Designing the optimal go-to-market strategy for MedTechs in Latam

Historical movements and key considerations

April, 2024

The health sector has felt the increase in MLR in the aftermath of the pandemic, impacting the flow of capital throughout the system and MedTech companies

Companies

Funding availability

Service usage (claims)

Beneficiaries

Payors

- High MLRs post-COVID, impacting sectors' profitability
- High price increases not sustainable in the long-term
- Short term and long-term initiatives to re-establish profitability in the sector have impacts throughout the value chain

MedTech

- Struggle to increase prices, despite pressures from HQs
- Expansion of direct sales
- Competition from China and India

Pharma

- There are still plenty of small molecule
- Appetite for new growth avenues

Distributors

- Squeezed from both sides (industry and providers) in terms of price and payment terms
- Some smaller distributors facing bankruptcy

Providers

- Initially benefited from increased volume
- Suffering now from inc. denials, longer payment cycles and lower mark-up
- Challenges in further expansion

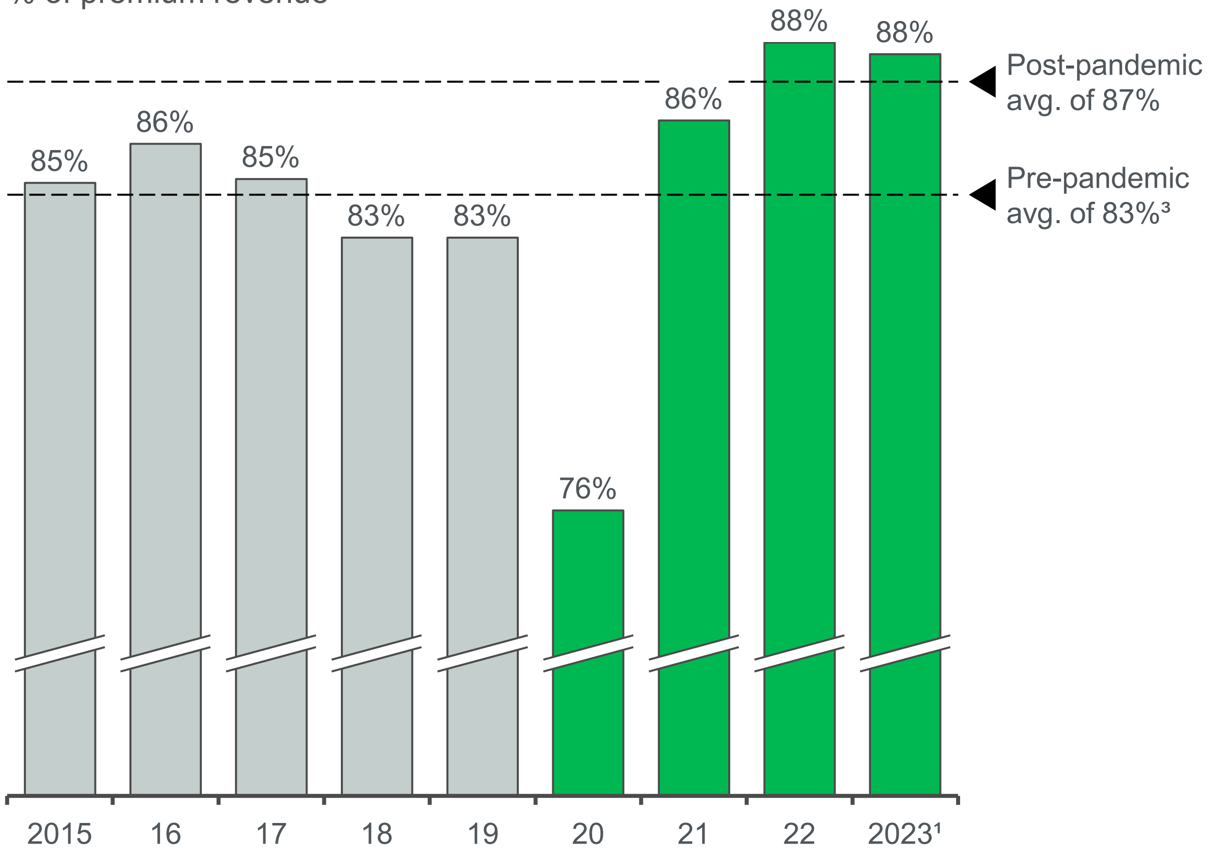
Retail

- Large companies expanding to services, but model potential still unclear

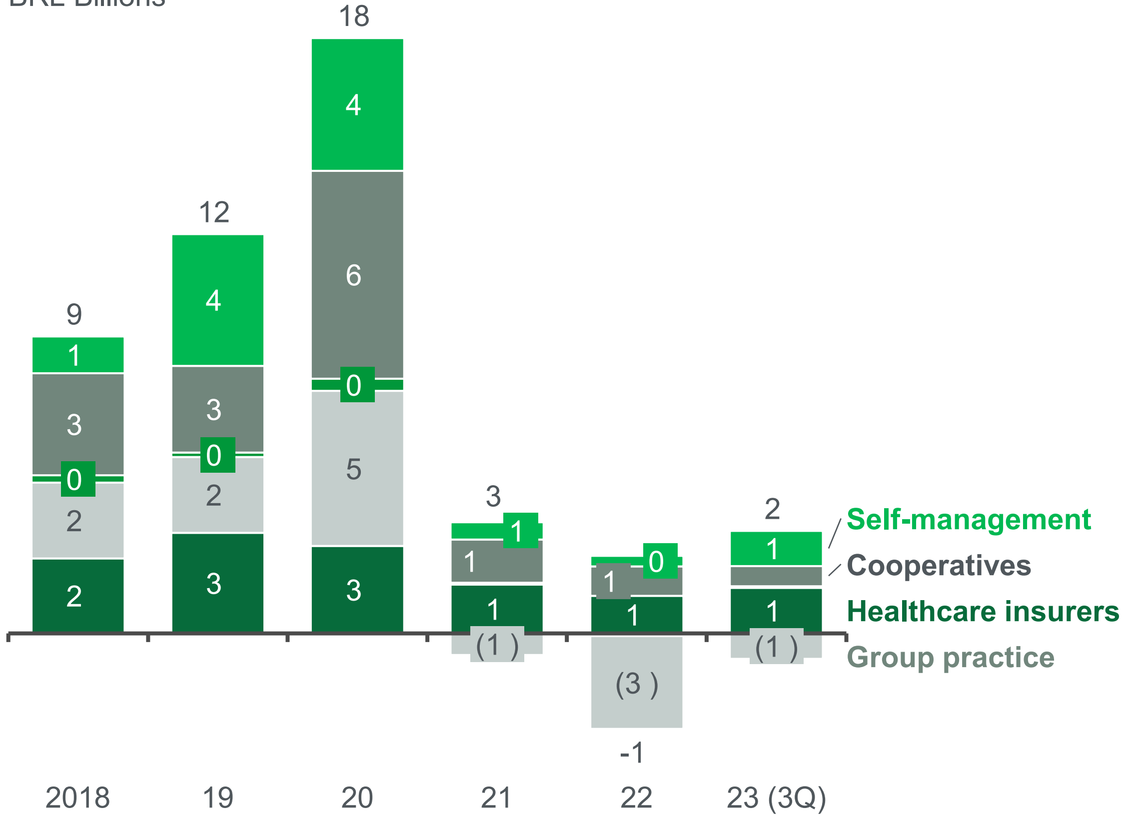
LEK™

Post Covid, MLRs reached an all time high and have not yet recovered, impacting payors' profit across the board

