

## New normal, new opportunities



# Drug discovery & diagnostics

They might be just what the doctor ordered

### The “New normal, new opportunities” series

*This report is part of the “New normal, new opportunities” series, in which we will examine secular trends in a post-COVID-19 world. The series will cover a range of themes that are emerging as a result of social distancing, the work-from-home imperative, health care developments, corporate implications, and broader societal change. We believe identifying these trends and understanding their investment implications will be critical to navigating the road ahead. Additional reports will be released over the next few months.*

### COVID-19 testing: Rising steadily

The COVID-19 pandemic has elevated public awareness that infectious diseases have not been eradicated, and that companies doing novel research will be able to drive new medical discoveries and be rewarded for their success. In addition to R&D-driven drug discovery firms, other beneficiaries of the pandemic response include companies developing test kits and diagnostic machines to reliably identify those infected. Earlier identification makes it

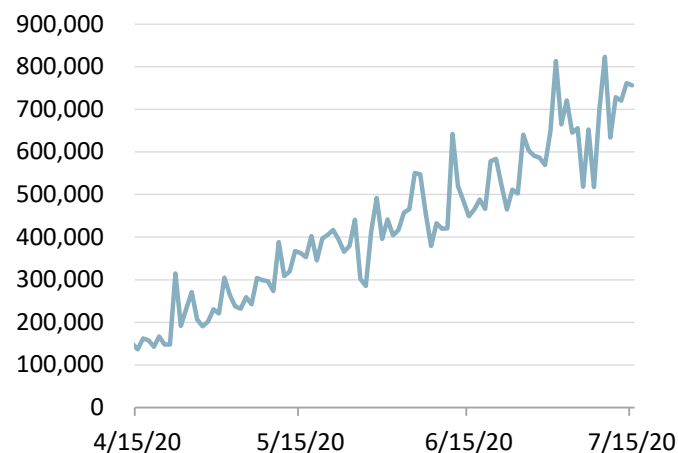
possible for sick individuals to receive medical care sooner, reducing both recovery time and the risk of infecting others.

Over the past three months, the number of daily COVID-19 tests administered in the U.S. has steadily risen as more test kits have been made available and high-volume analyzers have entered service. While we expect the number of COVID-19 tests administered will drop once a vaccine becomes available, we also believe it is likely that demand from governments, employers, households, and individuals for tests targeting both novel and familiar diseases will be elevated relative to pre-COVID-19 levels.

### A health problem that requires a health solution

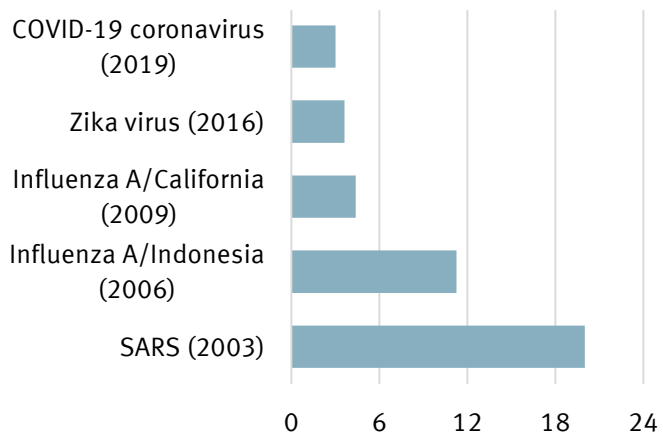
Pharmaceutical and biotechnology companies are also focused on the fight against COVID-19, with a surge of innovation in the infectious-diseases landscape setting up a race for a cure. The industry has responded rapidly to the pandemic, developing candidates for clinical testing within weeks of determining the genetic make-up of the virus.

Number of COVID-19 tests processed daily in the U.S.



Source - The COVID Tracking Project (covidtracking.com); data range 4/15/20–7/15/20

Number of months from genetic sequencing of virus to first human trial of vaccine



Source - U.S. National Institute of Allergy and Infectious Diseases

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Drug prescription volumes have slowed down and stabilized since March, coinciding with declines in physician visits and job losses. With 15 million workers in the U.S. losing their health benefits along with their jobs since March due to COVID-19-related disruptions, a significant number of newly unemployed workers have transitioned from traditional commercial insurance plans to health care coverage options with lower reimbursement levels. As the economy recovers and furloughed workers are rehired, we expect enrollment in employer-sponsored commercial health insurance plans to pick up, providing a tailwind for growth in the drug industry.

### **Looking ahead: Diagnostics and the development of a COVID-19 vaccine**

In a post-COVID-19 landscape, we expect individuals will want to be more informed and take greater control of their health decisions by getting tested sooner for infectious diseases. Earlier identification of an infection can enable more timely treatment to help arrest the progression of the disease and promote a swifter recovery as well as stop its spread and protect others.

Drug discovery companies will not only fine-tune their internal processes to maximize R&D productivity, but

are likely to increase their involvement with regulators when developing clinical trials in order to maximize their chances of success in the approval process. While a vaccine for COVID-19 will likely be available sometime next year, it is possible that the immunity conferred may not be long-lasting, and thus the threat posed by the coronavirus may be endemic for years to come. Individuals may end up taking a seasonal COVID-19 vaccine much like their flu vaccine, thereby boosting the fortunes of diagnostic testing and drug companies well into the future.

While the share prices of drug discovery and diagnostic companies can be volatile, we believe the demographic trend of an aging population is supportive of long-term growth prospects in both industries. According to the U.S. Census Bureau, 2030 will mark a turning point: all baby boomers in the U.S. will be 65 years of age or older, expanding this demographic segment to 21% of the population from 17% currently. Furthermore, by 2034 senior citizens will outnumber children in the U.S. for the first time. Given higher per-capita health spending for people age 65 and older, we expect the aging of the population to drive the use of prescription drugs, vaccines, and diagnostic tests.

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			Count	Percent
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