COVID-19: The Road Ahead Is Bumpy As The European Health Care Sector Recovers

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Key Takeaways

- COVID-19's impact across Europe's health care sector will vary, with pharmaceuticals being the least affected and manufacturers of medical products distributed via retail the most.
- We assume that the health care industry will recover relatively quickly as lockdowns ease, that governments will provide significant assistance to these companies, and because of the essential nature of many of these services.
- Assuming operations start returning to normal in the second half of 2020, most European health care providers have sufficient liquidity to withstand the shock, and leverage should largely return to levels consistent with current ratings by the end of 2021.
- As with every sector, the situation in the health care industry remains very fluid and we are consistently monitoring developments.

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Companies Focus On Liquidity In 2020 And An Orderly Recovery In 2021

COVID-19 has taken a heavy toll on the global economy, severely affecting production and creating uncertainty. The European health care industry has not escaped. However, the pain has not been spread across the sector equally.

S&P Global Ratings has already noticed some changes in how companies are protecting their liquidity. In general, companies in the high yield space have drawn their revolving credit facilities, while investment-grade companies are issuing debt in the market now to prefund upcoming maturities. S&P Global Ratings has also observed that companies more exposed to the to the pandemic's impact on their performance are postponing dividend payments and share buybacks.

Looking ahead, we believe we now have slightly better visibility with regards to COVID-19's impact on operating performance, leverage, and liquidity for the rest of the year and going into 2021. We are analyzing how operators will resume activity as lockdowns ease in most European countries and non-essential procedures progressively start up, as well as identifying potential long-term impacts, because social distancing measures and the need for personal protection equipment (PPE) will continue, at least for several months.

Under our base-case scenario, we assume that the pandemic will peak in early summer, with a gradual return to pre-COVID-19 conditions during the rest of 2020. We assume restarting of activities, mostly under much stricter protocols, with facilities having procedures ready for future outbreaks. We base our assumptions on the health care industry providing essential services that cannot be postponed for prolonged periods, such as treatment of chronic conditions, including cancer, elective surgeries, or placement of older people in nursing homes. However, we also assume that the pressure on margins will remain into 2021 and beyond, as regulators will demand stricter safety measures to prevent outbreaks, at least until a vaccine is available. We believe most players could operate under stricter conditions, as dialysis providers demonstrate by operating with limited impact through the pandemic. We assume that those companies operating the most-affected sectors will likely post S&P Global Ratings-adjusted leverage for 2020 above what we would view as commensurate with the respective rating levels. However, we assume that under an orderly recovery scenario, leverage should return to target levels by the end of 2021.

Pandemic brings ESG factors to the forefront

We believe the pandemic only underscores the increased importance of environmental, social, and governance (ESG) risk factors. At the heart of our ESG evaluation is an analysis of a company's ESG preparedness--its ability to recognize vulnerabilities and develop action plans to various scenarios. The COVID-19 pandemic has tested these emergency plans, with companies swiftly implementing strict safety protocols to protect employees and clients. Companies like hospitals and nursing homes, which provide critical services for society, had to change the way they operate overnight, often at significant financial and personal costs. The pandemic, in our view, only underlines the importance of these type of services and the need for public investments and support. The majority of European governments recognized this and provided support, both directly (reimbursements, compensation) and indirectly (child care for health care employees, benefits, tax relief). We believe that, even after the pandemic has peaked, health care service companies will have to continue adhering to strict safety measures, developing medical care protocols, and investing in protection equipment. This will put pressure on volumes because of the continuation of some social distancing measures and transition of patients through facilities, while additional costs from infection control measures will put pressure on margins. We also assume, that the usage of telemedicine will increase, because it has proven to be effective in certain areas such as the primary care during the lockdown periods.

For manufactures of medicine and medical equipment the emphasis, apart from keeping employees safe, the focus has been on the sustainability and reliability of supply chains, and exposing weaknesses in previous cost measurers, which concentrated manufacturing and supply to one country or region. It also exposed the globalized and complex nature of supply and manufacturing networks. Because of social distancing, working from home has become more acceptable for many companies, where possible. We believe that some practices, such as conference and video calls, will continue, especially in pharmaceuticals that have had success promoting new medications. This would cut costs and pollution associated with travelling.

S&P Global Ratings acknowledges a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our macroeconomic and credit updates here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

The Pandemic's Implications By Subsector

Table 1

COVID-19's Impact On Operations

Sector	Top line pressure	Impact on cost structure	Impact of staff shortages	Supply chain impact	Margin impact
Laboratories	Nonessential tests will be postponed, affecting volumes. COVID-19 tests will partially offset this, but will not fully compensate the drop in volume. We expect volumes to quickly pickup in the aftermath once full access to GPs and hospitals is possible and as patients go back to getting routine checks.	About 60%-70% of costs are fixed in the near term, and most of them relate to staff, rent, and utilities. Laboratories can postpone some payments such as rents and taxes. In some countries, governments can compensate for the salaries of retained employees.	Despite high automation level, Laboratories remain human-dependent not only for complex tests but also for blood collection centers. Laboratories want to keep employees, which are fundamental during the pandemic because they can guarantee the quality of service.	Stock levels are sufficient and supply chains are still operational, with few shortages in the near term. However, we expect some pressure on chemical stock as laboratories increase their capacity for testing, especially tests related to SARS-CoV-2.	Medium
Nursing homes and other social and domiciliary care	So far, there has been limited impact on occupancy rates. However, this could change quickly if a large portion of homes in respective portfolios become contaminated.	Most costs are fixed. Increased safety requirements costs and higher prices of protective equipment due to a global shortage increase costs. Most governments will compensate for costs linked to the epidemic. Operators are forced to rely on more expensive agency staff.	General understaffing is prevalent in most countries. Prevention of contamination of staff is paramount and medical staff availability could be affected. In most countries, absenteeism has been contained as child care for medical and nursing staff is ensured.	There are shortages of protective equipment.	Medium
Hospitals	The near-term impact is significant because elective procedures have been postponed to save beds for COVID-19 patients in intensive care units. Governments will compensate lost revenue somewhat.	Most costs are fixed. Increased safety requirements costs and higher prices of protective equipment due to a global shortage increase costs. Most governments will compensate for costs linked to the epidemic. Operators are forced to rely on more expensive agency staff.	General understaffing is prevalent in most countries. Prevention of contamination of staff is paramount and medical staff availability could be affected. In most countries, absenteeism has been contained as child care for medical and nursing staff is ensured.	There are shortages of protective equipment.	Medium
Distributors	The impact is limited because providing essential services, and the movement of medicine and medical goods, is not restricted and end-customers (such as hospitals and pharmacies) remain open.	Fixed costs are high, but no substantial increase is likely.	Staff are exposed to transmission at the front end there is but high automation at the back office.	Sufficient stock levels for most categories, with Chinese suppliers having reopened.	Medium