Medical loss ratio (MLR), private payors (2015-23[1])
% of premium revenue



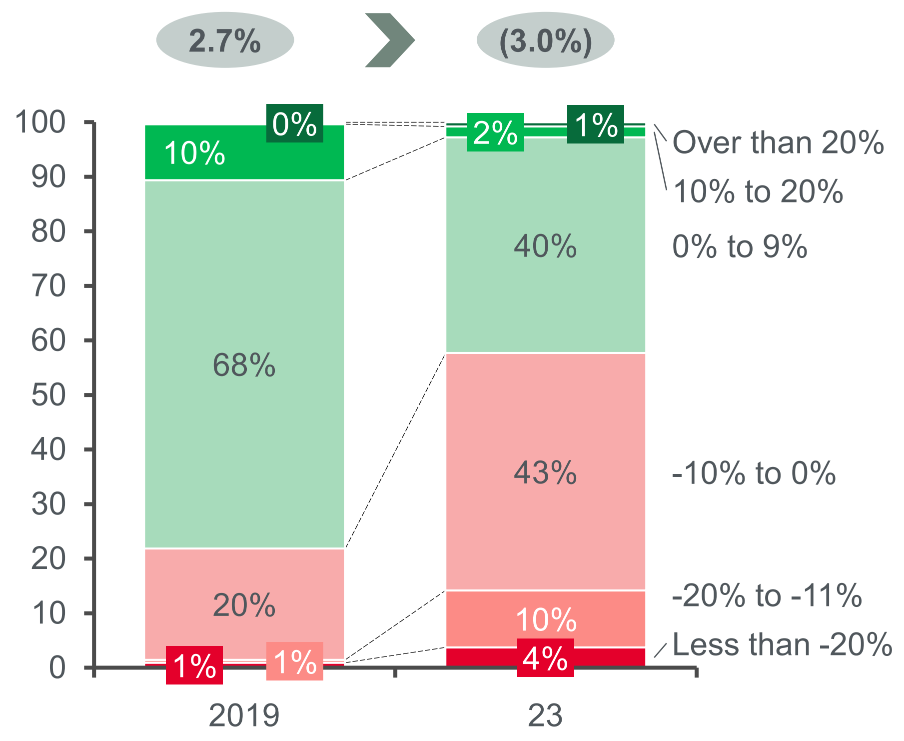
Payor's net income[2] by type[3] (2018-2023[1])
BRL Billions



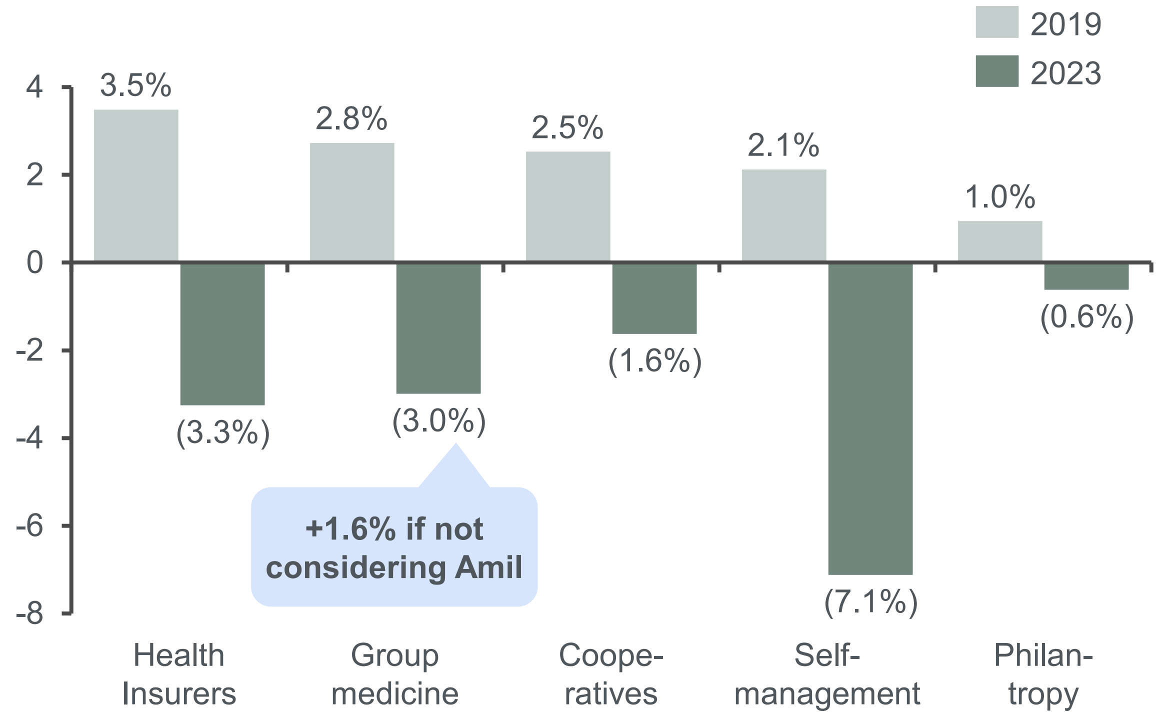
Notes: 1) Considers 2023 until 3rd quarter (last available data) 2) Operational and financial results 3) Includes only medical and hospital insurance
Source: ANS; DataSUS; companies' websites; L.E.K. analysis and research

Profitability has declined between 2019-23, from 2.7% to (3.0%), with 36% more payors operating in the negative spectrum - a trend experienced by all archetypes

Total revenue of payors by *operational result* range (2019-23[1])
BRL Billions, % of revenue



