

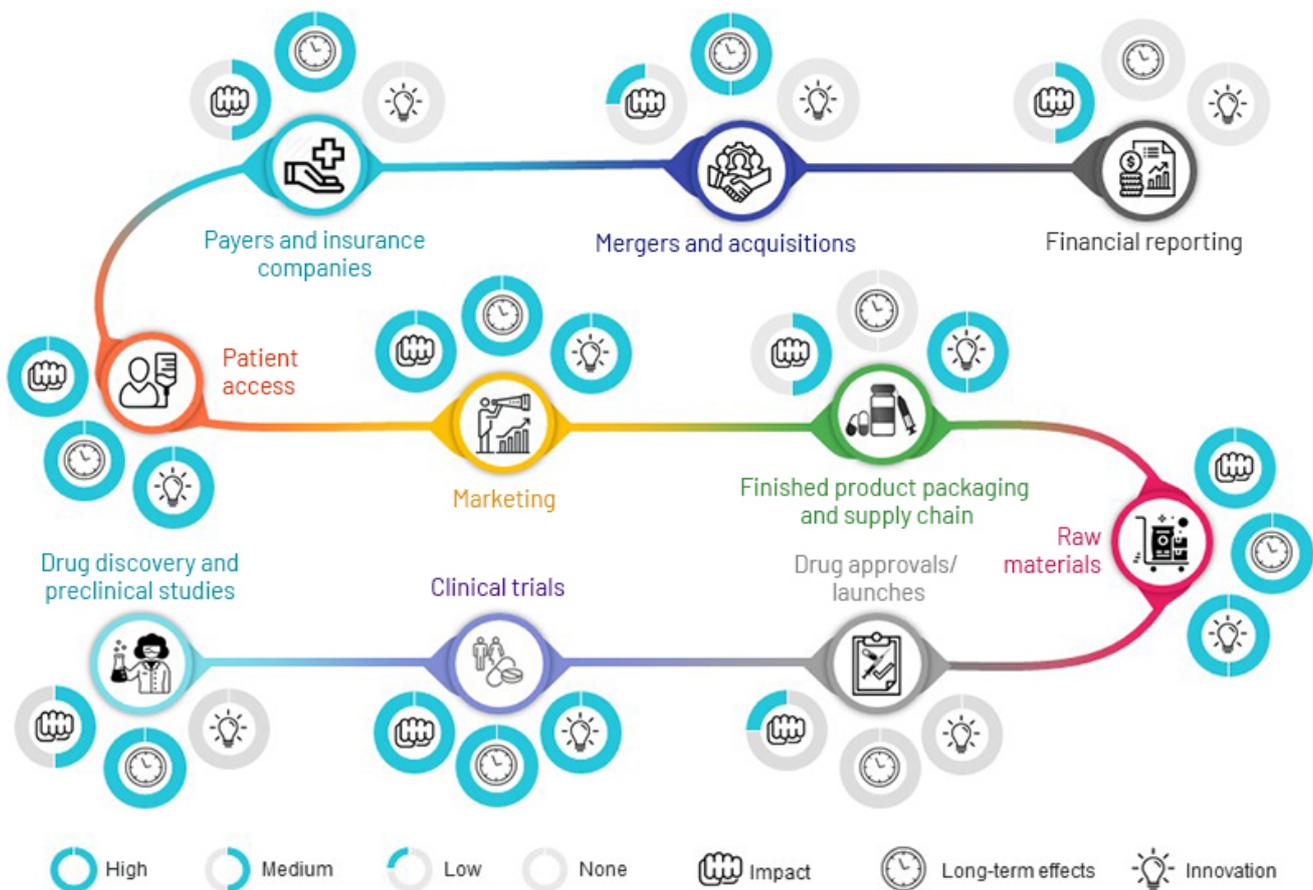
# Impact of COVID-19 on the pharma value chain

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It is more than five months since the first cases of COVID-19 were detected in Wuhan, China, and the whole world has slowly adjusted to the new normal amid the pandemic. The global crisis has necessitated a 360-degree shift in our lives and a significant change in the way many sectors operate, especially healthcare. This sector has struggled with attending overwhelmingly large patients and identifying therapeutic intervention for COVID-19 and has been one of the most affected, while also probably benefiting the most. Due to this shift in focus amid the pandemic, the different segments of the pharma value chain have been affected differently. The following chart summarises the effects and indicate if any steps are taken to ease them.

