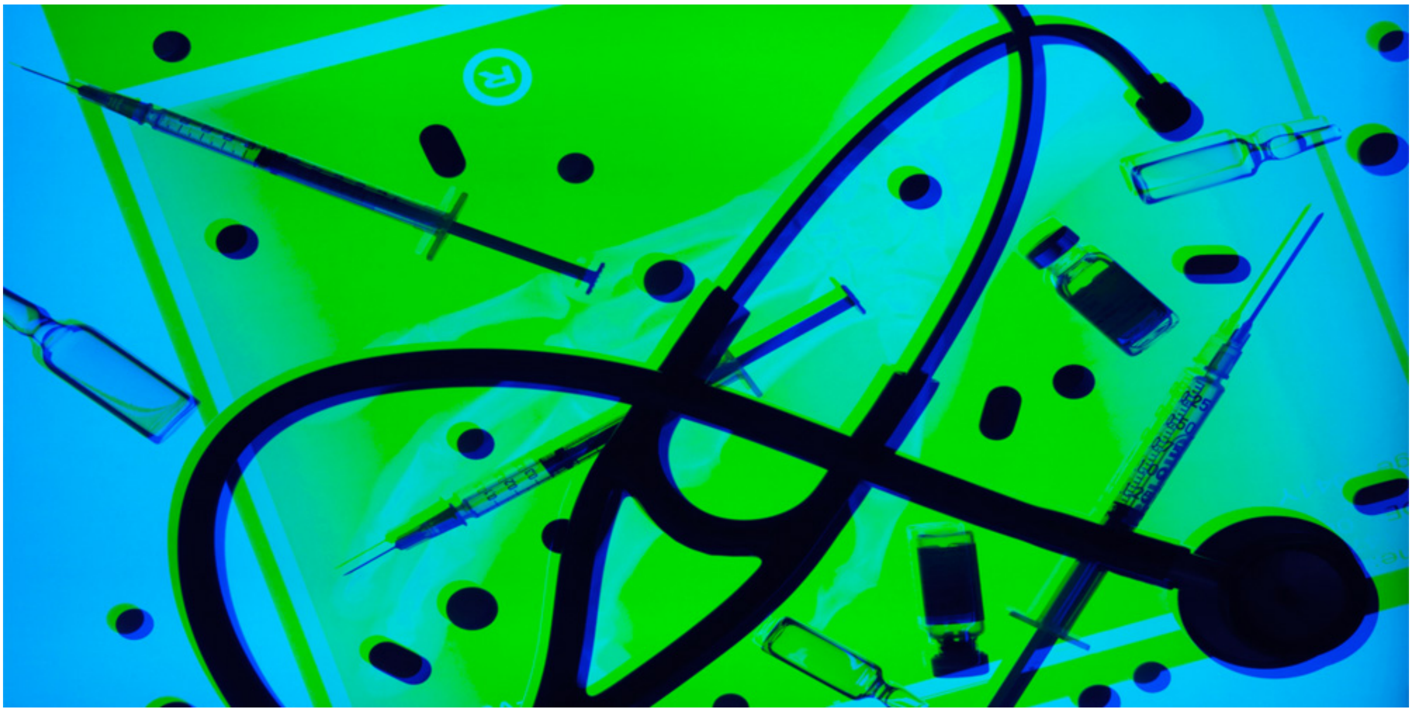

COVID-19: Healthcare Is More Protected

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The global response to the spread of COVID-19 has sparked an unprecedented decline in economic activity, and no industry is immune. However, the healthcare industry appears far more protected than most other sectors from coronavirus-related economic disruption.

A Spectrum of Impact

The healthcare industry is experiencing a spectrum of impact across its various subsegments.

The most negative impacts that we are seeing are among the consumer-facing healthcare businesses with services that are easily deferrable.

These include businesses that sell hearing aids, eyeglasses, and dental services. Revenues are dropping to zero or close to zero for these businesses, as markets are generally in lockdown.

Next on the spectrum of impact are medical-device companies. Surgical procedures are also getting pushed out, as hospitals prioritize their space and resources for coronavirus patients.

Yet, many of these surgeries may come back more quickly than the more-deferrable healthcare services, regardless of the slope or shape of the economic recovery. Consider cardiovascular procedures related to valve replacements and stents.

Such procedures can only be delayed so long. The healthcare system will need to find a way to get them done at some point.

The Most Resilient

Among the most resilient companies on the healthcare spectrum are drug companies. Most prescriptions continue to be filled, especially for drugs that do not require delivery at a hospital. The majority of drugs do not have that requirement.

However, we are likely to see new drug launches impacted. Pharmaceutical representatives currently aren't able to visit doctors.

Drug pipelines will be pushed back, as clinical trials for drugs unrelated to COVID-19 are postponed (because it's harder now to recruit new patients for clinical trials, even for ongoing trials).

Drug companies' risk mitigation strategies and supply-chain changes are driving an increased propensity for them to outsource and dual source drug development and manufacturing, in our view.

This should benefit contract development and manufacturing companies (CDMOs) today and over the longer term. We also expect existing commercial manufacturing will hold up well.

Though contract research companies (CROs) are seeing delays in clinical trial business, their higher-growth and higher-margin data management services can be done more effectively remotely. So, that type of work continues, despite stay-at-home measures.

Telemedicine is another area that is benefiting from the current environment, with demand for online medical consultation increasing, especially in China.

There, the virus laid bare the danger of having a concentration of healthcare services at large, public hospitals. The possibility of China adopting government policy that further incorporates telemedicine would be good news for telehealth companies over the long term, in our opinion.

Finally, investor interest in vaccine-related companies is poised to persist for at least as long as the coronavirus remains an ongoing concern—and possibly even afterwards.

Investment Implications

Broadly speaking, the quality growth healthcare companies we own appear more insulated from economic disruption than companies in other sectors. Thus, we remain committed to our sector holdings and are considering new positions in companies that we believe should continue to thrive going forward.

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