

C-Suite Perspectives: COVID-19 Recovery Update

Discussion Topics

- Health System Recovery Strategies
- Procedure Volume Rebound
- Increasing Importance of Digital Health & Health Technology
- Vendor Dynamics
- Financial Trends

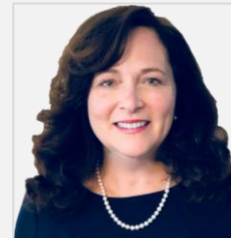
Speakers



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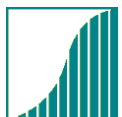
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For 38 years, Fletcher Spaght has developed strategies to innovate and accelerate organic & inorganic growth

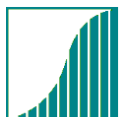
FSI's unique value proposition with over 5,000 healthcare and technology projects

- ✓ Experienced and active senior leaders
- ✓ Rigorous analysis & methodologies
- ✓ Actionable growth plans

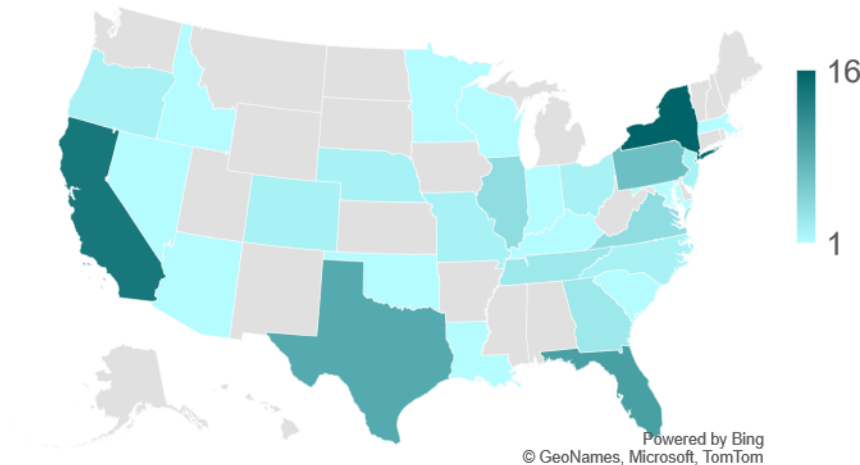


Advantages FSI Brings our Clients Now

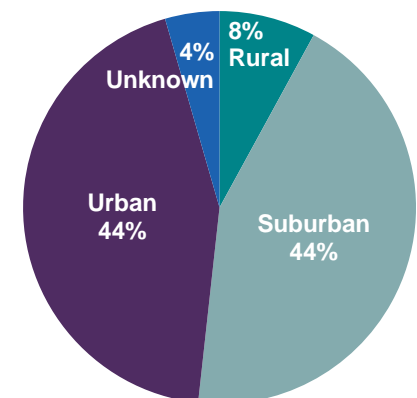
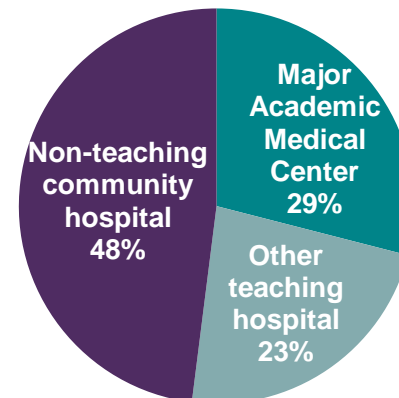
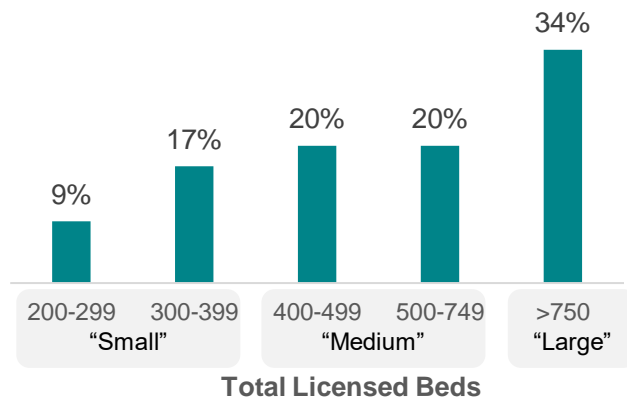
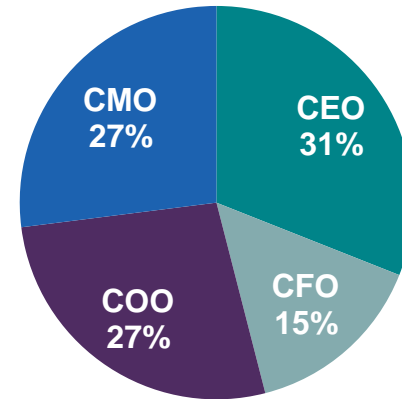
- Account Prioritization Strategy - which customers will recovering first/most
- New pricing strategies
- Sales force effectiveness, given traditional efforts are constrained
- Alternatives to your traditional Sales Strategy - more cost-effective customer support
- Improve your Value Proposition & Competitive Positioning - more differentiating and relevant
- Uncover emerging strategies and capabilities of key competitors
- Revise Business Development objectives - acquire, partner, capital needs
- Aggressive revenue push given recovery scenarios – by region and product line
- Growth Workshop - competitive initiatives, preemptive moves



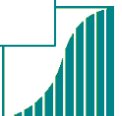
FSI surveyed 100 health system executives



Respondents represent health systems in 29 States



- All have ownership or equity interest in freestanding outpatient surgery facilities and physician groups
- Surgeons/interventionalists who are employed by their system perform an average of 70% of their procedures
- Survey fielded December 17, 2020 to January 6, 2021



Health systems surveyed are seeking financial stability

Other than COVID-19, what are the top challenges your health system faces in 2021?

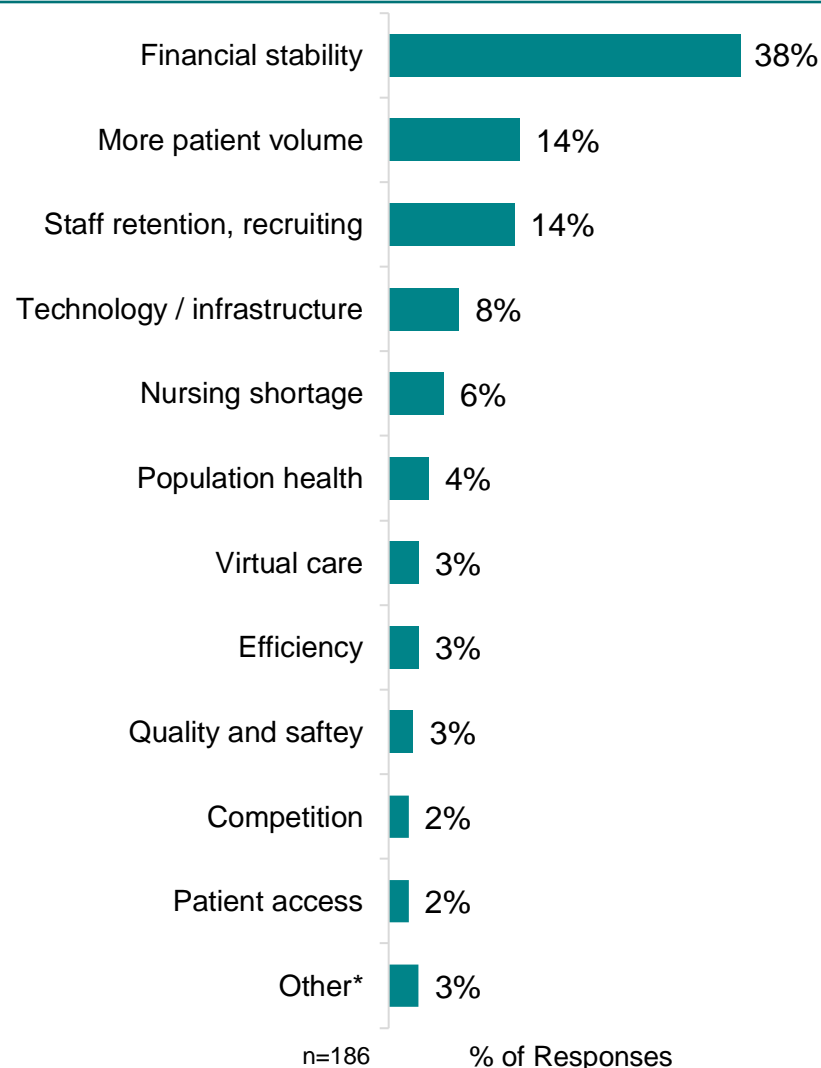
The biggest challenge was financial stability. This is directly linked to patient volume and is followed by staff retention / recruiting

“Instilling confidence in patients to come to the hospitals for their health needs”

“Higher acuity patients and lower overall volumes”

“Staying in business”

“Staff morale and health”

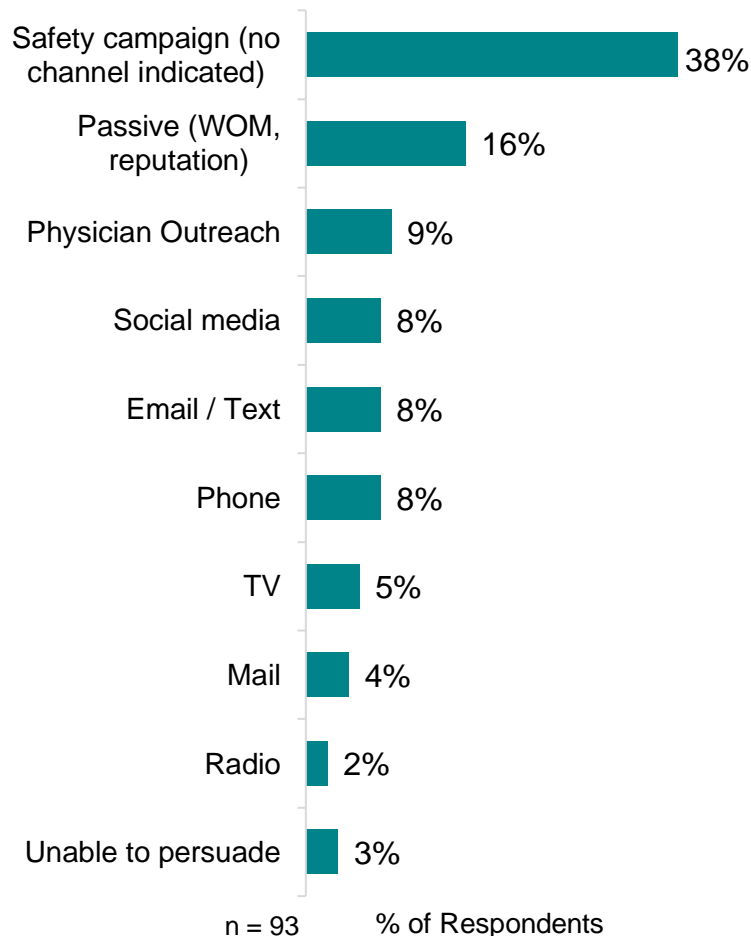


*Government regulations, leadership, drug shortages, space

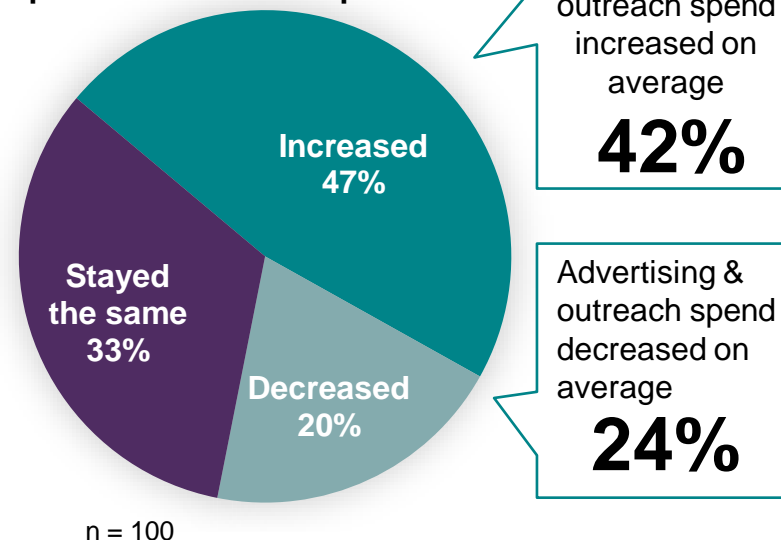


47% are increasing spending on advertising and patient outreach

What one method do you feel has been most effective in persuading patients to return for care?



