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Facing an event they couldn't foresee, health executives see transformation, portfolio rebalancing and M&A as paths to recovery.

75%

of health respondents say they are undertaking a business and digital transformation program.

## Health organizations find themselves in the center of a perfect storm

COVID-19 is a public health crisis that has placed hospitals in the center of the action. In the latest *EY Global Capital Confidence Barometer*, both global respondents across industry and health respondents agree that hospitals and health care providers are among the top five sectors most impacted by the pandemic.

Health care businesses are impacted in more ways than some may consider. The reality is that hospitals are in the midst of a perfect storm, with gale-force winds blowing from all directions. With all elective (or “non-essential” care) having been postponed and a dramatic reduction in hospitalizations for even serious non-COVID-19-related conditions, revenue that is essential to the economic health of most hospitals has sharply declined. At the same time, health organizations initially faced increases in wage and supply costs. In addition to supply chain, workforce and financial disruption, there may be longer-term shifts in patient behavior and demand, as well as adjustments to operating models required to better serve and manage populations in the post-COVID-19 world.

Health respondents appear to have recognized some of these trends early in the crisis. By late February and early March, health executives said they were either re-evaluating or taking steps to change workforce management, speed of automation, digital transformation, and, of course, supply chain. These trends, well entrenched before the health crisis, have only been accelerated. Executives are tuned into the need to transform, or at least adjust, their operating models and strategies.

### Digital transformation moves from important to imperative

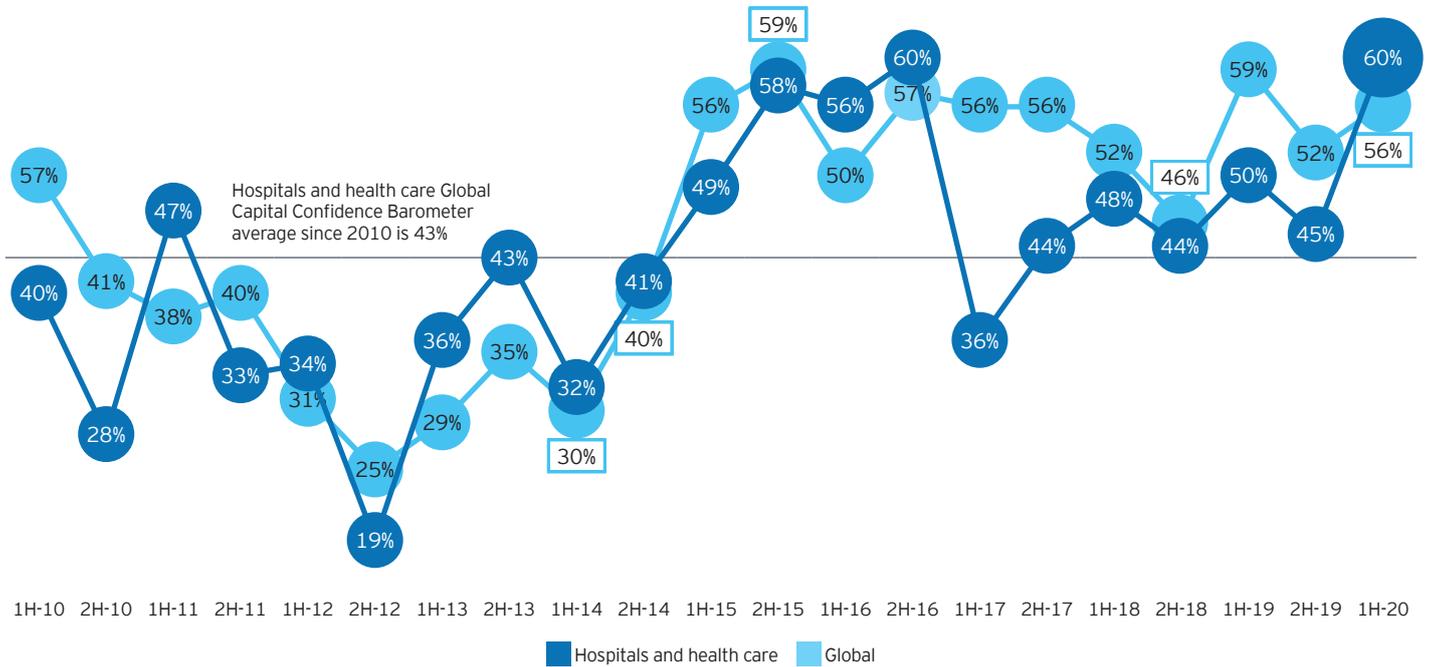
That 75% of health executives say they were already undertaking a business and digital transformation program demonstrates a strategic commitment to change. This is good news, as we believe digital transformation will be even more fundamental to the efficient and effective delivery of care post-pandemic than it was pre-pandemic.