## Impact of COVID-19 on the pharma value chain



Impact: Depicts the effect of COVID-19; Long-term effect: Shows whether COVID-19 will have a long-term effect on the respective parameter;

Innovation: Shows whether there is a new invention or way out to ease the effects of COVID-19

### 1. Drug discovery and preclinical studies

The whole world is investing in and focusing energies on discovering treatments for COVID-19. There are as many as [200 drug and vaccine candidates](#) under development as of 18 May 2020, with more than 80% in the discovery and preclinical phase. Research activity has shifted completely to finding a cure for this virus. The [non-COVID-19-related pipeline](#) would, therefore, be affected for the coming few years.

### 2. Clinical trials

The pandemic has already halted [1,300+ US-based clinical trials](#), making it one of the worst affected segments. Of these, 300+ interventional studies were sponsored by industries. Suspending them means a delay in the therapies reaching the market. On the contrary, there are [1,800+ ongoing COVID-19-related trials](#) indicating huge focus on the pandemic; this 1800+ trials includes observational and interventional studies funded by universities, governments and industries.

The regulatory authorities had started taking steps to digitalise clinical trials even before this pandemic began, but the matter has now become more urgent. Sponsors and the regulatory agencies are looking for [innovative options](#) such as telemedicine, videoconferencing, mailing trial drugs, dispatching healthcare workers for sample collection and protocol changes.

Most companies have paused patient enrolment, except Pfizer, which has announced it will resume

clinical trials. The UK National Institute for Health Research ([NIHR](#)) also released a framework recently to restart paused clinical trials.

### 3. Drug approvals/launches

The pandemic has had literally no effect on FDA review and approval systems; in fact, the [number of approvals](#) has increased by more than 50% this year from last year. The impact on [1Q drug launches was](#) also minimal; only Bristol-Myers Squibb and Acacia Pharma considered postponing their launches.

The pandemic is likely to have the largest effect on [drug launches](#) planned for 2Q, and a moderate effect on those planned for 3Q. Drug launches are likely to normalise by 4Q 2020.

### 4. Raw materials

Pharma companies' dependence on Asian countries for active pharmaceutical ingredients (APIs), intermediates and reagents has led to disruption in the raw material supply chain. The [US](#) sources 80% of its APIs from overseas, a substantial portion from Asia, while [Europe](#) imports more than 50% of its APIs from India and China. Because of this dependence, generic drug manufacturers are affected severely, whereas innovators are less affected, as they manufacture their APIs elsewhere.

[Mobius Capital Partners](#) forecasts that companies around the world will alter their supply chains so as to be less dependent on China. [France](#) and [Ireland](#) are already planning to diversify their supply chains. [Economists and analysts](#) expect globalisation to be reversed after the pandemic and regional supply chains to be created. [Sanofi](#) has capitalised on this opportunity by spinning off its six manufacturing facilities with 3,100 employees, planning to become the second-largest API manufacturer in the world by 2022.

On the strategic front, the pandemic has made [US officials](#) concerned about China's control of the US drug supply; the US could implement new policies to promote local manufacturing.

### 5. Finished products, packaging and supply chains

Drugs are categorised as essential goods; hence, there is [support from local governments](#) to restore the manufacture of APIs and finished products. For example, pharma company employees are allowed to work with minimal restrictions, [as is the case in India](#). However, with logistics and distribution services all but halted, the industry is experiencing [decreased production capacity](#) that would eventually affect the availability of medicines. We also expect stricter inspections if [guidelines](#) such as those on hygiene, social distancing, cleaning and disinfection are to be closely followed.

Consulting firms such as [McKinsey](#) and [LogisticsIQ](#) envisage the digitalisation of the supply chain or a transformation to the next generation of supply chains. Next-generation supply chains digitise end-to-end performance management using a combination of 5G, IoT, AI, drones and robots.