Spending on advertising and patient outreach vs. pre-COVID



Advertising & outreach spend increased on average

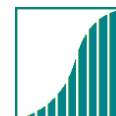
42%

Advertising & outreach spend decreased on average

24%

Health systems in urban areas increased spending on advertising and outreach the most (55% increased spending by an average of 52%)

Vendors may consider partnering with health systems in advertising and patient outreach to encourage resumption of diagnostic, primary, and outpatient specialty care visits

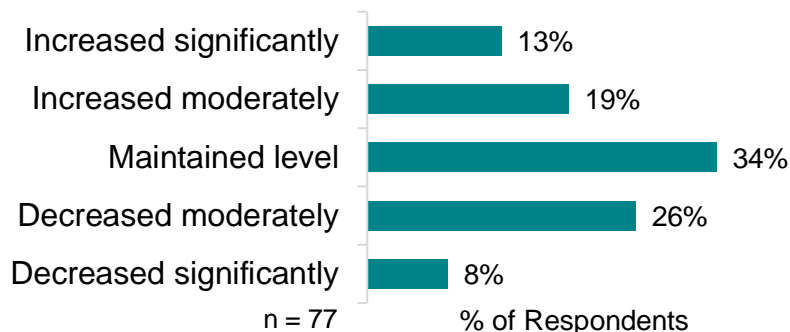


Most are maintaining current office-based lab procedures with plans to increase in 2021

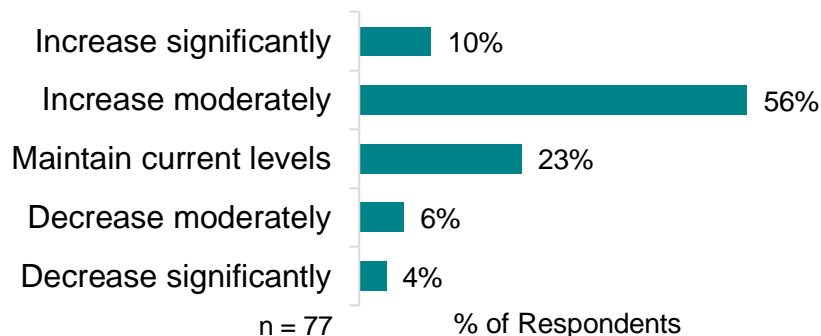
77% of respondents indicate that their health systems have office-based labs (OBLs)

- AMCs, teaching hospitals, and large health systems are more likely to have OBLs

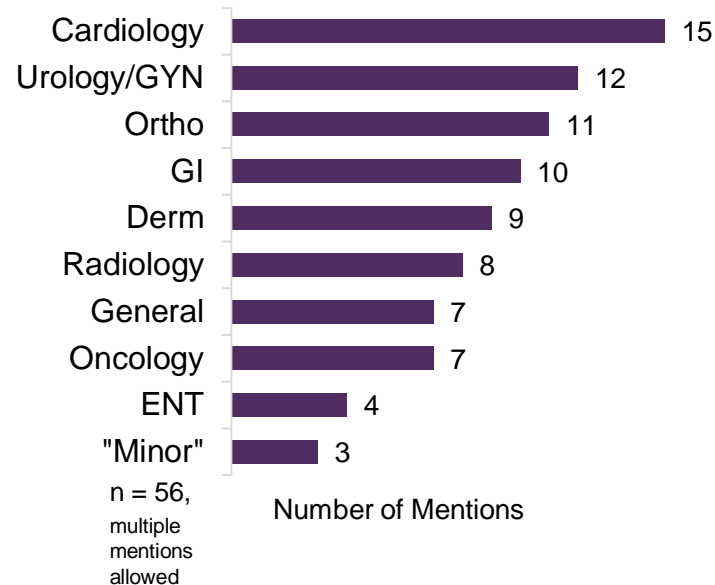
How has the number of office-based lab procedures changed since before the pandemic?



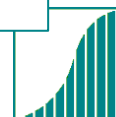
How do you expect the procedure volume in office-based labs to trend in 2021 compared to 2020?



What specialties are performing procedures in office-based labs?

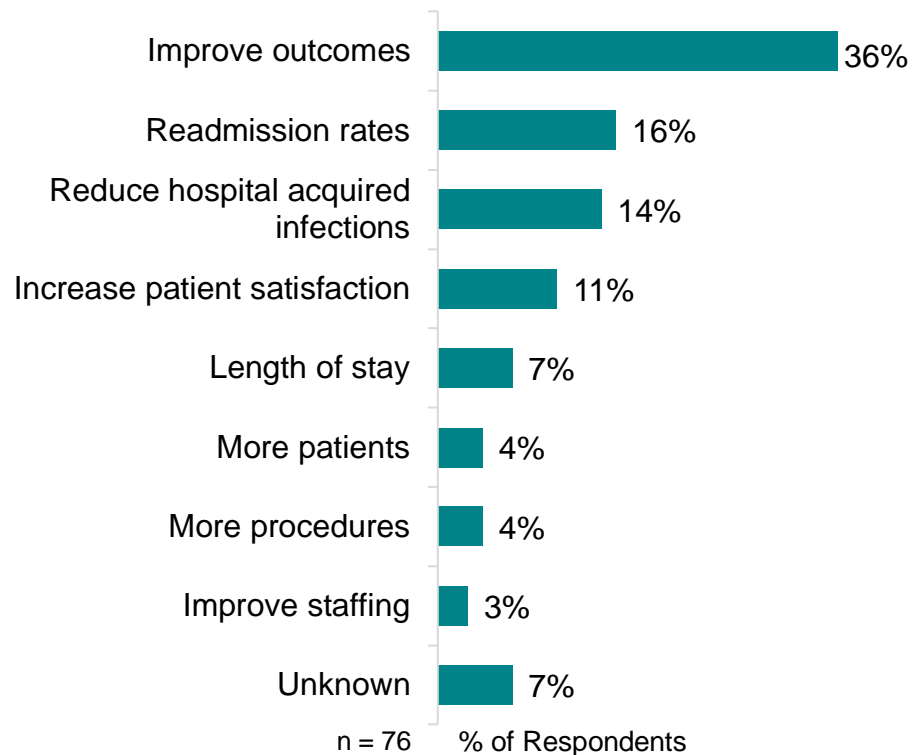


- Large health systems are more likely to have increased use of OBLs (44% vs. 26% of small and medium systems)
- Also expect to increase OBLs further in 2021 (74% expect to increase vs. 62% of small and medium systems)

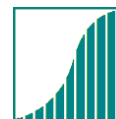
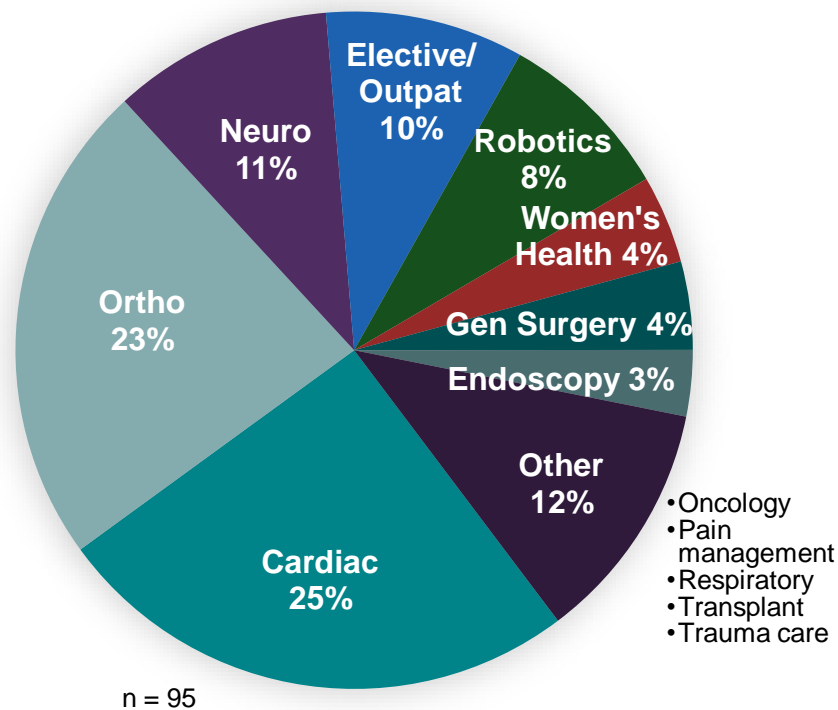


Improving outcomes is the top clinical metric, with expansion focused on profitable ortho and cardio service lines

Top clinical metrics most critical to your health system in 2021 (*unprompted*)

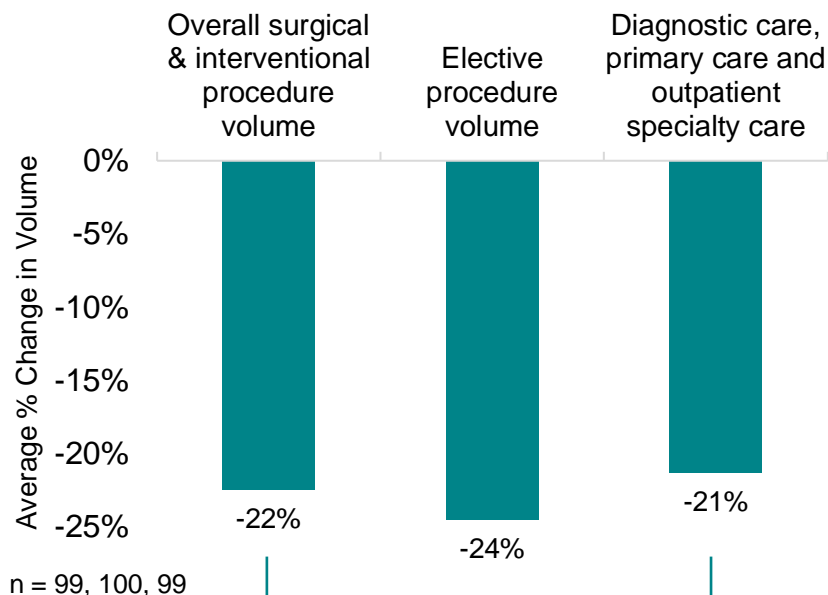


Which service lines would your health system like to grow over the next several years?



