

Healthcare trends in Brazil

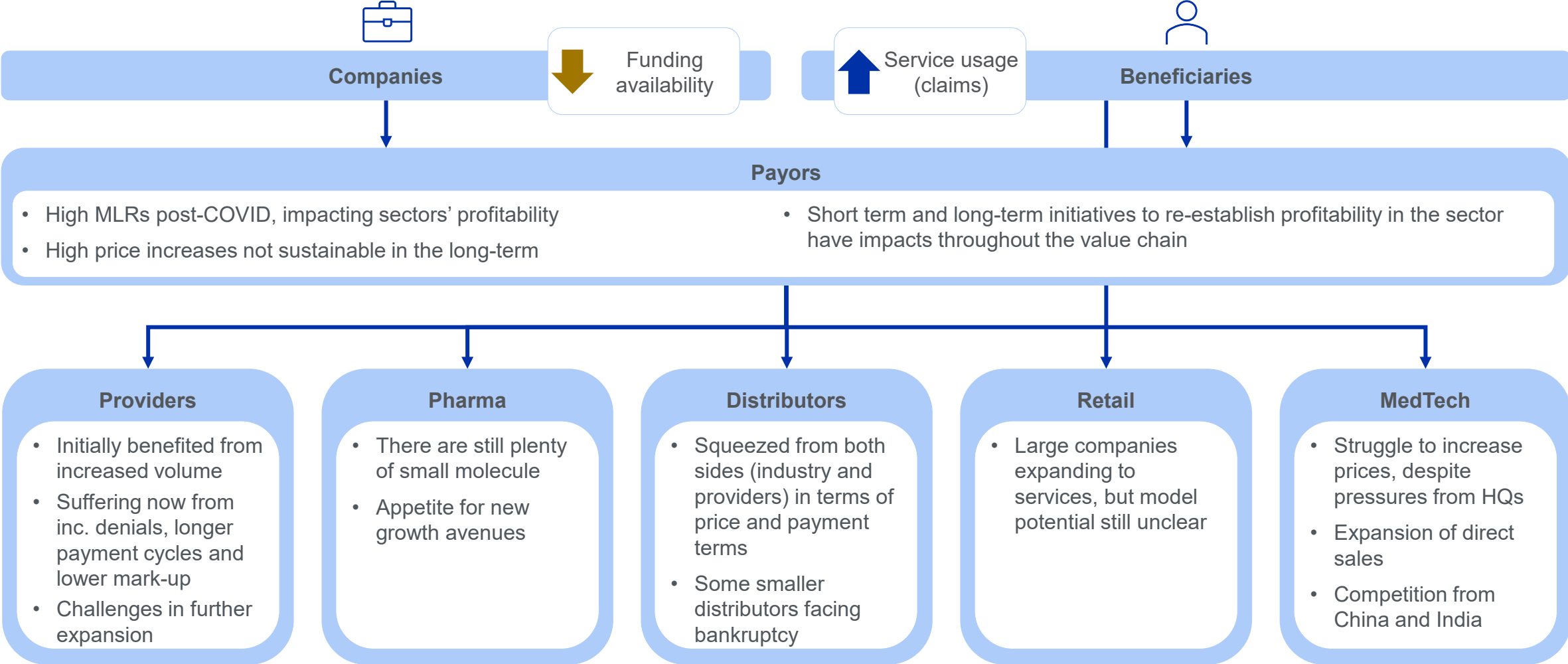
August 2024

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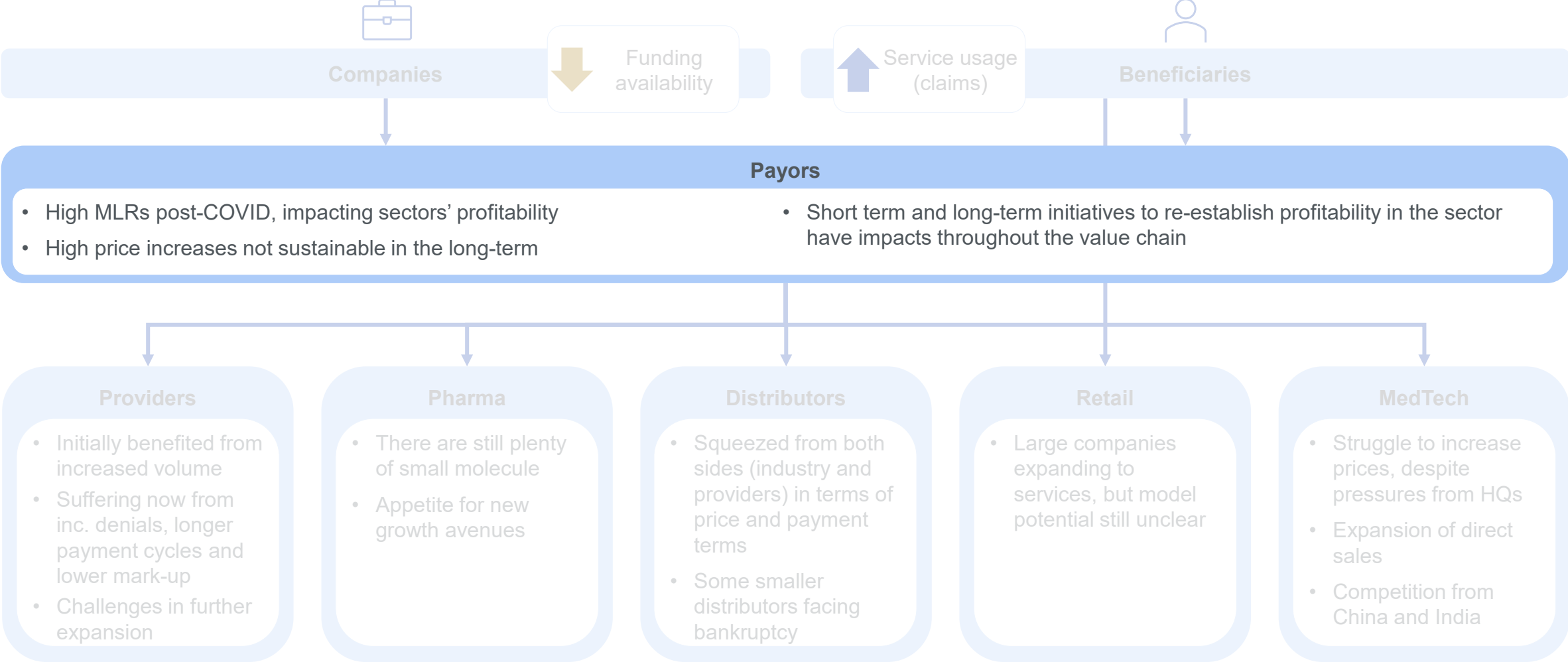
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COVID impact on MLRs has exacerbated resistance to ever increasing insurance premiums, pressuring the entire value chain

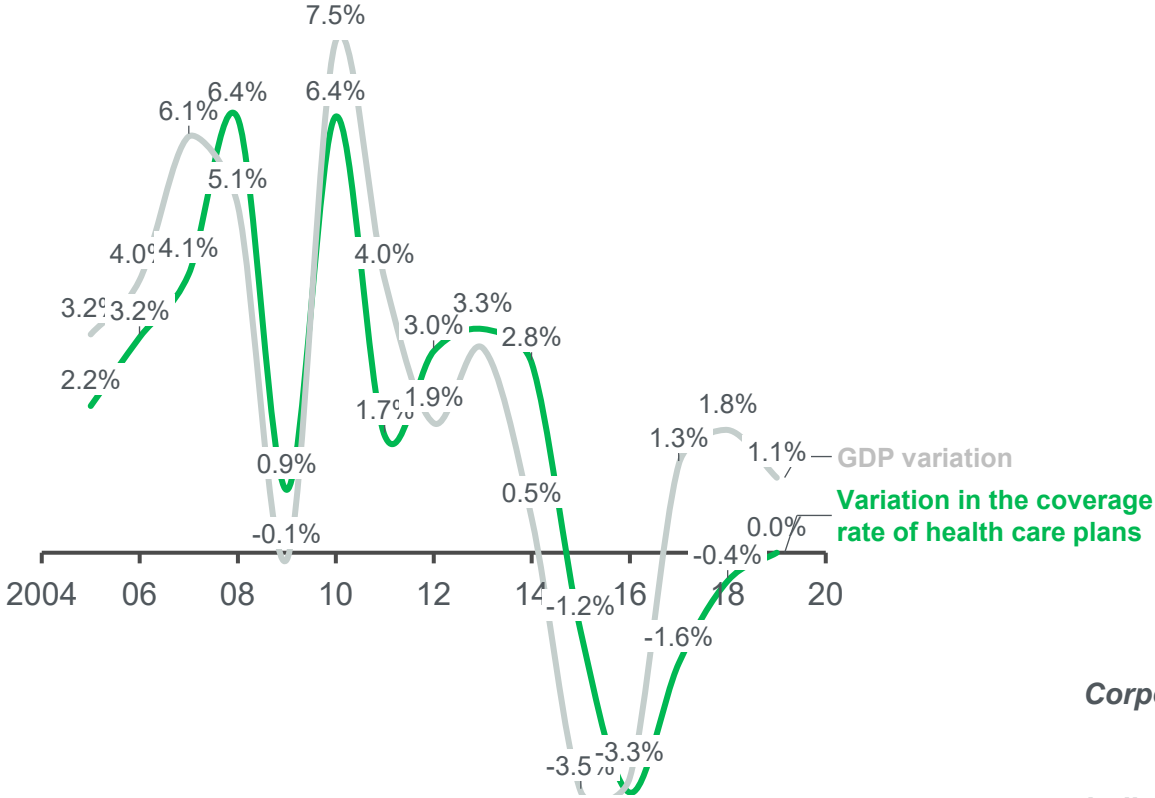


Payors

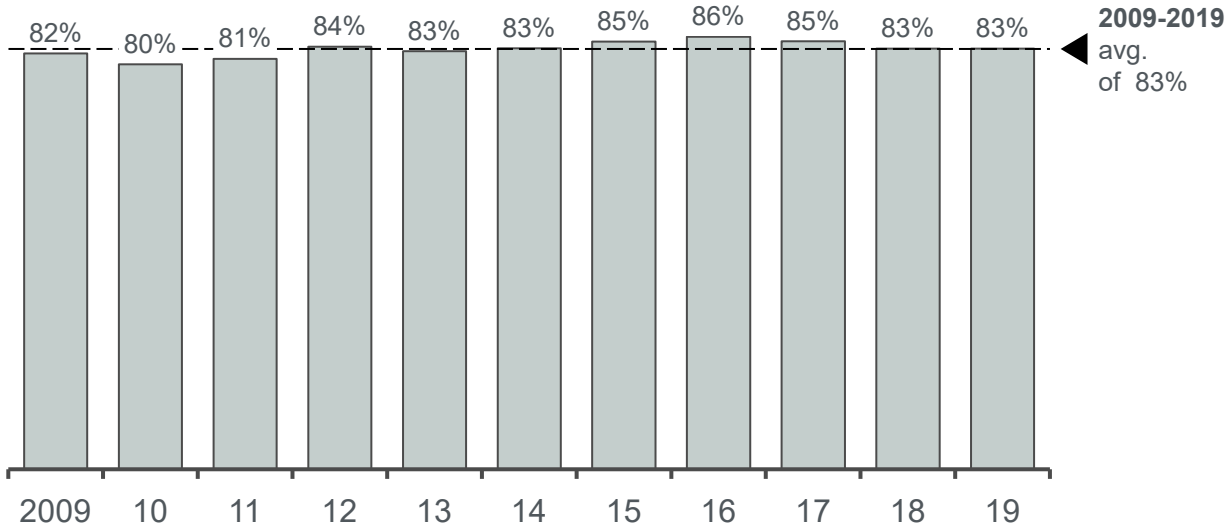


Payors have historically managed to sustain MLRs, given ability to pass-through medical inflation to beneficiaries and employers

Variation of the coverage rate¹ of health care plans vs. variation of the GDP (2005-2019)



Medical loss ratio (MLR), private payors (2005-19)
% of premium revenue



Premium adjustments (YoY%)

Corporate:	7.7	9.5	10.7	10.8	9.7	12.0	13.5	15.7	14.2	11.9	10.5
Individual:	6.7	6.7	7.6	7.9	9.0	9.6	13.5	13.5	13.5	10.0	7.3

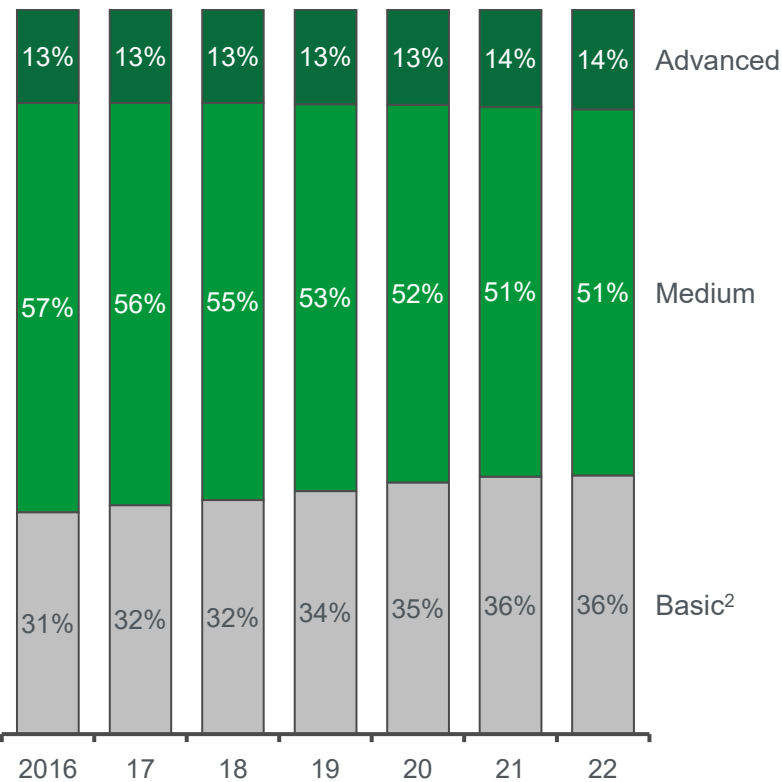
Notes: 1) Percentage of the population covered by private health insurance
Source: ANS; L.E.K. analysis and research



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

Private insurance profile by category¹
(2016-22), % of beneficiaries

Δ p.p.
(2016-22)

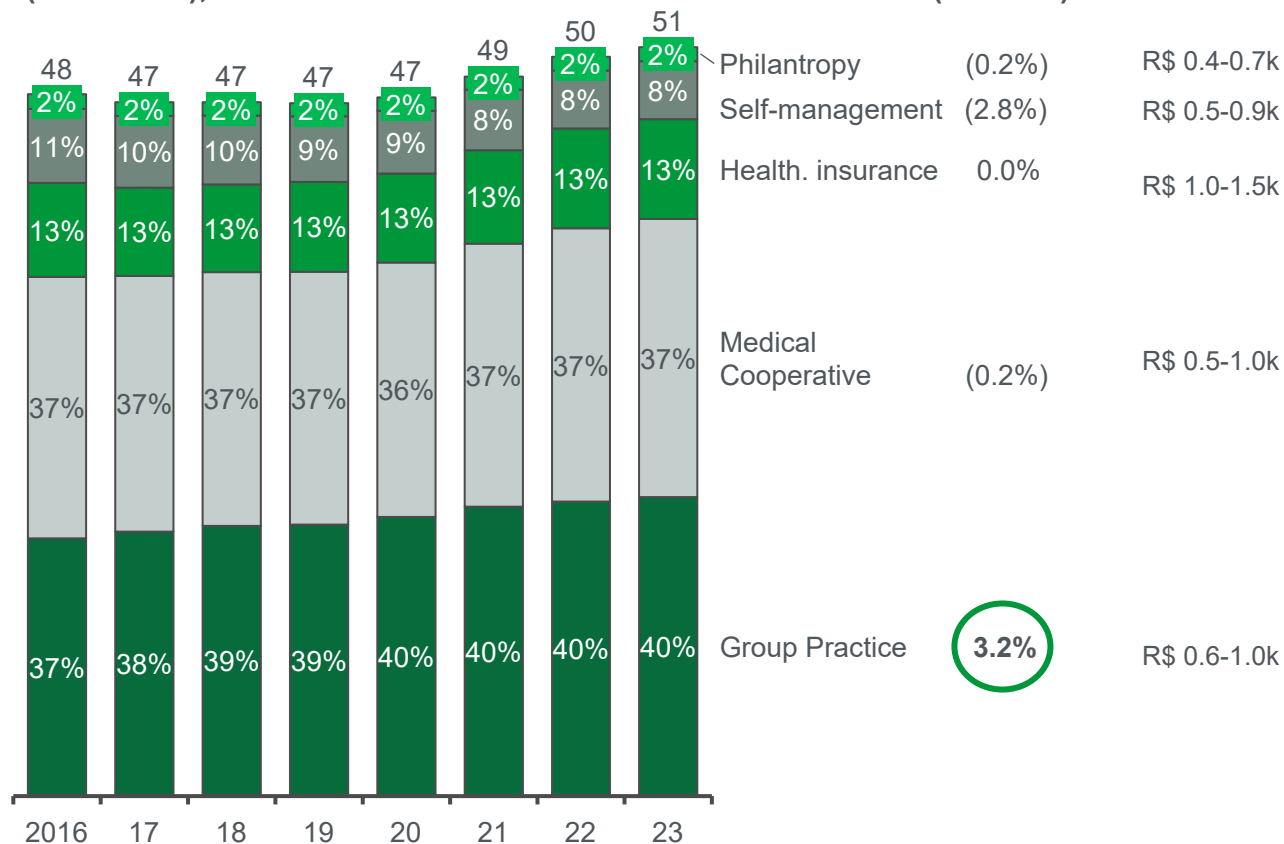


5.0%

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

Δ p.p.
(2016-23)

