Global Trends in MedTech 2022

OEM Product Trends Will Reshape the Supply Chain

MPO Webinar Series
March 2, 2022

Three Events

Tuesday, March 1
The OEM Landscape — Fundamental Product Change on the Horizon

Wednesday, March 2
OEM Product Trends Will Reshape the Supply Chain — Dethroning Current Kings

Thursday, March 3
Panel Discussion - ***MedTech's Global Trends***

Perspective: Looking Out 3 to 10 Years

- **Focus on the “seismic trends” driving the industry**
- **Three- to ten-year horizon**
- **Source materials:**
  - OEM presentations to analysts and investors
  - Publicly-traded contract manufacturer (CM) presentations

About A.S. Freeman Advisors

- Merger and acquisition advisory services
- Corporate strategy in support of transactions
- Focus on precision manufacturing and specialty materials markets
- Publishes *Global Trends: Medical Device and Diagnostic OEM Strategy and Implications for the Supply Chain*

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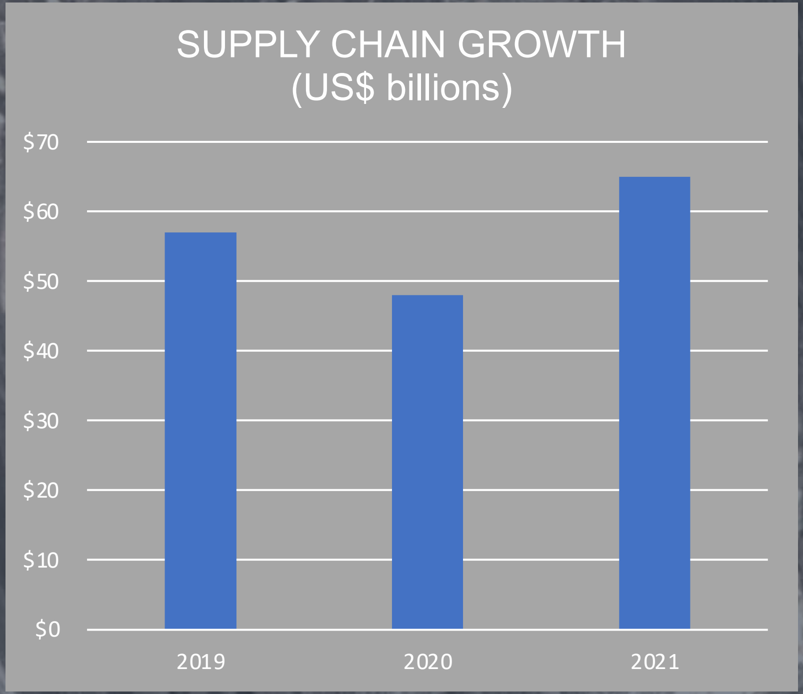
Summary of Yesterday's Presentation:
Fundamental Product Change on the Horizon

- **OEMs have recovered from COVID demand hit**
  - Successful recovery from 2020 with a strong 2021
- **Digital ecosystems have been announced by 21 of the Top 30 OEMs**
  - As important a transition in product lines as the rise of disposables in the 1960s
  - New business models, new revenue opportunities
  - More products than ever before

Supply Chain Size and Growth Rate

- Supply chain *roughly* ~$65 billion in 2021. Still a bit murky due to COVID rebound
- Growing between 7.8-12.5% per annum through 2025 (*ASFA estimates over 10% through 2022*)
  - PPE manufacturers, less
  - Easily postponed procedures/appointments, high end of range
  - Revived flagship products, high end of range
- Combination of supply chain expansion and COVID recovery



Top 10 CMs Dominate Revenues

- Top 10 CMs: ~25-28% of overall supply chain revenues (approximately $17 billion in revenue for 2022)
- Top 40 CMs: *Very roughly* 40% of supply chain revenues
- Less precise than OEM revenues due to segment reporting and privately held firms