Low	Medium	High

COVID-19's Impact On Operations (cont'd)

Sector	Top line pressure	Impact on cost structure	Impact of staff shortages	Supply chain impact	Margin impact
Pharma	The impact is limited because providing essential services, and the movement of medicine and medical goods, is not restricted and end-customers (such as hospitals and pharmacies) remain open.	Companies have the ability to lower certain costs, mainly marketing and support.	Manufacturing procedures are already highly regulated; sale and support functions are being moved online.	Sufficient stock levels for most categories, with Chinese suppliers having reopened. However potential closing of manufacturers in India could cause some shortages.	Low
Generics	Limited impact as providing essential services, the movement of medicine and medical goods is not restricted and access to end customers (hospitals, pharmacies) remain open. Other product lines linked to personal care or other less essential activities might be more affected by the lockdown.	Certain costs, mainly marketing and support costs, can be reduced significantly and the cost structure is relatively variable.	Manufacturing procedures are already highly automated, while sale and support functions are being moved to online channels.	Sufficient stock levels for most categories. China's suppliers reopening for business, however potential closing down of manufacturers in India could cause some shortages.	Low
Contract manufacturing operators	Limited impact as providing essential services, however shortages of staff and protective equipment could impact production and volumes	The majority of costs are fixed, increased safety requirements could drive costs up	We see some absenteeism emerging due to a lack of protective equipment.	Shipping has slowed, but with no material impact.	Low
Veterinary	The impact will depend on restriction on movements in different geographies, but most likely will focus on essential procedures only. However, we would expect quick catch up on routine procedures like vaccinations once fully opened.	The majority of costs are fixed in the near term, with staff and rents accounting for the biggest portion. Increased safety requirements could drive costs up, but other costs such as marketing can be postponed.	Most clinics depend on staff, although the risk of contamination is lower than in hospitals. Veterinary clinics could experience staff constraints and need to prioritize certain services.	Stock levels are sufficient in the near term, but potential pressure over masks and protective clothing stock could arise.	Medium
Dentistry	Non-essential procedures have been cancelled, with the focus only on emergency procedures given the restriction on movements and protection requirements.	Fixed costs are high, with staff and rents accounting for the biggest portion. Increased safety requirements could drive costs up.	The sector is highly staff-dependent, with high risks of contamination and high requirements for protection equipment.	There are shortages of sanitary gels and protective equipment.	High

Low	Medium	High

COVID-19's Impact On Operations (cont'd)

Sector	Top line pressure	Impact on cost structure	Impact of staff shortages	Supply chain impact	Margin impact
Medical Equipment	The impact on elective surgeries and connected products high as most procedures are postponed. Manufacturers of essential and protective medical equipment are largely unaffected.	Companies can lower sales, general, and administrative costs, specifically mainly marketing and sales support.	Manufacturing is already highly regulated, and sale and support functions can be moved online.	Manufacturing is diversified across the U.S., EU, and China.	Medium
Medical retail	The goods sold are to a certain extent discretionary, and in most countries, stores remain closed. Therefore, the deterioration in volumes will be significant.	Fixed costs are high, although in some countries, rents can be postponed and portions of and governments will compensate for salaries.	The sector is highly staff-dependent, with high risks of contamination and high requirements for protection equipment.	Manufacturing is diversified across the U.S., EU, and China.	High
Funeral homes	Demand will increase for services in most countries, but at a lower average selling price due to restrictions on movement and gathering.	Increased safety measures drive costs, and certain costs such as utilities bills can be lowered.	The sector is highly staff-dependent, with high risks of contamination and high requirements for protection equipment.	There are no shortages on coffins and other burial equipment, but shortages of protective equipment, storage capacity constraints, and crematoria and burial sites.	Medium