Avg. ticket²



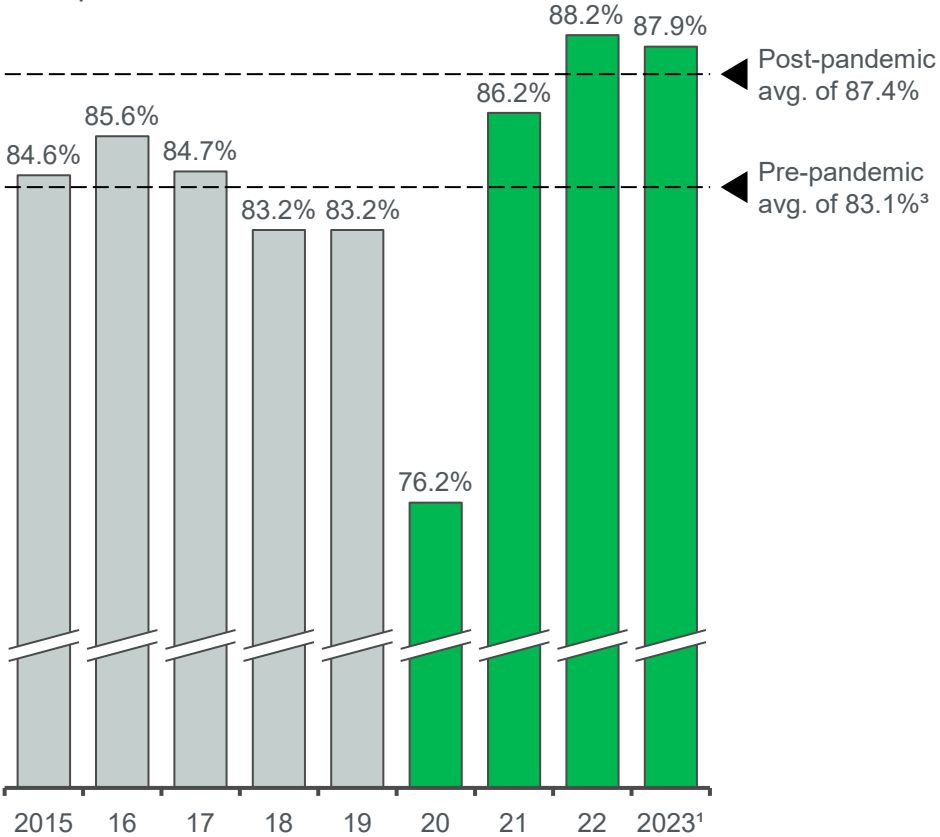
3.2%

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

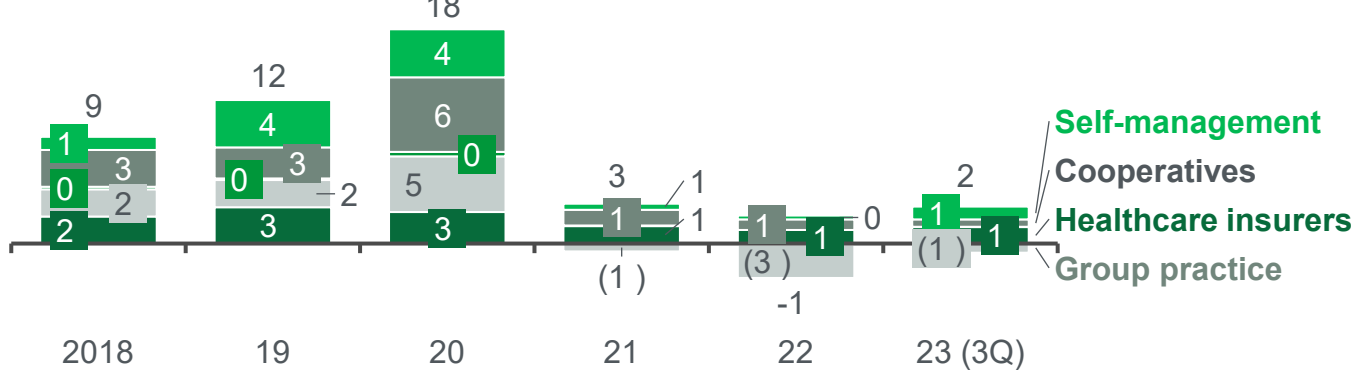
Source: ANS; L.E.K. analysis and research

During the period Post Covid, MLRs reached an all time high and have not yet recovered

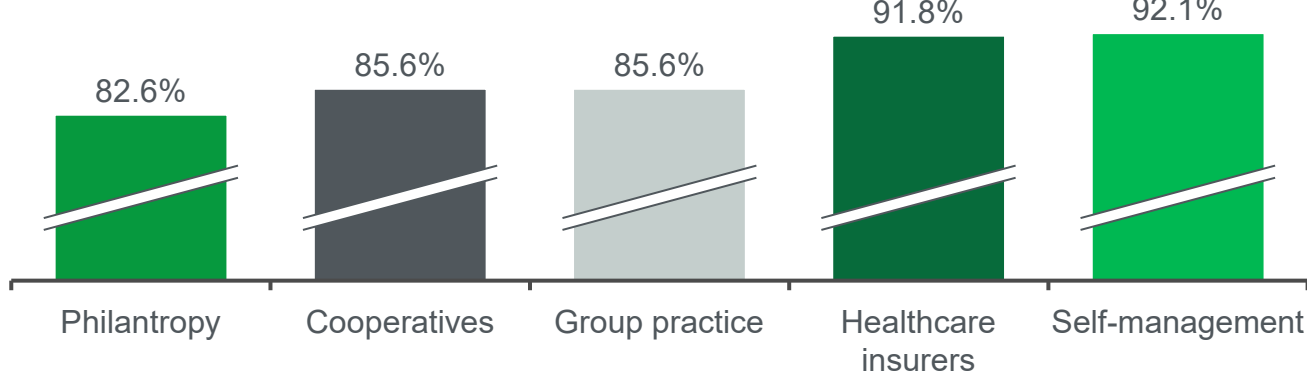
Medical loss ratio (MLR), private payors (2015-23¹)
% of premium revenue



Payor's net income by type² (2018-2023¹)
BRL Billions



Payor's average medical loss ratio (MLR) by type (2021-2023¹)
%



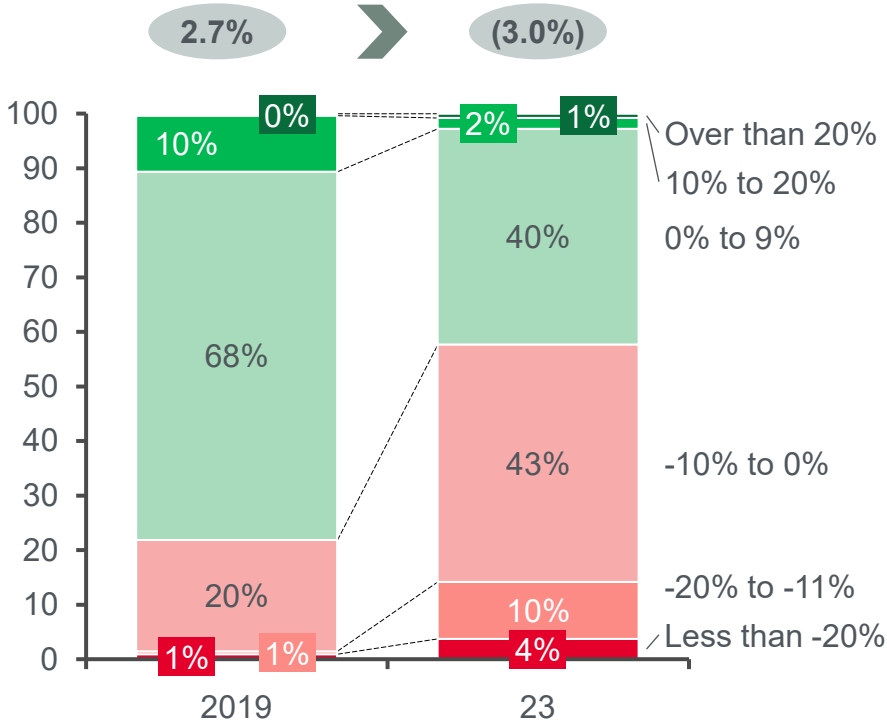
Notes: 1) Considers 2023 until 3rd quarter (last available data) 2) Includes only medical and hospital insurance 3) Average for the period 2009-2019
Source: ANS; DataSUS; companies' websites; L.E.K. analysis and research



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

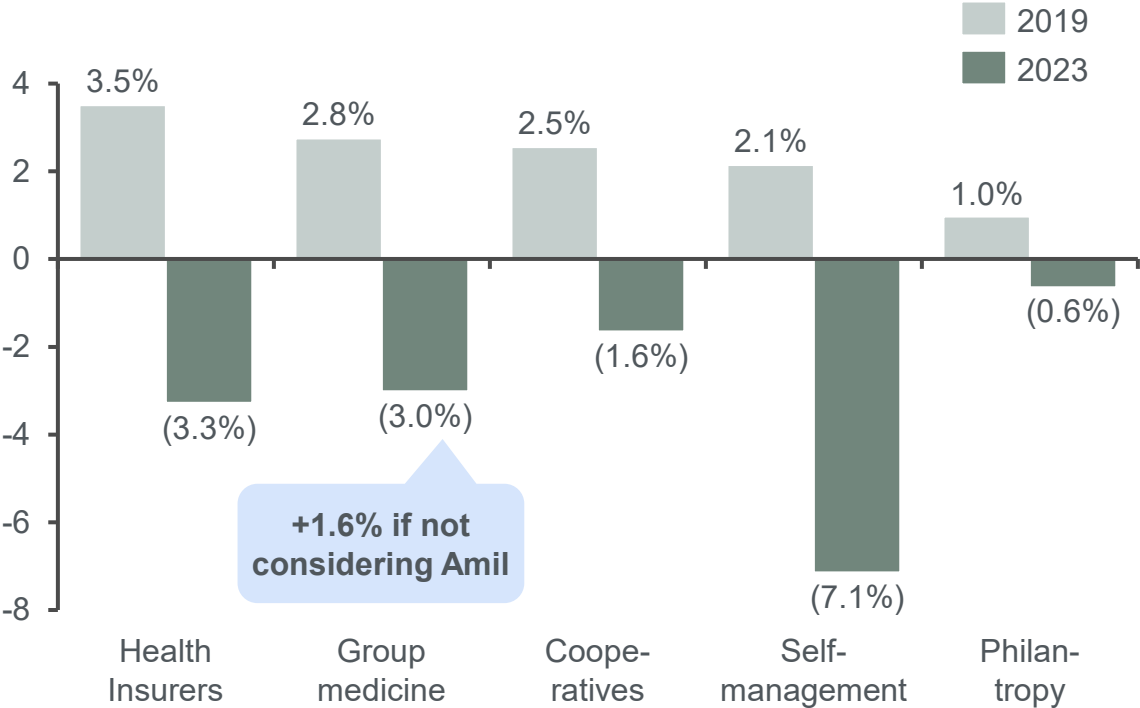
Total revenue of payors by operational result range (2019-23¹)

BRL Billions, % of revenue



Operational result by payor type evolution (2019-23¹)

% of revenue

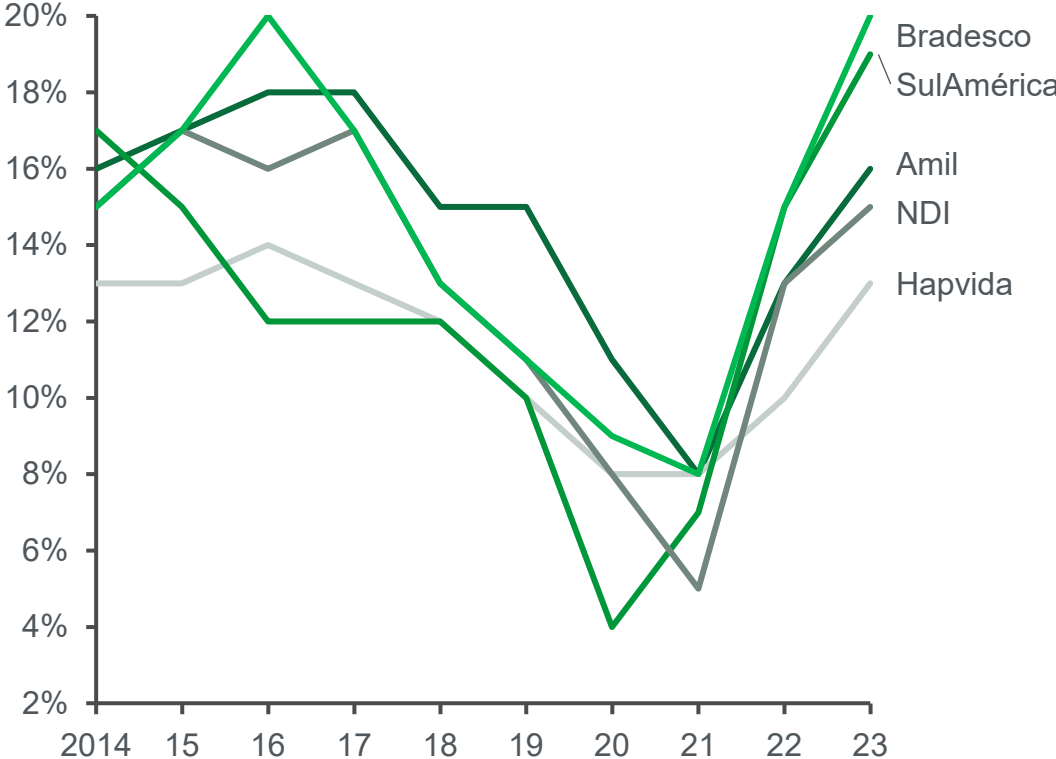


Notes: 1) Considers 2023 until 3rd quarter (last available data)

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

In response, payors have (again) increased prices, recovering margins but creating additional pressure with companies and beneficiaries






Average premium adjustment (2014-23) % YoY



Company	Increase	
	Average 10 years	2023
Bradesco	+15%	+20%
SulAmérica	+12%	+19%
Amil	+15%	+16%
NDI	+13%	+15%
Hapvida	+11%	+13%

Companies

Given significant price increases and a challenging economic environment, companies are looking to streamline costs

-  Health insurance is ~10% of personnel expenses (most expensive benefit)
-  Corporate plans increased 14% on average in 2023 (sector average)
-  Companies are unable to “pass-on” these prices to their customers
-  Downgrading plans
-  Establishing control mechanisms

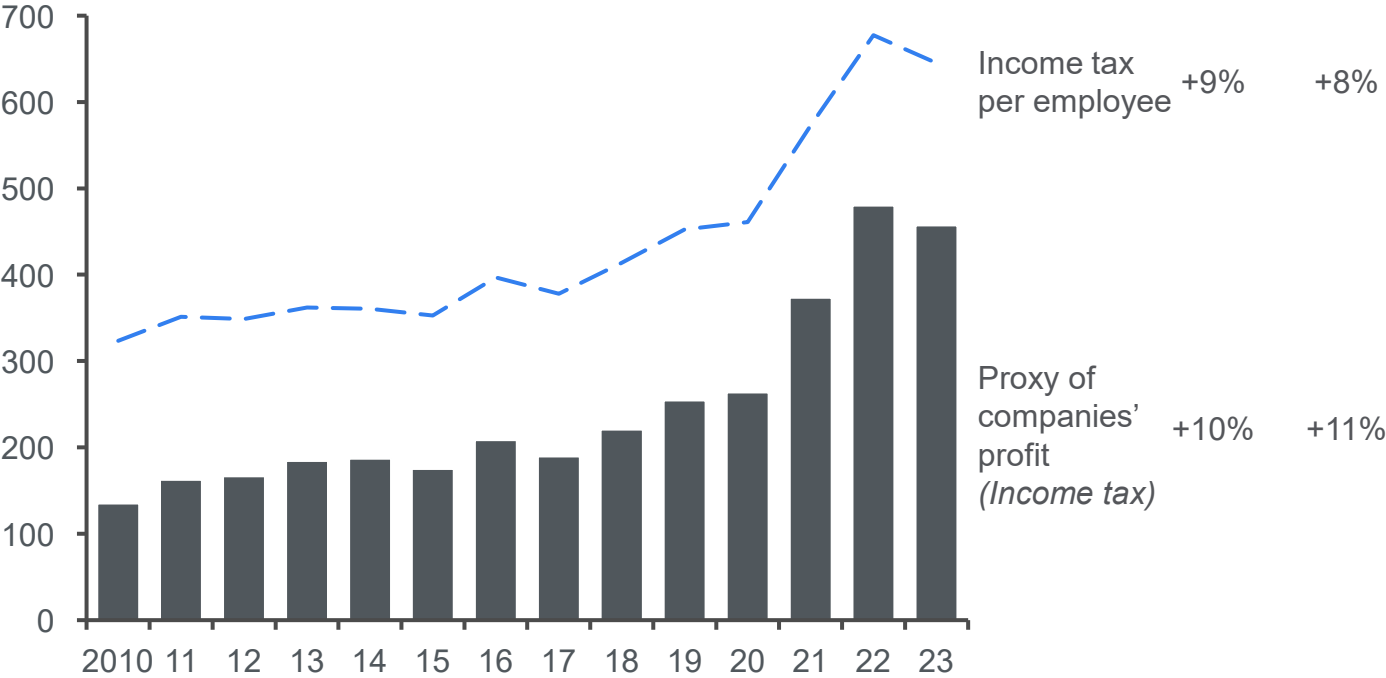
Vs.