Q4 2020 volumes were down 20-25% compared with Q4 2019, but most execs expect patient volume to return in Q2-Q3 2021

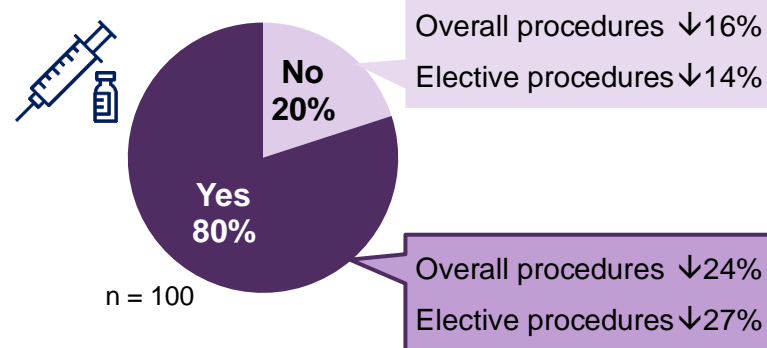
Year-over-year change in volume, Q4 2020 vs. Q4 2019



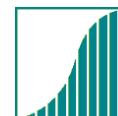
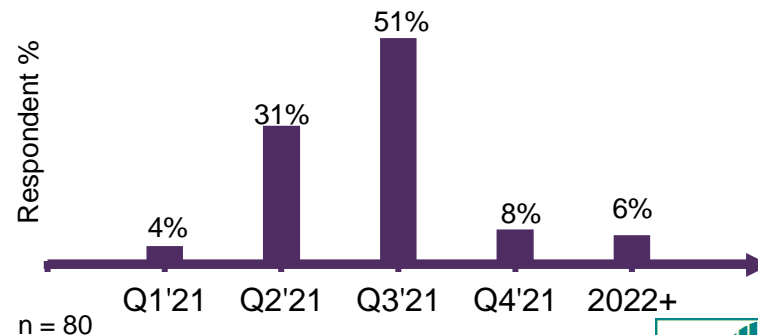
Medium-size health systems have experienced the greatest reductions in procedure volume (↓27% on average), whereas large systems have been less impacted (↓18%, on average)

Volumes of early patient care correlate to subsequent surgical volumes, as early care is the first step in the patient journey

Do you expect to see significant changes in overall patient volume due to availability of COVID-19 vaccines?

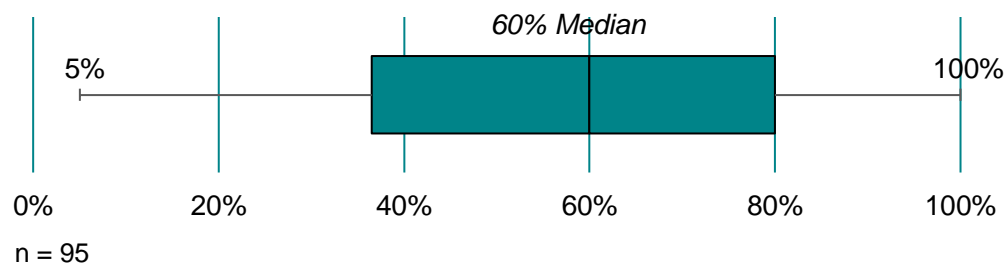


When do you expect overall patient volume to increase significantly due to availability of COVID-19 vaccines?

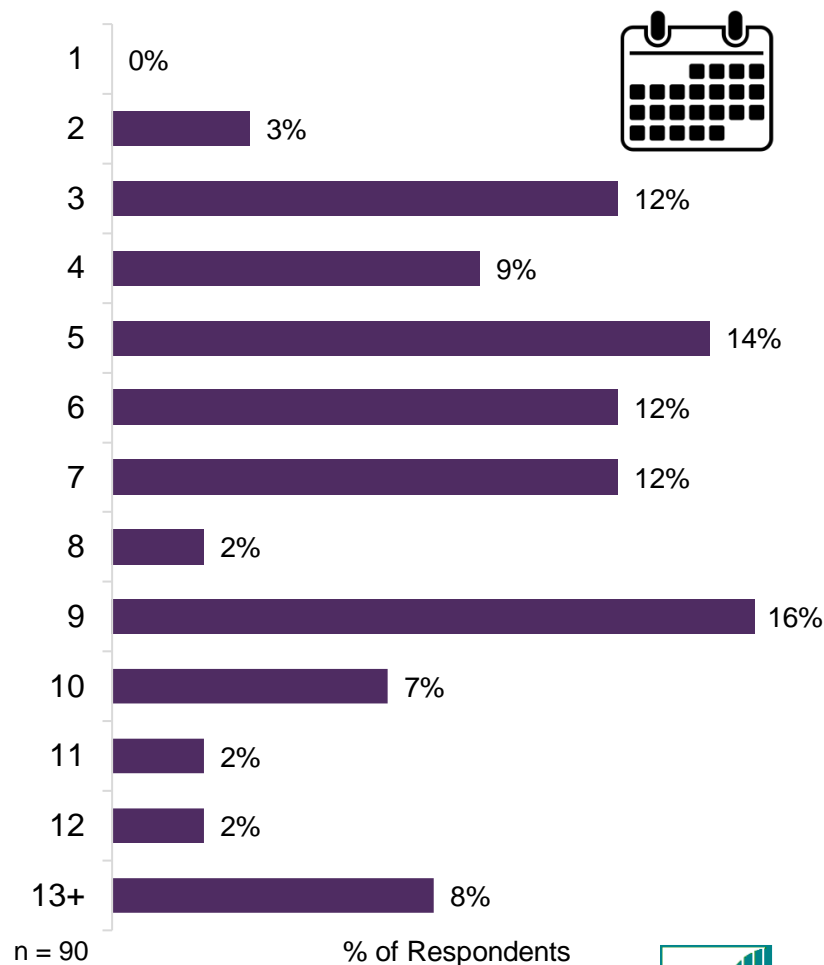


Patient volumes are expected to be elevated for 5+ months due to backlog of deferred cases

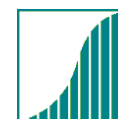
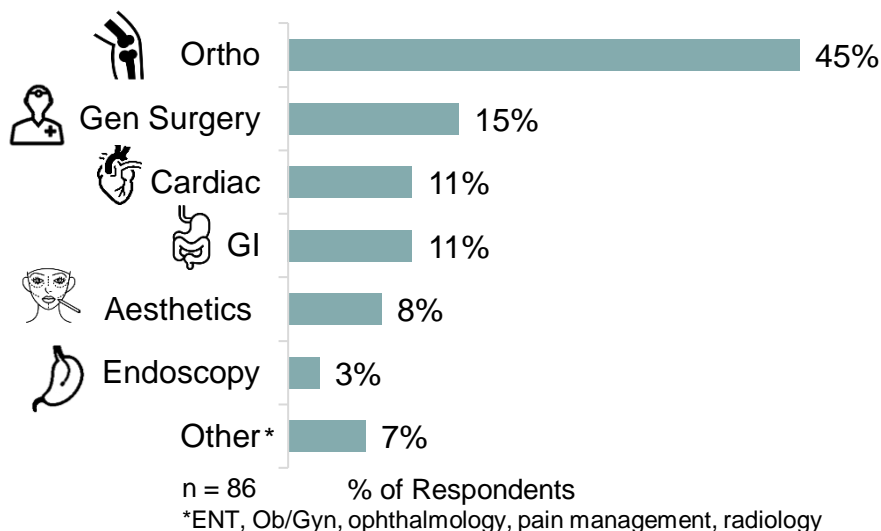
What percent of your backlog of elective surgical and interventional procedures (from pre-COVID) has been completed?



How many months will it take to completely work through this backlog?

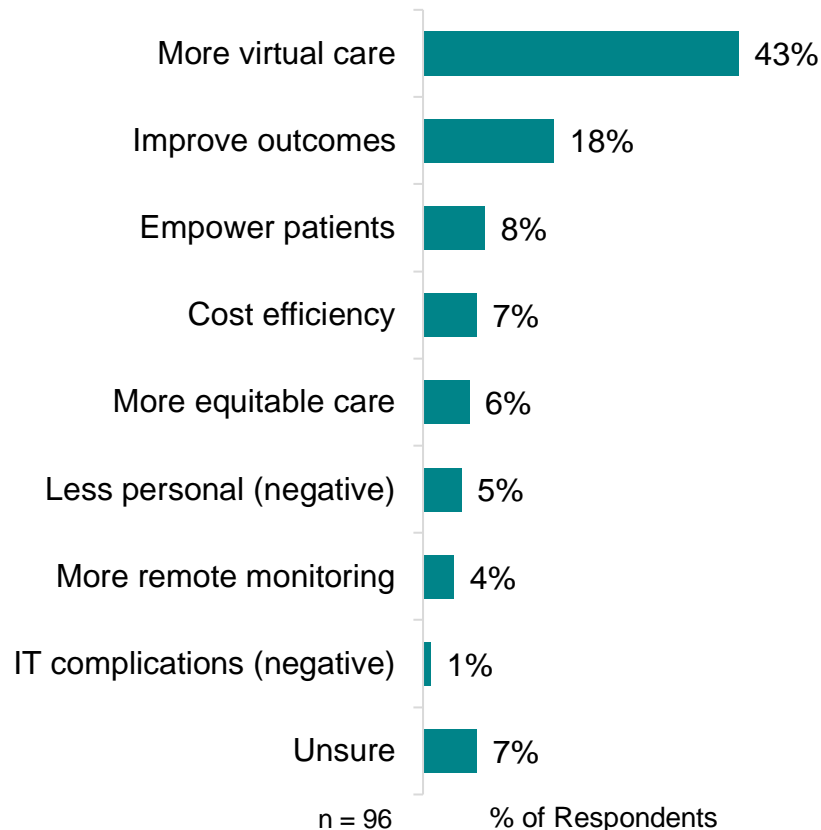


Which one service line is currently experiencing the greatest backlog of procedures?



87% of respondents expect a positive impact from digital health over the next decade

How do you envision digital health will change the way healthcare is delivered over the next decade?



