Pulse on MedTech: How the industry is adapting to thrive

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CPE ELIGIBILITY

We will launch at least three polls per CPE credit; participants must attend the full session, and participants must answer at least three polls per CPE credit to receive full credit.

Learning OBJECTIVES

- Understand the current state of the MedTech landscape.
- Define the implications of emerging industry themes and challenges to MedTech plan profitability.
- Identify key actions MedTech companies can take to mitigate risk and achieve financial sustainability.

Today's AGENDA

Topics

- Introductions and industry trends
- Election implications, tariffs and global trade
- Industry growth, commercial models and rising costs
- Dealmaking, M&A and Venture funding
- Innovation, consumer health and AI
- Takeaways and next steps

Today's

PRESENTERS

Arda Ural, PhD
EY Americas Life Sciences Leader
arda.ural@parthenon.ey.com

Mark Ginestro
Principal, Life Sciences Strategy
Ernst & Young LLP
mark.ginestro@parthenon.ey.com

Catherine Hunter
National Leader, Life Sciences
EY Canada
catherine.hunter@ca.ey.com

Lynlee Brown
Partner, Indirect Tax – Global Trade
Ernst & Young LLP
lynlee.brown@ey.com

John Babitt
EY Americas MedTech
Transactions Leader
john.babitt@ey.com

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Polling question 1

Let's hear from you

What type of MedTech business do you represent?

(Please choose)

- A. Medical devices
- B. Diagnostics
- C. Professional services
- D. Telehealth
- E. Other

Key discussion – state of the MedTech industry overview

MedTech **revenues** continue to **grow**, but acceleration slows

While **venture funding** ticked up, it is still below the highs of 2020

Profit margins shrink as **costs rise** due to macro conditions and slowing volumes

Despite slowing growth, **innovation** is **strong** with a record year for FDA product approvals

Dealmaking activity continues to be sluggish despite a slight increase

Impacts expected from the new 2025 political landscape

Election implications on tariffs and global trade

Threat of increased tariffs:

- President-elect Trump plans to impose tariffs of 25% on imports from Mexico as well as Canada and 10% increase on Chinese products in addition to threatening a 100% tariff on imports from BRICS[1] countries if they move away from the dollar as their trading currency.

Price increases are top of mind:

- One of the most immediate impacts of new tariffs would be higher costs for importers, who could either absorb them or pass them on to consumers through higher prices to protect bottom lines.

Diversifying supply chains away from China:

- Companies across all industries say they may be turning elsewhere for manufacturing.

Planning opportunities:

- While opportunities do exist, companies also need to consider retaliatory tariffs.

[1] The BRICS organization comprises nine countries: Brazil, Russia, India, China, South Africa, Iran, Egypt, Ethiopia and the United Arab Emirates.

Approximately 40%–45% of medical devices used in the US are imported products:

- US medical device imports are estimated to be US$65b-$70b annually, and medical instruments represent a significant category of imports at around US$35b as of 2022.
- China is the US' fifth largest supplier of medical instruments after Mexico (27%), Germany (10%), Ireland (9%) and Costa Rica (8%).
- The number of foreign Class I and II medical device manufacturing facilities is significant, **with an estimated 70% of medical device makers engaged in manufacturing arrangements with China.**

More than half of the 25k+ medical device facilities around the world are in the US:

- Production inputs vary widely and include machined parts, electronic components, chemicals and commodity materials.
- A significant portion of materials for US device manufacturing **are sourced from outside of the US, including China, Germany, Japan, Mexico and the UK.**

Source: Teneo Insights; CNN; Reuters; EY-Parthenon analysis; United States International Trade Commission; Bloomberg Economics.

Polling question 2

Let's hear from you

What is top of mind for you given the shifting political and regulatory landscape?

(Please choose)

- (A) Uncertainties around tariffs
- (B) Future of Medicare and Medicaid payments
- (C) Pricing transparency
- (D) Fed policy change risk
- (E) Other

Industry growth amid commercial changes and rising costs

MedTechs face several challenges, including increased input costs, tighter reimbursement, payment pressures from hospital systems and increasingly complex customer dynamics.

- In 2023, MedTech profits nearly doubled year over year compared with 2022, but gains were still 9% below pre-pandemic totals.
- R&D expenses have remained between 5% and 6% of total revenues for the sector for the last five years (coming in at US$33.2 billion for 2023).
- Selling, general, and administrative (SG&A) expenses consumed 22% of revenues in 2023, totaling US$127.2 billion (up 12.8% year over year).
- Commercial leaders overall recorded 14.3% top-line growth in 2023.
- Emerging leaders (i.e., those with annual revenues below US$500 million) experienced a 9.1% revenue decline due to a constrained financing environment.
- The MedTech industry recognizes that better commercial execution is going to be integral to building (or rebuilding) the top line, securing successful launches and penetrating high-growth markets.

Source: EY analysis, Capital IQ and company financial statement data.

Polling question 3

Let's hear from you

What is your current, most pressing business issue?