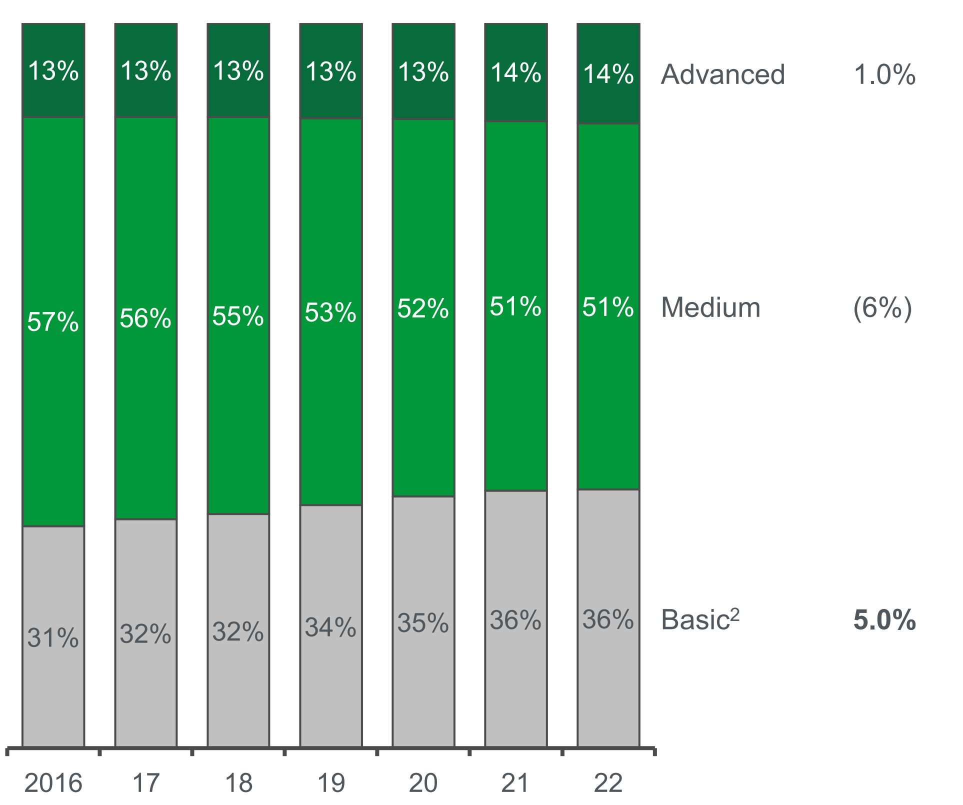
***Operational result* by payor type evolution (2019-23[1])**
% of revenue



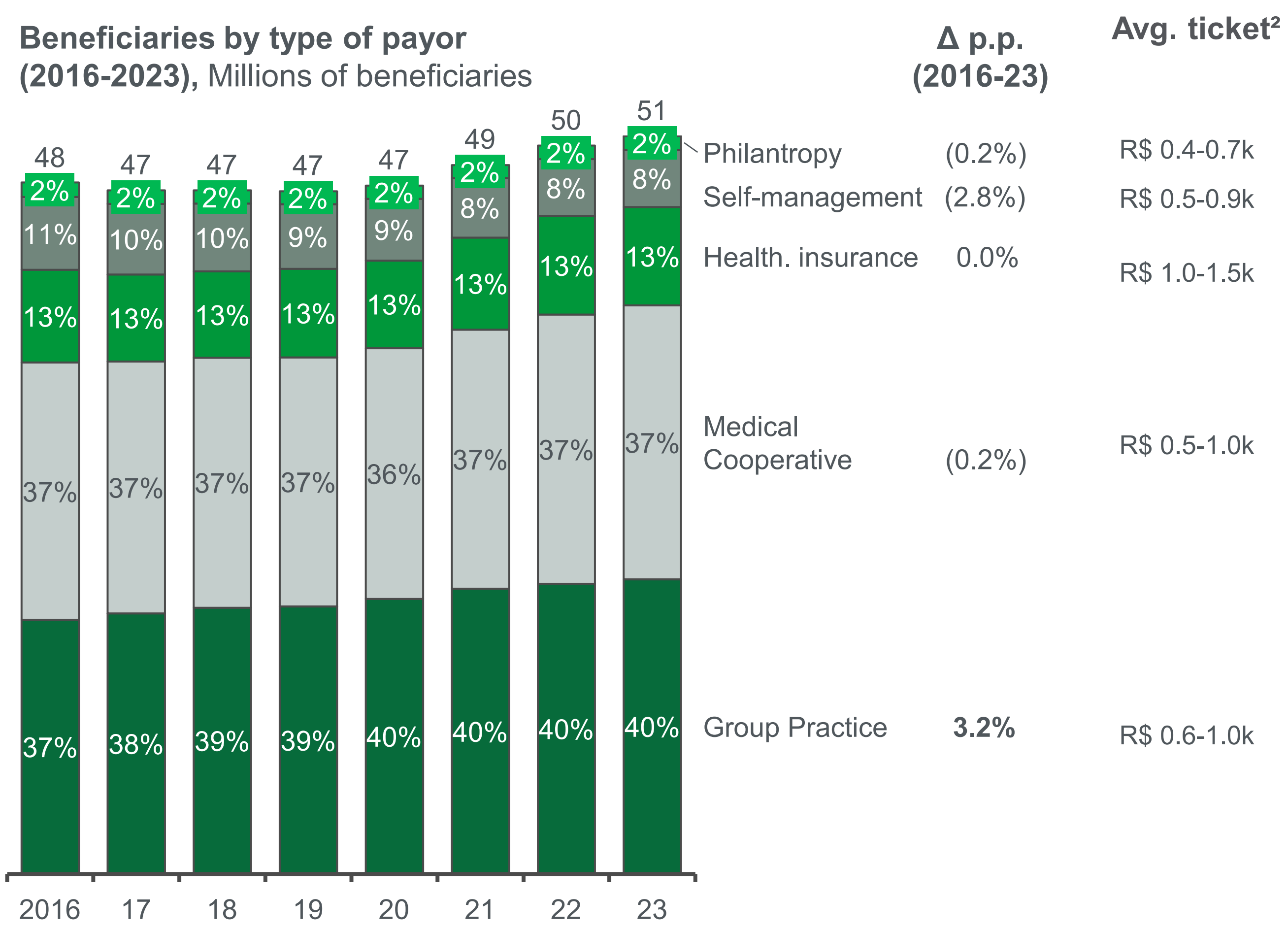
Notes: 1) Considers 2023 until 3rd quarter (last available data)
Source: ANS; L.E.K. analysis and research

Beneficiaries and companies have been struggling to afford the high premium increases and are downgrading to basic plans and lower-cost verticalized players