Low	Medium	High

Table 2

COVID-19's Impact On Cash Flow

Sector	EBITDA impact	Ongoing capex needs	Working capital impact	FOCF impact
Laboratories	Volumes have dropped because routine tests and other less urgent checks have been postponed, although PCR and serology testing partially compensates for this. Most laboratories have a high portion of fixed costs, mostly related to staff, which is stickier in the near term.	Most laboratories have low maintenance capex with expansionary capex postponed to 2021, or later depending on the pandemic's status.	Collection of receivables should not change. Working capital requirements could surge as laboratories build up inventories for COVID-19 tests and for PPE for staff. Laboratories might also pay their suppliers earlier. We expect the situation to normalize by 2021.	Lower EBITDA will likely reduce cash generation in 2020. Nevertheless, some laboratories could delay fiscal payments. In the long term, we expect working capital levels to normalize and cash generation to return to precrisis levels.
Nursing homes and other social and domiciliary care	Lower occupancy rates, combined with relatively high fixed costs, will affect margins.	Maintenance capex is low, with expansionary capex postponed.	Collections should be stable although we could anticipate unpaid rents at less premium establishments or payment delays, some uncertainty related to inventory build up for protection equipment.	The negative impact comes from lower EBITDA, although lower capex would somehow mitigate the decline.
Hospitals	Volumes have fallen because elective procedures have been postponed and impact on the activity mix as profitable beds are dedicated to COVID-19 patients. Governments packages will mitigate the impact.	Maintenance capex is low, with expansionary capex postponed.	Collections should be stable, albeit with some uncertainty related to inventory buildup for protection equipment.	Negative impact driven by lower EBITDA, although decline would be compensated to some extent by governments.
Distributors	Volumes are steady. Distribution costs are higher, but fuel costs are lower. The state provides protection in most European countries.	Most laboratories have low maintenance capex with expansionary capex postponed to 2021 or later, depending on the pandemic's status.	Some challenges relate to the surge in demand of personnel protection equipment and disinfection. Overall, we believe most companies have built up the necessary amounts of inventory and optimized their supply chain management prior to the pandemic.	The impact is limited. We assume no change in capex or working capital.
Pharma	Growth forecasts are down. Most costs will hold steady, although there could be savings from areas such as promotions.	Investment in new capacity will continue.	Payments terms and inventory levels to keep safety stocks are extended.	The impact is limited. We assume no change in capex or working capital.

Low	Medium	High

COVID-19's Impact On Cash Flow (Cont'd)

Sector	EBITDA impact	Ongoing capex needs	Working capital impact	FOCF impact
Contract manufacturing operators	Limited impact because of the business' essential services. However, shortages of staff and protective equipment could affect production and volumes.	Investment in new capacity will continue.	Inventory levels will increase.	FOCF should remain neutral to negative.
Veterinary	Volumes will fall because non-essential head-to-tail services are postponed, most veterinary clinics remain open and they are able to provide essential services. There is a high portion of fixed costs but we can expect a quick recovery in the long term.	Most veterinaries have low maintenance capital expenditure but we can expect expansionary capex to remain in place as the pandemic situation improves.	For most clinics, inventory levels remain uncertain because clinics need to provide equipment for its staff and we can expect an increase in inventory levels. We expect supplier relationship to be unaffected.	Lower EBITDA due to lower volumes will likely reduce cash generation in 2020. In the long term, we expect cash generation to return to precrisis levels.
Dentistry	Volumes will fall due to all routine check-ups being postponed until after lockdown measures are lifted. In the near term, there are high fixed costs despite dental chains using furlough schemes across Europe.	Maintenance capex is low, with expansionary capex postponed.	Some dental products sold to third-party dentists and own clinics has been built up due low expected activity. In the U.K., much of the dynamics in 2021 will depend on whether the existing clawback mechanisms of NHS-related contracts for inability to deliver under standard contractual arrangements will be deferred by regulatory authorities.	FOCF should remain negative.
Medical equipment for elective surgeries	Volumes will drop, although there is some cost-saving capability.	Investment in new capacity will continue.	Inventory levels will increase and payment terms be extended.	FOCF should remain neutral to negative.
Medical equipment--critical care	Increases in volumes will drive operating efficiencies.	Investment in new capacity will continue.	inventory levels will be diluted quickly , payments on time.	FOCF should remain neutral to positive.

Low	Medium	High

COVID-19's Impact On Cash Flow (Cont'd)

Sector	EBITDA impact	Ongoing capex needs	Working capital impact	FOCF impact
Medical retail	drop in volumes, high fixed costs	Most laboratories have low maintenance capex with expansionary capex postponed to 2021, or later depending on the pandemic's status.	Inventory levels are high, although there is some relief in payment terms.	FOCF should remain negative.
Funeral homes	Volumes are high, but average sale prices are lower.	Most laboratories have low maintenance capex with expansionary capex postponed to 2021, or later depending on the pandemic's status.	Collections have not changed; inventory levels are likely to remain low.	FOCF should remain positive.

Low	Medium	High

Capex--Capital expenditure. FOCF--Free operating cash flow.

Pharmaceuticals, Including Generic Drug Manufacturers

Short-term implications	Long-term implications
Most pharmaceutical groups posted strong results in first-quarter 2020. In some cases, patients built up their drug inventories amid fears of future shortages. Exposure to China both in terms of sales and supply did not turn out to be negative. The supply chain did not suffer major disruption and Astra Zeneca, which has the highest exposure to China, posted a robust 17% constant exchange rate growth locally. Still, the pandemic significantly affected activity for only two weeks in the quarter in Europe and in North America. Therefore, second-quarter results could decline, especially if the stocking effect is reversed but more likely if specialty care products fail to benefit from new prescriptions as sick people refrain from visiting doctors. We assume some impact on pharmaceutical growth, especially in the second quarter, as the U.S., the largest market for drugs, is entering the peak of the pandemic. We believe that health care systems around the world are focusing on managing critical care and patients suffering from COVID-19, while care of chronic conditions or elective surgeries is being de-prioritized. Therefore, existing patients will continue to receive their prescriptions but volumes from newly diagnosed patients will suffer. The same could be said about medicine used during surgeries. Most big pharma companies have invested in accelerating the discovery of products for COVID-19, driven by social expectations and responsibilities, and those are likely to offer lower direct economic returns than typical projects. We believe that activity should return to relatively normal levels in second-half 2020 because the medical community is calling for service to resume as quickly as possible (given the implications for patients' health if they do otherwise). We further believe this should be relatively fast as companies in this industry provide essential services and products for which the demand has limited correlation to the underlying macroeconomic conditions. The supply chains, manufacturing, distribution channels, and access to customers remain largely available. However, some sectors will likely be volatile during the year before demand patterns stabilize and pre-stocking in certain categories is flushed out. We assume some additional costs from supply and distribution chain management and safety compliance requirements, and, in some cases, delays in integration costs and realization of synergies. On the other hand, there could be some near-term savings from promotion and marketing curbs. Working capital outflow could rise in 2020, reflecting higher inventory levels and extended payment terms.	As the industry recovers from the initial shocks, we believe that certain measurers enacted during the first wave will remain developed further. Due to travel and social distancing restrictions, selling and marketing has move online and is proving highly effective. This could be an area of costs savings, given the technology available. However, we believe that although this system might work well for promoting drugs already on the market, it might prove less effective for promoting new ones. We also believe that use of models and artificial intelligence will increasingly be incorporated into medical trials--patients population will have to be monitored, and recruitment might not be as easy as before. We understand that supply chain disruptions were kept to a minimum, although some products faced delays reaching customers. We assume that companies will continue to hold higher levels of stock and diversify their supplier base in case of further outbreaks and disruptions. Some drug manufacturing could shift back to developed markets, likely with a higher level of automation to address higher local labor costs. The industry's reputation in the U.S., the biggest market even for most European drug makers, could improves. However, we believe it's premature to assume any reduction in legislative pressure on drug prices there.