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

Insurance premiums are growing at a faster pace than companies' profits, becoming a relevant topic for companies discussing ways to cut down costs

Proxy for profits of companies in Brazil – Income tax (IRPJ + CSLL)
(2010-23), R\$ B, R\$ per employee

CAGR%
2010-23 2021-23



Corporate premium adjustments (YoY%)



- **Companies' profitability and productivity have been growing at a slower pace compared to payors' premiums**, becoming a relevant discussion topic within companies



*"... This year only, price increases were between 13-24%, which I am **not able to pass-on to my customers...**"*

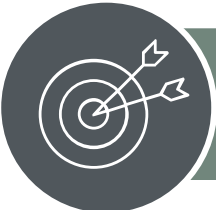
- **HR departments are increasingly concerned with premium increases, as health insurance is the largest benefit cost** while also being one of the key in recruiting employees



*A survey with HR departments showed that **adapting insurance costs with companies' budget is the main challenge in health benefits** (39% of respondents)*

Source: Receita Federal; Valor Econômico; HR trends; L.E.K. analysis and research

Therefore, payors are looking to improve the control on claims with both immediate initiatives and long-term structuring plans



Short-term

Operating or tactical initiatives that can help dealing with current price pressures, especially from independent hospitals and large chains



Enhanced fraud control



Stricter claim approvals



Detailed list of procedures



Heightened control on reimbursements



Long-term



Strategic plans to generate sustainable advantages amid an environment with a higher presence of low-cost providers



Business verticalization (either “actual” or “virtual”)



Widening participation on patient's journey



Central and scalable procurement

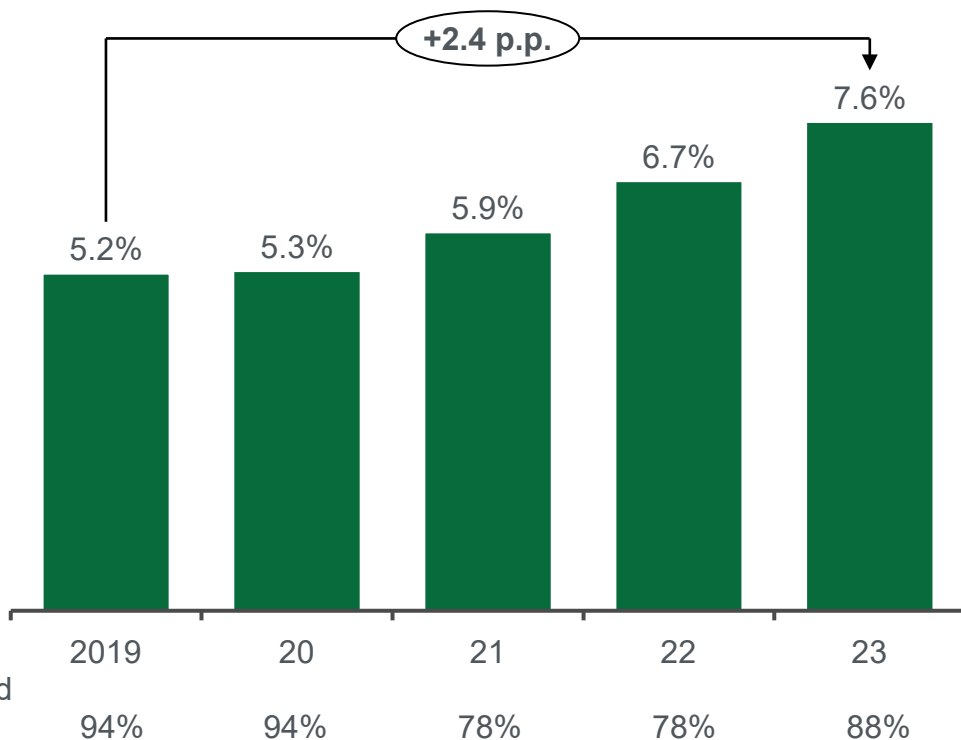
Source: L.E.K. analysis and research

Payors have been increasing denials (“glosa”) and dealing with higher levels of complaints in recent years



Short-term

Overall rate of claim denial¹ (2019-23), % of claims value



ANS General Complaints Index² (2020-23)



Approved after appeals

Notes: 1) As reported by ANS to all payors in the Brazilian private healthcare system. 2) Index managed by ANS to monitor complaints from beneficiaries of payors (IGR – Índice Geral de Reclamações). It measures the number of complaints for each 100.000 beneficiaries

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

On the strategic front, payors are widening and refining their business models; noticeable example includes Bradesco moving into the providers space and the overall increase in plans with co-pay



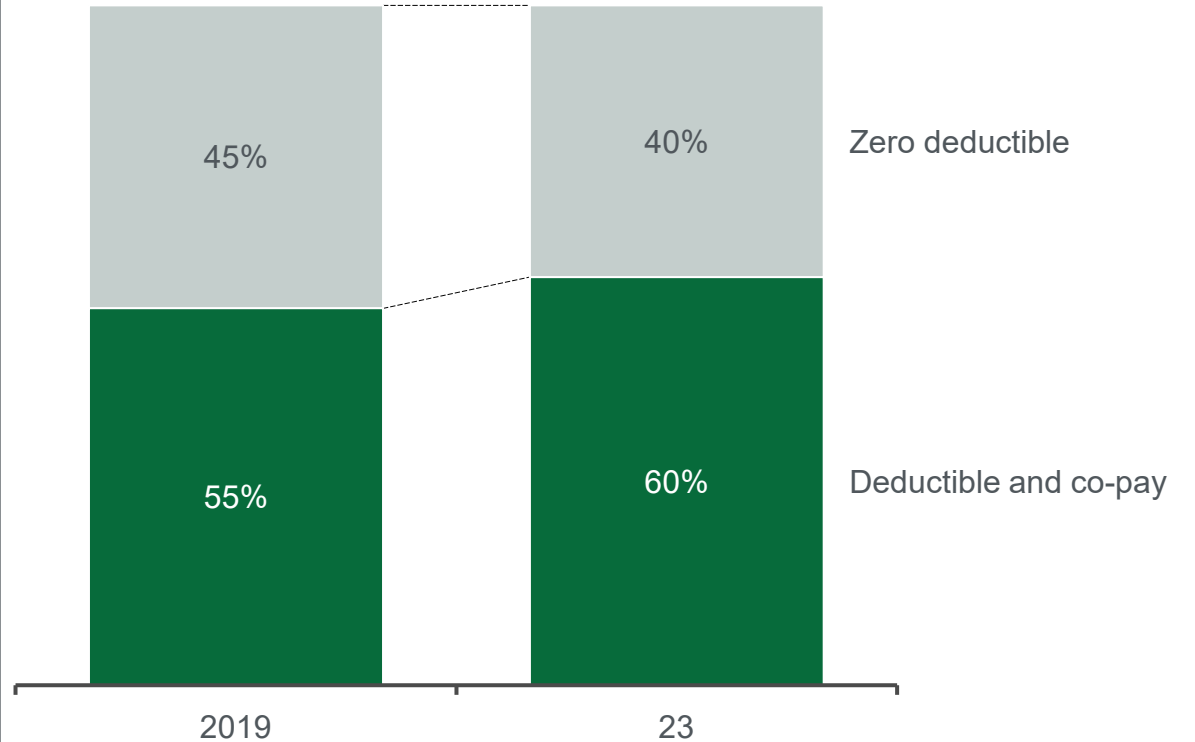
Long-term

Timeline - Bradesco / Atlantica Hospitais



- 2021**
 - Bradesco Saúde establishes Atlantica Hospitais, an investment vehicle to support its expansion into the providers' landscape
- 2022**
 - Atlantica absorbs Novamed, Bradesco's own network of medical clinics
 - Company acquires 20% of Hospital Santa Lucia, the largest hospital network in Brazilian Centerwest (+1.3k beds)
 - Atlantica, Fleury and Beneficencia Portuguesa form a JV to develop ABPF Oncologia, focused on establishing a verticalized initiative for oncology patients
- 2023**
 - Company partners with Einstein to build a 300-bed hospital in Sao Paulo, expected to launch in 2027
 - Atlantica partners with Mater Dei to build a new hospital (250-300 beds) in Sao Paulo

Health insurance plans by type (2019-23), % of plans



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

Access to top-tier hospitals varies by plan, with most beneficiaries having limited access to premium services, even among premium payors (SP capital)

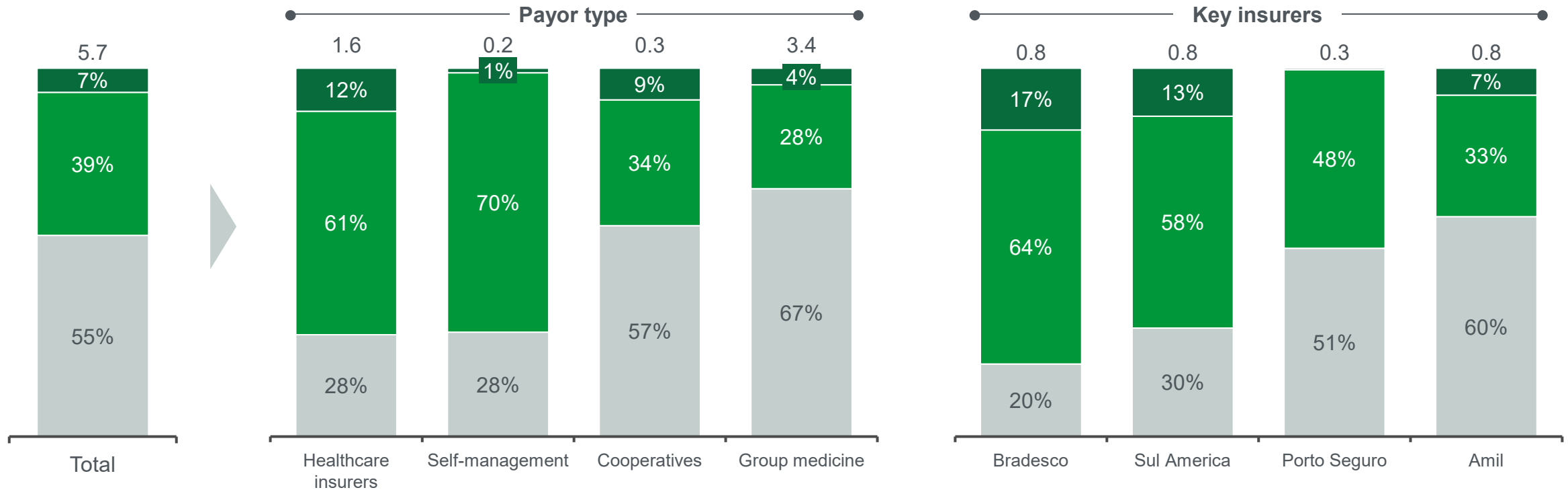


Long-term

Only SP capital

Number of beneficiaries by hospital access tier by payor type and company (2024), # million

- Plans without premium hospital access¹
- Plans with limited premium hospital access²
- Plans with broad premium hospital access³



Notes: 1) Plans that do not include care at any of the hospitals: Albert Einstein, Sírio- Libanês, Oswaldo Cruz or Moinhos de Vento 2) Plans that include care at least one of the hospitals: Albert Einstein, Sírio- Libanês, Oswaldo Cruz or Moinhos de Vento 3) Plans that include care at both Albert Einstein and Sírio-Libanês

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

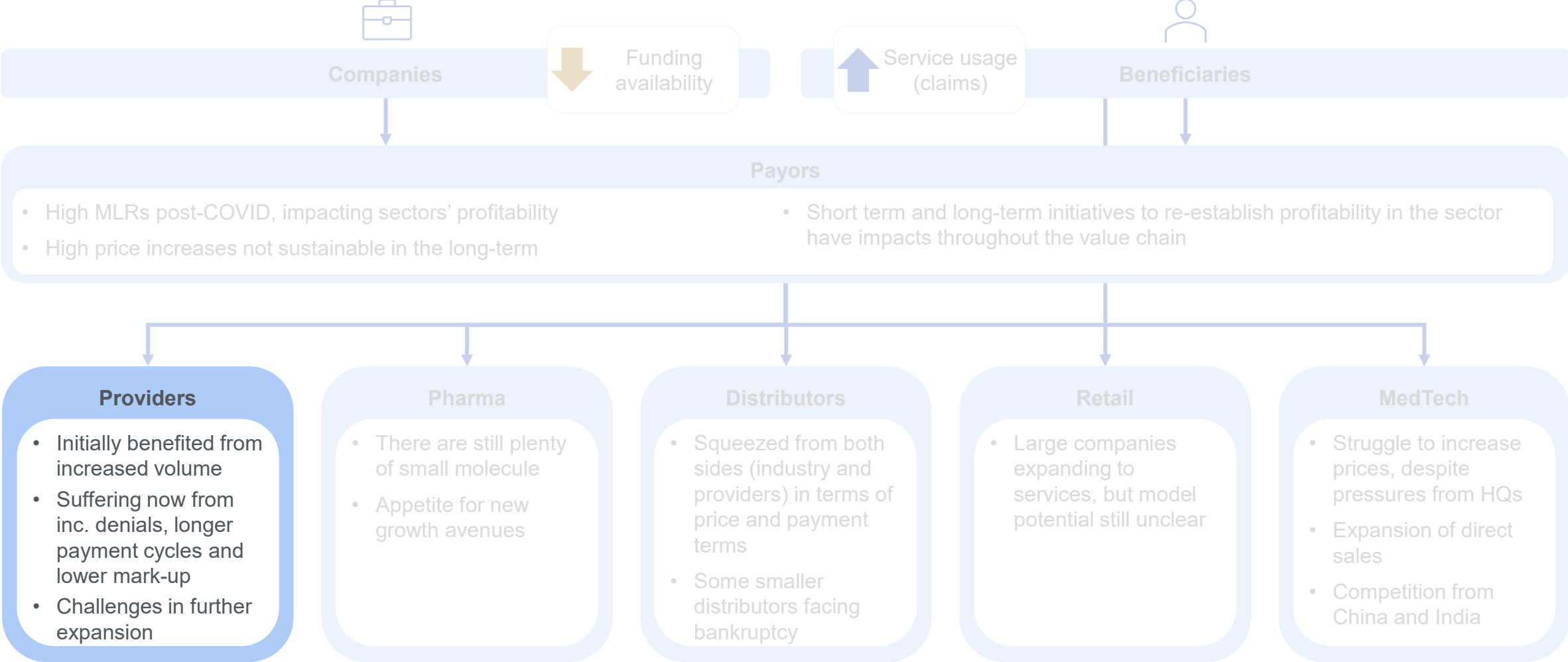
We expect payors to control their Medical Loss Ratios in the short to medium term

Payors - What's next?