Private insurance profile by category[1] **(2016-22),** % of beneficiaries



Beneficiaries by type of payor **(2016-2023),** Millions of beneficiaries



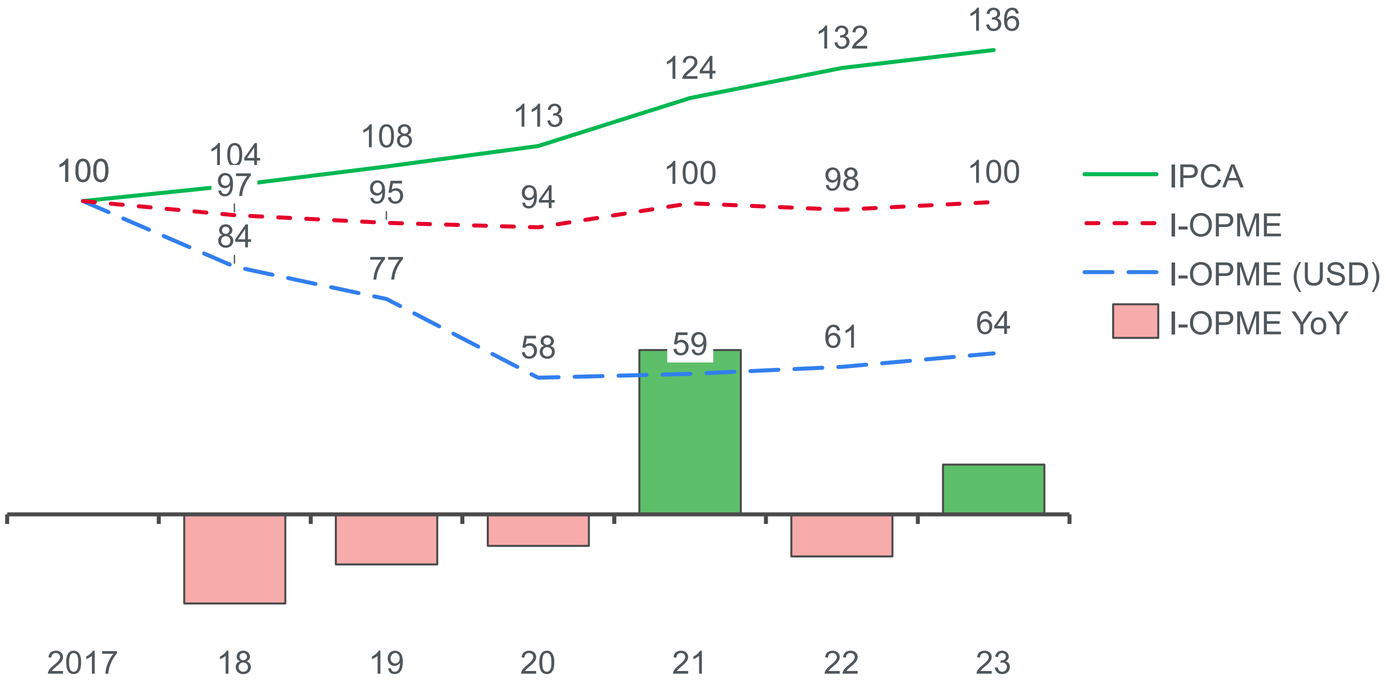
Notes: 1) Basic – plans without free choice of provider by the beneficiary, Medium – plans with partial free choice of provider, Advanced – plans with total free choice of provider 2) Average range of the ticket paid by beneficiaries aged between 34 and 59 years old

Source: ANS; L.E.K. analysis and research

Medtechs have not been able to pass on inflation in Brazil; In dollars, the price in 2023 is ~36% lower than in 2017 - generating pressure from the headquarters to recover profitability

1

Evolution of the I-OPME index vs inflation (Brazil, 2017-23)
Base 100



- Medtech companies have **not been able to pass on prices in line with inflation in Brazil**, and this is even more the case for multinationals, which **seek a return in dollars**
  - As a result, there is **pressure from the headquarters to transfer and increase prices**
- OPME indices faced several pressures during the period, including:
  - **Consolidation movement** among major accounts, increasing their bargaining power to negotiate lower prices
  - **Intensified competition** with the entry of low-end players, coupled with high-end players reacting by lowering prices
  - Trend of some multinational companies expanding the relevance of the **direct sales channel** to mitigate compliance risks, resulting in cost reduction and market share gains

Capture of distributor margin is a way to boost margin recovery,
as pressure from the healthcare system limits potential price increases

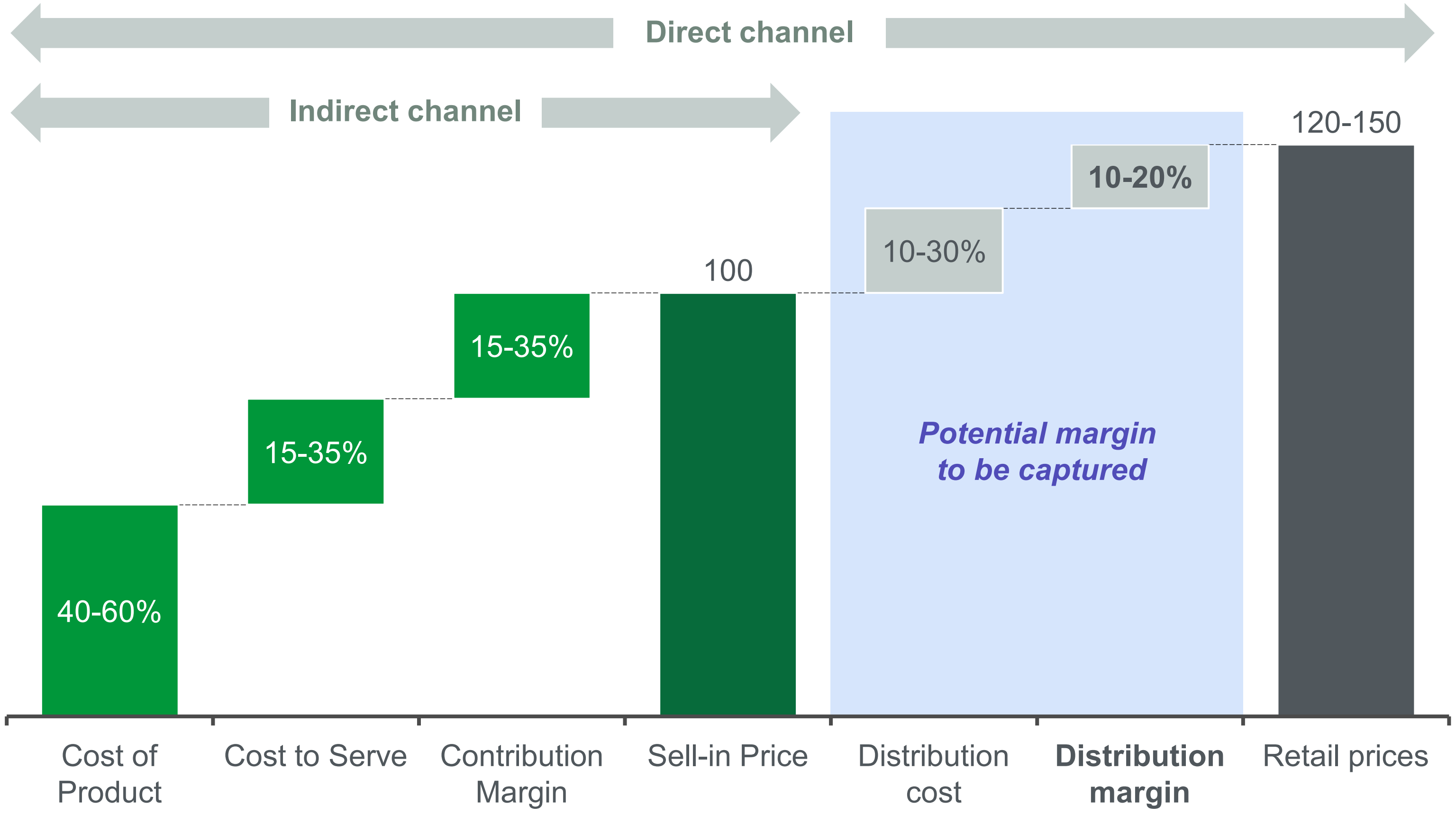
Source: Bionexo/FIPE; IBGE; L.E.K. interviews and analysis