Contract Manufacturing Organizations (CMOs)

Short-term implications	Long-term implications
We assume limited impact for CMOs, because they provide essential services for pharmaceutical companies. Manufacturing and production activities continue to operate at almost-normal levels: Demand from pharmaceutical companies remains strong. Still, we expect some supply chain disruptions due to potential shipping slowdowns and inventory accumulation that could stretch working capital for some groups, although we don't expect this to be material. Furthermore, shortages of staff and PPE could affect production and volumes, as absenteeism could increase, driving up costs given the fixed cost nature of CMOs. Overall, we expect these to not have a dramatic impact on CMO operations. We expect some capex projects related to capacity expansion to be postponed in light of social distancing and access-restriction measures. This should support the CMOs' free operating cash flow (FOCF) over 2020, although working capital needs and high maintenance capex will likely lead to a neutral to negative cash flow for many groups.	We believe that CMOs will progressively return to normal levels as the overall pharmaceutical industry recovers. Social distancing measures will likely remain to some extent, alongside increasing safety procedures in many of the CMOs' manufacturing plants. We do not expect these to affect operations drastically, given the limited impact that we expect from COVID-19 on the sector. Capex will likely pick as projects resume, which will continue to pressure FOCF.

Medical Equipment Manufacturers

Short-term implications	Long-term implications
We assume that manufactures of medical equipment, especially those used in elective surgeries, will be negatively affected in terms of both the top line and profitability in 2020, because noncritical care has been postponed. In addition, we assume that purchasing and installing of equipment not linked to diagnosis and management of critical care will be delayed given the current focus on the pandemic. We assume that both first and second quarters will be severely affected, before gradual normalization in second-half 2020. However, volume increases, especially of those products used in elective procedures, might be hampered by the constrained capacity of operating rooms and surgeons. Therefore, operating metrics in 2020 will be most likely below 2019 levels. We assume that a large portion of costs is fixed, so we see deteriorating profitability as cost-containment measures will only start to be felt from the second quarter and will not offset the loss volumes. On the other, hand, we are seeing a positive impact from the pandemic on those that manufacture equipment used in critical care units or as protection against the virus such as ventilators, monitors, gloves, and protective gowns. We assume working capital could change significantly. We understand that manufactures are extending payment terms.	We assume a reasonably orderly recovery as health care facilities fully open capacity to chronic patients and resume noncritical surgeries and care. We expect that levels could return to pre-COVID-19 levels by year-end. As volume pick up, we expect companies to leverage cost structures, with a quick recovery of profitability. We also assume that health care facilities will adhere to strict safety measures with adequate safety equipment and that routine visits and procedures will continue. We assume that product launches could be delayed but we understand that the majority of the companies have not been reducing their R&D spending. Until a cure or vaccine is available, further outbreaks are possible, along with volatility of earnings, so any discretionary spending needs to be closely monitored. We assume that those focused on manufacturing protective medical equipment will continue to benefit from higher demand because safety requirements enacted during the pandemic are unlikely to be significantly relaxed anytime soon.

Laboratories

Short-term implications	Long-term implications
We assume that operating income could deteriorate sharply over the next three-to-six months as demand for routine tests will fall, especially for those performed outside hospitals. Lockdown restrictions in most European countries have postponed less urgent medical services reducing substantially the number of patients getting routine checks. Although laboratories in Europe have been instrumental in the fight against the pandemic and proactively leveraged their diagnostic capabilities, we assume that SARS-CoV-2 tests will not compensate for the loss of revenue from other tests. In addition, the cost structure of the laboratories remains in its majority fixed over the near term, which adds difficulty to cutting costs and avoiding margin erosion. Staff costs, for example, represent a significant portion of expenses, and we view these as fixed and stickier than other costs that be easily postponed or renegotiated (such as rental expenses). Despite some government cost alleviation, help will vary by country. Some jurisdictions have promised to take care of charges for temporary staff unemployment and delay tax payments while other governments have made it more difficult to fire workers during the pandemic. Another near-term risk could be the supply of reagents, as the increasing demand of COVID-19 testing can put pressure on levels of substances necessary for some of these tests.	We believe laboratories will recovery strongly, given their essential nature, as confinement measures start to ease. Most postponed activity will quickly pick up in volume as patients start getting back to their routine check-ups. Furthermore, the crucial role laboratories had during the pandemic could translate into new opportunities. We can expect this new revenue streamline to come in additional to the volume wrap up, as most laboratories will continue to be key in Europe's deconfinement strategy. A combination of testing and the development of antibody detection tests could guide governments further in measures and protocols. Some laboratories with a specific pharmaceutical business are also helping develop a vaccine, especially those that directly provide tests to hospitals and have access to serum of COVID-19 patients.