“Empower patients as consumers to be active participants in their care”

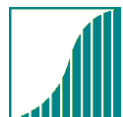
“Improvement in patient monitoring. Timelier information enables correction of drug regime”

“Better streamlining of cost”

“Digital health is transformative; it is the only positive impact of COVID-19”

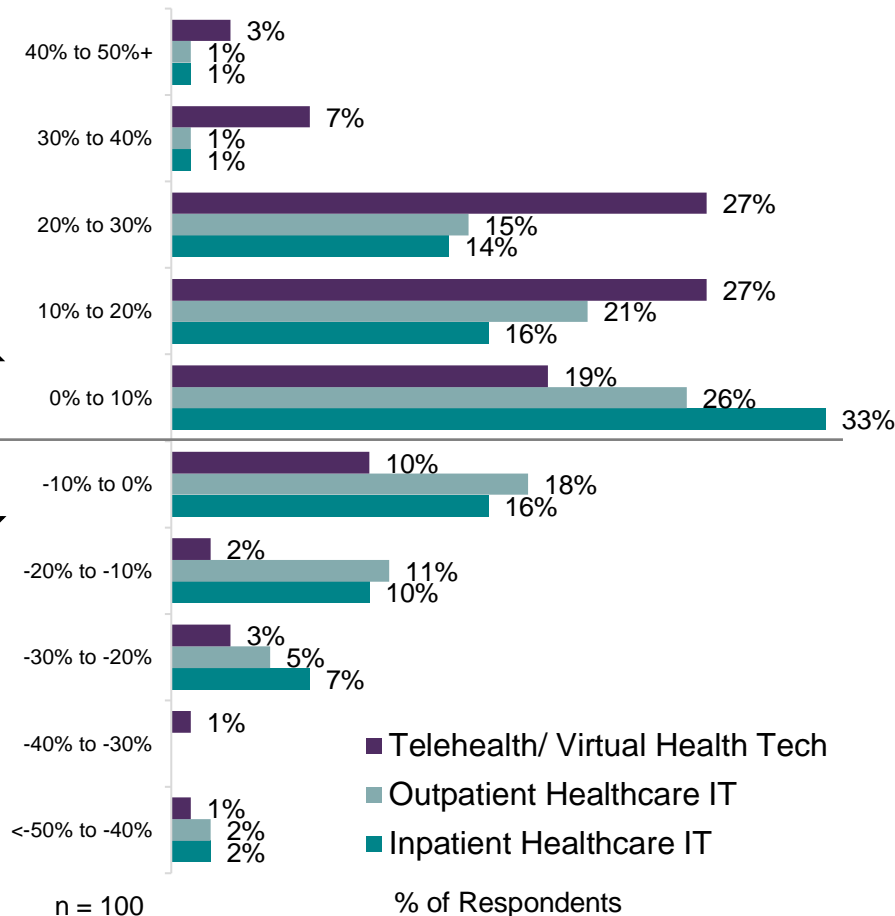
“It is imperative that it become a daily part of healthcare and needs the infrastructure to be a heavily utilized mechanism in the setting of the pandemic”

“Patients will be able to receive quality care that is comparable to in a hospital setting”

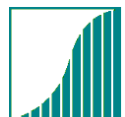
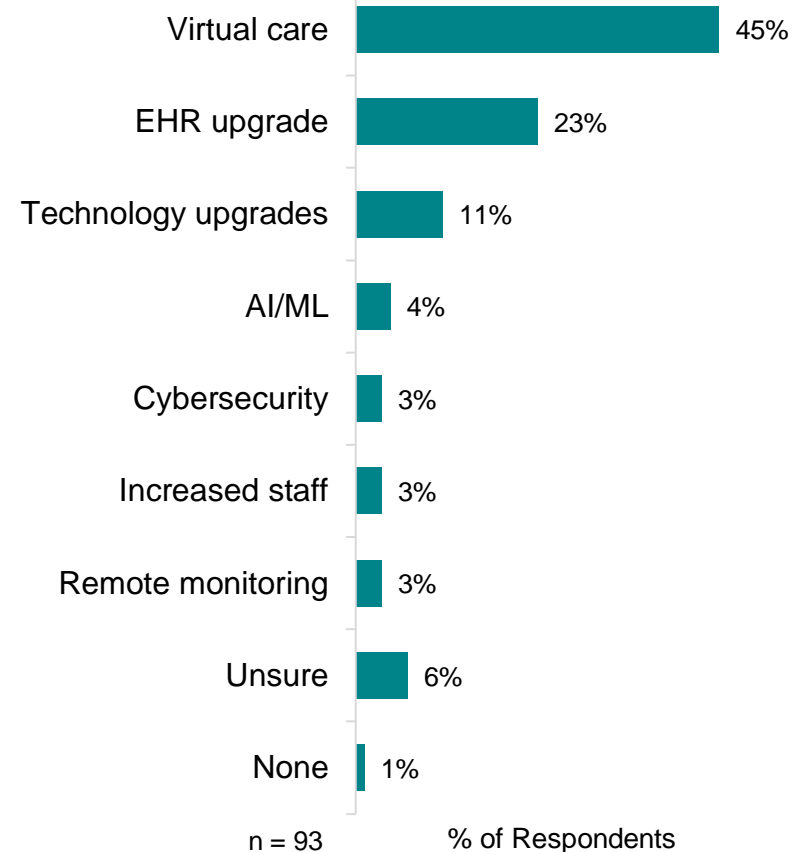


83% have increased the 2021 budget (vs 2020) for virtual health technology

Change in 2021 budget for healthcare technology relative to 2020



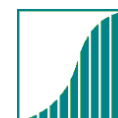
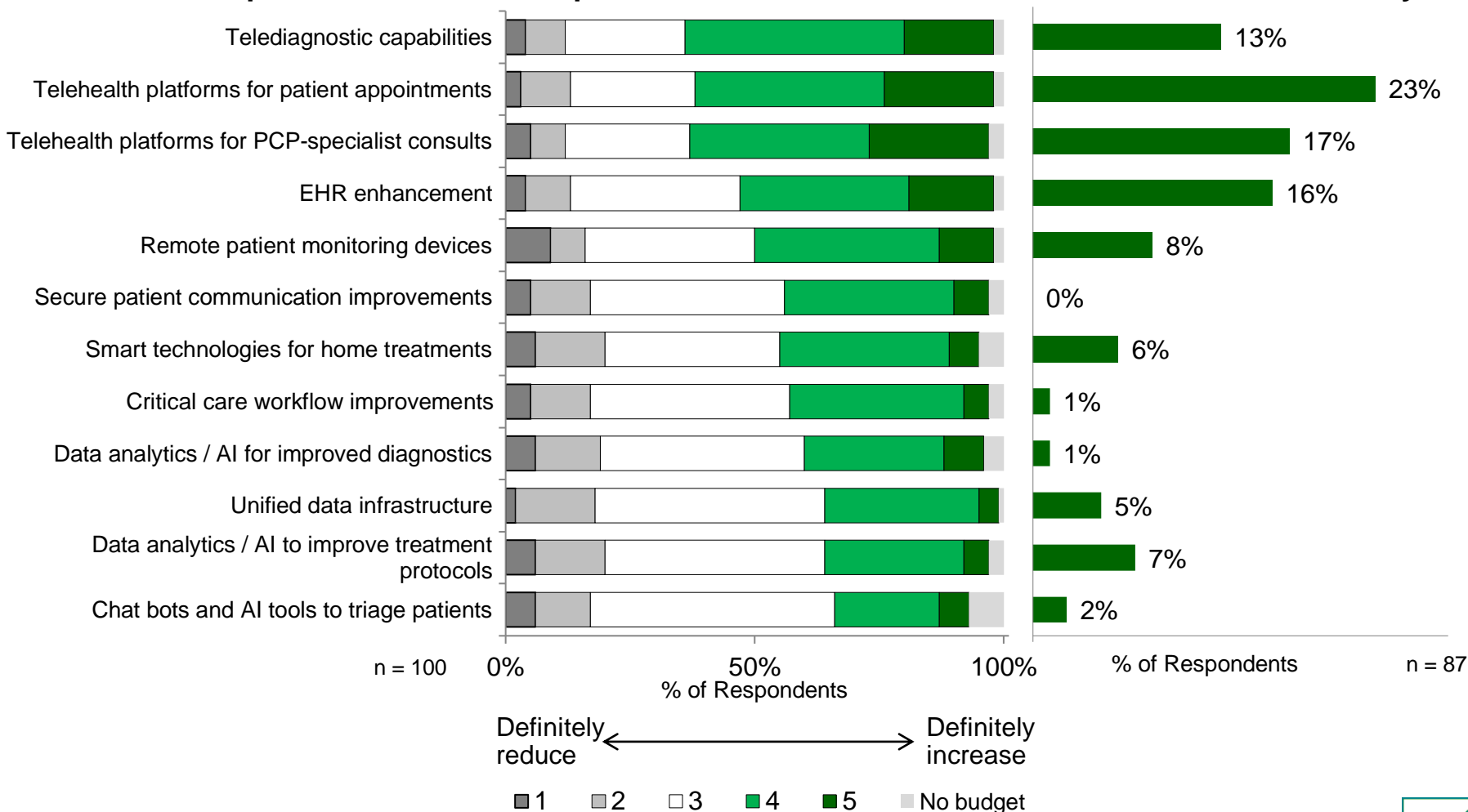
**The most important digital health / healthcare IT investment or initiative in 2021
(unprompted)**



In 2021, respondents will prioritize purchasing telediagnostic capabilities and telehealth platforms

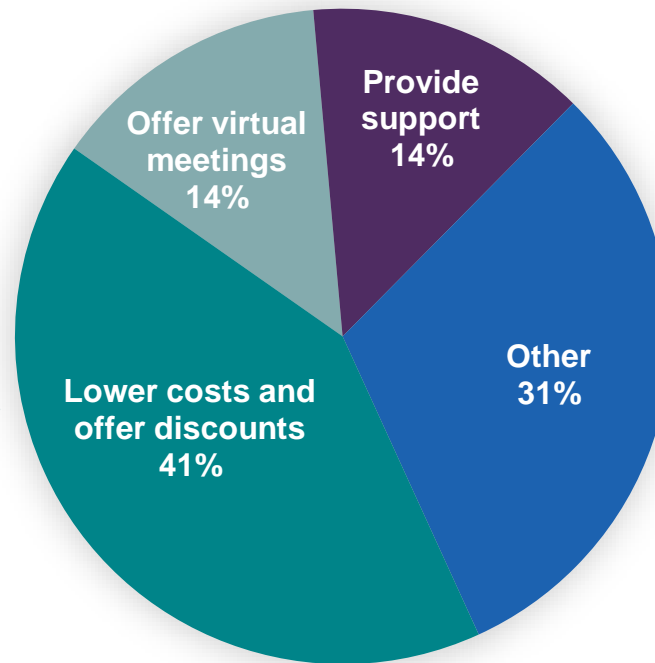
Digital health / healthcare IT purchasing priorities for 2021 compared to 2020

One category expected to grow the fastest in the next 3 years



The health systems surveyed are seeking financial stability and want vendors to lower costs and offer discounts

How can vendors best help you address your biggest challenges in 2021?



n = 65 respondents

Most want their vendors to provide lower costs and offer discounts

"Give more aggressive pricing"

"Risk based contracts/risk sharing"

"KEEP costs in line and be able to ensure supplies are available"

Other ways vendors can help include:

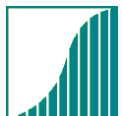
"Be readily available virtually"

"Don't hold back...our success depends on your input"

"Be partners, take risks in the compensation formula"

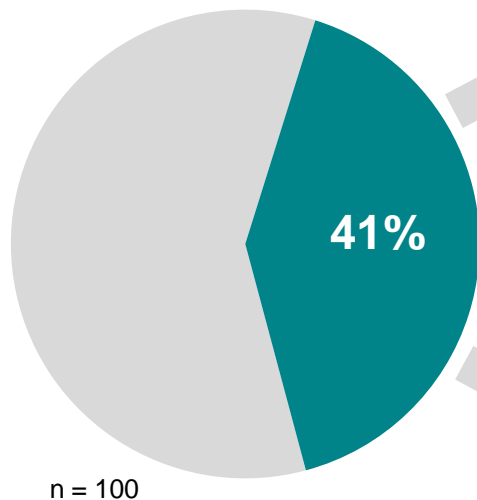
"Coordinating as a partner with the hospital to comply with day-to-day changes and rollouts"

"Keep communication up regarding drug shortages"



41% of respondents are requesting financial considerations from vendors, up from 28% in May 2020

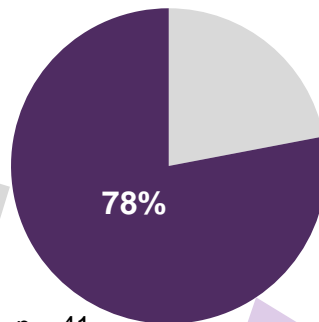
Health systems requesting financial considerations from med device/equipment or IT vendors due to the pandemic