In the last edition of the *EY Global Capital Confidence Barometer*, half of health respondents were allocating 25% or more of their capital to digital capabilities. With the surge in telehealth during the pandemic (and the temporary relaxation of regulations for the delivery and reimbursement of telehealth in the US), we expect telemedicine will be a bright spot for the sector as we emerge from the crisis. We expect patient and physician behavior to shift toward more virtual health options, perhaps permanently.

### There may be a dip in M&A in the short-term; health executives expect a resurgent appetite down the road

According to [HealthCareMandA.com](http://HealthCareMandA.com), health care M&A activity fell 24% in the first quarter of 2020. Yet overall, health respondents in our survey remain remarkably optimistic: before 19 February, 65% expected the sector M&A market to improve in the next 12 months. That number grew to 77% for those responding after 19 February. Although we see M&A slowing in the short-term as health organizations assess the full impact of the pandemic, there will be an uptick as their attention turns to recovery and resurgence. Sixty percent of health executives surveyed say they expect to pursue M&A in the next 12 months.

**Q** Do you expect your company to actively pursue M&A in the next 12 months?



Already, we can see health organizations adopting shorter-term deal tactics to weather the storm. In the long-term, we expect to see more fundamental shifts in deal strategy, valuation and liquidity. If there is a prolonged downturn due to the current crisis, executives may be bolder in their ambitions and look to acquire those assets that will help them accelerate into an upturn faster. Declines in valuations will also spur M&A activity.

**For now, health executives are focused on addressing the immediate impact of the crisis**

While the full extent of the impact on the global economy remains unclear, all respondents agree that the pandemic will have a negative impact on global growth, at least in the near-term. Hospitals and health systems have historically focused on building agility and resilience, and they have been well-prepared to respond to and sustain operations through crises such as natural disasters. However, the unique nature of the current situation has strained resources and challenged even the best-laid plans.

For now, many health organizations remain in survival mode, with some of the smaller hospitals or those with the slimmest margins and cash reserves potentially restructuring.

**Next, health organizations will need to re-evaluate and rebalance**

As hospitals and health systems restart operations and recover, health systems will be looking at their care delivery models and at opportunities to make strategic investments to streamline and improve patient care.

Even before normalcy resumes, health organizations are expected to refocus on more conventional challenges (e.g., new products and services, geographic expansion, and partnerships and technology adoption) as they consider how to recover and recalibrate their business models to regain financial footing. Eighty percent of health executives say they are conducting more frequent reviews than they did three years ago, while 77% say they have moved to a more continuous rebalancing of their business portfolios. For health organizations, portfolio reviews should strengthen capital allocation and cash flow processes. An always-on strategic and portfolio review process will allow companies to identify areas of growth at the earliest opportunity and counterbalance losses incurred because of the pandemic. It will also help them prepare to divest and reinvest, a classic trend during a crisis and recovery that is also expected post-pandemic.



77% of health respondents say they have moved to a more continuous rebalancing of their business portfolio.

With 57% saying it has become far more difficult to predict the future, health organizations will need to reassess their workforces as they focus on improving profit margins. The pandemic has made many traditional ways of working less reliable. Executives will need to challenge pre-crisis assumptions and explore fundamental questions to ensure their hospitals can keep their doors open.

### **Beyond, health organizations will need to move fast to reshape and reinvent for the future**

Health executives have had to reassess their outlook for growth and are reconfiguring operations in response to the pandemic. At a time when margins and cash flows were already pressured, the C-suite still has ambitious transformation plans, with some of them on hold as executives re-tool for what's next.

We will be emerging from this pandemic into an environment that is quite different from the pre-COVID-19 world. Health consumers will behave differently. Health care economics will be challenged. Everyone should have a shared interest in evolving our system of care. We expect industry leaders to move quickly to reimagine, reshape and reinvent their business.

This health crisis has forced us to “unfreeze” old ways of working. We will have a limited window of time to reset our approach before we re-freeze into a new normal. Health care and industry at large should take full advantage of this window to make fundamental improvements in our health care system, for both greater efficiency and effectiveness.

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