LEK™

To increase competitiveness and revenues, companies are attempting a series of initiatives, with special highlight to direct-sales

DIRECTIONAL

Medtech illustrative pricing build-up
Sell-in prices = 100

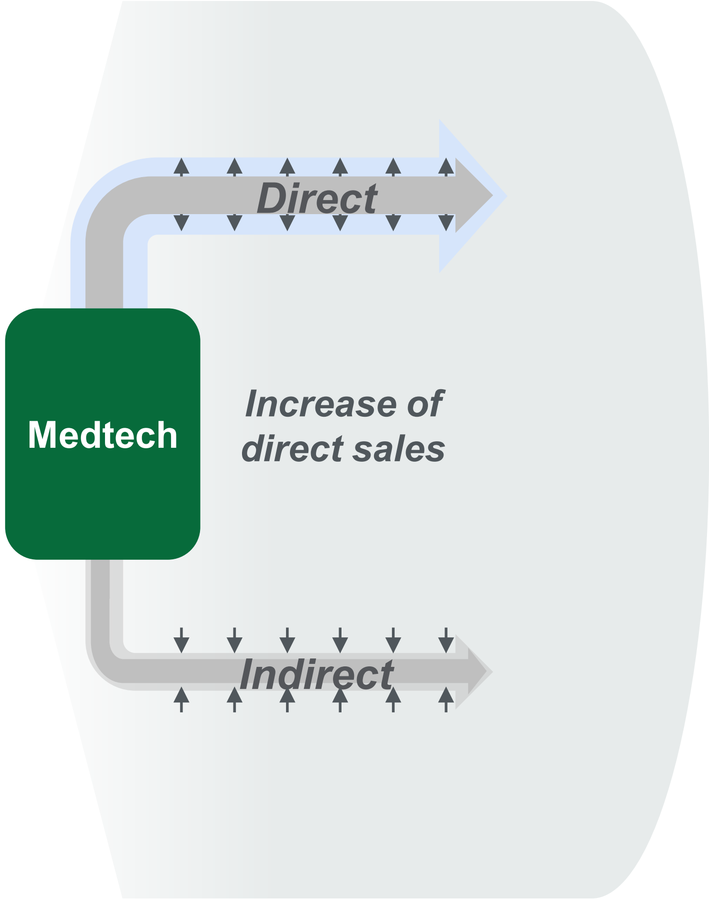


Market dynamics

- **Medtechs are increasingly focus on direct sales to strategic customers**
  - Primary goal is to capture distributor margins
  - But this engagement also supports cross-selling and enhances relationships with key providers
- **The approach is most effective for large providers and/or those in regions with simpler logistics**
  - In areas with complex logistics, Medtechs are seeking partnerships with logistic operators
- **On the other hand, payers and providers explore vertical integration to increase efficiency** and gain a strategic edge in the chain
  - Examples include Rede D'Or + Mederi, and Bradesco Saúde establishing its own hospitals

Source: L.E.K. analysis and research

In addition to revenue and profitability potential, compliance concerns, demand from clients, and service level alignment are also factors bringing direct sales to the top of C-level strategic agenda



1
- **Compliance:** cases of corruption ("CPI das próteses”) and dubious incentives, raising the risk and latent concern in the case of multinationals

2
- **Providers and payors looking for direct purchase:** objective of purchasing at a lower cost, with gains in scale and centralized purchasing

- **Level of service:** Direct sales can have a better effect when selling sophisticated and complex products, with a more technical presence in the field - although the distributor usually has more time available to the providers

- **Access to and knowledge of the customer:** Indirect selling creates challenges in terms of market intelligence, lack of pricing data, customer context and feedback from the front end

- **Strategic alignment and cross-selling:** A challenge in encouraging the distributor to pursue the same objectives as the company, such as promoting product categories that are strategic for the company.

Source: L.E.K. research, and analysis

Compliance concerns are a constant in MNCs' agenda as many distributors have been involved in corruption by overpricing products and paying commission to physicians

1

"CPI das próteses"

Irregularities and crimes in medical procedures involving orthoses and prostheses, uncovering allegations of bribery, overpricing, and unnecessary surgeries for financial gain, implicating manufacturers, distributors, and physicians

Scheme *modus operandi*

- **Physicians were billing up to 30% of the cost of OPME**, with the potential to override the technical decision-making process of the operation
  - **Instances of unnecessary procedures to boost revenues** – a study conducted by Hospital Albert Einstein indicates that in ~55% of cases, spinal surgeries were unnecessary
  - **Unnecessary replacements and intentional damage to parts to boost the volume of procedures** and the revenue generated
  - **Inflated pricing involving the sale of prostheses at rates up to 20x their market value,** facilitated through forged signatures and falsified documents
- **Processes were conducted through a consulting contracts between the physicians and the distributors**, resulting in an additional income of up to R$ 100,000 / month to the physicians
  - **Research from the regional medical council indicated that**
    - 37% of the respondents received some commission (>R$500) in the last year
    - In medical colleges, 74% received or heard from colleagues who received benefits throughout the course
- **In the public system, distributors would advise those drafting tenders**, providing specific details to favor particular brands – thus securing a reward for the tender's author.