In our May 2020 survey, only 28% were requesting financial considerations

Percent requesting price reductions

Most common among small systems, systems in urban areas, and AMCs



n = 41

8 mentioned a 5-25% discount

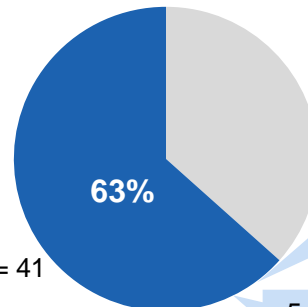
"Price per procedure instead of overbuying supplies"

"Lower recurring fees for 'maintenance'"

"We successfully negotiated price reductions in various supplies ranging from masks and PPE to device maintenance contracts"

Percent requesting payment terms

Most common among larger systems, urban systems, and community hospitals



n = 41

5 mentioned a 3-6 month extension

"Two-year payment plans to spread costs over time"

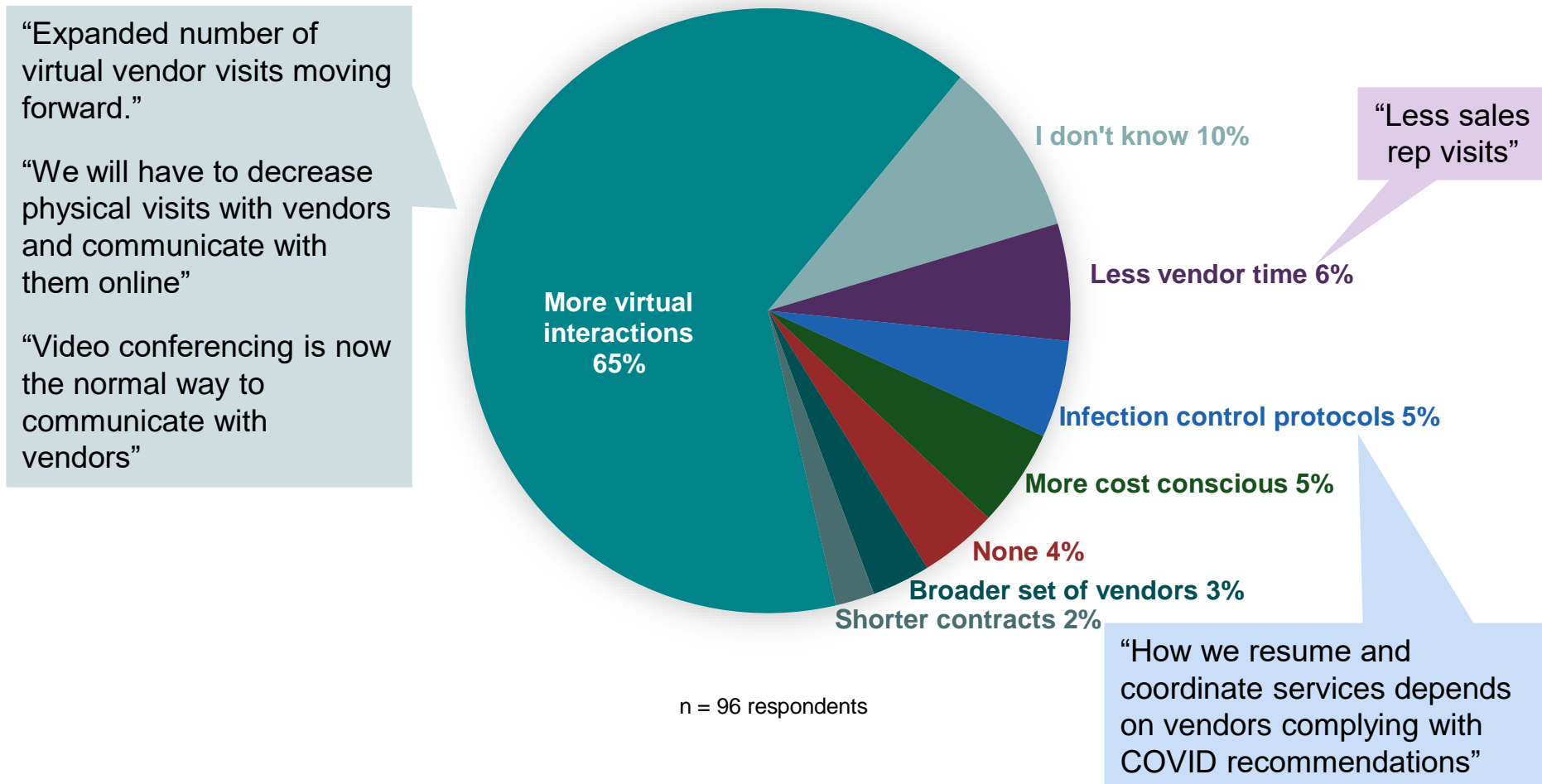
"Extended terms to increase the hospitals working capital for contracts prior to March 2020"

"Varies with each vendor; typically, a 3-month extension"



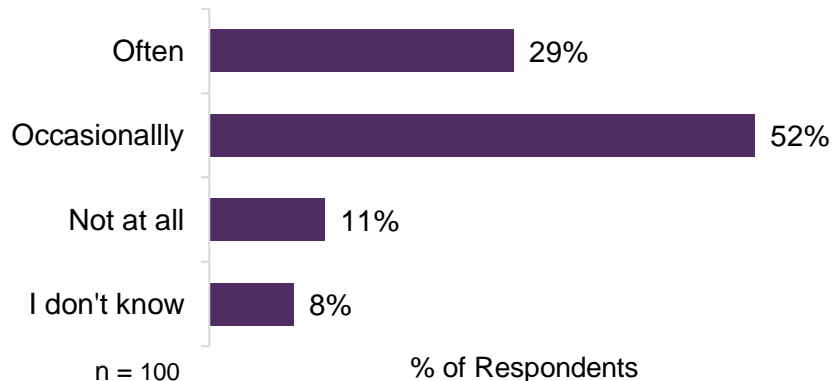
Health systems expect to continue using virtual communication with vendors post-pandemic

Most Significant Permanent Changes in How Business Is Done with Vendors Post-pandemic

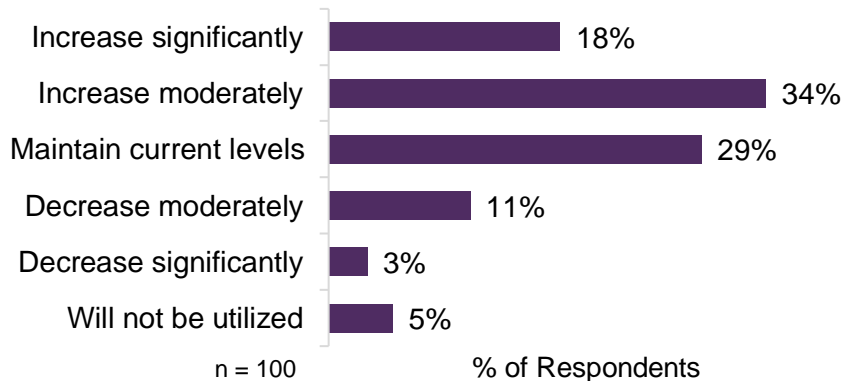


MedTech companies should expect increasing emphasis on virtual interactions with hospital staff

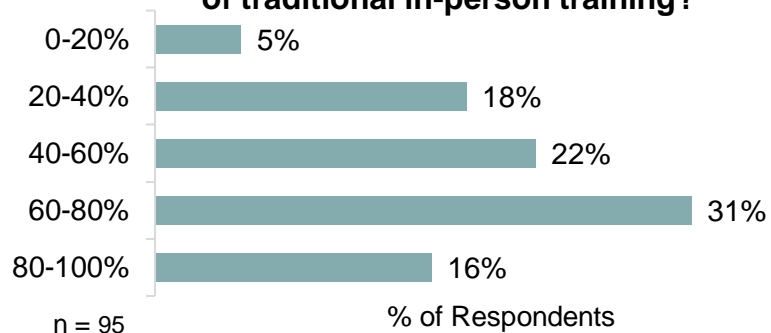
To what extent are surgeons and interventionalists currently making use of virtual interaction with vendors' clinical staff during procedures?



To what extent do you expect virtual interaction with vendors' clinical staff during procedures to be used post-pandemic relative to now?



Post-pandemic, what percent of the time do you expect physicians in your system to utilize online training opportunities in place of traditional in-person training?



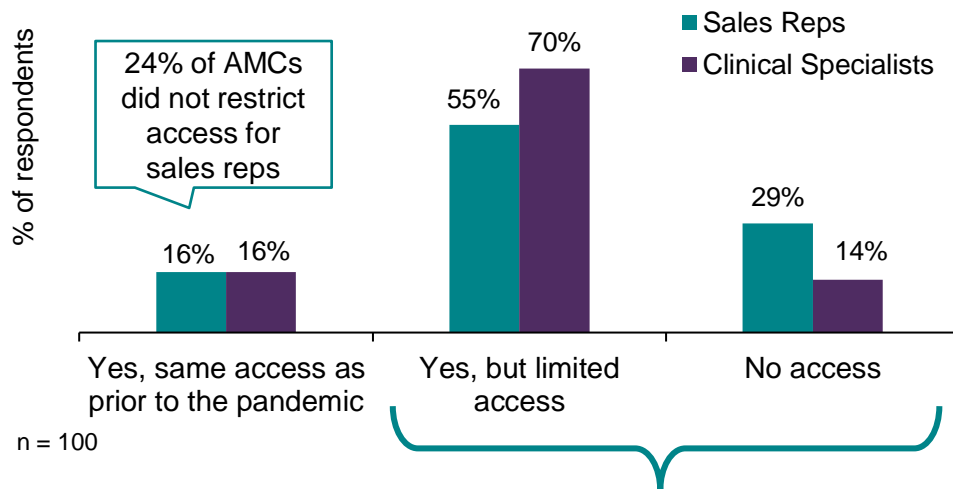
Virtual training is one way that MedTech companies can expect to interact with their customers

- On average, use of online training is expected to increase from 42% of the time pre-pandemic to 58% post-pandemic
 - Medium and large systems are expected to increase the use of online training more than small systems
- AMCs are likely to use online training opportunities more frequently (63% of the time, on average) than non-teaching community hospitals (52% of the time)

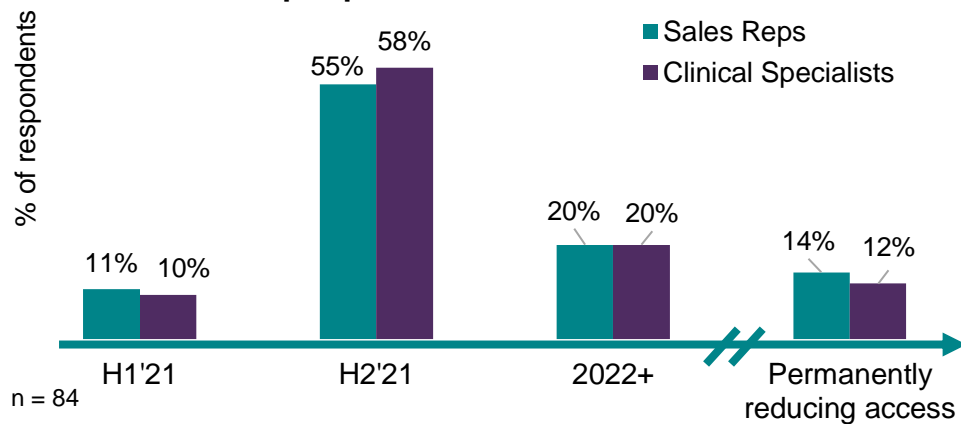


Health systems are prohibiting access to sales reps more so than clinical specialists