Nursing Homes

Short-term implications	Long-term implications
Occupancy rates will be diluted for several months as fatality rates increase and patients are not being immediately replaced. The impact could be more severe in Spain, where new admissions were suspended, while we understand that some operators are still doing a small number of admissions in France. The cost structure is not as flexible as in other subsectors, because operators will need to keep nurses on payroll while facing large rental commitments. They should be able to get support regarding the delay of social charges and are postponing non-essential capex and acquisitions, but we view most other costs as fixed. Lower volumes and relatively high fixed costs will affect margins severely. Managing the safety of patients and staff will be a decisive factor for continuity of operations. Governments requisitioned PPE for public and private operators; however, access could be limited due to high global demand, limited stocks, and the need for frequent renewal. Lapses in practices could accelerate COVID-19 spread among residents and put additional staffing pressure. For now, absenteeism had been relatively limited, because most government had implemented minimal nursing services for medical staff. In France, about 30% of operators' revenue is financed by the state through care and dependency allowances, and the government announced that despite occupancy rates decline, they would pay the monthly allowances according to 2019's budget, providing downside protection. In Spain, some municipalities have designated private and public homes that should be specialized in COVID-19 patients under public coordination. The aim is to provide adequate medical support, although it would not affect existing agreements with residents.	Given the nature of residents, we view care homes as essential services providers. Therefore, their activity should normalize relatively quickly when they resume commercial activity. Nevertheless, the pandemic's impact on this subsector could take a while to manifest themselves. Margins could remain under pressure for a long time reflecting increased safety management costs, new protocols, and potential lower revenue from certain profitable services. In Belgium, for instance, operators make most of their margins on extra services such as hairdressing and food services, which might be less popular. While some costs may be temporary, we anticipate costs to comply with safety risk management and new protocols will continue. Whether the government will continue covering these costs is unclear, margins could remain at lower levels than anticipated. Other long-term risks include reputation damage, increased shortage of qualified medical staff, and working capital volatility for operators exposed to most hit countries.

Private Hospitals

Short-term implications	Long-term implications
Private hospitals performance will be affected in the near term as governments have requested to channel bed capacity to COVID-19 patients from other non-essential, elective procedures since mid-March. Profitability will likely deteriorate for several months affected by both change in activity mix and fewer patients' volumes. Elective procedures represent 60%-70% of total procedures for medicine surgery obstetrics hospitals while obstetrics, cancer treatments, dialysis, and emergencies volumes are deemed essential and will continue during the pandemic. We understand that increased activity from COVID-19 patients in general medicine, intensive care units, and full-care rehabilitation (on average, it takes 20 days for patients to return to their normal breathing capacity) will not be enough to offset the damage to revenue and profitability caused by the pandemic. Depending on the severity and length of the outbreak, profitability could decline well above our expectation, because about 80% of costs are fixed, with only drugs and consumables being variable. However, after public intervention, the impact on these groups should be limited. In fact, private hospitals are taking in patients from the public sector or reallocating medical teams to public hospitals if necessary, as they are very flexible with their staff use. Private operators will be somewhat compensated for lost income, in addition to assistance such as delayed tax payments and in some cases support from landlords. In France, the government announced on March 20 that it will compensate the hospitals by providing monthly cash advances corresponding to one-twelfth of last year's average revenue paid by social security, which we understand is the vast majority of revenue for French private operators. First payments were received in March and will continue depending on how long the pandemic last. Therefore, companies in this category will have sufficient liquidity to weather a prolonged period of low revenues. The French government is also compensating for all extra costs related to COVID-19 (both direct costs such as PPE, and indirect costs such as logistics and crisis management), mitigating the negative impact on margins. In Sweden, we understand that primary care centers revenues should be secured as they are based on capitation system. In fact, operators should get a fixed fee linked to the number of patients registered within centers and that is paid monthly by local authorities. For acute public hospitals, operators should get the full payment according to their contract with authorities (tendering system), while for specialized clinics, we understand that it will depend on the negotiations with each county. Given that the lockdowns in Nordic countries have not been as strict as in other parts of Europe, elective surgeries have continued somewhat.	We assume that after the pandemic peaks, activity will normalize relatively quickly mainly because procedures are postponed, not cancelled. With the progressive end of lockdowns, hospitals should resume elective surgery, although some procedures will have to take precedence over others. In our view, hospitals will conserve resources for future potential COVID-19 outbreaks. Some costs related to safety of patients might also persist for longer. However, the pandemic has reinforced the government's link with the institutions and the sector has proven its crucial role. Therefore, we assume governments should continue to support continuity of operations. Primary care centers have shifted toward digital care, which should continue for a while as social distancing measures prevail providing a competitive advantage to operators having achieved their digital transformation.

