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Synthesis

Financials, Clinical Trials, Supply Chain: What Health Care CEOs are Focused on Now

On March 28, Egon Zehnder's global health care practice convened a virtual meeting with 15 CEOs around the world, part of an ongoing series addressing the COVID-19 crisis. We focused on three key areas of discussion: (1) ensuring financial strength; (2) securing the supply chain (including the approach to employee testing); and (3) clinical trials – both of future COVID therapeutics as well as others ongoing. Below is a summary of some of the most useful insights and solutions that emerged.

Maintain Financial Health

CEOs of both public and private companies joined the call. Recommendations include:

- **Preserve cash flow.** CEOs are working closely with their CFOs to model scenarios that would have seemed "unimaginable" a few weeks ago in order to preserve liquidity. Said one CEO: "We are moving toward daily cash flow forecasts, and have centralized all payables through the CFO to ensure we have a handle on liquidity. All investment requests have to go through my or my CFO's desk. We are preparing for the worst, and have modeled scenarios as drastic as a 100% cut in production and a major reduction in workforce." Many (we believe most) have instituted hiring freezes and started renegotiating payment terms. Less consistent is the question of bonus payments from 2019, as many companies pay these in March/April. One CEO shared that this question has come up frequently, especially given the performance of many companies in FY 2019. For smaller companies, paying out bonuses will have an impact on liquidity, but at least two CEOs in the group have decided to keep their commitment. One of the CEOs has decided to forgo his salary and shared that several of their employees have decided to do so as well. Another CEO said he is moving employees to four-day weeks, asking employees to draw down their vacation balance.

- **Be proactive with financial partners.** All agreed that staying close to your lenders is paramount. "You will get open ears," one CEO said. "If you come too late, there will be trouble." This applies both to drawing upon additional credit and addressing covenant restrictions. One public company CEO said he was able to draw upon a revolver to borrow at an exceedingly attractive rate (less than 1%). Another added, "We also are staying close to our rating agencies, because they will have a big impact on future credit planning." Another CEO from a public company shared that "although we don't have cash flow issues right now, we believe it will be very challenging to raise money this year. We had already expected the markets to be tight with the U.S election in the fall, but this makes it even more difficult." CEOs of PE-owned health care companies have begun discussing additional funding with their investors. Finally, a proactive dialogue with rating agencies and auditors should be cultivated.

Preserving the supply chain

One of the biggest concerns is the health and safety of employees. Regardless of how you organize shifts, the risk of infection is high and the availability of testing varies depending upon where your plants are located. While PCR testing is seen as the gold standard, the lack of availability requires a different approach and some are considering at home testing as one of the only viable options, despite concerns about its effectiveness. Questions that were discussed included:

- **What is the best way to detect infection, given the lack of available definitive tests?** Fever was identified as the biggest predictor, but not a guarantee. One of the CEOs in Europe shared they are using rapid tests, which are not perfect, as a first wave. Only if the employee tests positive, will s/he be given a PCR. Another CEO in Europe said the media may be overplaying the availability of testing; although automotive and other companies have converted their capacity, they do not have high throughput testing ability and test quality remains variable. In addition, there is still a major lack of access to testing equipment, with governments now involved in allocating distribution, as well as access to reagents and other critical materials to testing. Another CEO shared how the centralization versus decentralization of testing laboratories could help or hinder the ability to get results quickly. For example, in more centralized countries they are seeing more of a bottleneck, given the need to get samples to a centralized laboratory when infrastructure is compromised.
- **Privacy Laws: How are they being interpreted?** (Specifically in Europe) – can we test employees at the plant or do we need to rely upon them to test themselves at home? All agreed that testing employees on site is ideal; legal departments are trying to figure out whether this is legal, and how to apply on-site testing given the current situation.

Finding a therapeutic solution or vaccine

This was perhaps the most sobering element of the discussion, as there have been an increasing number of public health models emerging from academia over the last few weeks. One CEO shared his interpretation of a recent publication. "We are just seeing the first wave. In some ways, we are lucky that this wave came after the 2019/20 influenza season. We will undoubtedly get a second wave, and it may overlap with the flu, which is very worrisome. In the fall, there will be a huge surge in demand for flu vaccines, and it will be challenging to increase egg-based production capacity, which will result in shortage of supply. Governments will need to ration doses. In addition, there is a scenario where a third or fourth wave of COVID will come. The heaviness of the second wave will depend upon how much you clamp down in the first wave – the more you do, the more it will hit harder in the second wave."

Fortunately, several CEOs on the call said they are starting clinical trials of COVID-19 vaccines or treatments. These efforts include everything from repurposing known products to new molecules. One CEO said that "the regulators are giving high priority to fast track these developments and cutting red tape." Said another, "We are getting 24 hour approval of protocols from regulators, which is unprecedented." However, there is still a lack of consistent global guidelines from regulators that could help others accelerate protocol development, and therefore approval.

Finally, there is also the reality of access to these solutions once approved. The CEO of a vaccine company shared that the "best case would be hundreds of millions of doses within 12 to 18 months, which is still problematic in a world with billions of people."

Implications for other trials

One CEO of a Contract Research Organization said that they were conducting over 1,000 ongoing trials around the world. Some large companies have asked them to stop initiating trials. "We have to consider the approach to each trial site-by-site, and trial-by-trial," he said. "There are oncology patients and others with critical needs, and we need to do everything to get medicines to them. In many cases, we can do remote monitoring and watch patients take doses at home. We are trying to keep as many trials going as possible, especially for smaller companies who cannot afford having their trials stop. And we are working with regulators to ensure all delays and exceptions are captured, to ensure that the regulatory approval processes are not delayed."

Another CEO of a venture backed company said: "We were about to dose our first patient in our Phase 1 trial, but needed to stop. No one wants to get near a hospital, and hospitals are clearing capacity for COVID-19 patients."

Egon Zehnder will continue to convene such gatherings in hopes of accelerating progress in the COVID-19 Crisis.

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