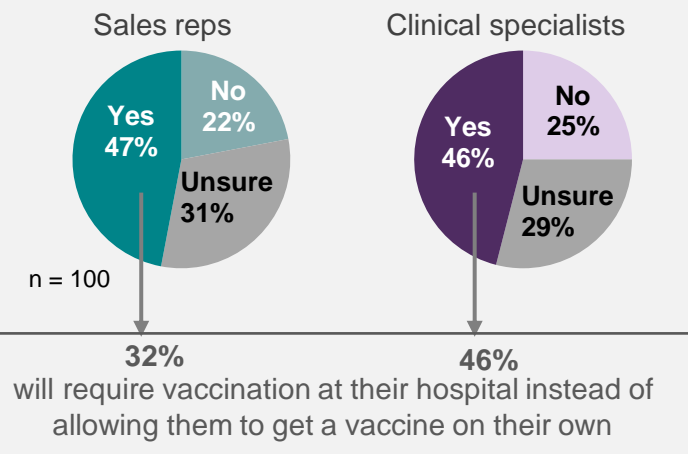
Is your health system currently allowing access to the hospital for:



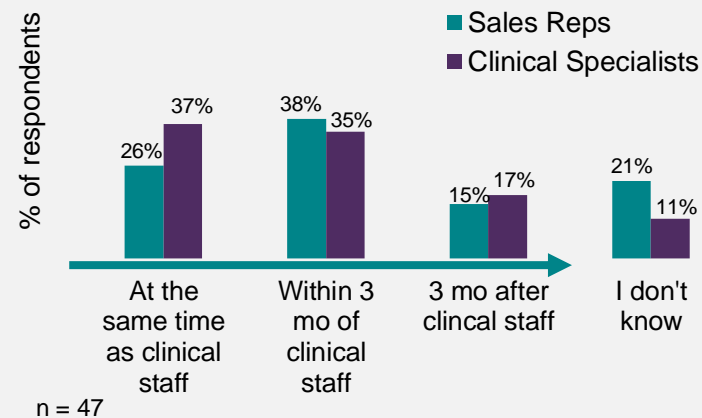
When do you expect access to return to pre-pandemic levels?



Will you require COVID-19 vaccination?

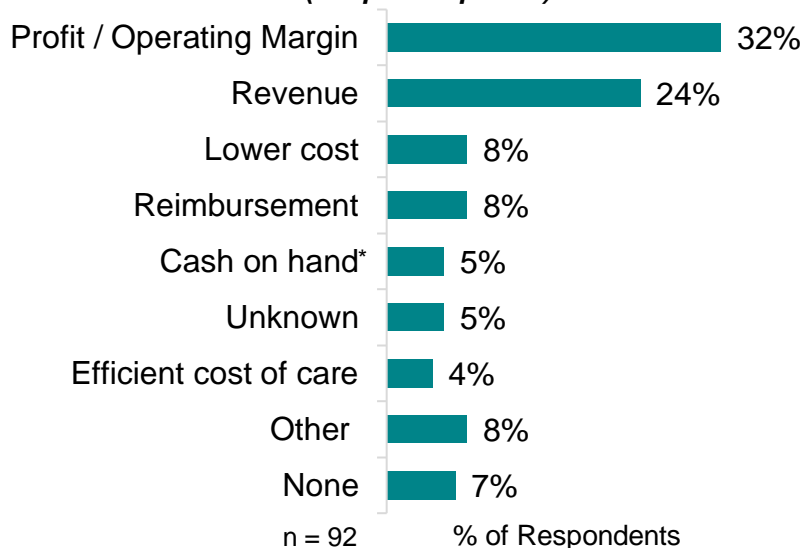


When will you require COVID-19 vaccination?



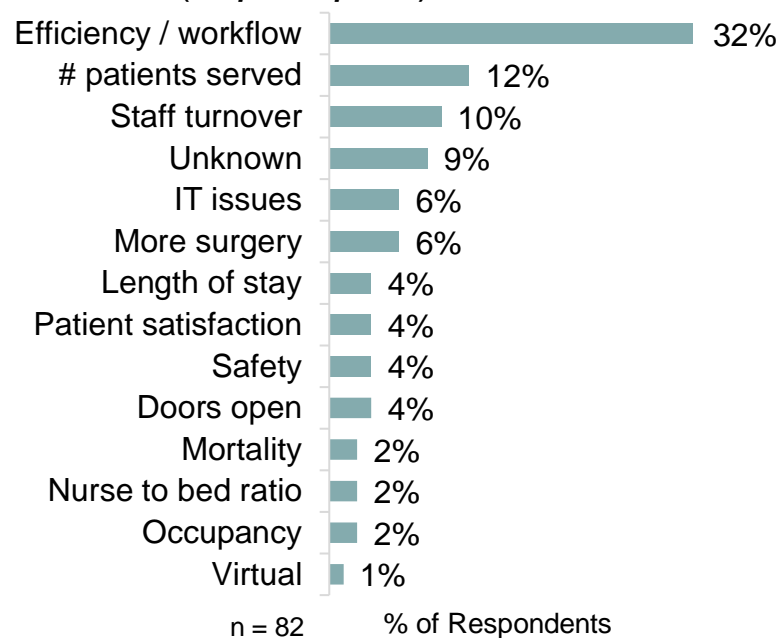
Focus on profit/operating margin and associated operational efficiency align in top financial and operational metrics

Top financial metrics most critical to your health system in 2021 (unprompted)

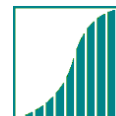


*Wages, lower debt, lower collections, more virtual

Top operational metrics most critical to your health system in 2021 (unprompted)

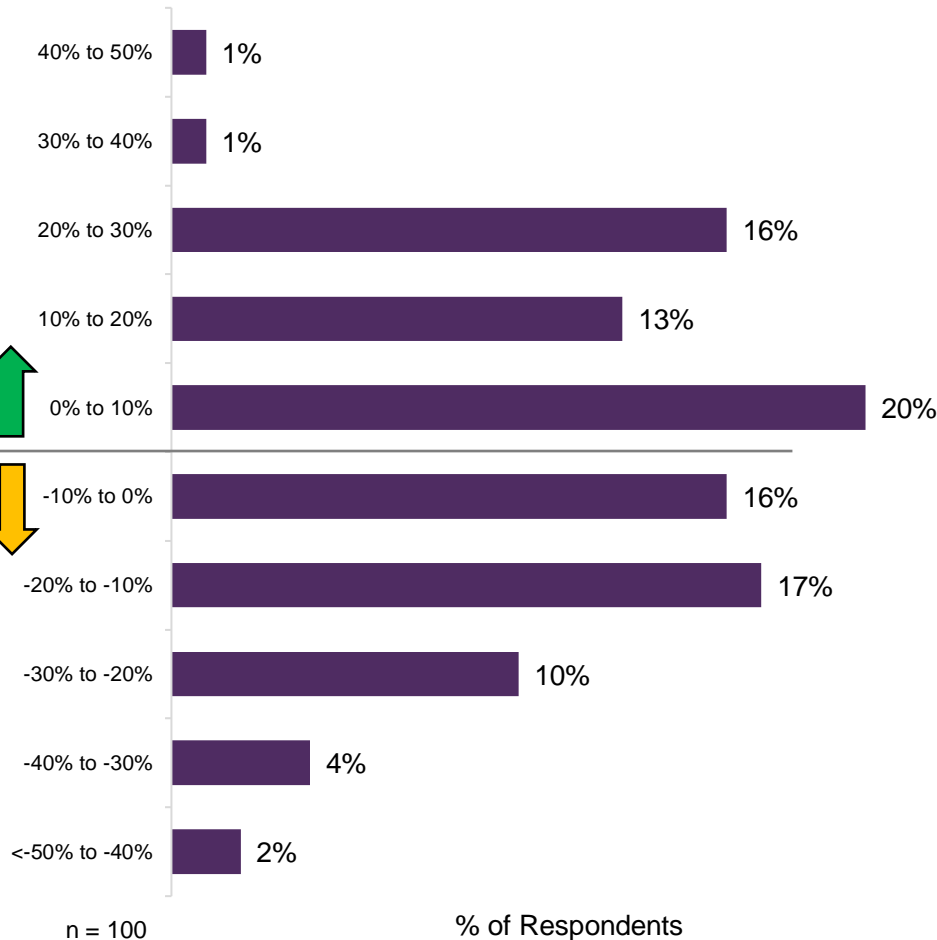


Budgeting/meeting operating margins is a common theme for financial and operational metrics most critical in their 2021 health system



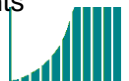
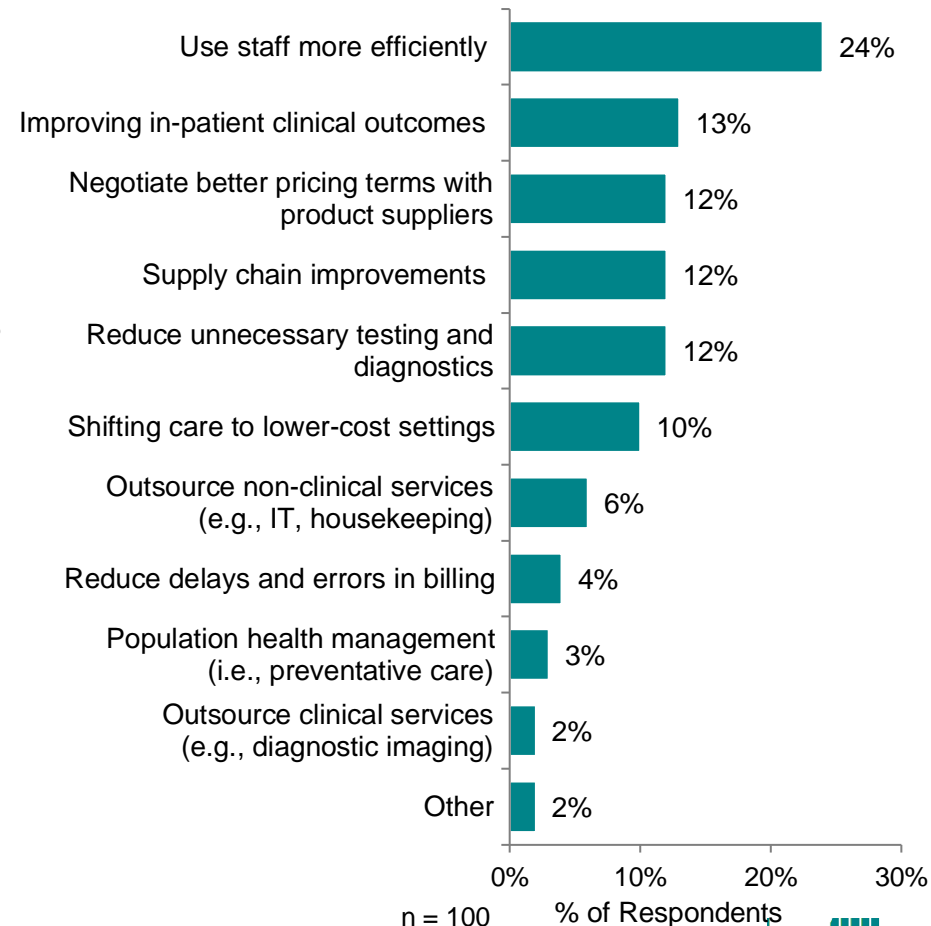
Respondents are not expecting significant changes to operating margins on average; efficiency top of mind to reduce cost