Examples of brands that are involved in schemes

"… We were able to negotiate a 20% cash commission for endorsing our brand…"
- Seller, Oscar Iskin

"… We offer even more; we pay 30% if doctors recommend our brands…"
- Partner, Total Medic

Oscar Iskin | Total Medic | Life X Implantes | Orcimed Indústria e Comércio | Brumed Implantes | Strehl | Intelimed

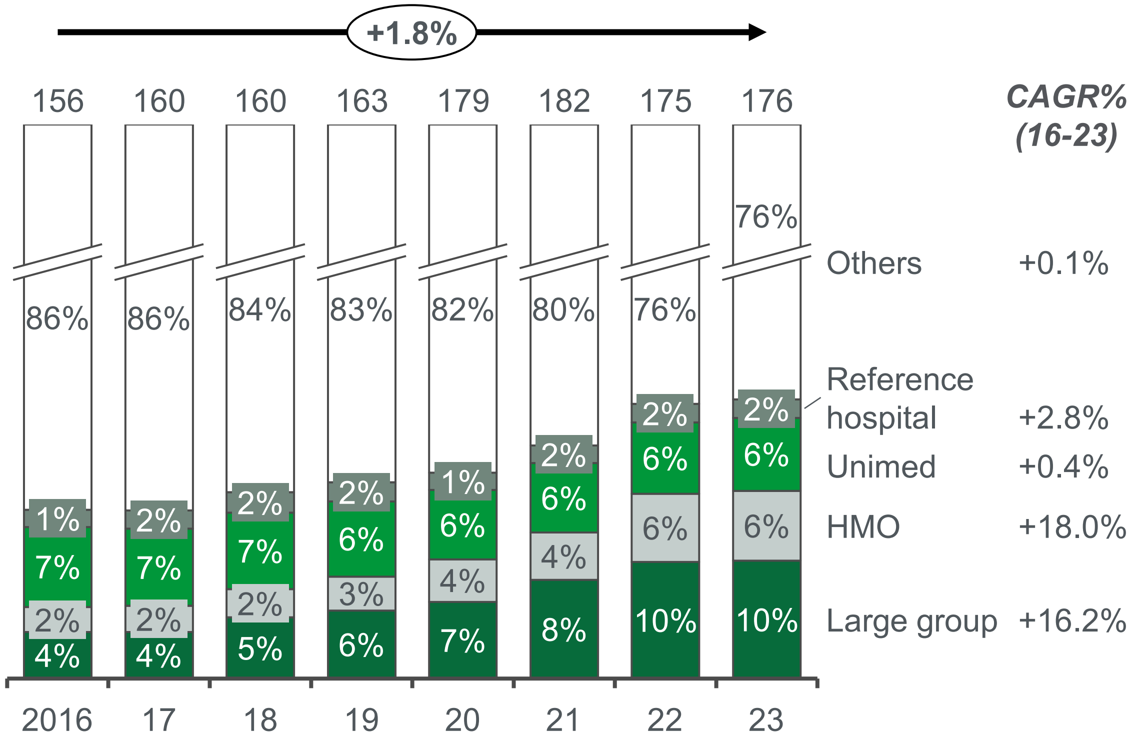
Laws approving penalties for corruption schemes in healthcare have been enacted to target frauds committed by manufacturers, distributors, and physicians, to enhance compliance in the sale of medical products

Source: G1; L.E.K. research, and analysis

Moreover, large groups and hospitals are also demanding direct negotiations, to leverage bargain power from market consolidation

2

Number of non-SUS hospital beds by hospital type[1] (Brazil, 2016-23)
Thousand of beds



- Rising costs and operational challenges **force providers and payors to buy directly from the manufacturer**, reducing one end of the value chain
- Large players are **consolidating the market**, thus bringing more weight to direct sales and purchasing on a larger scale

Examples:

REDE D'OR

- Rede D'or acquires distributor (Mederi) consolidating its hospitals' purchases and going directly with the industry

hapvida
Grupo NotreDame Intermédica

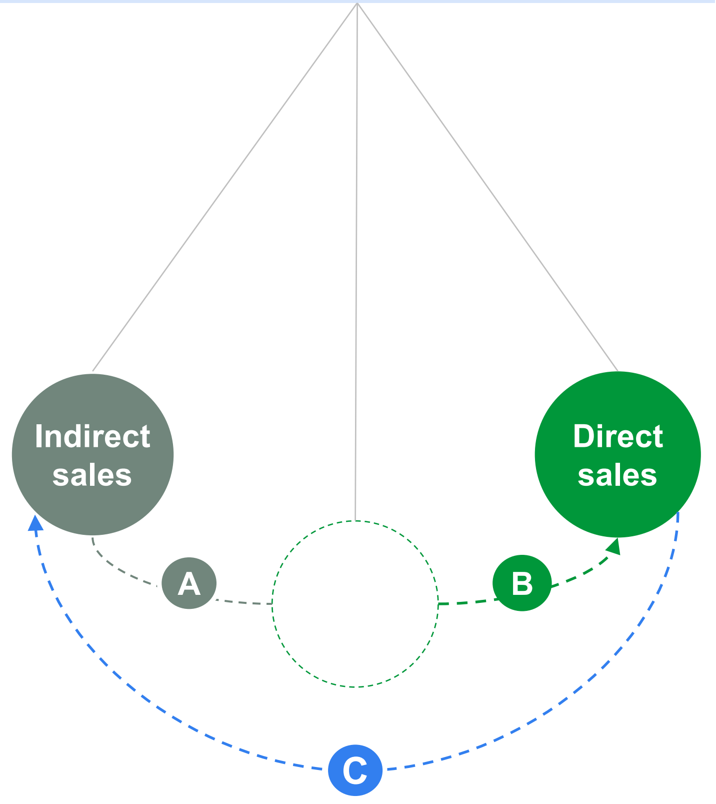
- Hapvida, with a well-known procurement area, with difficult negotiations and very focused on price, seeking to incorporate a similar strategy for GNDI

Source: L.E.K. research, and analysis

LEK

Direct-sales attempts, however, are not new in the market, but companies have struggled to find the right balance of channels, as tend to disregard operational complexity and distributors' reaction

Go-to-market historic pendulum
Back and forth attempts for direct sales



A Direct sales motivations and rationale

- ✓ *Potential to increase revenue by absorbing distributors' markup*
- ✓ *Interest to better control accounts' relationship and compliance*
- ✓ *Topline focus, with limited consideration on operational complexity and cost-to-serve, both direct and indirect (e.g., back-office), given lack of visibility of accounts' P&L*