Veterinary Clinics

Short-term implications	Long-term implications
Although varying by country, we expect low-to-medium impact on operating margins, especially for large veterinary groups that continue to provide essential services and have most clinics open. In Europe, veterinary services are considered as essential businesses, which guarantee the continuation of services during the pandemic. However, we expect clinics that mainly provide head-to-tail and other routine-like checks to be temporarily affected by the lockdown as pet owners postpone less urgent services (such as grooming and routine checks). Some countries, such as the U.K., have even distributed a flow chart to distinguish urgent from non-urgent procedures. For some clinics, the pharmaceutical and online business could offset partially some, but not all, of the revenue erosion from lower sales. Many clinics will take actions to make-up for the loss such as postponing discretionary spending, reducing temporary staff and rationalizing part of their operating expenses. We expect staff costs and other negotiated costs (such as rent) to remain challenging over the near term, because cost-cutting will be limited.	We can expect volumes to rapidly pick up when lockdown measures start to ease and margins to return to pre-pandemic levels. We also view favorably veterinary laboratories that might be geographically diversified and can be protected from different dynamics or earlier deconfinement measures

Dental Chains

Short-term implications	Long-term implications
We expect a sharp drop in patient visits, and therefore revenues and earnings, for the duration of the lockdown given that all routine check-ups have now been postponed until restriction measures are lifted. To contain the negative impact on finances, dental chains across Europe have applied to various government support schemes, most notably the Coronavirus Job Retention Scheme, while cutting discretionary spending and capex. We view the job retention schemes as the most significant support pillar of liquidity for the sector in the near term, because we estimate that staff costs account for over 60% on average of total operating costs, although chains benefit from relatively low capital intensity. However, while governments will subsidize salaries for staff in the near term, employers will still need to pay some staff costs (for instance, the government will cover up to 80% of salaries in the Netherlands, leaving employers to pay the balance).	While we expect patient volumes to gradually stabilize after the lockdown measures are lifted given the services' nature, we think that COVID-19 will pose two main long-term challenges for the sector's profitability. Firstly, social distancing measures could remain the norm for quite some time. Clinics will therefore likely operate on a strict appointment-only basis for individual patients, thereby leading to longer working hours. In recent years, large dental chains have spent most of their efforts expanding the capacity of their individual practices (from one to more dental chairs per clinic). In a post-COVID-19 world, it is uncertain whether these expanded practices will be able to continue taking on multiple patients at the same time. Inability to do so should therefore lead to extended working hours, likely translating in higher operating costs. Pressure on operating costs will also come from PPE expenditure, which will also likely become part of the new norm for the sector, with reported shortages of this across Europe in recent weeks (54% of respondents, according to a poll organized by the British Dental Association in April). Secondly, the dental sector has been generally struggling with recruitment, although this differs by country. This has prompted many large chains to set up their own academies, stepping up their effort to recruit young dentists from schools. The efforts to make the sector attractive for young dentists should also put pressure on margins in the long term.

Dialysis Providers

Short-term implications	Long-term implications
We see limited short- and long-term negative impacts from COVID-19 on this subsector, because of the treatment's ongoing and life-saving nature. In the near term, local authorities have asked providers to share capacity in their clinics to help treat COVID-19 patients, but all clinics remain open for dialysis patients. In Europe, we expect a relatively small impact from revenue and earnings generation perspectives, because the primary payer is public health care bodies, which will likely benefit from increased budgets from central governments. In the U.S., performance will likely be more mixed because of the prominent role of commercial payers, reflecting that medical insurance is employment-based in the market. Therefore, given the sharp spike in U.S. unemployment, local providers could feel an impact. Still, we think that COVID-19 outbreak in the country will likely have more severely affected lower-skilled jobs, where insurance coverage has been relatively inadequate to begin with. In the near term, we believe the major impact on the operating performance will come from increased spending on PPE and other medical items (like syringes and bandages). This will affect smaller providers more than large ones (such as Fresenius Medical Care), which benefit from size and scope.	We think that the recovery's pace will determine the extent of the ongoing reimbursement pressure on dialysis providers in Europe from public payers. In the U.S., pressure could come from broad-based slow recovery and impact on jobs across sectors, including higher value-added ones (such as IT and financial services), while further price cuts from ballot initiatives are possible in some states.

Funeral Homes

Short-term implications	Long-term implications
In the near term, we expect the morality peak in March and April translating into rising volumes for the first and second quarters, stabilizing in the second half of 2020. Nevertheless, and because of restrictions on gatherings, profitability could suffer. Across Europe, the restrictive measures on gatherings, mobility and celebration of ceremonies mean limited ability to upsell additional products, and increasing costs related to safety procedures will likely put pressure on margins.	Although we expect mortality rates to stabilize as the pandemic eases, we assume that social distancing measures will continue to pressure margins, because activity in parlors, funeral homes, and places of worship are on hold and will likely remained limited over the next few months. This could lead to a difficult operating environment where mortality rates moderate and companies find it tough to upsell.

Rating Actions So Far In 2020

So far this year, we have taken a limited number of negative rating actions in our European health care space linked to COVID-19. We revised our outlook to negative from stable for Amplifon, given its high exposure to retail, Italy, and Spain; and on laboratories operator Synlab because of high exposure to Spain. We also lowered our rating on U.K.-based dental chain IDH Group to 'CCC', and orthopedic implants manufacturer Lima Corporate to 'B-' (see table 3).