**Expected Operating Margins*
for 2021 vs. 2020**



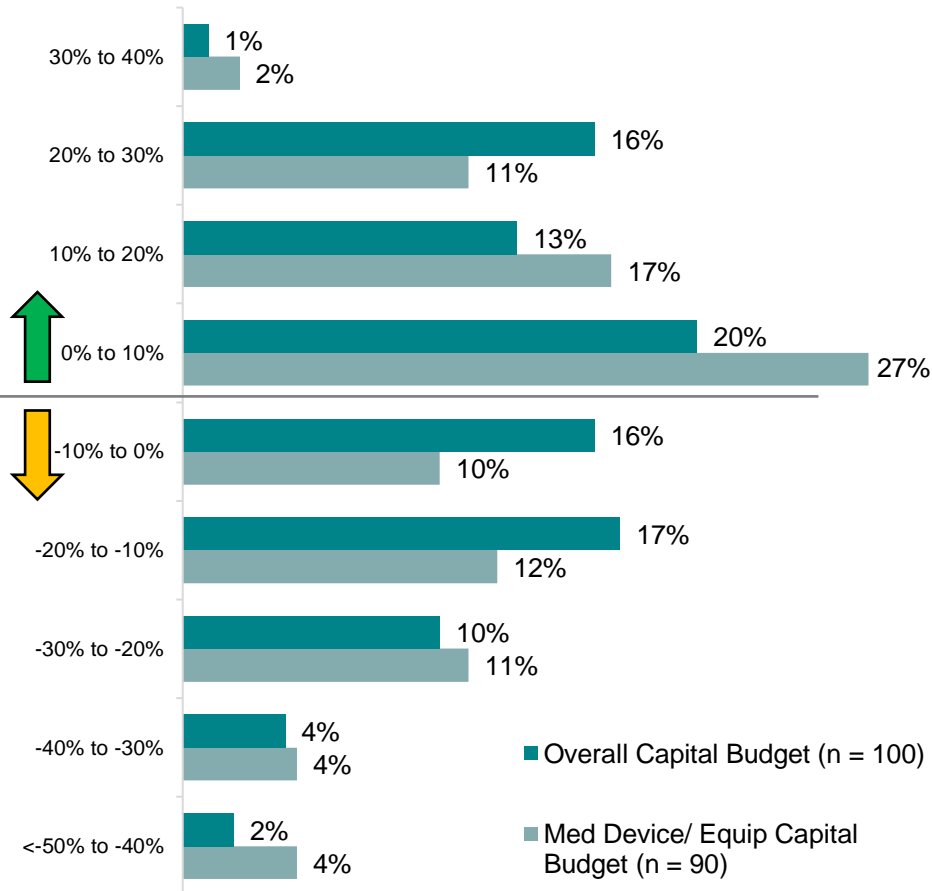
*including CARES Relief Fund stimulus

**What is the top cost reduction measure
implemented during the pandemic that your
health system plans to continue into 2021?**

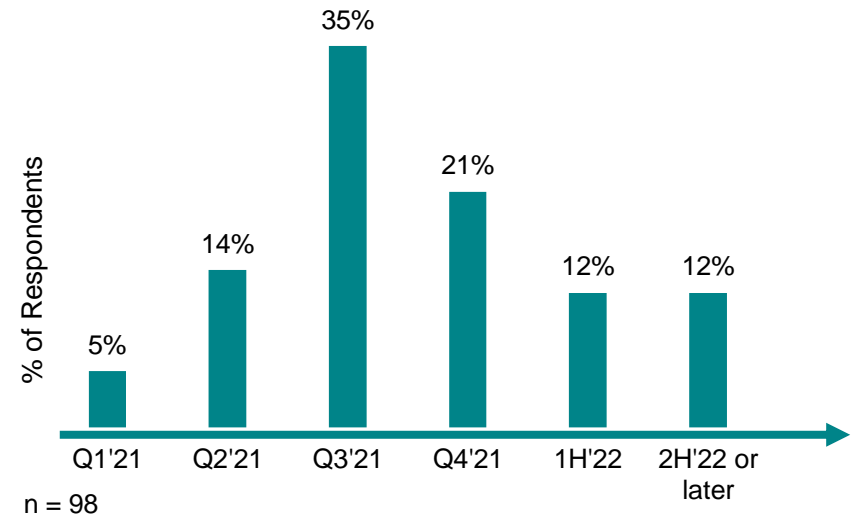


Majority of respondents expect capital budgets to increase, but will resume capital expenditure Q3'21 or later

Expected Capital Budgets for 2021 vs. 2020

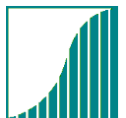


When do you expect to resume the capital expenditures for medical devices/equipment that your hospital has delayed or cancelled due to COVID-19?



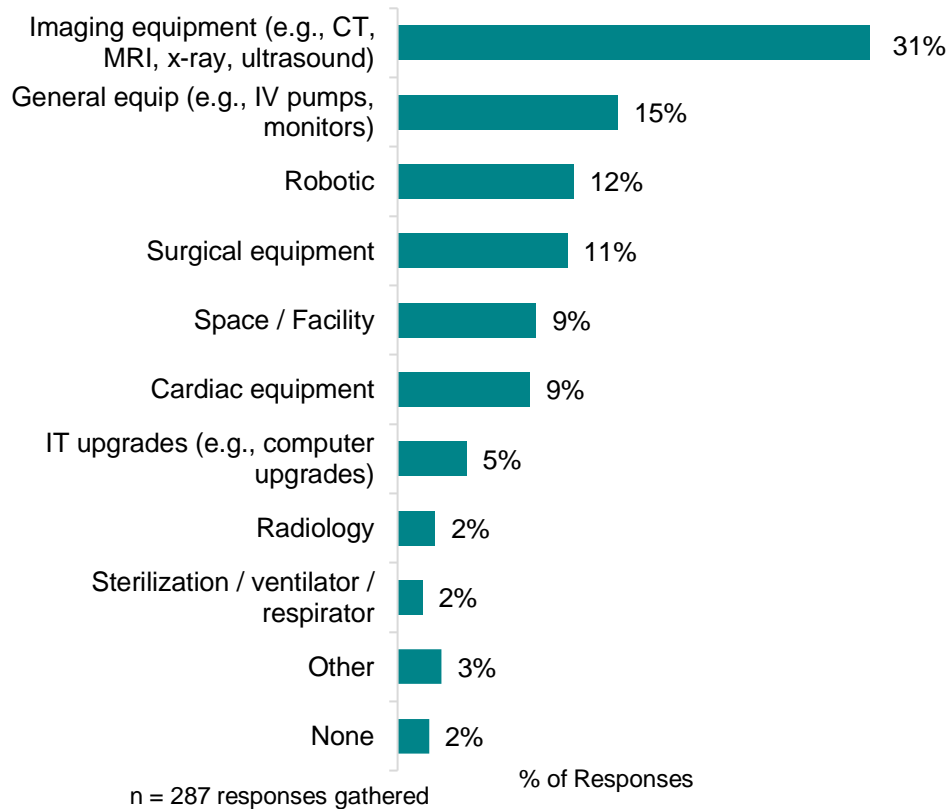
Note: Median for both 0-10%

% of Respondents

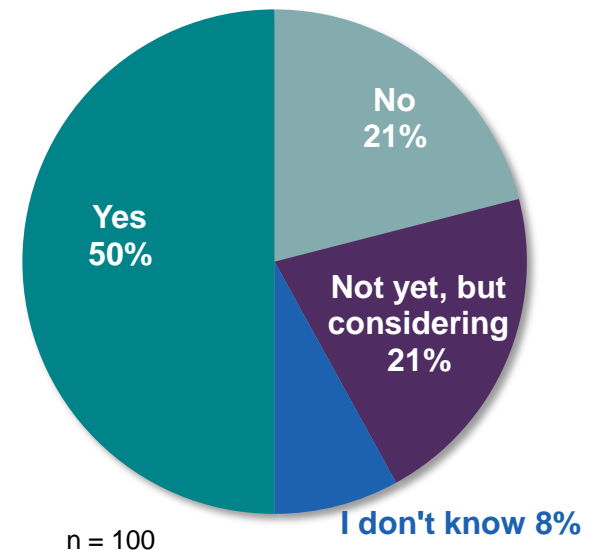


Imaging equipment has been most frequently delayed capex; many consider imaging equipment an operating expenditure

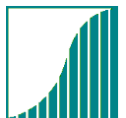
What are the three biggest medical device/equipment capital expenditures your hospital has delayed or cancelled due to COVID-19?



Does your hospital consider imaging investments operating expenditures?



*GI, Oncology, Diagnostics
2 respondents indicated non-capital PPE expense



CASH CUSHION REMAINS IMPORTANT

Companies may fund strategic initiatives to support the rebound in procedure volume

- Expand existing sales forces and seek to engage with physicians in different ways (virtual workshops, online meetings, etc.)
- Strategic investment in key areas:
 - Technological integration and telehealth support
 - Supply chain and inventory optimization
 - Addition of new products

Some headwinds remain

- Health systems focused on operating margins
 - Modified buying patterns and processes
 - Changes to hospital workflows
 - Pricing pressure – seeking lower costs / potential risk sharing with vendors
- Capital expenditures still delayed

IPO window is currently open, but uncertainty remains about ongoing macroeconomic factors

Companies should remain focused on capital access and investor alignment

KEY LONG-TERM TRENDS

Private Investment and Fundraising in Healthcare Remains Strong

Healthcare Companies Still Take a Long Time to Exit

Key Stakeholder Groups Face Different Ongoing Issues



Key trends (both positive and negative) amplified by COVID-19

PRIVATE INVESTMENT IN HEALTHCARE REMAINS STRONG

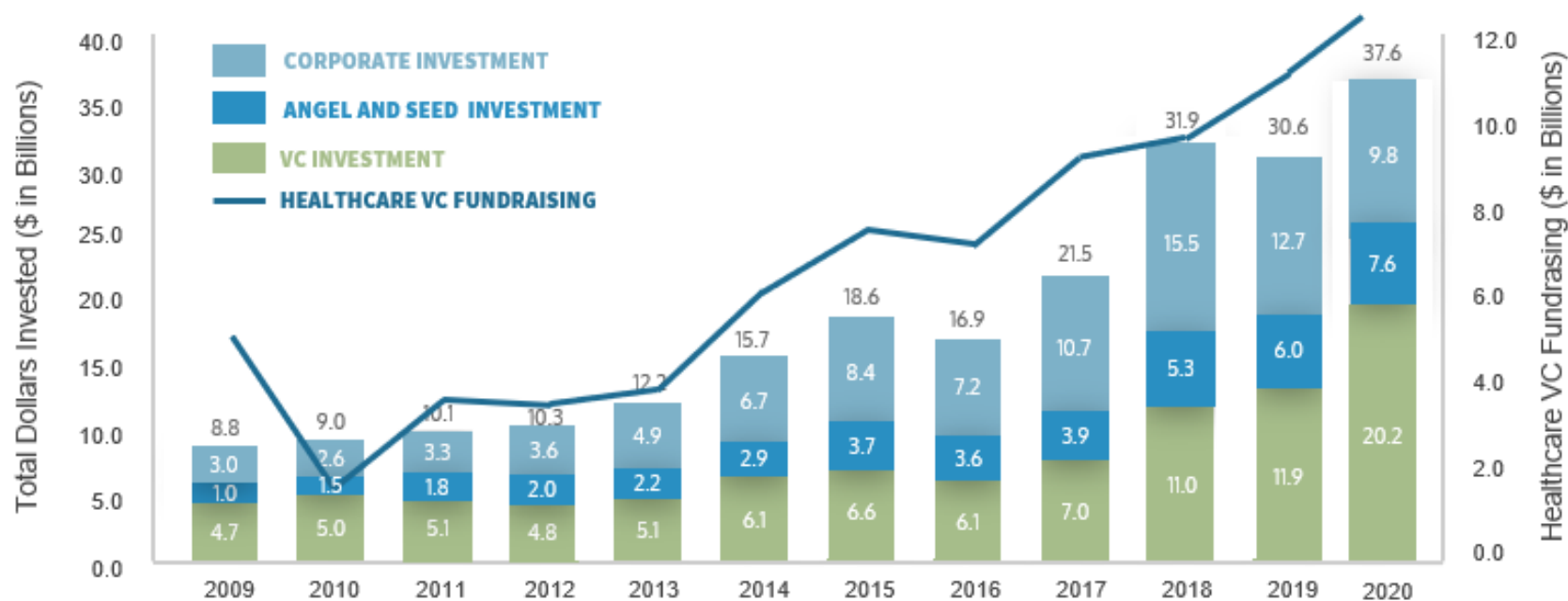
Over \$220 billion has been invested in private healthcare companies since 2009