How OEMs View the Supply Chain: Looking Back

- **Outsourcing has been a financial success**
  - Lower cost – on average, 3-10% below OEM manufacturing costs
  - Less capital for new manufacturing facilities
  - Lower cost of working capital
- **Outsourcing is an operational success**
  - Quality has held
  - More choices as to where/how to make products
- **Transferred risk to the supply chain**

How OEMs View the Supply Chain: Looking Forward

- **Continue to outsource all forms of design and manufacturing**
  - Almost any product can be partially or wholly outsourced
  - OEMs have the luxury to decide what to push out to partners
- **Supply chain becomes even more critical as digital launches loom**
  - OEMs have big plans for digital products
  - Modest internal capabilities for designing and building digital products
  - Must turn to the supply chain or risk being late to market
  - International contract manufacturers with digital experience will be favored

Flex Healthcare Solutions

- **Flex**
  - Founded 1969 as Flextronics
  - ~$25 billion in revenues
  - Singapore HQ
  - One of the original electronics contract manufacturers

- **Flex Healthcare Solutions**
  - $2.5 billion in 2021, second largest medtech CM
  - 700 medical design engineers
  - 20,000 “health solutions employees”
  - 500K ft^2 dedicated manufacturing site in Mexico
  - BrightInsight IoT turnkey, scalable architecture for digital devices

- **Formidable competitor from outside the traditional med device supply chain**

What About the Incumbents?

- **Watch for an explosion of new products**
  - Current product sets will remain in place for a few years yet, so limited risk to supply chain companies currently focused on metal/plastic/assembly
  - Longer term: Incumbents may face issues holding key places on flagship products

- **New digital products will increase the number of releases**
  - Traditional products will be upgraded for some time
  - New digital products for hospital use
  - New digital product lines for use in nontraditional locations

Strategy Options for Non-Digital Incumbents

- **Stick to the knitting**
  - Plenty of work these days
  - Strong future demand for metal/plastic components and assemblies
  - Start ceding project leadership to digitally capable suppliers
  - Risk those new leaders bringing in competitive suppliers
- **Develop digital expertise**

Resonetics

- **Resonetics**
  - Founded 1987
  - Multi-hundred million CM
  - Tight focus on life sciences manufacturing
  - Noted for micromachining, sophisticated interventional/surgical/diagnostic components and assemblies
  - Have built scale organically, and with ten acquisitions in the last seven years

- **Pivoting into digital systems**
  - Acquired Hutchinson Technologies in November, 2020, electromechanical sensors
  - Acquired FISO Technologies; fiber optic sensors and signal conditioning
  - Extends Resonetics' reach beyond traditional metal and plastic to incorporate electronics

- Tom Burns, Resonetics CEO, will join our Thursday panel discussion

New Players Will Enter the Supply Chain

- As products become increasingly digitally enabled, watch for more pure-play electronics and software houses to become key cogs in the digital supply chain

- Microsoft, AWS, and Apple will expand their roles as dominant digital players with world-class software

- ***Watch for electronics companies to introduce their tangible products suppliers to OEMs***

- The makeup of the supply chain will shift slowly, but new players will become central to OEM success over time

- At minimum, a “soft power” transfer

Other Topics

- **Pricing**
  - High demand and inflation, if permitting increases in prices to OEMs
  - Expect a renewal of price pressure if demand or inflation flatten
  - Watch for an increase in component production by LCCs

Other Topics

- **Reshoring**
  - Compelling economics shift work from US, Western Europe, Japan to LCCs
  - There has to be an exceptionally compelling reason to move work back at higher prices
  - Some work may come back, but more will leave developed countries
    - LCCs prove out their ability to supply to developed world standards (ex. Costa Rica)
    - International contract manufacturers “safely source” from LCCs

Other Topics

- **Smaller incumbents competing against international contract manufacturers**
  - Specific, deep, relevant expertise is necessary
  - Speed is life
  - Of ***Fast, Good,*** or ***Cheap***, pick ***Fast*** and ***Good***
  - Do not pick fights – you will lose
  - Work on your USP

For More Information

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