Table 3

Selected Indicators

			--2020--				--2021--	
Issuer	Rating as of Jan. 30, 2020	Rating as of May 15, 2020	Increase in leverage 2020	Rating headroom	Liquidity	Covenant headroom	Decrease in leverage	Rating headroom
Ai Sirona (Luxembourg) Acquisition Sarl (Zentiva)	B/Negative/--	B/Negative/--	Nonmaterial	Limited	Sufficient	Sufficient	Material	Sufficient
Almirall S.A.	BB-/Stable/--	BB-/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
BCPE Max Dutch Bidco BV	B-/Stable/--	B-/Stable/--	Nonmaterial	Limited	Sufficient	Sufficient	Nonmaterial	Sufficient
Diocle SpA (Doc Generici)	B/Stable/--	B/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
GHD Verwaltung GesundHeits GmbH Deutschland GmbH	B/Negative/--	B-/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Grifols S.A.	BB/Stable/--	BB/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Nidda BondCo GmbH (STADA)	B+/Negative/--	B/Stable/--	Nonmaterial	Limited	Sufficient	Sufficient	Material	Limited
Neuraxpharm Holdco Sarl	B/Stable/--	B/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
UniFin SAS	B/Stable/--	B/Stable/--	Nonmaterial	Limited	Sufficient	Sufficient	Nonmaterial	Sufficient
Convatec Group PLC	BB/Stable/--	BB/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Material	Sufficient
Affidea B.V.	B+/Stable/--	B+/Stable/--	Material	Limited	Sufficient	Sufficient	Material	Limited
Diaverum Holding Sarl	B-/Stable/--	B-/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Financiere N	B/Negative/--	B/Negative/--	Nonmaterial	Limited	Sufficient	Sufficient	Nonmaterial	Limited
Fresenius SE & Co. KGaA	BBB/Stable/A-2	BBB/Stable/A-3	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
H. Lundbeck A/S	BBB-/Stable/A-3	BBB-/Stable/A-3	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Mehilainen Yhtyma Oy	B/Stable/--	B/Stable/--	Material	Limited	Sufficient	Sufficient	Material	Sufficient
Turnstone Midco 2 Ltd. (IDH Finance)	B-/Negative/--	CCC/Negative/--	Material	Limited	Constrained	Sufficient	Material	Limited

Table 3

Selected Indicators (cont.)

			--2020--				--2021--	
Issuer	Rating as of Jan. 30, 2020	Rating as of May 15, 2020	Increase in leverage 2020	Rating headroom	Liquidity	Covenant headroom	Decrease in leverage	Rating headroom
Aenova Holding GmbH	B-/Stable/--	B-/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Material	Sufficient
Amplifon SpA	BB+/Stable/-	BB+/Negative/--	Material	Limited	Constrained	Sufficient	Material	Sufficient
Auris Luxembourg II S.a.r.l.	B+/Negative/--	B/Negative/--	Material	Limited	Constrained	Limited	Material	Limited
Alpha BidCo SAS (Cooper)	B/Stable/--	B/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Constantin Investissement 3 (Cerba)	B/Stable/--	B/Stable/--	Material	Limited	Sufficient	Sufficient	Material	Sufficient
ELSAN SAS	B+/Stable/--	B+/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Financiere Colisee SAS	B/Negative/--	B/Negative/--	Nonmaterial	Limited	Sufficient	Sufficient	Nonmaterial	Sufficient
HomeVi	B/Stable/--	B/Stable/--	Nonmaterial	Limited	Sufficient	Sufficient	Nonmaterial	Sufficient
Ramsay Generale de Sante	BB-/Stable/--	BB-/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Unilabs Holding AB	B/Stable/--	B/Stable/--	Material	Limited	Sufficient	Sufficient	Material	Sufficient
Vivalto Sante Investissement SAS	B/Stable/--	B/Stable/--	Nonmaterial	Limited	Sufficient	Limited	Nonmaterial	Sufficient
Alcon AG	BBB/Stable/--	BBB/Stable/--	Material	Limited	Sufficient	Sufficient	Material	Sufficient
Antigua Bidco (Atnahs) Ltd.	B-/Stable/--	B-/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
AstraZeneca PLC	BBB+/Stable/A-2	BBB+/Stable/A-2	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
GlaxoSmithKline PLC	A+/Negative/A-1	A/Stable/A-1	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Koninklijke Philips N.V.	BBB+/Stable/A-2	BBB+/Stable/A-2	Material	Sufficient	Sufficient	Sufficient	Material	Sufficient
Molnlycke Holding AB (publ)	BBB-/Stable/A-3	BBB-/Stable/A-3	Nonmaterial	Limited	Sufficient	Sufficient	Nonmaterial	Limited
Novartis AG	AA-/Stable/A-1+	AA-/Stable/A-1+	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Roche Holding AG	AA/Stable/A-1+	AA/Stable/A-1+	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Vifor Pharma AG	BBB-/Stable/--	BBB-/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Lima Corporate S.p.a.	B/Stable/--	B-/Stable/--	Material	Limited	Sufficient	Sufficient	Nonmaterial	Sufficient

Table 3

Selected Indicators (cont.)

			--2020--				--2021--	
Issuer	Rating as of Jan. 30, 2020	Rating as of May 15, 2020	Increase in leverage 2020	Rating headroom	Liquidity	Covenant headroom	Decrease in leverage	Rating headroom
Rossini Acquisition Sarl (Recordati)	B/Stable/--	B/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Lonza Group Ltd.	BBB+/Stable	BBB+/Stable	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Merck KGaA	A/Stable/A-1	A/Stable/A-1	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Antin Amedes Bidco GmbH	B/Stable/--	B/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
CAB (Biogroup, Laboratoire Eimer SELAS)	B-/Stable/--	B-/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Financiere Top Mendel SAS (Ceva)	B+/Stable/--	B/Negative/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Hikma Pharmaceuticals PLC	BB+/Positive/--	BB+/Positive/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Huvepharma EOOD	BB/Positive/--	BB/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Material	Sufficient
Novo Nordisk A/S	AA-/Stable/A-1+	AA-/Stable/A-1+	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Obol France 3 SAS	B+/Negative/--	B/Stable/--	Material	Sufficient	Sufficient	Sufficient	Material	Sufficient
PHOENIX Pharmahandel GmbH & Co. KG	BB+/Negative/--	BB+/Negative/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Sam Bidco S.A.S.	B/Positive/--	B/Positive/--	Material	Sufficient	Sufficient	Sufficient	Material	Sufficient
Sanofi	AA/Negative/A-1+	AA/Negative/A-1+	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Sante Cie (Elivie)	B/Stable/--	B/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Bayer AG	BBB/Stable/A-2	BBB/Stable/A-2	Nonmaterial	Limited	Sufficient	Sufficient	Material	Sufficient
Cidron Ollopa Investment B.V. (Sunrise)	B/Stable/--	B/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Curium Midco S.à r.l.	B/Stable/--	B/Stable/--	Nonmaterial	Limited	Sufficient	Sufficient	Nonmaterial	Sufficient
Elysium Healthcare Holdings 2 Ltd.	B/Negative/--	B/Negative/--	Nonmaterial	Limited	Sufficient	Limited	Material	Sufficient
IVC Acquisition Topco Ltd	B/Stable/--	B/Stable/--	Nonmaterial	Limited	Sufficient	Sufficient	Nonmaterial	Limited
IWH UK Finco Ltd.	B/Negative/--	B/Negative/--	Nonmaterial	Limited	Sufficient	Sufficient	Material	Sufficient
Synlab Bondco PLC	B+/Stable/--	B+/Negative/--	Material	Limited	Sufficient	Sufficient	Material	Sufficient