- ***We expect Payors to control their Medical Loss Ratios in the short to medium term***, but there may be negative impact on growth given the requirement to increase premiums
- ***Verticalized players have a very strong value proposition in a country like Brazil***, but a long-term challenge remains to ensure that efficiency doesn't have a negative impact on quality of care
- ***Other (non verticalized) players are still looking for the best ways to be efficient and control costs***. Several exercises are being made but a solution hasn't been found yet
- ***Sector sustainability remains a long-term challenge***. Premiums have been growing faster than inflation for a long time already, the risk of rupture (and regulatory backlash) grows every year

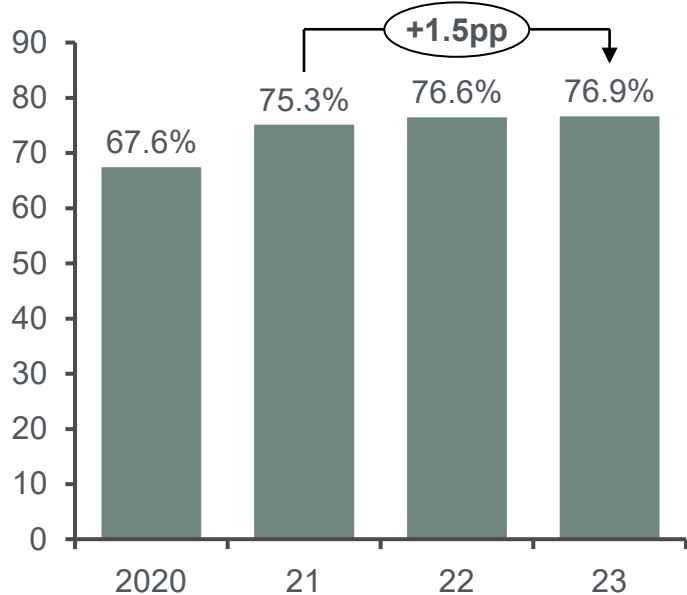
Providers



At first glance, providers seem to have been less impacted by payor's financial struggles, as they benefit from post pandemic repressed demand

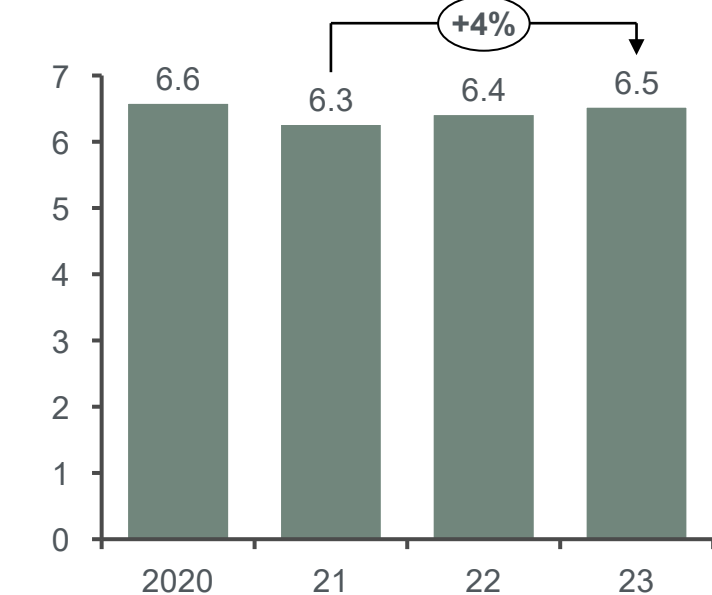
Occupancy rate has seen a 1.5-p.p. increase since 2021

ANAHP general operating occupancy (2020-23), %



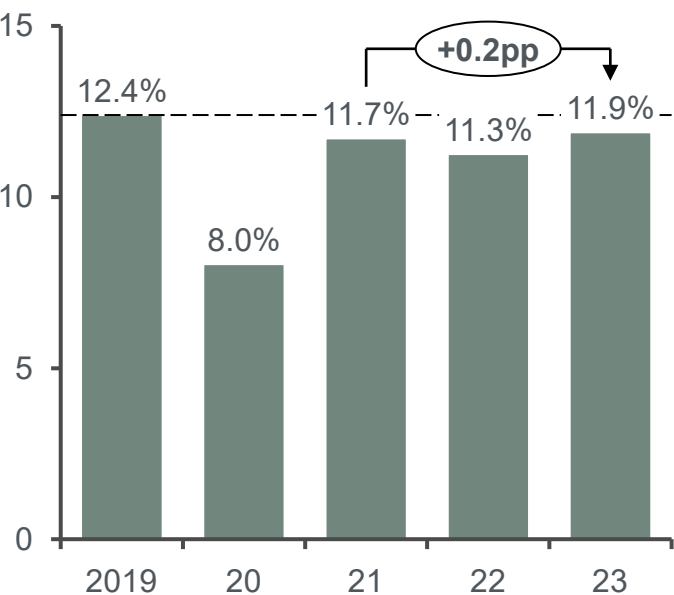
Revenue per patient has grown 4% since 2021

ANAHP net revenue (real) per patient-day¹ (2020-23), BRL thousands



EBITDA is increasing and close to pre-pandemic levels

ANAHP EBITDA margin (2019-23), %



Hospitals have been growing as they serve patient's repressed demand from pandemic and insurer's increased claims

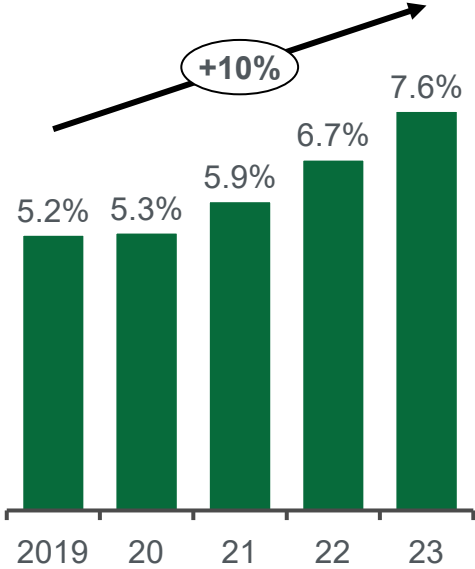
Notes: 1) Values discounted for inflation by IPCA
Source: ANAHP; L.E.K. analysis and research



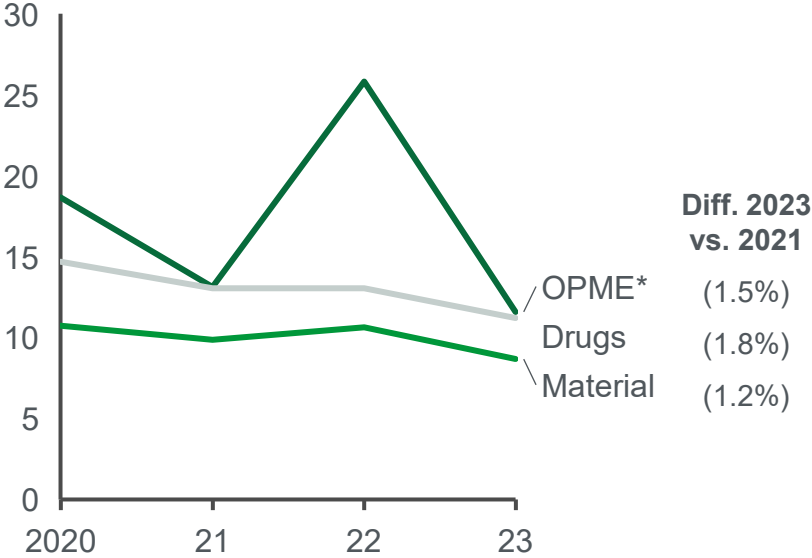
However, they have also been facing challenges, resulting from an increased denial rate (“glosa”), decreasing product margins and extended payment terms

DIRECTIONAL

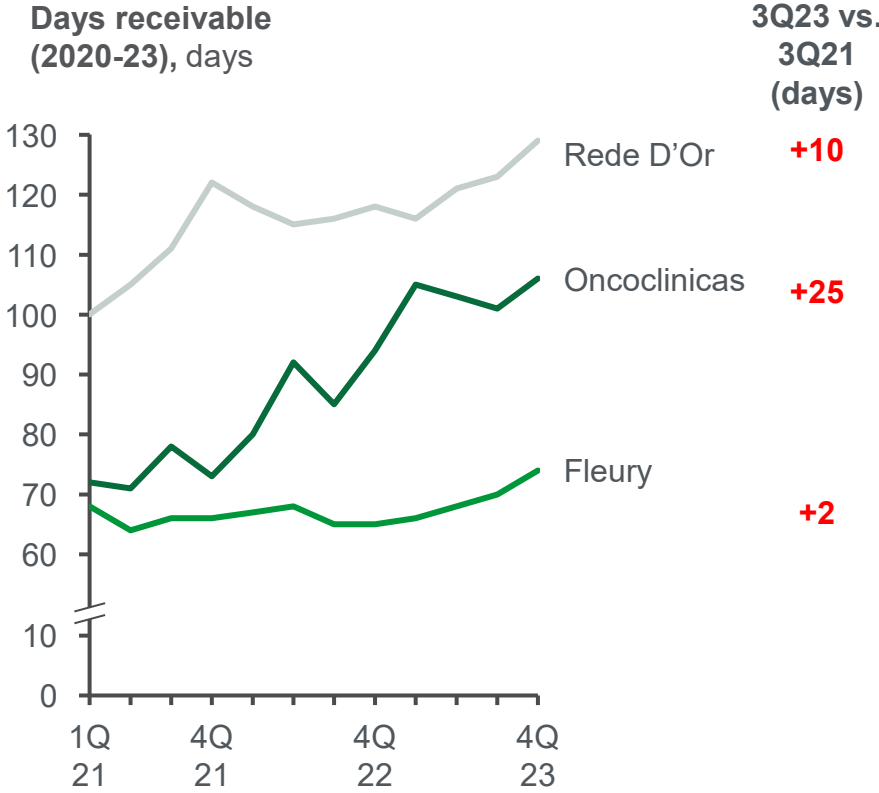
Denials rate (“glosa”) (2019-23), %



Margins of OPME, materials and medication within ANAHP hospitals (2020-2023), % of revenue



Days receivable (2020-23), days



Source: Rede d’Or IR; Kora Saúde IR; Athena Saúde Participações IR; Fleury IR; Oncoclinicas IR; L.E.K. analysis and research



Independent hospitals have been more affected, as they have less bargaining power in pricing negotiations



Reference hospitals

- **Short-term pressure from payors**, which will further strain accounts and prompt some efficiency efforts, even though physicians remain the primary decision-makers
- **Increasingly using volume and portfolio to negotiate prices**, requiring different dynamics during purchases



Large groups

- **Undergoing a consolidation process in the medium term**, which will lead to higher volumes and improved negotiation
- **In the short term, M&A activity is expected to decrease**, but in the medium term, it is likely to continue, focusing on expansion in smaller cities with larger presence of Unimed



HMOs

- **Current focus is on integrating acquired operations**, which will increase pressure on prices
- **Experiencing an even greater push for efficiency in the short term** due to rising MLRs and market concerns about the business model
- **Procurement dep. are increasingly establishing protocols** for physicians to utilize only brands with low-price agreements with hospitals

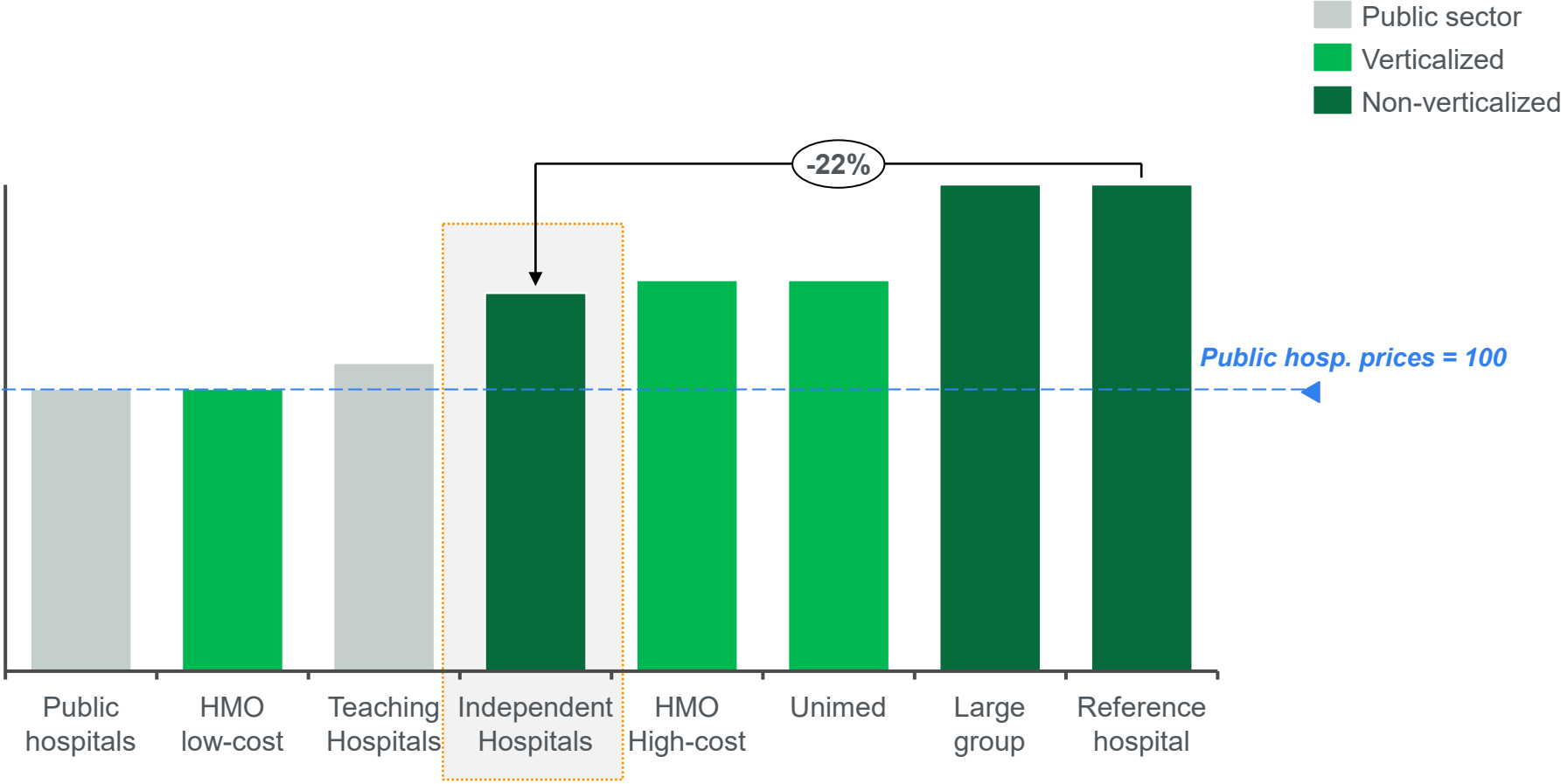


Independent hospitals

- **Struggling with the expansion of large groups** and the growth of verticalized operations in some cities
- **Serve more basic healthcare plans or have less bargaining power in negotiations with larger payors**, disproportionately pressuring rate tables and leading to increased price pressure
- **Higher cost pressure from “PL da enfermagem”**

Independent hospitals have less bargaining power than Large and Reference Hospitals, as it can be seen in this example of OPME Pricing

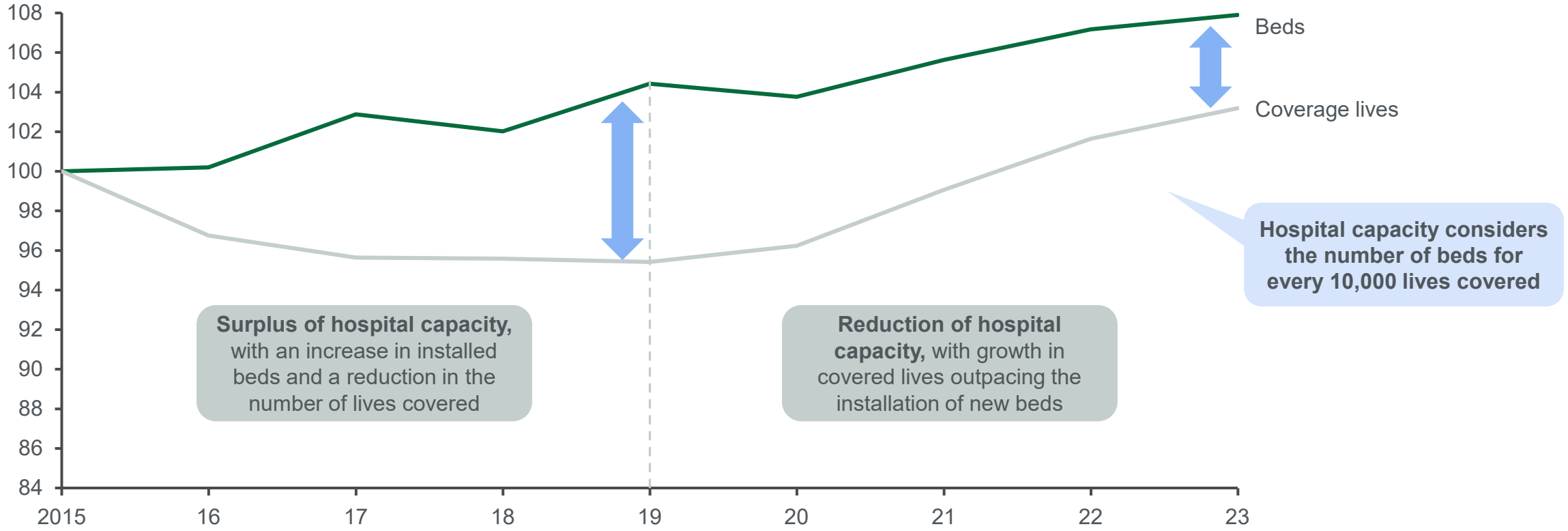
Medtech average OPME price by customer group (2024), Public hospital prices = 100



!
Independent hospitals have worse price agreements with payors, what is reflect on their inability to pay the same price levels for OPME

Hospital capacity has experienced an increase up to 2019, which has already been partially closed by 2023 with the number of lives covered exceeding the opening of new beds

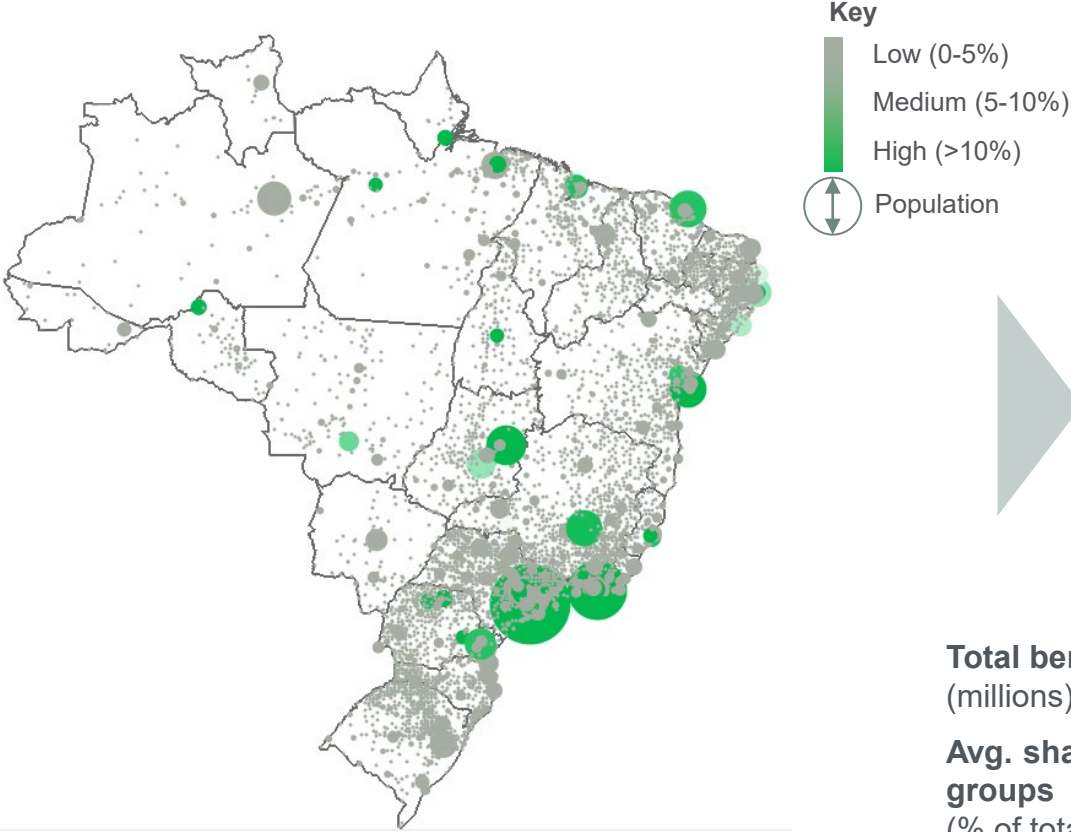
Evolution of private bed and private coverage lives in Brazil
(2015-23)
2015 = 100