B Operational difficulties and impacts

- ! *Profitability difficulties, given higher cost-to-serve than initially forecasted, need to absorb smaller (less-profitable) accounts, and extended cash flows*
- ! *Market share loss due to:*
  - *Inability to sustain service level required by hospitals*
  - *Difficulties to increase the number of headcounts required on sales and back-office structures*
  - *Time to establish relationship with hospitals and physicians*
  - *Distributors' reaction / retaliation to direct sales movements, many times leveraging relationships to position competitors in the same lines*

C Return to legacy structure

- ✓ *Return to indirect channel structure, but with need to give higher margins to partners and to rebuild distribution network, and difficulties to manage attritions with and concerns of partners*

Difficulties to create sustainable go-to-market structures deriving from failure to recognize all nuances of direct sales approach

Source: L.E.K. research, and analysis

Such difficulties are further exacerbated by external factors impacting the market

Trends impacting the GTM strategy (2015-24)

Reduced uncertainty and economic recovery
With economic and market growth, use of distributors to capture growth

Post-covid recovery
Resumption of elective procedures post-covid influenced migration to the indirect route - in order to meet growth

2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024

Low-cost entry
Companies with products at a lower price point, pulling prices down

Prosthesis scam
Adding more rigor to the compliance of distributors and also encouraging manufacturers to go direct

Economic crisis
Reducing the number of private lives and impacting sales, reinforcing the need to increase profitability

Pandemic
Reducing the number of procedures and impacting on results

Rising of MLR
Increase in claims in the post-pandemic, applying strong pressure on the health system and limiting capital in chain

Increased cash cycle
Due to price pressure, payors began to delay payments, increasing the cash cycle and strongly affecting distributors (with some going bankrupt)

Go-direct | **Go-indirect** | **Go-direct or –indirect?**

Source: L.E.K. research, and analysis

LEK™

Therefore, direct-sales approach need to be planned at account-level, supported by robust business cases, and comprehensive considerations of operational complexities and risks

Need for robust and comprehensive business case for the direct sales approach by account / segment…

- ***Topline potential***
  - *Account size for the lines of interest (vs. hospital size)*
  - *Insurers profile of each hospital and reimbursement rates*
  - *Market share potential by account*
- ***Commercial and fulfillment costs***
  - *Commercial structure, including sales and technical / surgery support teams*
  - *Logistics and warehousing structure, including reverse logistics requirements*
  - *Inventory, obsolescence and scrap costs*
- ***Backoffice costs and expenses***
  - *Backoffice enhancement costs (treasury, legal, tax, …)*
  - *G&A growth to control operation and dilution potential*
- ***Cash flow detractors***
  - *Payment terms and cash cycle*
  - *"Glosa" rates by hospital segment and product line*
- ***Investments***
  - *Team hiring and training*
  - *Logistics infrastructure (e.g., distribution centers)*
  - *Equipment leasing for specific lines that rely on "comodato"*
  - *Inventory purchase from distributor*

…that considers operational complexities and requirements, and distributors' movements

- ***Service level required***
  - *Inventory, supply chain, and logistics*
  - *Surgery support resources*
  - *Services provided to hospitals*
- ***Back-office complexity and requirements***
  - *Accounting and finance, especially for OPMEs given "Fiscal Notes" dynamics*
  - *Logistics and supply chain*
  - *Market access*
- ***Timing and investments required to build relationship and re-list products in hospitals and insurers***
  - *Potential market share loss during transition period, given limited relationship*
- ***Distributors' potential retaliation movements, impacts and mitigation factors***
  - *Transition to current and new competitors, accelerating market share loss movements*
  - *Potential loss in perpetuity*
- ***Need to absorb smaller accounts,** with smaller margins and similar operational complexity*

Source: L.E.K. research, and analysis

Direct-sales approach need to be planned at account-level, supported by robust business cases, and comprehensive considerations of operational complexities and risks

Need for robust and comprehensive business case for the direct sales approach by account / segment...

- ***Topline potential within each account***
- ***Commercial and fulfillment costs*** *(e.g., sales team, logistics, inventory)*
- ***Backoffice costs and expenses*** *(i.e., G&A)*
- ***Cash flow detractors*** *(i.e., Cash Cycle, "Glosa")*
- ***Investments on people, logistics and equipment leasing***

...that considers operational complexities and requirements, and distributors' movements

- ***Service level required*** *(e.g., Inventory, logistics, surgery support resources)*
- ***Back-office complexity and requirements*** *(e.g., Market Access, Supply chain)*
- ***Timing and investments required to build relationship and re-list products in hospitals and insurers***
- ***Distributors' potential retaliation movements, impacts and mitigation factors***
- ***Need to absorb smaller accounts***

Source: L.E.K. research, and analysis

Moreover, companies should consider the optimal operational / partner structure and ways to build the required capabilities

Increased representativeness of the direct channel

Proprietary operation (organic)

Testing through pilots is essential, applying and training the sales force, as well as developing new capabilities for logistics and customer service

Strategic partnerships – 3PLs and Logistics partners

New models have emerged and are being developed, such as the logistics operator, which leverages the know-how of partners while reducing operational risk - with companies consolidating and offering new offerings such as Elfa and Viveo

Inorganic building

Acquisition of distributors can accelerate transition to direct sales without disrupting operations while reducing market share loss risks, but requires a strong business case and a series of steps to reduce compliance and financial risks

Source: L.E.K. research, and analysis

L.E.K. has supported dozen of companies in redefining their commercial strategies in Brazil and Latam, through a robust and tested methodology

1. Market landscape and opportunities

A. Internal perspective
(Current performance, ambition and boundary conditions)

B. Market landscape, size and growth
(Market size and growth by product category and market segment)

C. Competitive landscape
(Competitors' strategy, benchmarking, and competitiveness)

D. Market and purchasing dynamics
(Purchase trends, KPCs, requirements and implications)

E. Opportunities assessment and prioritization

2. GTM and strategy implications

F. Go-to-market strategy by account segment and region
(where to go direct and indirectly)

G. Direct sales model
(how to build capabilities, partner structure and M&A)

G. Indirect model optimization
(regional opportunities, pricing optimization partners incentives and hybrid models)

H. Organizational requirements
(Organizational structure redesign to enable the defined strategy)

3. Strategy activation

J. Business plan
(Revenue, costs, investments and return expectations)

K. Strategic roadmap
(Phases, milestones, KPIs, and implementation governance)

L. Go-to-market transformation
(Strategy activation support)

Source: L.E.K. research, and analysis

We have extensive experience in the healthcare sector in Latin America, with strategy projects, looking at growth, M&As, portfolio, GTM strategy and pricing