(Please choose)

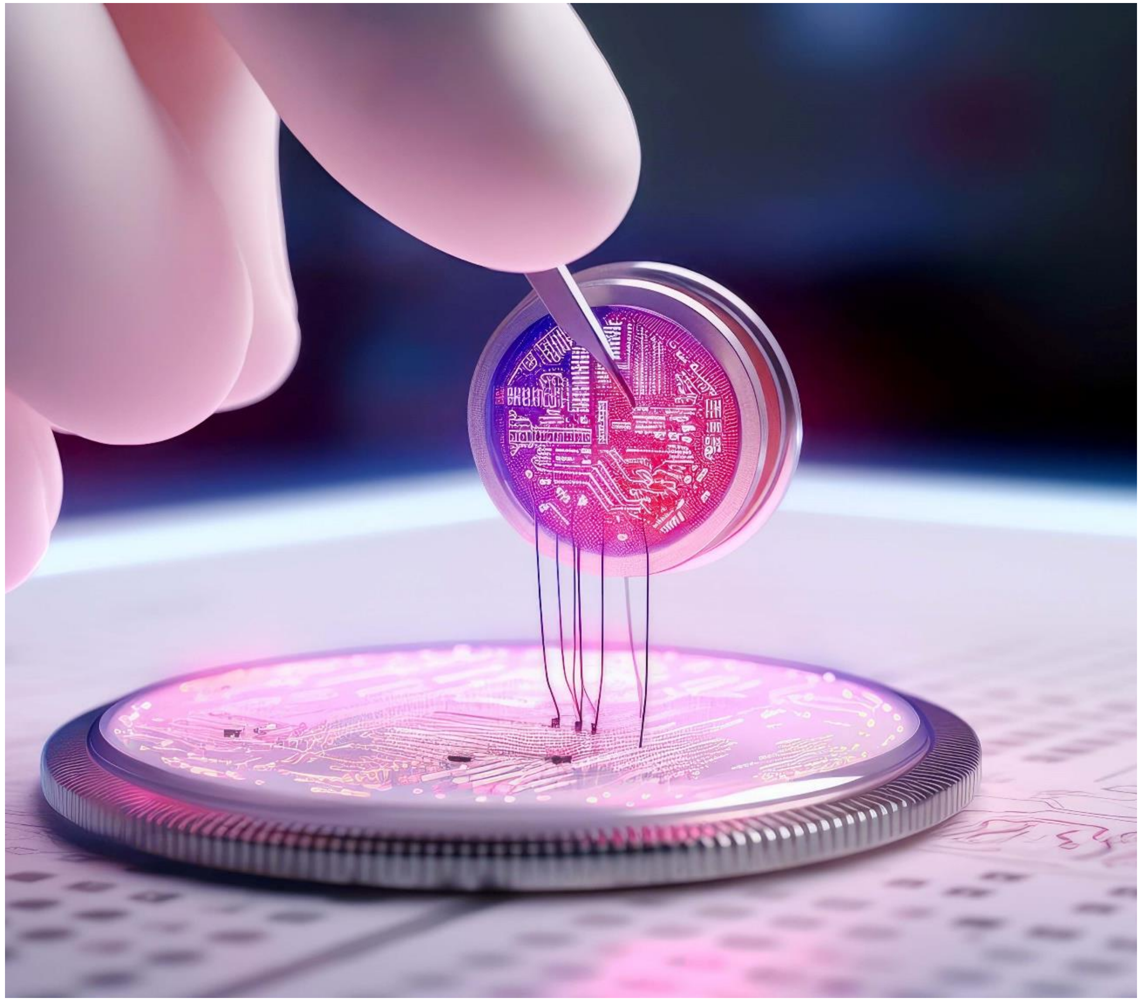
- A Rising costs
- B Reimbursement challenges
- C Supply chain risks due to geopolitical uncertainties
- D Regulatory and policy uncertainties
- E Other

Dealmaking, M&A and venture funding activity is slow

- M&A activity overall was up when compared to the prior year.
- Will 2025 be the year for a more active MedTech M&A environment?
- While venture capital investment ticked up 5% to US$7.0 billion, it remained 11.3% lower than the average total for the previous five years.
- The IPO market made a slight return in 2024 after five quarters of almost no activity.
- Smaller companies (the emerging sector) are also battling for venture capital amid historically low numbers of funding rounds.

Source: EY analysis, BMO Capital Markets, Dow Jones VentureSource and Capital IQ.

Despite slowing growth, innovation is strong



- The industry has successfully converted incremental innovation into steady growth over the past decade, achieving at least 4% revenue growth in each of the past eight years.
- The total number of 510(k) approvals rose for the fourth consecutive year to reach a record of 3,325, while the volume of pre-market approvals (PMAs) soared by 77%, signaling a continued appetite to invest in R&D across the industry.
- In 2023, the FDA's published list of approved algorithms and devices list for MedTech AI swelled to record levels, with a 43% year-on-year increase in approvals.
- With regard to emerging applications, radiology accounts for about 76% of all marketed AI models, according to the FDA's analysis.

Source: EY analysis, FDA data.

Polling question 4

Let's hear from you

What topics do you want to see featured in future EY webcasts?

(Please choose)

- A M&A trends
- B AI's impact on innovation
- C Site-of-care shifts
- D Market access & reimbursement
- E Impacts of the new administration's policies

Course SUMMARY

- Understand the current state of the MedTech landscape.
- Define the implications of emerging industry themes and challenges to MedTech plan profitability.
- Identify key actions MedTech companies can take to mitigate risk and achieve financial sustainability.

Questions?

QR Code

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