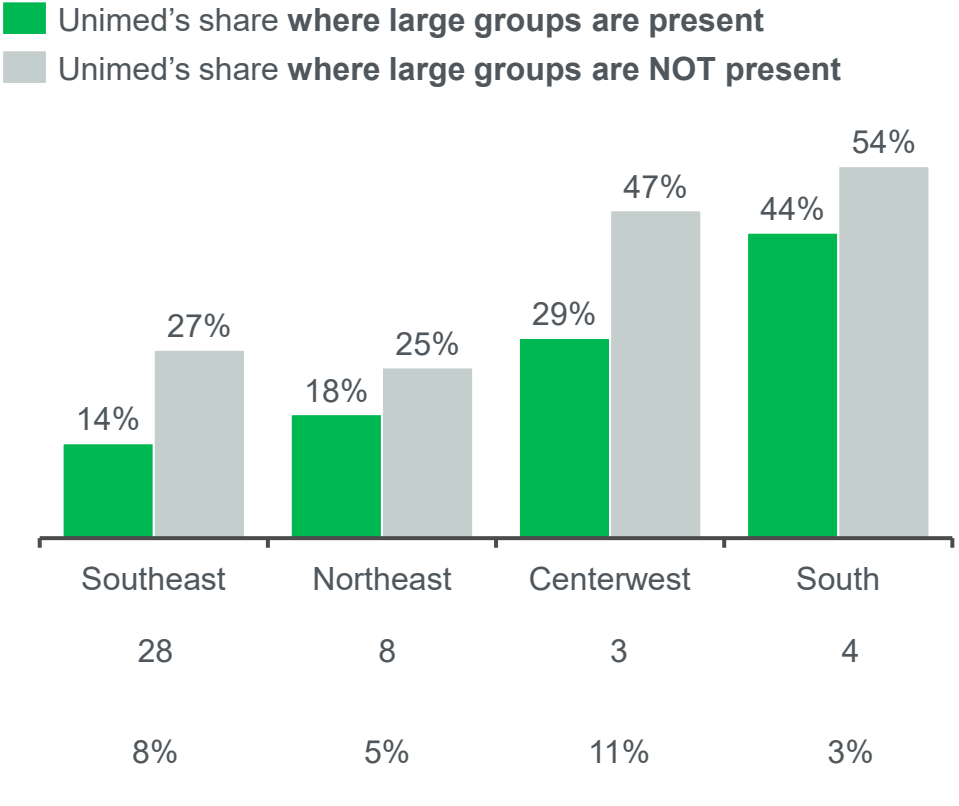
Note: Complementary beds (used during covid) were excluded from the analysis
Source: IBGE; ANS; L.E.K. analysis and research

New expansions and revenue growth are expected to be more challenging, given the entry into less attractive regions with a greater Unimed presence

Penetration of Large Group Hospitals¹
(2024), % of beds



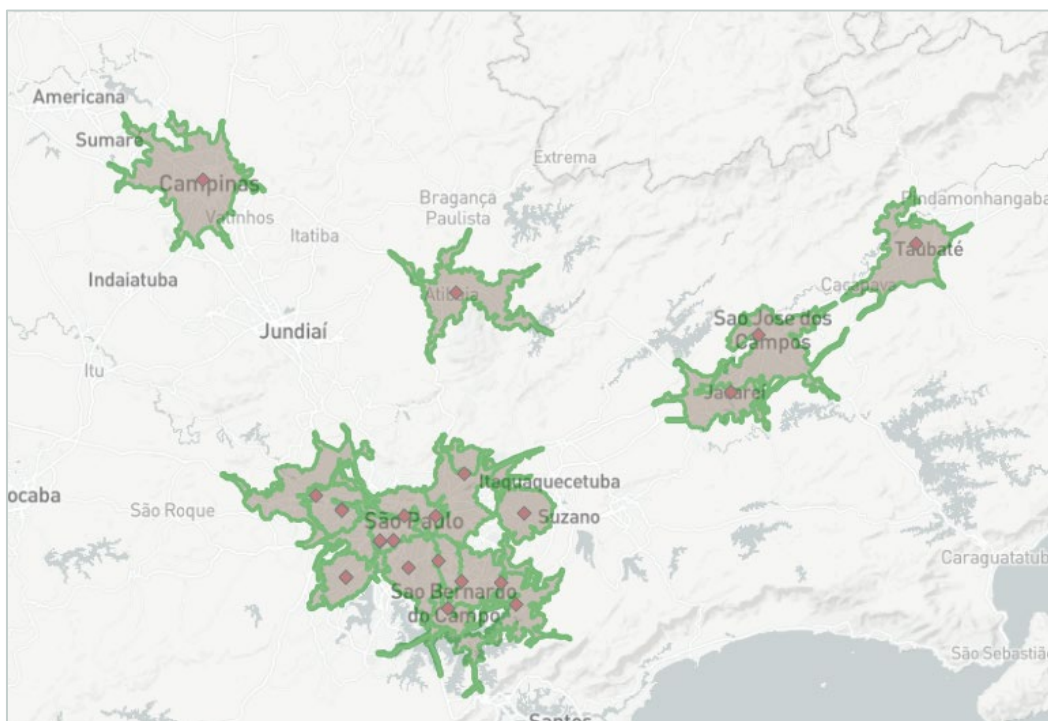
Unimed share by region – medium and large cities²
(2024), %



Notes: 1) According to L.E.K.'s internal classification; includes consolidators and large players such as Mater Dei, Rede D'Or / São Luiz etc.; 2) Accounting only for municipalities with 250k+ inhabitants
Source: IBGE; ANS; L.E.K. analysis and research

The expansion of some providers groups, for example, may face a greater challenge in maintaining the average ticket per bed, given less attractive regions

Catchment area¹ of select hospitals and planned expansions (brownfield and greenfield – São Paulo State)

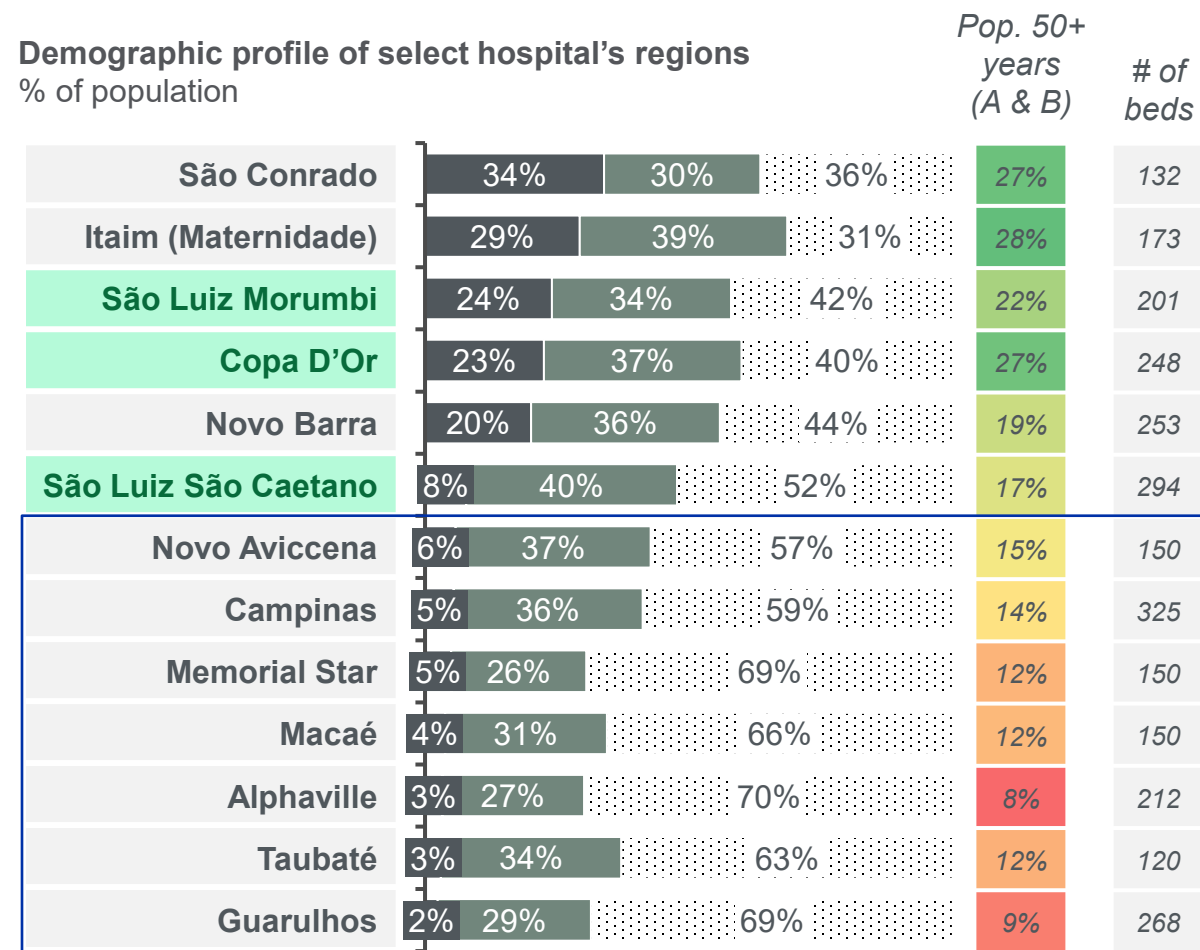


◆ Approximate hospital location ■ Catchment area (20-min drive radius)

Notes: 1) Calculation considers the population covered in the micro-regions in scope, using 20 minutes by car, with little traffic as the coverage area. This exercise does not take into account the number of beneficiaries covered, nor does it take into account the overlap of more than one hospital.

Source: Rede D'or IR; IBGE; L.E.K. analysis and research

Demographic profile of select hospital's regions
% of population



Selected existing hospitals

Planned greenfield expansions

■ A ■ B ■ C - E



Alternative models for entering the most competitive regions have emerged, based on partnerships with Unimed, which can be mutually advantageous



Einstein and Unimed have entered into a strategic partnership to manage a hospital in Santa Catarina

- Einstein will bring **management expertise to support a Unimed hospital** in the South region, the first time Einstein has entered this region. Their role will be to **implement a primary care model to increase efficiency**

"...Our goal is to improve health services, striving for excellence to position Unimed Hospital among the best in the country, and the partnership with Einstein will help us achieve this goal..."

- Jalmir Rogério Aust, president of Unimed Grande Florianópolis.



"...Our efforts are focused on improving, innovating, training and investing in new processes, goods and services to expand access to quality health care. This new collaboration strengthens that purpose and brings tangible benefits to the local population..."

- Sidney Klajner, president of Einstein



Oncoclínicas and Unimed Nacional have expanded their joint-venture partnerships across Brazil in 2023

- Oncoclínicas has a **national agreement** with Unimed Nacional for the treatment of oncology patients, **leveraging Oncoclínicas' expertise in treatment and Unimed's national reach**
 - Independent Unimed units **can choose whether or not to enter the partnership**
 - The partnership is seen as a **virtual integration**, starting with expertise and without the need for major investment

"... For Unimed, the partnership is a smart way to verticalize the business, because you combine your need with the expertise of someone who already operates these assets, and the investment is on their account. On the other hand, they [Oncoclínicas] will benefit from our scale ..." - Luis Paulo Tostes Coimbra, CEO Unimed Nacional



"... The idea is to extend [this already-existing partnership] to all of Brazil..." - Bruno Ferrari, CEO Oncoclínicas

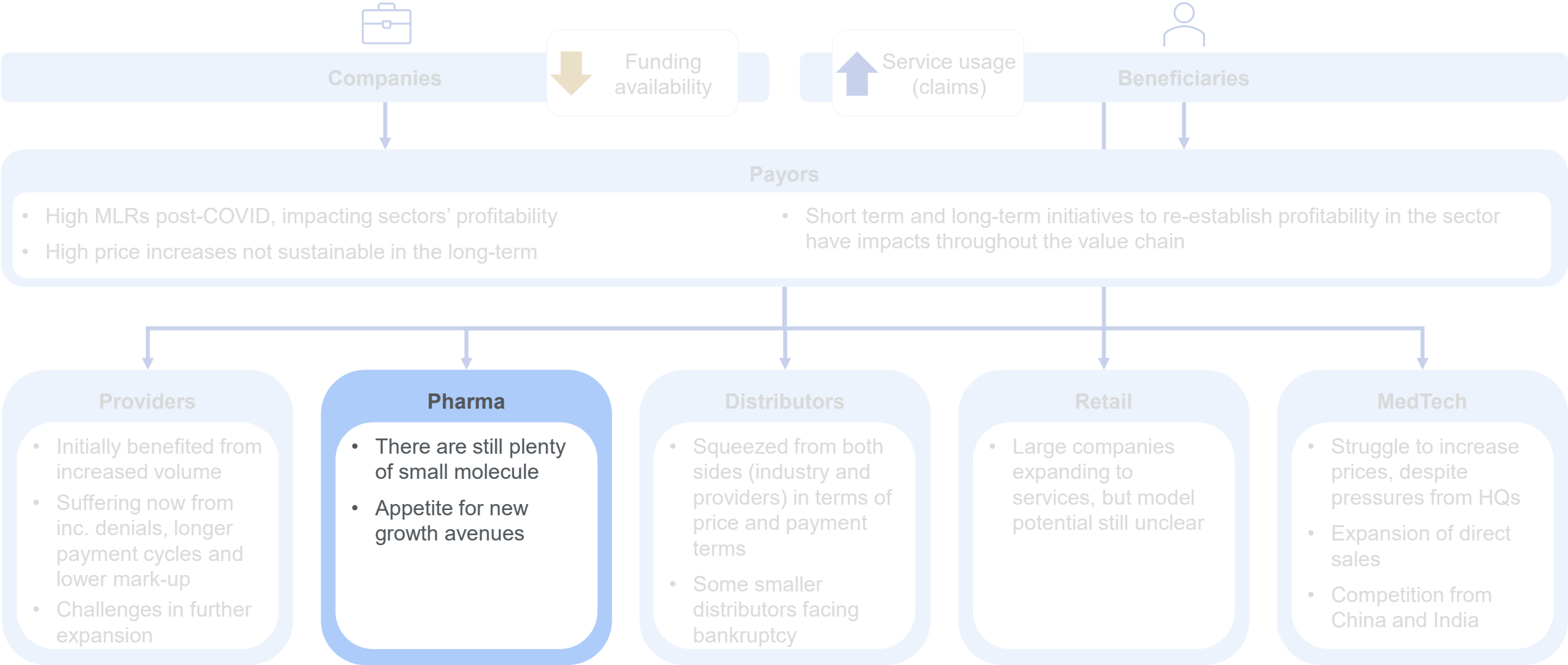
Looking forward, expansion is expected to be increasingly challenging for large groups and hospitals are expected to continue being pressured by payors in the mid-term

Providers - What's next?