### 6. Marketing

Sales teams are the biggest game changers for pharmaceutical markets, but most companies have suspended their work, as they are susceptible to infection when visiting doctors. More companies are adopting [newer sales channels](#) such as email, virtual marketing, and digital communication with physicians. To compensate the need for face-to-face interaction between sales personnel and physicians, some have come up with innovative messaging services or personalised content to reach customers and physicians directly. Given benefits such as [longer interactions](#) and interaction at a time convenient to them, physicians may prefer to continue to engage via digital channels in the future as well, or choose a

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hybrid model of communication.

## 7. Patient access

Fearing infection, [patients are not actively renewing prescriptions](#). Due to uncontrolled spread of infection, there is a strong inclination towards digitalising healthcare systems, paving the way for services such as remote patient monitoring and telemedicine. All non-urgent consultations are currently moderated by telehealth and remote health monitoring. The US government is supporting this, providing [USD200m in funding](#) to support telehealth programmes (through the US Federal Communications Commission) and also allowing doctors and medical professionals to [practice across state lines](#). Remote monitoring, telehealth platforms, AI-powered health assessment apps and technologies have gained momentum lately, but the pandemic has [ensured that these technologies](#) are essential and here to stay.

## 8. Payers and insurance companies

Payers (companies that pay for administered medical services, such as insurance companies) and regulatory authorities were reluctant until 2019 to approve invoices for digital patient monitoring. With routine healthcare services now available through telehealth, [CMS](#) is promoting this by waiving all co-payments and deductibles for telehealth services. [Insurance majors](#) such as United Healthgroup, Anthem and Aetna are leading this drive by waiving co-payments and deductibles.

Apart from the pharma value chain, the pandemic has had a considerable effect on pharma mergers and acquisitions and revenue:

## 9. Mergers and acquisitions (M&A)

The pandemic will have an impact on the transactional activity, at least in the short term for both buyers and sellers. According to a [Kaufman Hall report](#), 29 transactions were announced in 1Q 2020, which is consistent with previous years. Considering the ongoing disruptions, 1Q performance cannot be considered when predicting activity for the remainder of 2020. M&A activity also seems to have tapered off after 12 March.

Due to robust demand with relatively minimal supply disruptions and attractive valuations even in tough times, [deal activity in the healthcare sector may accelerate](#). The pandemic is likely to be a catalyst for more M&A when it eases, especially acquisitions of digital technology companies and financially stricken organisations. Repositioning through M&A may also reduce the impact of future pandemics and competition.

## 10. Financials

Financials of pharma companies show mixed trends, with many companies reporting increases in 1Q revenue amid the crisis. Of the pharma giants, [Merck](#), [Eli Lilly](#) and [AstraZeneca](#) saw their revenue growing by more than 10%. Industry experts believe these results are momentary and were due to [stockpiling](#), and should normalise by the end of the year. In contrast, [companies working in niche segments](#) such as orthopaedics, ophthalmology, and aesthetic surgery, driven primarily by physician consultations, are the worst hit due to social-distancing measures.

## What's next?

Unlike many industries struggling to identify a suitable response to the COVID-19 impact, the healthcare sector has infrastructure in place, with technologies such as remote patient monitoring, automated manufacturing facilities, and AI in drug discovery. The pandemic has resulted in very heavy lifting by

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healthcare workers, but the sector as a whole is somewhat immune to effects of a downturn. The crisis has largely acted as catalyst for transforming the sector, making it more sustainable and better prepared for future exigencies.

As [Raymond Nomizu](#) said, one thing is for sure: **“When we look back five years from now, I fully expect to see a drop in the number of breakthrough new medications being approved – a drop you can directly tie to this crisis”**.

## **About Acuity Knowledge Partners**

We at Acuity Knowledge Partners have a deep understanding of industry dynamics and nearly two decades of experience that enable us to empower and assist healthcare companies navigate through these tough times by strengthening their strategies.

To help our clients navigate both the people and business impact of COVID-19, we have created a [dedicated hub](#) containing a variety of topics including our latest thinking, thought leadership content and action oriented guides and best practices.

### About Acuity Knowledge Partners

Acuity Knowledge Partners is a leading provider of high-value research, analytics and business intelligence to the financial services sector. The company supports over 300+ financial institutions and consulting companies through a team of over 2,500+ subject matter experts who work as an extension of the clients' teams based out of various global delivery centres.

We empower our clients to drive revenues higher. We innovate using our proprietary technology and automation solutions. We enable our clients to transform their operating model and cost base.