delayed so long, a full recovery is not likely until a COVID-19 vaccine is widely available.

What are the key risks around the baseline?

Recovery of patient volumes stalls. While some facilities are returning to 60%-70% of normal procedure levels, it is still a significant shortfall. Regional increases in COVID-19 cases or a second wave of the pandemic could further delay recovery or even lead to a reversal of gains.

Uneven recovery due to shifts in company and patient behavior. The pace of recovery in health care will not be linear and recovery in certain subsectors, such as hospital staffing, will lag, due to changes in outsourcing. Also, accelerated adoption of things like telemedicine and value-based care could have an impact.

Recession and high unemployment are wildcards. Health care is a defensive industry. However, with increasing out-of-pocket costs and record unemployment, there could be a material impact on health care demand and a payer mix shift from commercial payors to less-profitable government sources, as well as higher uncompensated care from uninsured or underinsured patients.

Latest Related Research

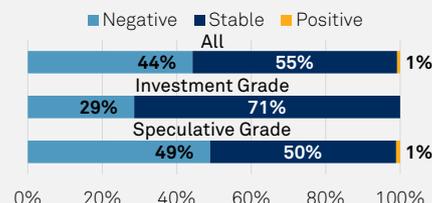
- The Health Care Credit Beat: Governor Abbott Orders Elective Procedures Postponed, July 2, 2020
- The Health Care Credit Beat: Industry Recovering From COVID-19, But Timelines Vary and Ailments Abound, June 25, 2020
- U.S. Health Care Staffing Companies See a Rough Road To Recovery, Filled with Detours, Risks and Behavioral Changes, June 18, 2020

Arthur Wong

Toronto
arthur.wong@
spglobal.com
+1 416 507 2561



Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	28	98	126
Downgrades	2	14	16
Upgrades	0	2	2

Ratings data as of end-June, 2020

COVID-19 Heat Map

COVID-19, Recession, and O&G Impact

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

2020 Estimates v. 2019

Revenue Decline	EBITDA Decline	Incremental Borrowings
Healthcare - Pharmaceuticals		
0% to 5%	0% to 10%	No increase
Healthcare - Medical Products		
10% to 15%	10% to 15%	No increase
Healthcare - Services		
15% to 25%	10% to 15%	>10%

2021 Estimates v. 2019

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