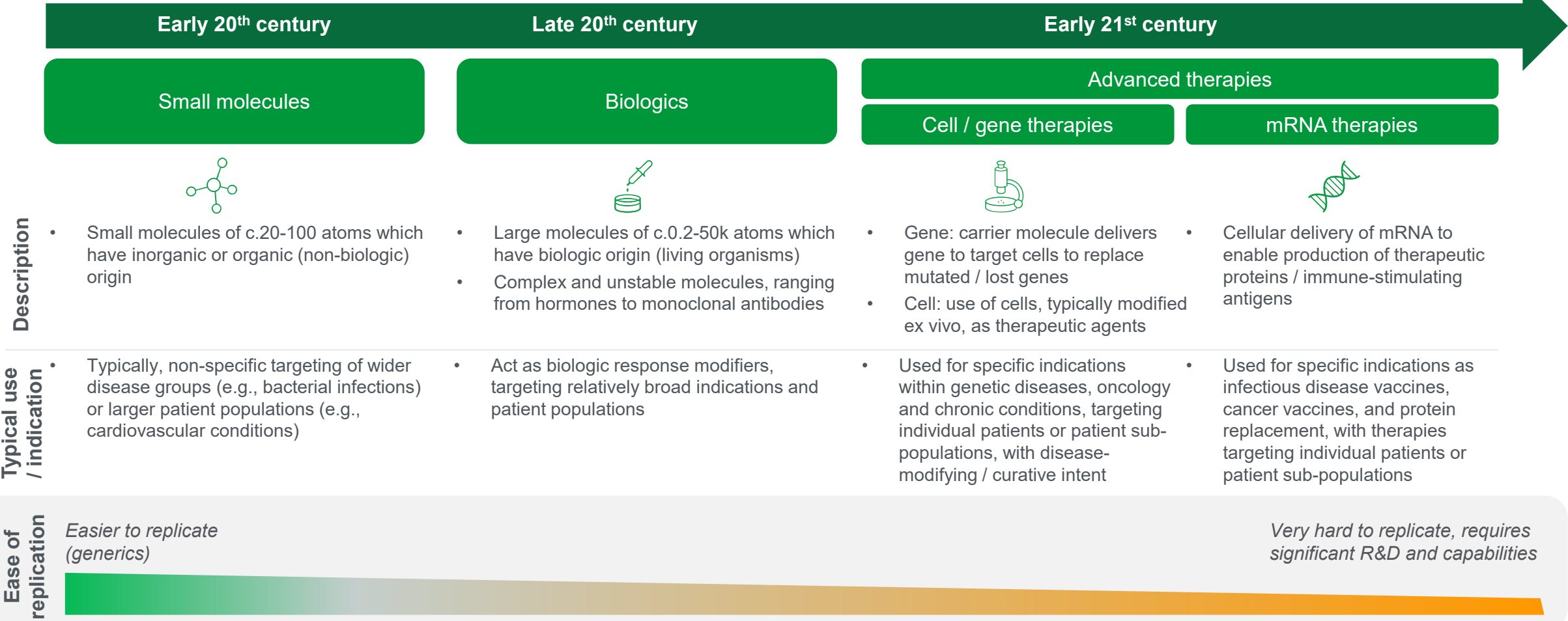
- ***Expansion is increasingly challenging for large providers***, as large groups are already present in the main and wealthiest cities; expansion is likely to have to take place in less attractive regions, which might impact profitability
- ***Partnerships can be key for hospitals to enter new regions***, specially those dominated by UNIMEDs
- ***We expect hospitals to continue to be pressured by payors in the mid-term***, continuing to be impacted by reduced mark-ups on materials, longer receivables cycles and increased denials
- ***We expect independent hospitals to continue suffering the most***, whereas larger players improve efficiency and gain scale

Pharma



Pharma R&D is developing new and more complex modalities, moving from small molecules to biologics and advanced therapies, which are more difficult to replicate

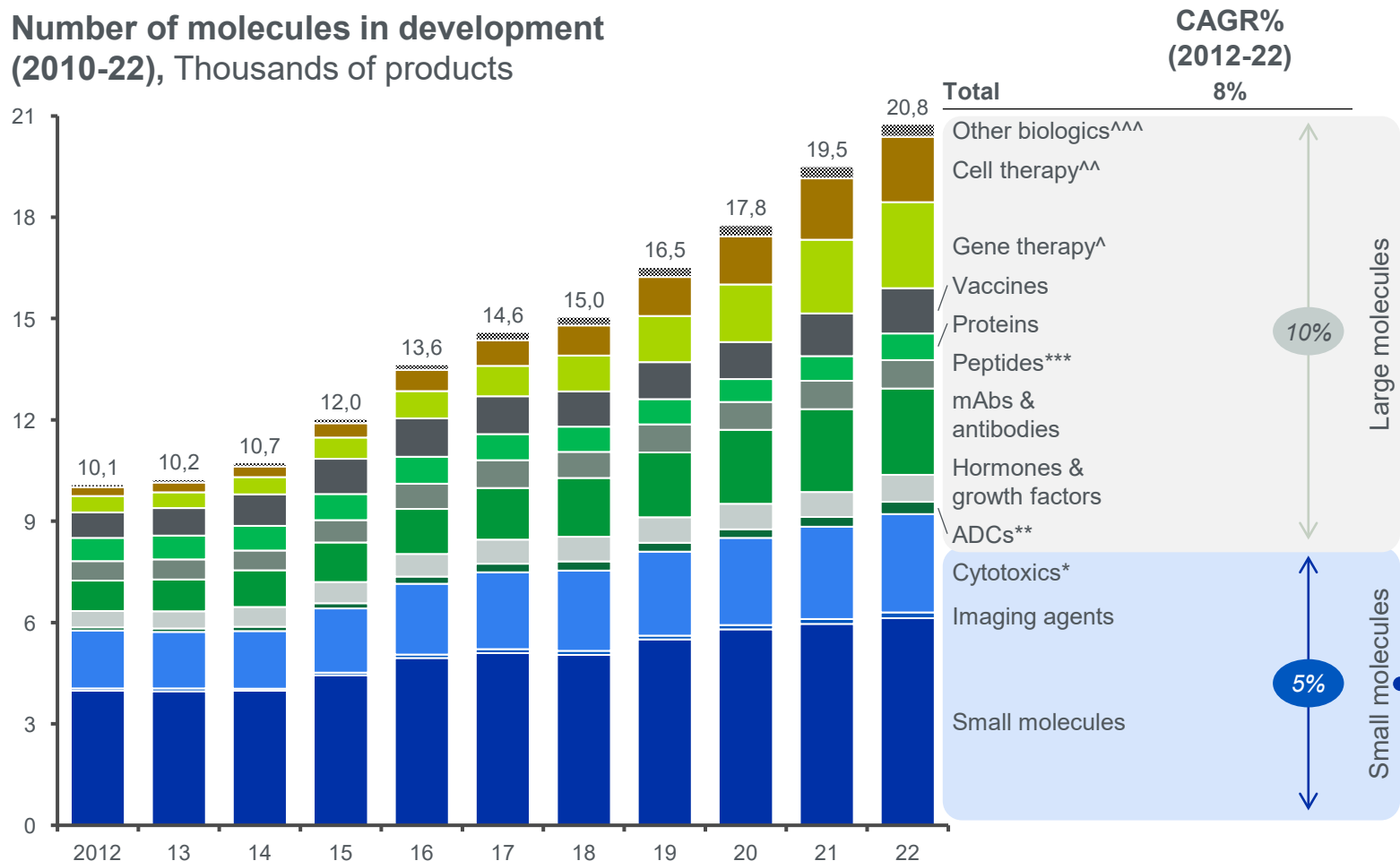
Drug modalities timeline¹



Notes: 1) Timeline shows rough decade that research began in each modality - innovation in all areas is still ongoing
 Source: Fischbach et al. (2013); FDA, PhRMA, Fierce Biotech, company websites, L.E.K. analysis and research

Large molecules are the main source of growth in the industry, impacting national pharma companies that focus on small molecules – however, small molecules are expected to remain relevant in the long-term

Number of molecules in development (2010-22), Thousands of products



Local pharma is focused on small molecules

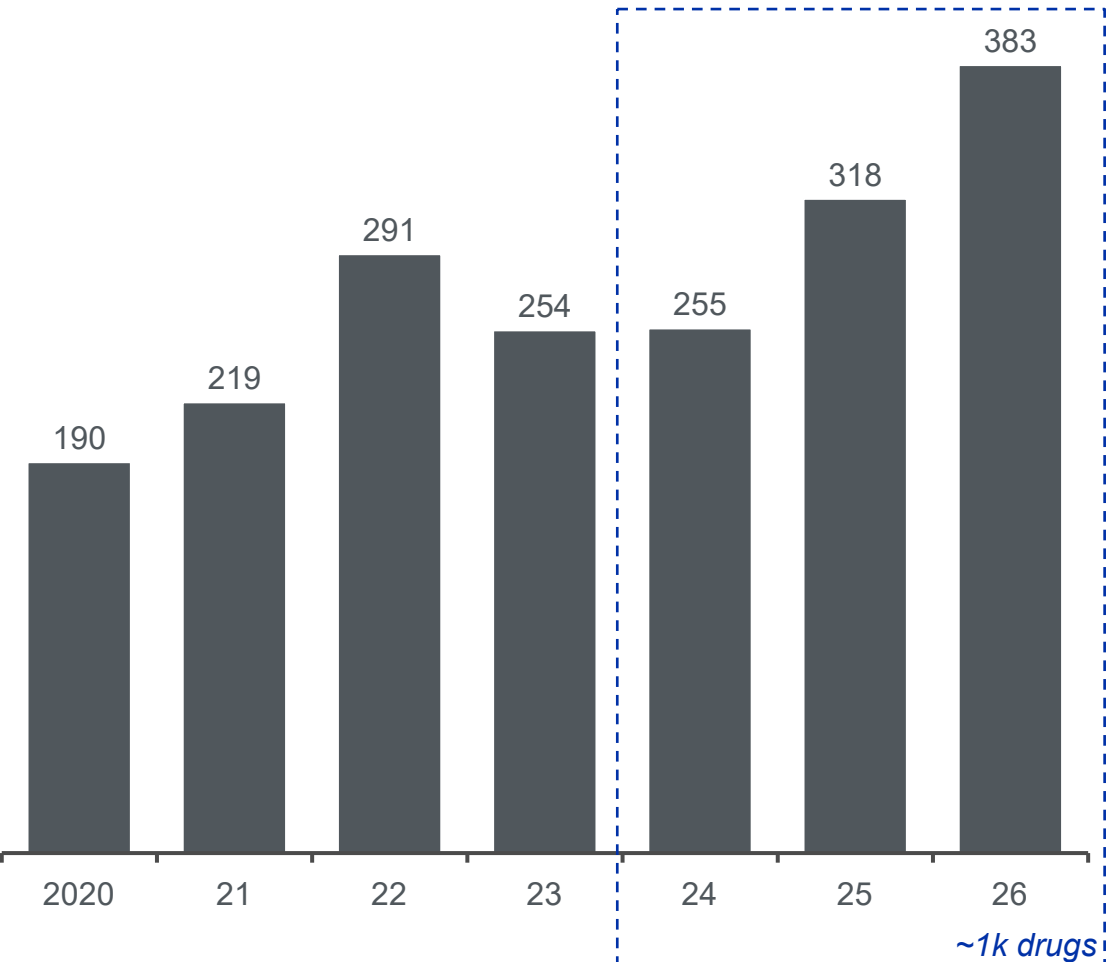
- Small molecules are ~50% of molecules in development and expected to remain relevant in the long-term
- However, large molecules are expected to be the main growth driver of the industry
- This can impact local pharma's growth as they are currently focused on small molecules

Notes: Includes products in preclinical, Phase I-III and Registrational state of development. Small amount of overlap exists between some categories (e.g., between cytotoxics, antibodies, and hormones); growth rate of Cytotoxics & Other biologics 2012-20 used to infer 2022 number of drugs in development; * Includes alkylating and antimetabolite oncology drugs, and chemosensitising / radioactive molecules, ** Includes immunotoxins; *** Includes biological and synthetic peptides; ^ Includes antisense RNA / RNA interference; ^^ Includes CAR-T and other cell non-bacterial / viral cell therapies (e.g., stem cell therapies for wound healing) ^^^ Other biologics includes bacterial cells and virus particles

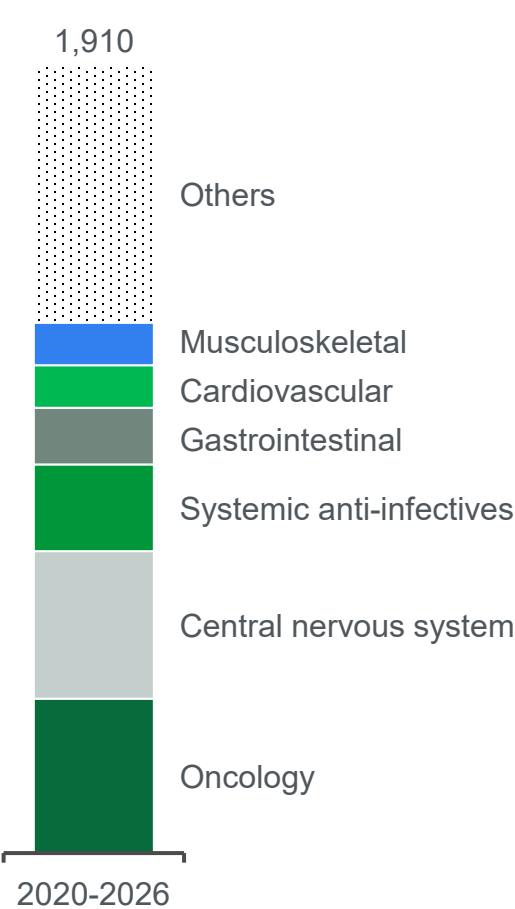
Source: Pharmaprojects; European Pharmaceutical Review; L.E.K. research and analysis

However, there is still opportunity in off-patent small-molecules, with ~1k molecules to go off-patent by 2026, specially in Oncology and Central nervous system therapeutic areas

Number of small-molecule drugs going off-patent (global) (2020-2026), # of drugs



Drugs per therapeutic area (2020-2026), # of drugs



!
Despite slower growth in development (vs. large molecules), there is still opportunity for growth in generics as there continues to be a significant stream of drugs going off-patent

Source: Evaluate Pharma; L.E.K. analysis and research

Given this context, companies are looking to other avenues to sustain growth

Potential growth avenues



Portfolio expansion to consumer health



Incremental innovation



Biosimilar licensing



International expansion



Expansion into the institutional market

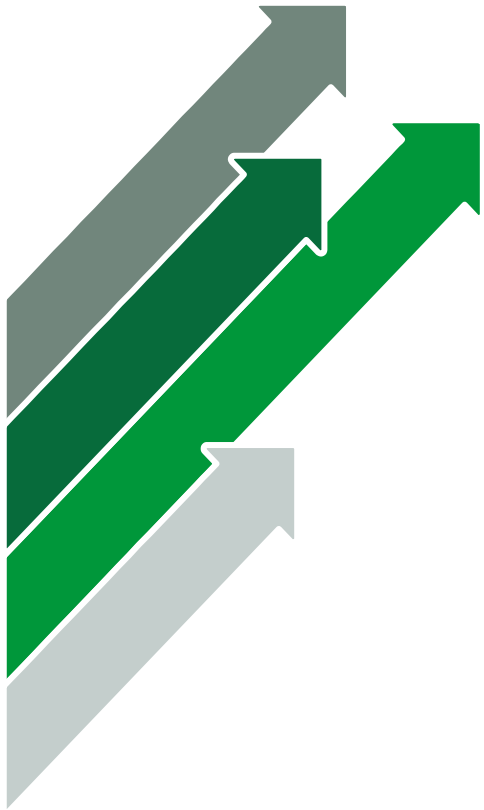
Implications to current business

- Need to develop significant branding capabilities (to end-consumer)
 - R&D capabilities to develop new products
 - Can leverage PoS relationships
- Need for R&D and clinical research
 - Drug delivery and route of administration are commonly used
- Expands into biosimilars without need for R&D investment
 - Leverages company's distribution and brand, but requires greater demand generation and experience in the specific therapeutic area
- Need to select countries with similar dynamics to Brazil (for example, need for demand generation), in order to leverage company's capabilities
 - Challenges in adapting to other countries' dynamics
- Need for development of new and high-quality products (e.g., injectables)
 - Development of new distribution channels

Source: Biosimilar Development; L.E.K. analysis and research

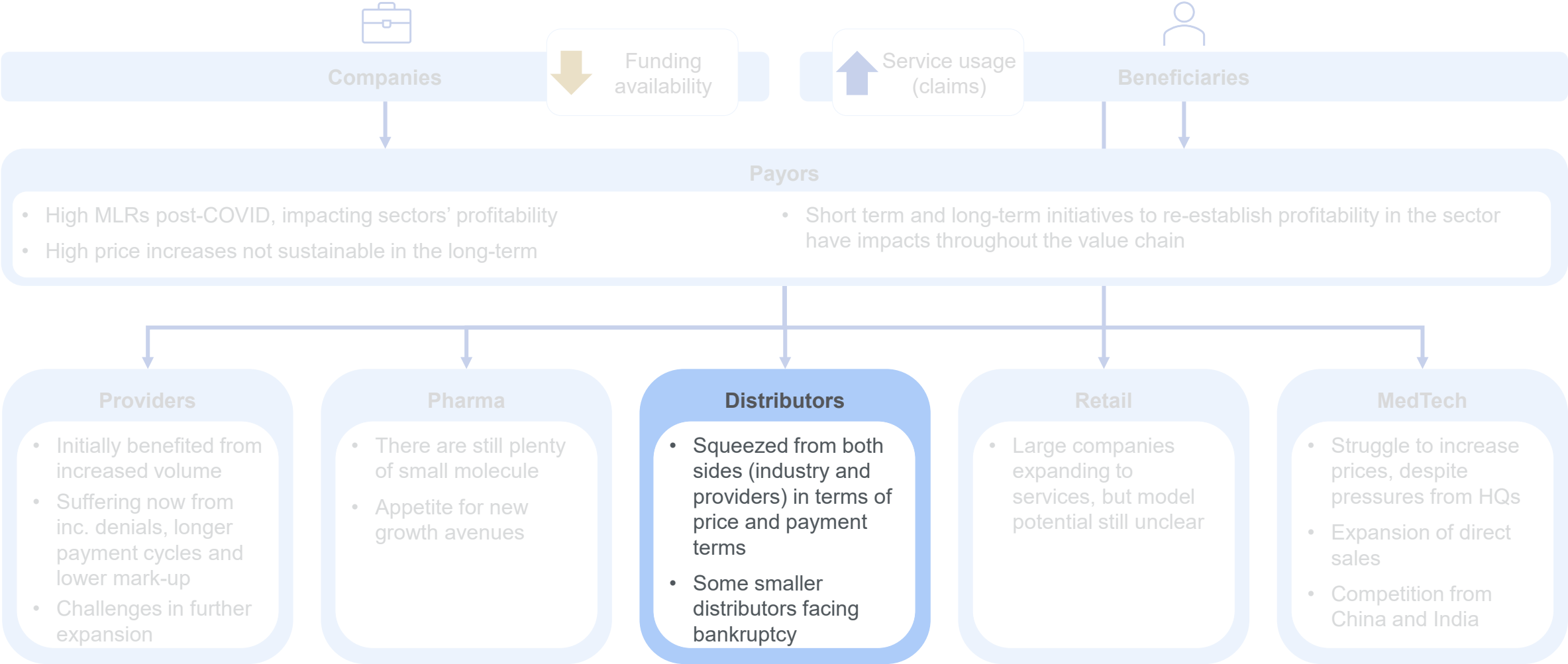
We expect small molecules to keep playing a major role in pharma, while the development of biosimilars is unlikely to be viable in a local scale

Pharma - What's next?