Table 3

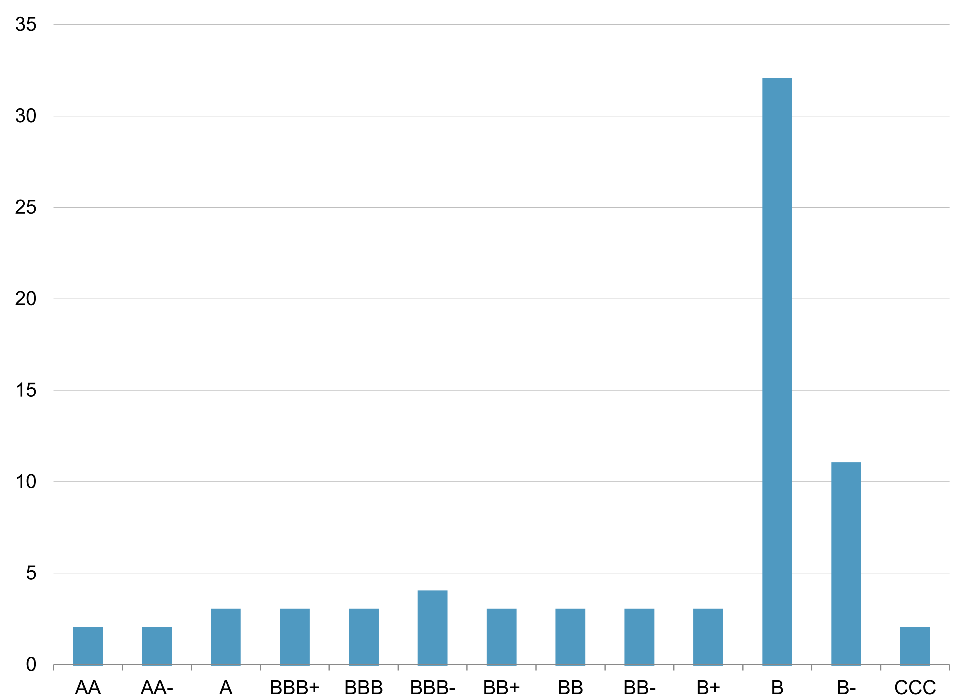
Selected Indicators (cont.)

			--2020--				--2021--	
Issuer	Rating as of Jan. 30, 2020	Rating as of May 15, 2020	Increase in leverage 2020	Rating headroom	Liquidity	Covenant headroom	Decrease in leverage	Rating headroom
Voyage BidCo Ltd.	B/Stable/--	B/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
Cube Healthcare BidCo SAS (Domidep)	B/Stable/--	B/Stable/--	Nonmaterial	Limited	Sufficient	Sufficient	Nonmaterial	Sufficient
CHEPLAPHARM Arzneimittel GmbH	B/Stable/--	B/Stable/--	Nonmaterial	Sufficient	Sufficient	Sufficient	Nonmaterial	Sufficient
European Optical Manufacturing S.a.r.l.	B/Stable/--	B-/Stable/--	Material	Sufficient	Sufficient	Sufficient	Material	Sufficient
Afflelou SAS	B/Stable/--	B-/Negative/--	Material	Limited	Constrained	Limited	Material	Sufficient

*Based on S&P Global Ratings' estimates.

Chart 1

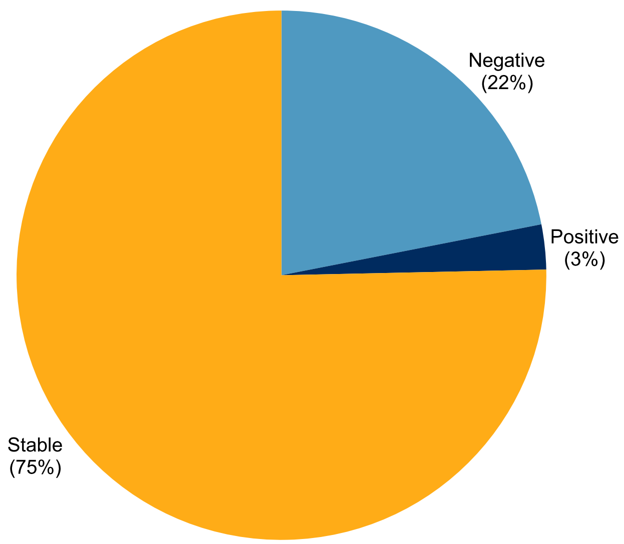
Ratings Distribution In The Health Care Sector



Source: S&P Global Ratings.

Chart 2

Outlook Distribution In The Health Care Sector



Source: S&P Global Ratings.

This report does not constitute a rating action.

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