- Private companies raising larger rounds – 60% of capital now being invested in rounds >\$50 million

Strong fundraising trends support ongoing pace of investment

- Macroeconomic environment that has shifted investors towards risk assets

Healthcare Investment and Fundraising

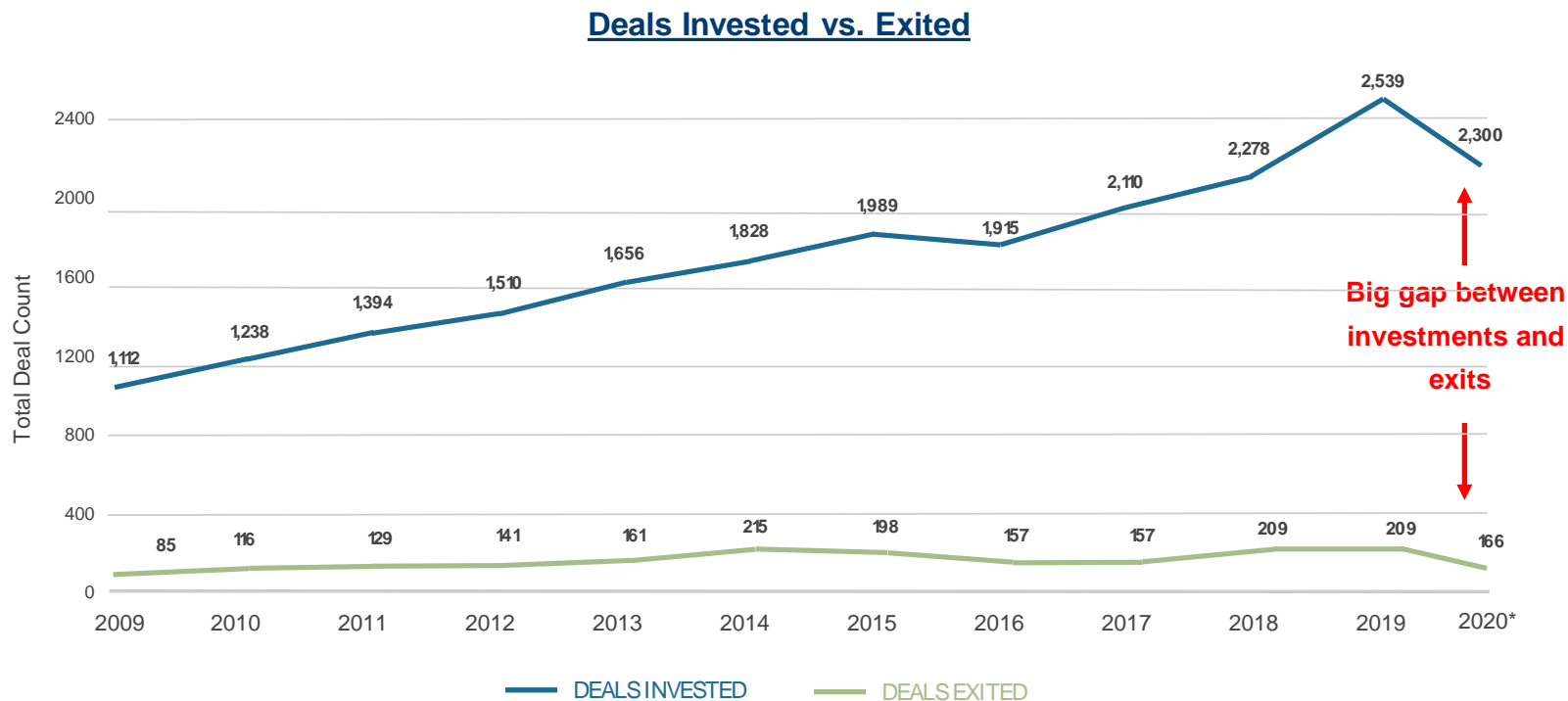


HEALTHCARE COMPANIES STILL TAKE A LONG TIME TO EXIT

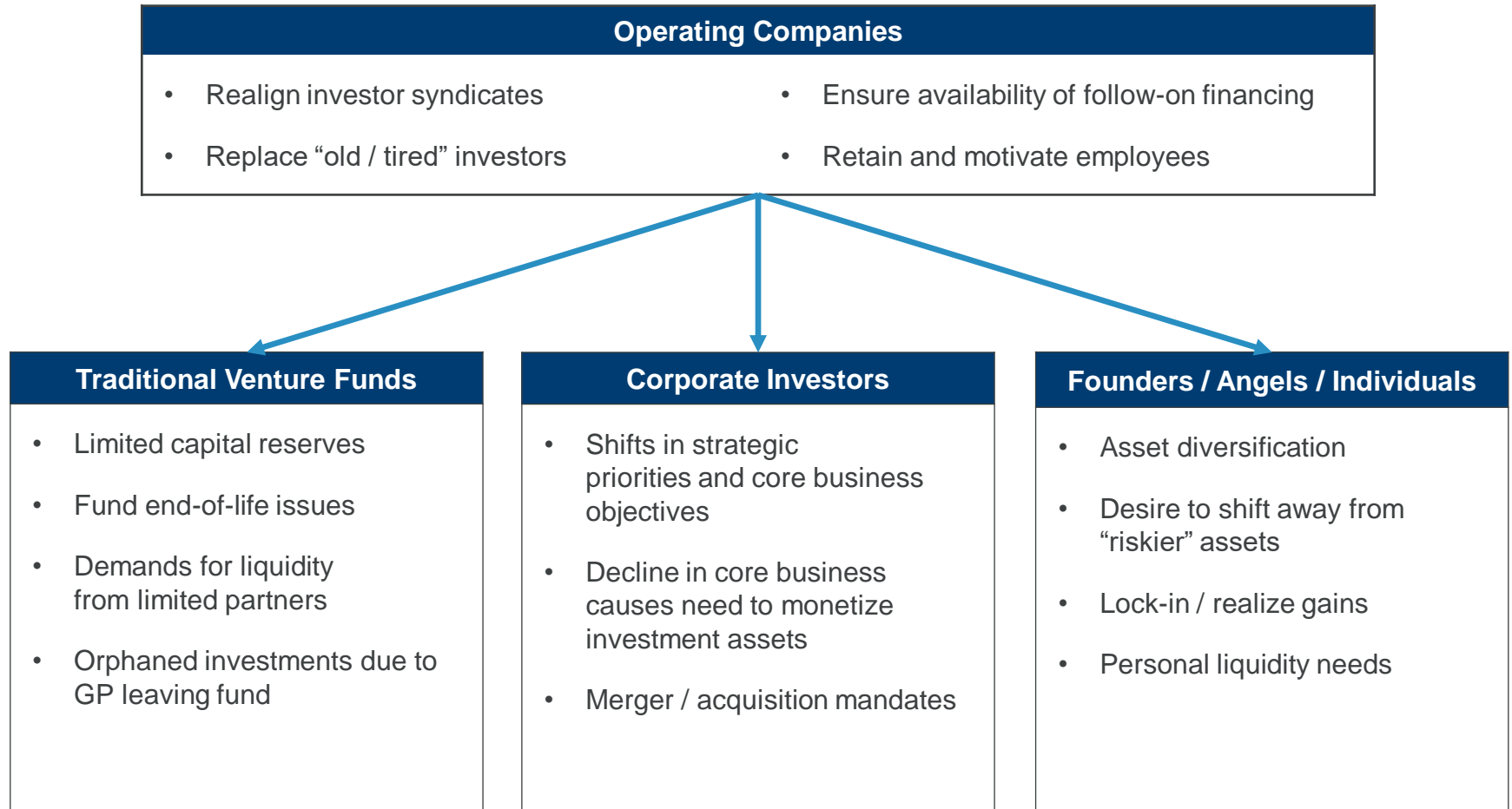
Exits have become concentrated in fewer, but larger, deals

- Average time to exit (via M&A): 5+ years
- Average time to exit (via IPO): 6+ years

Some companies electing to remain private for longer, based on availability of venture funding and desire to maximize value creation before accessing the public markets



KEY STAKEHOLDER GROUPS FACE DIFFERENT ONGOING ISSUES



ADDRESSING UNIQUE CHALLENGES IN THE CURRENT ENVIRONMENT

- **The current environment demands flexibility from both companies and investors**
 - Different stakeholders may have difference strategic imperatives and timing expectations
- **While evaluating different options for raising near-term capital, companies may benefit from a secondary solution to:**
 - Solve misalignment within the existing investor syndicate
 - Address investors with capital constraints
 - Replace investors with misaligned strategic objectives
 - Provide liquidity for investors with misaligned timing objectives
 - Combine primary capital and secondary liquidity
 - New investors may price new equity on more favorable terms if blended with a secondary deal
 - Ensure the availability of future follow-on capital
 - Streamline the diligence process

INVESTOR MISALIGNMENT EXACERBATED IN CURRENT ENVIRONMENT

Existing investors may differ in their funding capabilities and/or strategic objectives

Investor #1

- Highly-supportive of company
- Well-capitalized, with substantial reserves

Investor #2

- 11-year old fund, seeking near-term liquidity for LPs
- No capital reserves, but highly dilution-sensitive

Investor #3

- GP has departed the fund
- Supportive of company, but not willing to invest additional capital

Investor #4

- Corporate investor has shifted focus away from specific sub-sector
- Seeking to rebalance portfolio

New Investor

- May lead financing, but needs insider support

WHAT MAKES A GOOD SECONDARY PARTNER?

Revelation Partners is uniquely positioned as a secondary investor in the healthcare space

- 13-year track record dedicated to healthcare, investing across all sub-sectors
- Over \$900 million of committed capital

Specific healthcare expertise required to maximize near-term and long-term value

- An ideal partner will be well-versed in the unique regulatory, commercial, and legal dynamics of the healthcare sector

Experience in managing complex transactions

- A good partner must manage multiple facets of the secondary process (i.e. legal considerations, alignment of key stakeholders, etc.) to create a customized solution

Dedicated long-term capital

- A well-capitalized partner can ensure an expeditious closing and provide future support for the company (reserves for follow-on financings)
- Maintain ability to execute subsequent secondary transactions for other shareholders

ABOUT US

Revelation Partners is a dedicated secondary investor in the healthcare space, creating customized solutions for healthcare investors, companies, founders, and funds

- We invest broadly across sectors, including medical devices, diagnostics, biopharmaceuticals, healthcare IT, and healthcare services

Closed Revelation Healthcare Fund III at Hard Cap of \$350MM in March 2021

Selected Venture Fund Counterparties



Selected Portfolio Companies