- ***We expect small-molecules to keep playing a major role in pharma***, however there is higher growth to be had in large molecules
- ***Development and manufacturing of biosimilars is unlikely to be viable in a local scale***, but companies can leverage their capabilities to commercialize these products locally through partnerships with global companies
- ***Expansion to consumer health has been a common growth avenue for local pharma***, however there is a great demand for branding (different from current business) which can be challenging to develop

Distributors



Distributors are facing increasing pressures, including demands for price adjustments, improved service levels, extended cash cycles, and a heightened scrutiny for compliance

Factors



Pressure for price pass-through



Demand for higher level of service



Longer cash cycles



Heightened scrutiny for compliance

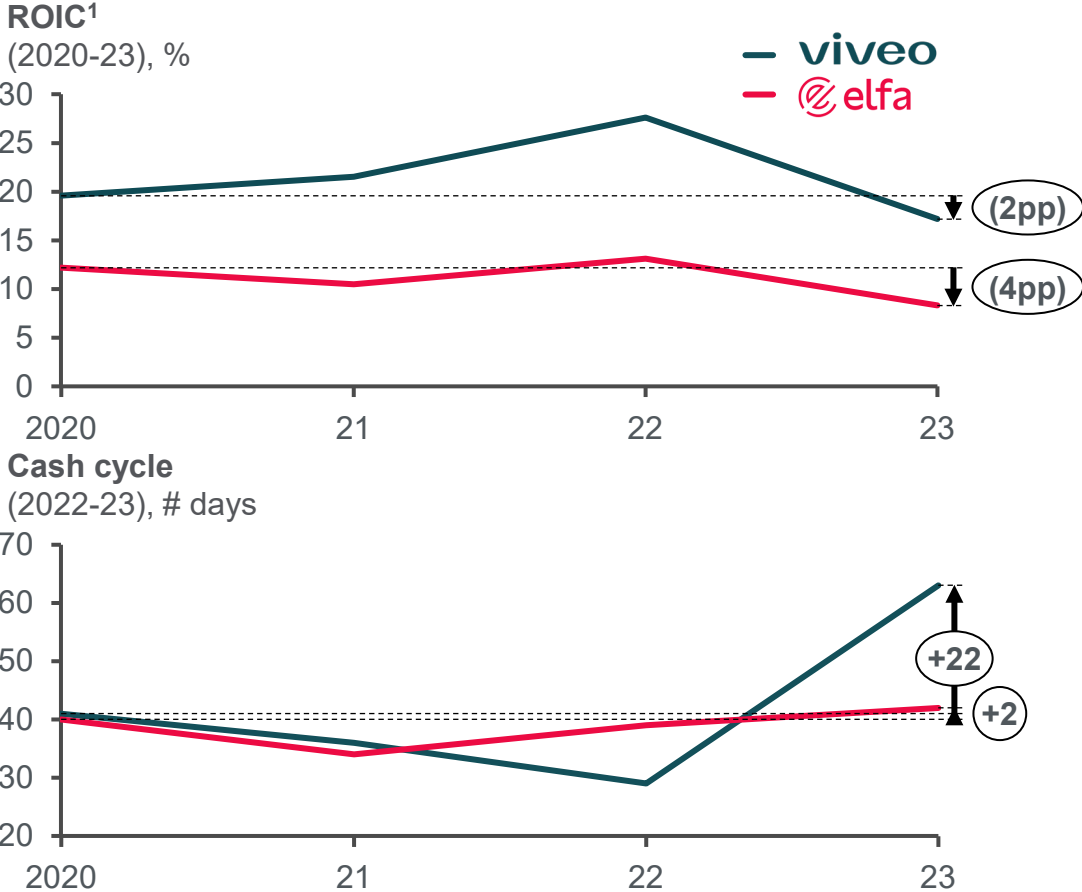
Overview

- **Industry has been threatening to increase sell-in prices to recompose margins**, but passing them through to customers has been challenging
- **Providers and payors have been demanding higher convenience and service levels from sellers**, which includes professional support to surgeries, lower delivery time, tailored contracts (e.g., equipment leasing, rental, procedure trays etc.)
- **Distributors have been dealing with high inventory levels (e.g., channel stuffing) and lengthier receivables** as a result from pressures from both the industry and providers/payors
- **Multinational MedTechs are increasingly expecting distributors to not only comply with current regulations but also to adopt ethical and transparent business practices** to avoid conflicts of interest and ensure equity in access to supplies

Source: L.E.K. analysis and research

The deteriorated fundamentals of the industry have already been noticed on the financials of large consolidators, which are dealing with profitability and liquidity concerns

Financial highlights



Notes: 1) Elfa's ROIC for 2022-23 has been calculated by L.E.K. based on company's financials. The remaining data points have been reported by the companies in earnings releases.
 Source: Anbima; Elfa IR; Viveo IR; L.E.K. analysis and research

Recent developments

- Throughout 2023, Elfa Medicamentos has dealt with reduced profitability and worsening of its cash cycle, leading to a total of R\$ 870M in capital injections from Patria and institutional efforts to reprofile its R\$750M debenture
 - The debentures have been trading below par since the end of Jan/23, reaching ~67% of face value as of Apr/2024
- Viveo's stock has dropped from R\$ ~21/share in Jul/23 to less than R\$ 7/share, reflecting market's concerns on company's margins and cash burn
 - The deterioration of the stock has prompted management to propose the increase of the "poison pill" threshold to incentivize current or future relevant shareholders to increase their stake without threatening minoritarian owners

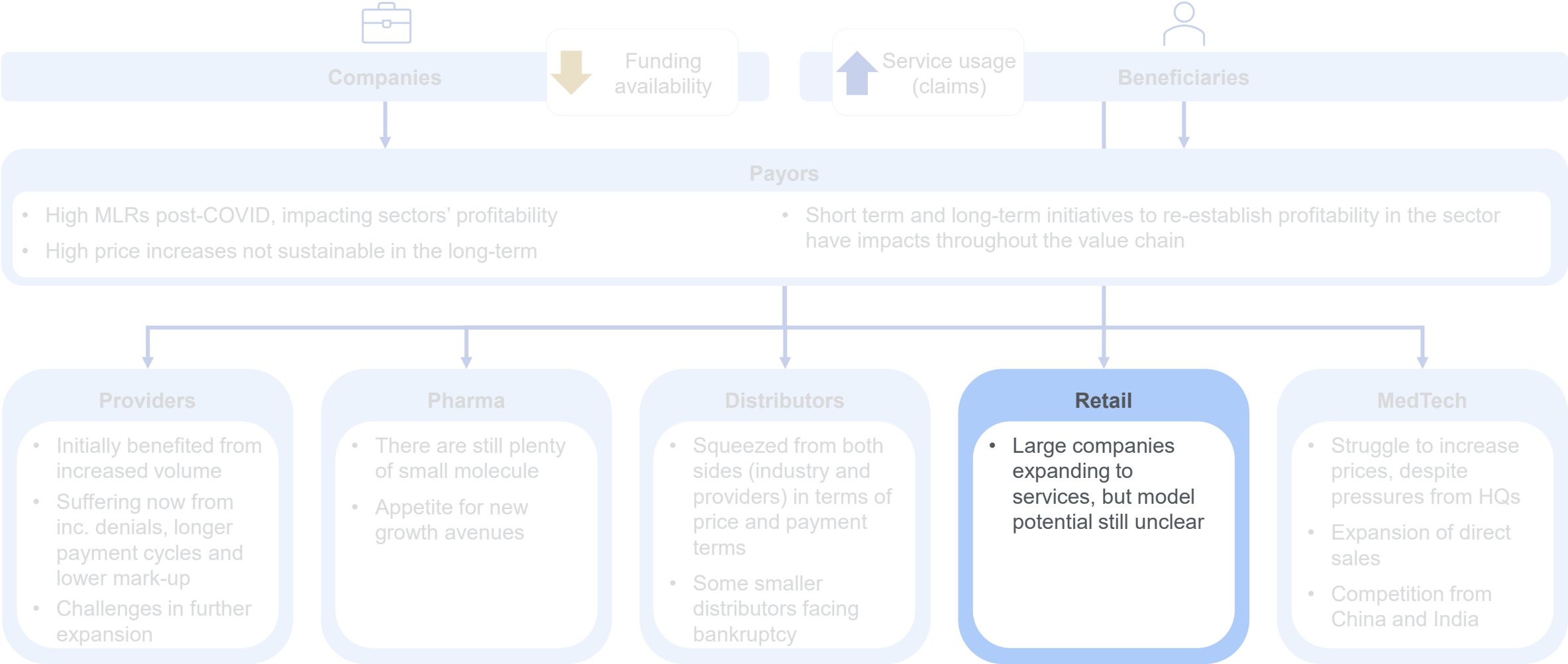
Distributors are expected to continue to suffer pressures from providers and suppliers, but those who can emerge from this challenging landscape can be better placed to gain share in the future

Distributors - What's next?



- ***Distributors are expected to continue to suffer pressures from providers and suppliers in the long-term;*** new models are important to ensure their survival and effectiveness, but challenging to implement
- ***Distributors who manage to emerge from this challenging landscape,*** can potentially be better placed to gain share in the future

Retail

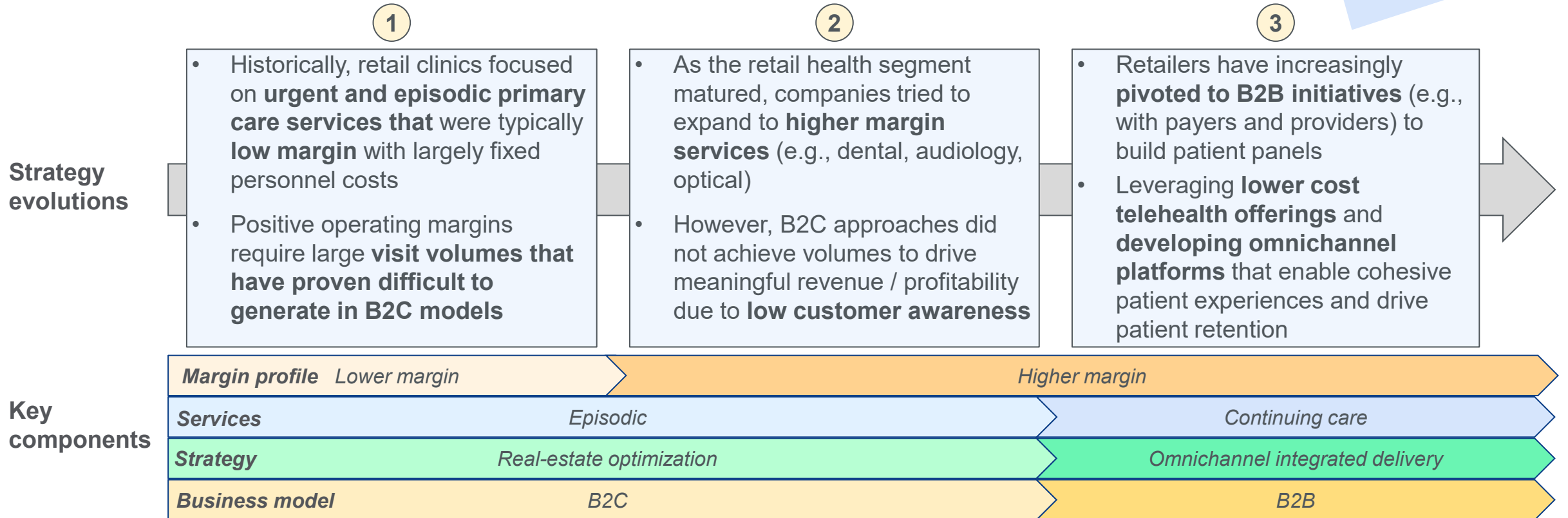




In the U.S., companies are advancing towards B2B services – helping to relieve financial pressures from payers and serving as primary care providers

Retail health strategy evolutions

Pivots to omnichannel integrated delivery models are still in process; their long-term success remains to be seen



In Brazil, large companies are moving towards service, currently focused on B2C offerings, but moving towards a similar B2B movement



“
...The new brand reinforces the concept of a company focused on **integral health**, with a reach that goes **beyond pharmaceutical retail and with an important role in promoting health...**
”

 **+3.5 MM of consultations in 2023**


 **1.9k pharmacies with service options**

B2C focused offering, aiming to expand to B2B

“... We intend to contact the health insurers. We provide basic care and they pass on a value per beneficiary. That way the patient wouldn't pay anything at the pharmacy...”
- Marcílio Pousada, CEO RD Saúde



“
...We are a **health hub** with multiple avenues of complementary growth, with a vision to be the best retail pharmaceutical company, recognized for offering **complete health solutions...**
”

 **+3.5 MM of consultations in 2023 (+66% vs. 2022)**

 **0.4% of the company's gross revenue**

B2C focused offering, with a growing B2B offering

“... One of the priorities of our Health Hub for 2024 is to combine efforts with the pharmaceutical industry and health insurers, including these journeys within treatment programs and preventive health care...”
- Pague Menos 4T23 release

Large pharmacy chains are transforming into one-stop healthcare hubs, blending retail convenience with primary care, potentially providing a path to alleviate cost pressure on the sector and ease financial strains for payors and patients; We expect this movement to provide positive results for companies, despite limited revenue relevance today

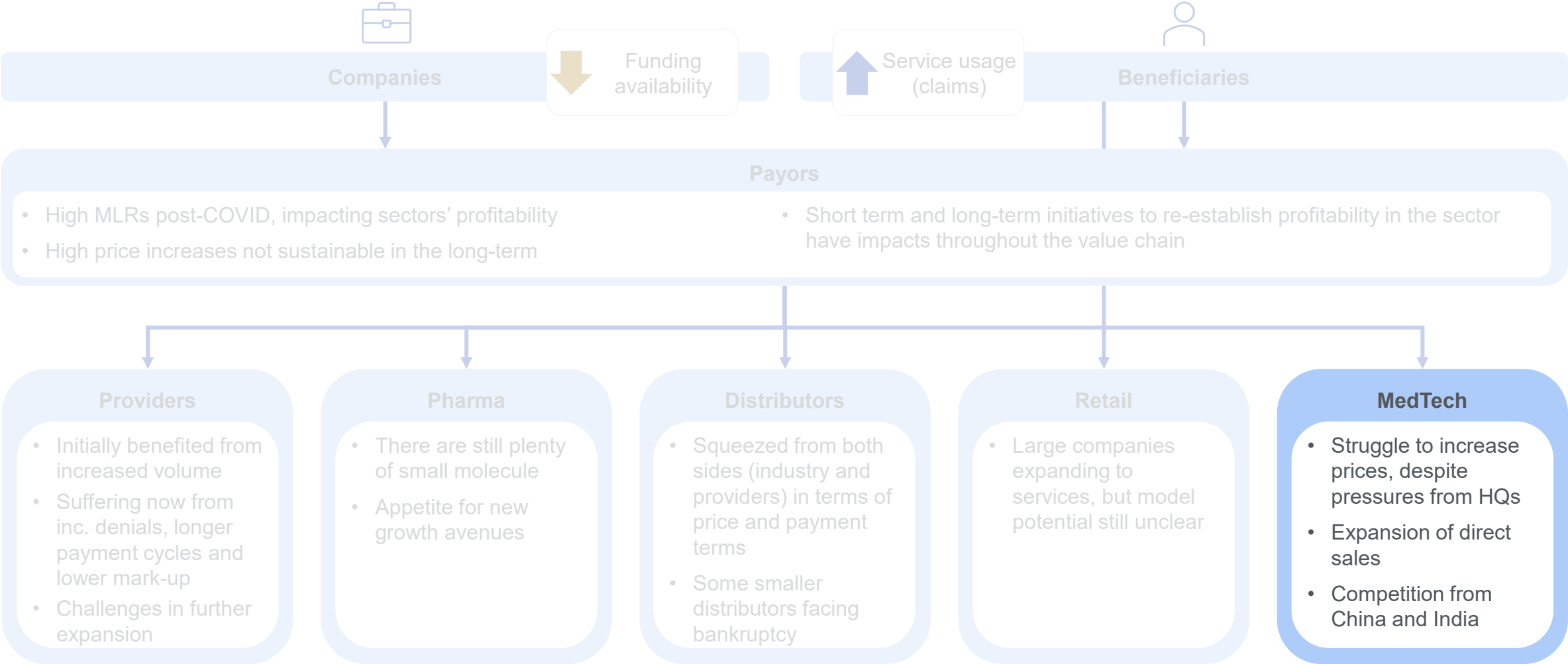
Moving forward, pharmacies can play a pivotal role in primary care by developing B2B services but are also continuing to focus on geographic expansion and increasing loyalty

Retail - What's next?