CONFIDENTIAL AND NON-EXHAUSTIVE

Selected L.E.K. Brazil experience in the healthcare sector[1-2] (MEDTECH FOCUS)

Mexico

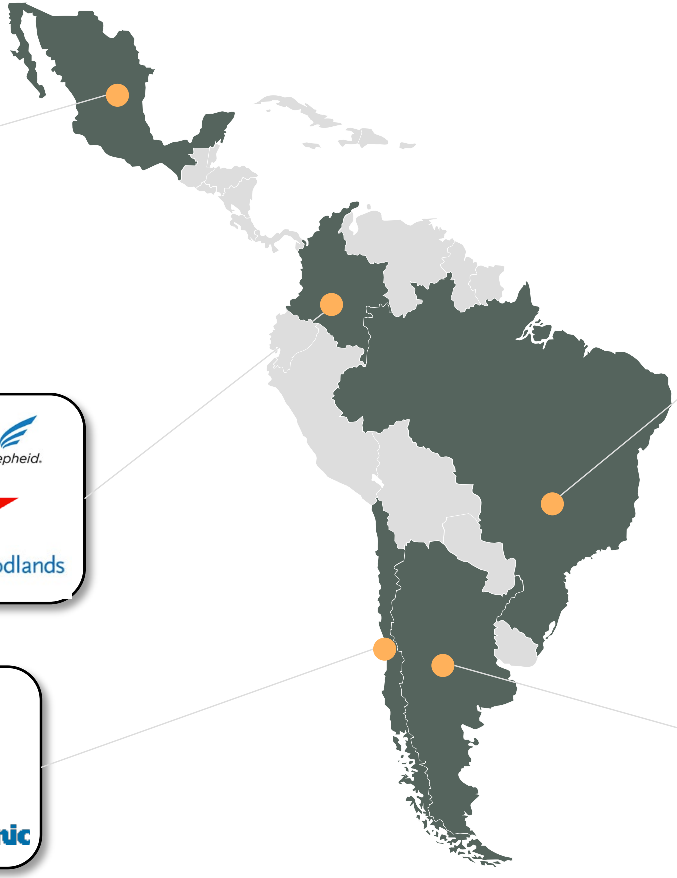
affidea, NOVARTIS, Eisai, SIRTeX, BD, Takeda, Medtronic, SAREPTA THERAPEUTICS, DANAHER, Cepheid., Biogen, MedImmune, MAYO CLINIC Mayo Medical Laboratories, GORE, GRUNENTHAL

Colombia

VERTEX, BD, Shire, DANAHER, Cepheid., SIRTeX, SAREPTA THERAPEUTICS, Memorial Sloan Kettering Cancer Center, GORE, GRUNENTHAL, Biogen, UNITHER PHARMACEUTICALS, EssexWoodlands

Chile

VERTEX, DANAHER, Cepheid., BD, GRUNENTHAL, Biogen, affidea, GORE, Medtronic, SIRTeX, Roche, Johnson & Johnson



Brazil

Baxter, smith&nephew, GORE, Medtronic, DANAHER, Cepheid., Roche, Abbott, sysmex, Medicaroid, BIOTRONIK, BD, ZIMMER BIOMET, SCITECH Innovation for Life, elfa, GILEAD, alliage, BAYER, Athena SAÚDE, NOVARTIS, Memorial Sloan Kettering Cancer Center, Boehringer Ingelheim, Biogen, GRUNENTHAL, bp, DIAVERUM, dbv technologies, affidea, VERTEX, Takeda, AmerisourceBergen, DORC, PARATEK, BSL SAÚDE, endo, AssistCare, SIRTeX, Hospira, Pierre Fabre, sedgwick., PURDUE, aché, HALEXISTAR Indústria Farmacêutica Evolução Permanente, PRÓ INFUSION PRONTO PARA USO, GSC, GRUPO SANTA CELINA, SAREPTA THERAPEUTICS, oncoprod, HELSINN, Eisai, Eurofarma

Argentina

SIRTeX, Biogen, GORE, sedgwick., BD, mundipharma, Takeda, Shire, endo, DANAHER, Cepheid.

Notes: 1) Includes (a few) companies evaluated in the strategic due diligence process for private equity funds; 2) L.E.K. Brazil also has experience in other markets such as Peru, Costa Rica, Panama, Ecuador, Venezuela, and Uruguay

LEK™

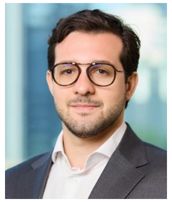
Connect with us to learn how we can help your organization thrive in Brazil and Latam

Maurício França

+55 11 9 5493 1036

m.franca@lek.com

linkedin.com/in/mfranca/



Rafael Freixo

+55 11 9 7589 4560

r.freixo@lek.com

linkedin.com/in/rafaelfreixo/

Healthcare expertise

$500B+ capital

In supported investments in healthcare globally

5,000+

Health projects on six different continents

1,200+

Specialists dedicated to the healthcare market

4k+

years of accumulated experience in our leadership

Founded 1983 | **21 Offices** | **~200 Partners** | **~2,200 Staff**

LEK™

Disclaimer

This document is to provide information and is for illustration purposes only. Accordingly, it must be considered in the context and purpose for which it has been prepared and must be kept confidential.

This document cannot be relied upon by any recipient. In accepting it, you agree that L.E.K. Consulting LLC and its affiliates, members, directors, officers, employees and agents neither owe nor accept any duty or responsibility or liability to you or any third party, whether in contract, tort (including negligence) or breach of statutory duty or otherwise, howsoever arising, in connection with or arising from this presentation or the use you or any third party make of it. L.E.K. shall not be liable to you or any third party in respect of any loss, damage or expense of whatsoever nature which is caused by your or any third party's reliance on or for any use you or any third party may choose to make of the presentation, which you accept is at your or their own risk.

This report is based on information available at the time this report was prepared and on certain assumptions, including, but not limited to, assumptions regarding future events, developments and uncertainties, and contains "forward-looking statements" (statements that may include, without limitation, statements about projected market opportunities, strategies, competition, expected activities and expenditures, and at times may be identified by the use of words such as "may," "could," "should," "would," "project," "believe," "anticipate," "expect," "plan," "estimate," "forecast," "potential," "intend," "continue" and variations of these words or comparable words).

L.E.K. is not able to predict future events, developments and uncertainties. Consequently, any of the forward-looking statements contained in this report may prove to be incorrect or incomplete, and actual results could differ materially from those projected or estimated in this report. L.E.K. undertakes no obligation to update any forward-looking statements for revisions or changes after the date of this report, and L.E.K. makes no representation or warranty that any of the projections or estimates in this report will be realized. Nothing contained herein is, or should be relied upon as, a promise or representation as to the future.