- **Large chains are moving towards a B2B service offering**, with this they can play a pivotal role in primary care, potentially reducing payors' financial stress
- **Chains are increasingly expanding their geographic footprint**; however independent pharmacies still represent most of the footprint and play an important role in certain regions
- **Companies are focusing on increasing loyalty within the customer base**, with digital and e-commerce playing a key role in this

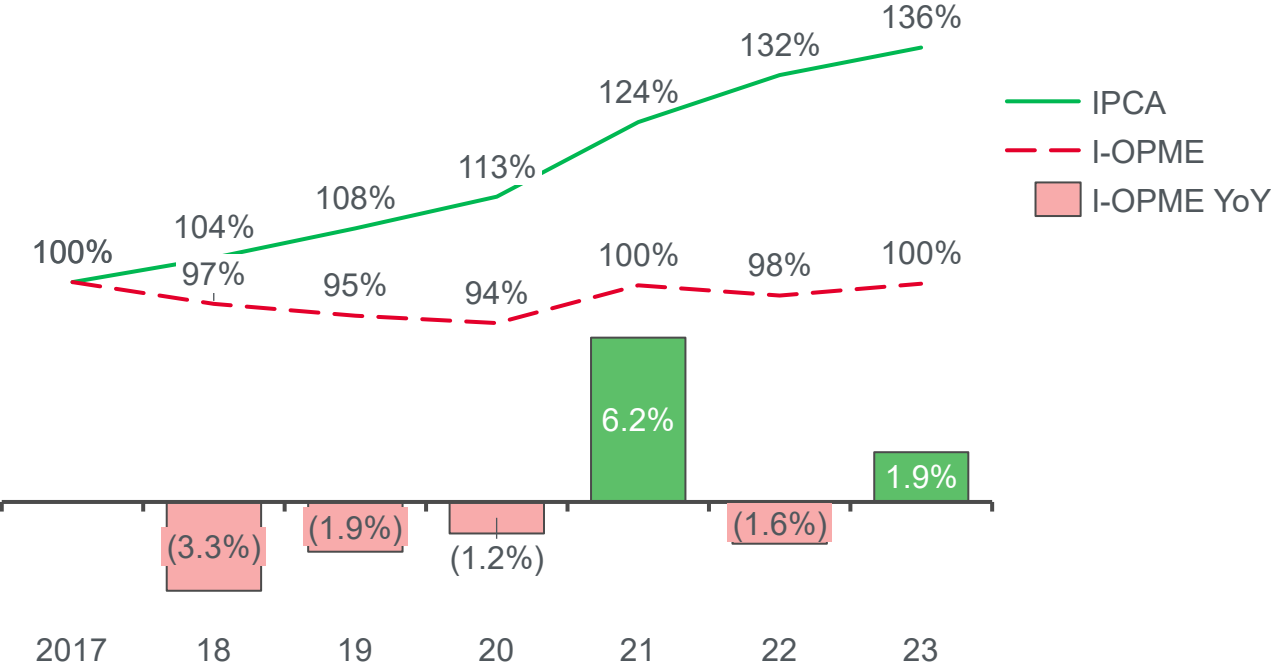
MedTech



MedTech companies are struggling to increase prices, despite pressures from their international headquarters, and are looking to expand their direct sales channel

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

Index: 2017 = 100

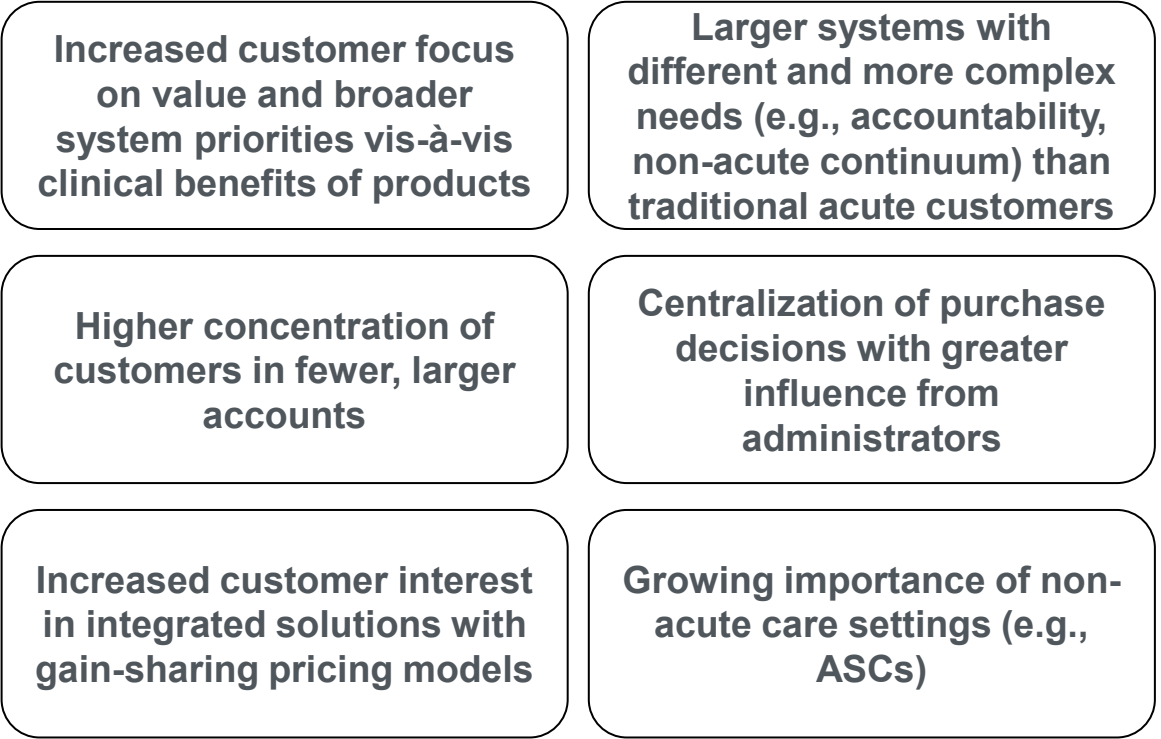


- MedTech local market is led by multinational groups, whose headquarters have been pushing for price increases** and margin recovery; companies have been struggling to deliver those goals mostly due to:
 - Market consolidation within large providers, increasing their bargaining power vs. distributors and MedTechs
 - Working capital and cash pressures imposed by longer payment cycles from payors and providers
 - Intensified competition against low-end players (mainly from China, India and some local companies)
- Additionally, MedTech companies are increasing efforts to increase the share of direct sales**, in order to:
 - Increase operating margins by bypassing distributors and diluting the cost to serve
 - Reduce compliance risk (even at the expense of lower margins)
 - Enhance service quality and strengthen relationship with healthcare providers
 - Absorb cross-selling opportunities to increase wallet share within providers

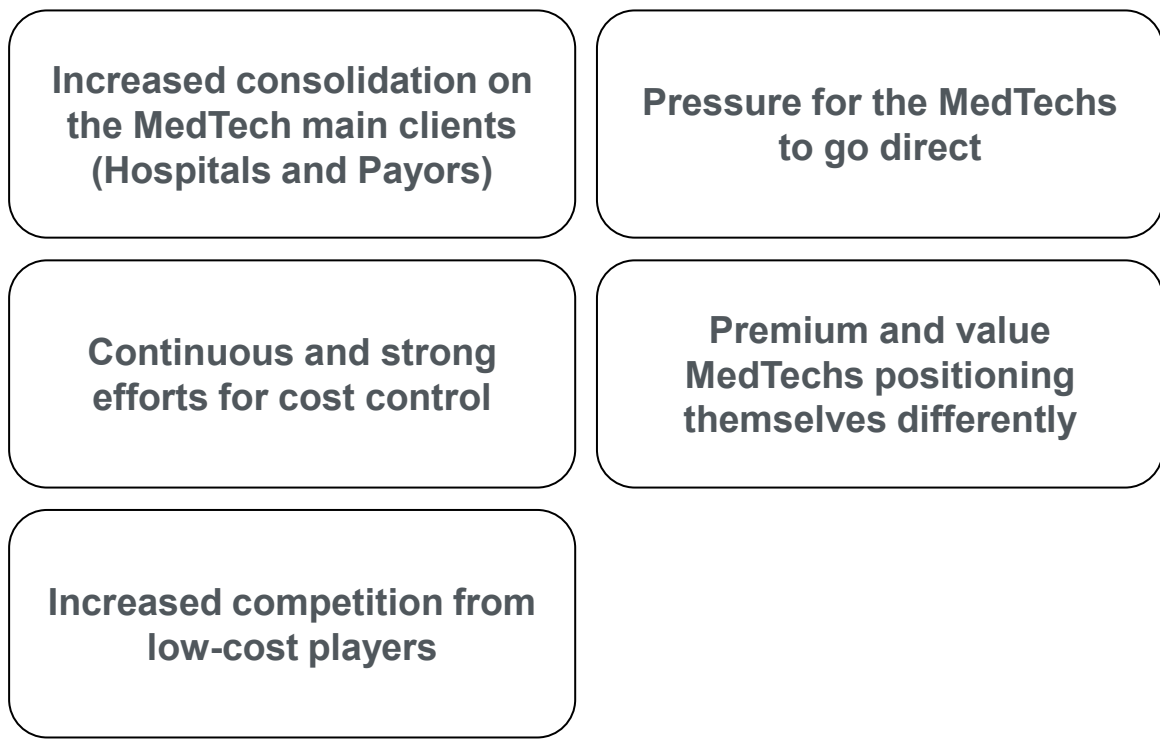
Source: Bionexo/FIPE; IBGE; L.E.K. analysis and research

As MedTechs redefine themselves in an evolving landscape, they are facing a new reality with several implications; in Brazil, we see some of the same challenges and a few additional ones

 **Trends for MedTechs globally**



 **Challenges and opportunities in Brazil**



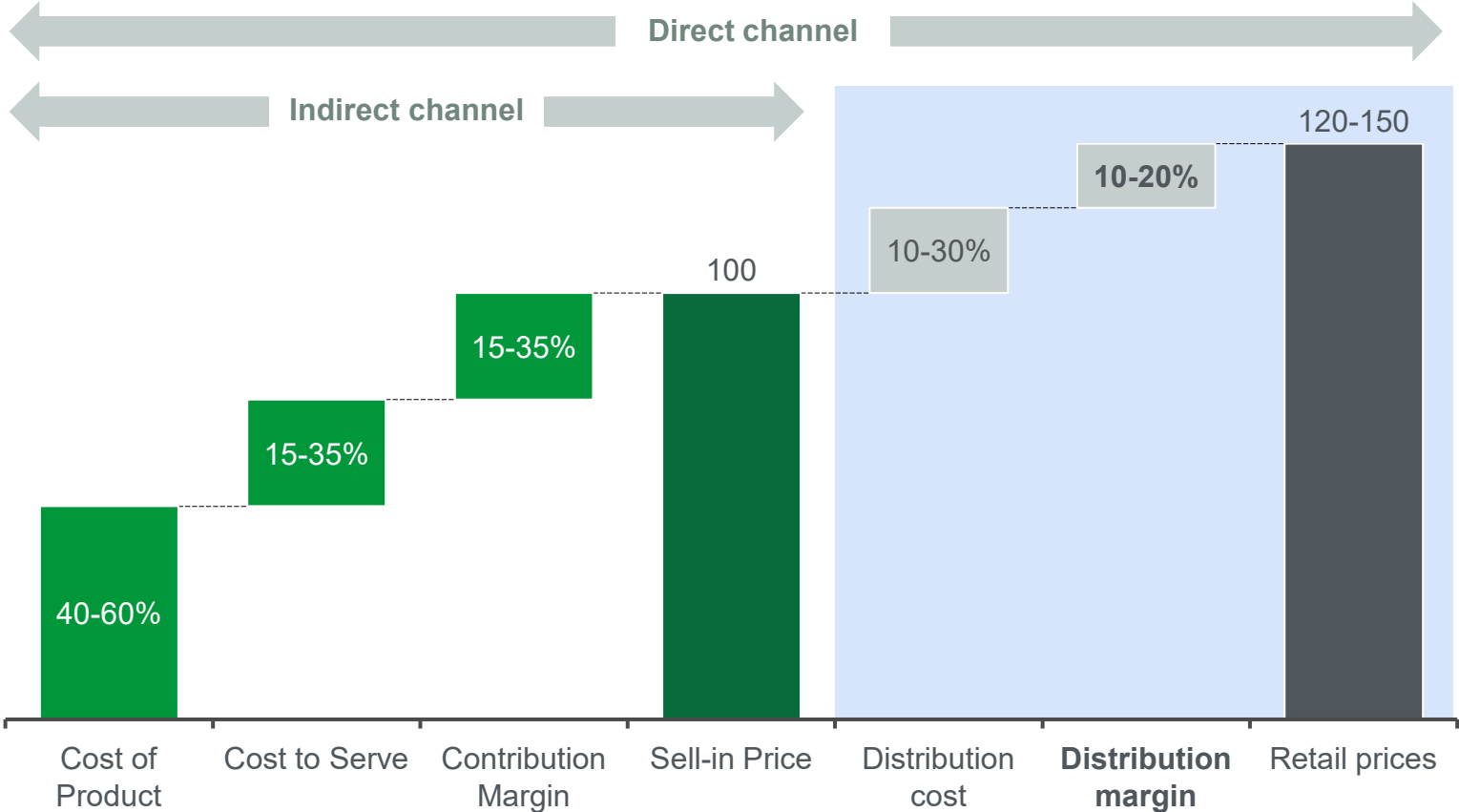
Source: L.E.K. analysis and research

In particular, Medtechs are aiming to increase direct sales to strategic customers, either provider or payors

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



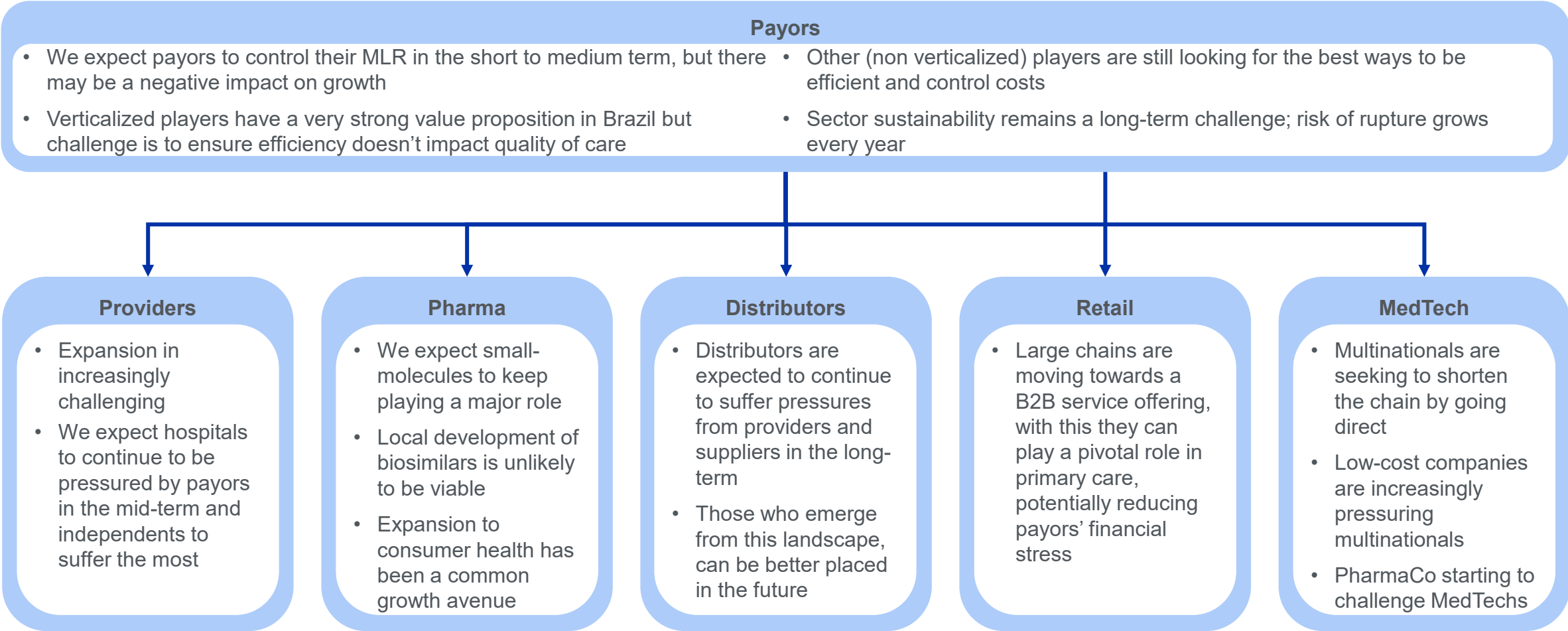
Multinational Medtechs expect challenges in the medium and long term, coming from a number of sides, such as low-cost competitors, PharmaCo and the need to implement more efficient models

Medtech - What's next?



- **Multinational MedTechs are seeking to shorten the chain by going direct, but they lack the skills to do this competitively...** thereby opening up the opportunity for distributor M&As, or more straightforwardly, to be served by logistics operators, in models similar to those of pharmaceutical companies with a guaranteed margin model
- **Multinational Medtechs sought to implement models that could stand out through results and shared risk, implementations were postponed/paralysed with the pandemic,** they are trying to come back with the implementation, but with price pressure it is difficult to test
- **Low-cost MedTech has entered the independent, and in some cases even premium, hospital market** through questionable incentives for physicians, putting increased price pressures on multinationals
- **PharmaCo is increasingly expanding its areas of treatment and influence, starting to challenge MedTechs** (e.g. Ozempic reducing the need for heart disease), with an impact on the valuation of listed companies

Given this challenging landscape, there are several challenges and opportunities that arise throughout the value chain



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