

Medical Technology

Quarterly survey: hospitals on capex

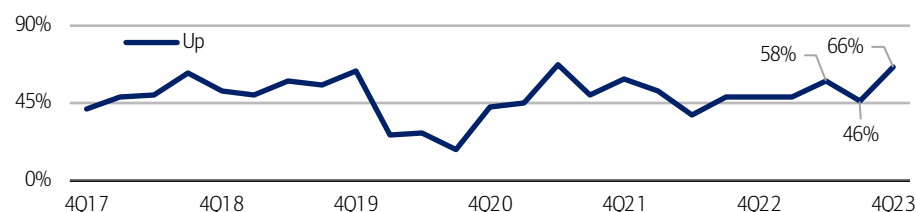
Industry Overview

Survey: Hospital CFOs more positive on capex outlook

In conjunction with our Facilities team, we survey 50 hospital CFOs every qtr (41 of the 50 were the same). This qtr's survey (conducted 12/27 to 1/3) trended more positively. The % that expect higher capex spending increased to 66% (from 46% last qtr and 58% in Q2). The % that recently canceled and/or delayed capital purchases decreased for a third consecutive qtr (30% in Q1, 28% in Q2, 23% in Q3, and 19% in Q4). The % that expect financing to be more difficult also came down to 32% (from 56% last qtr). See inside for more.

Exhibit 1: Expectations for capital spending

66% of respondents expect capital spending to be Up, up from 46% in 3Q23 and below the average 1Q16-3Q23 (excl. 2020) level of 51%

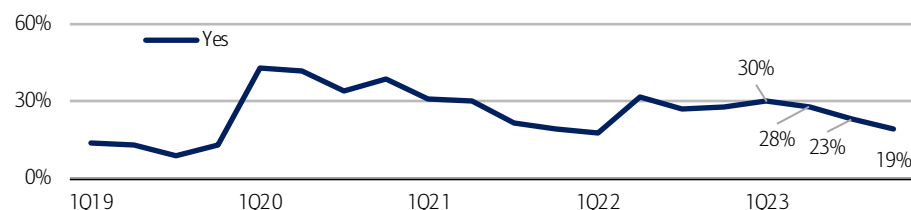


Source: BofA Global Research, n = 50

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Exhibit 2: % That have canceled and/or delayed capital equipment purchases

19% of respondents recently canceled and/or delayed capital equipment purchases, down from 23% in Q3

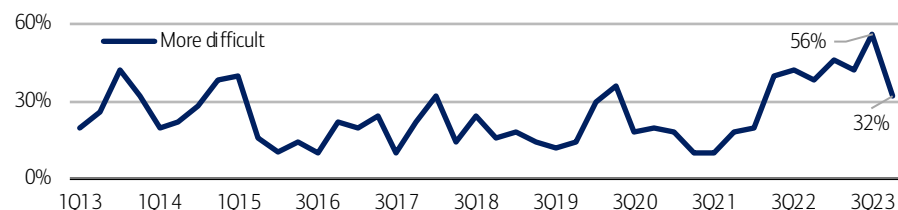


Source: BofA Global Research, n = 50

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Exhibit 3: Access to financing over time

32% of respondents expect access to financing to be More difficult, down from 56% in Q3



Source: BofA Global Research, n = 50. *Note: no survey was conducted in 2Q15 and 3Q15

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Acronym glossary

capex = capital expenditure
CFO = chief financial officer
mo(s) = month(s)
qtr = quarter

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Timestamp: 12 January 2024 12:00AM EST

Survey says US hospitals more positive on capex vs 3 mos ago

50 hospital survey (41 are the same as survey 3 mos ago)

In conjunction with our Facilities team, we survey 50 hospital CFOs every quarter (41 of the 50 were the same this quarter from last quarter).

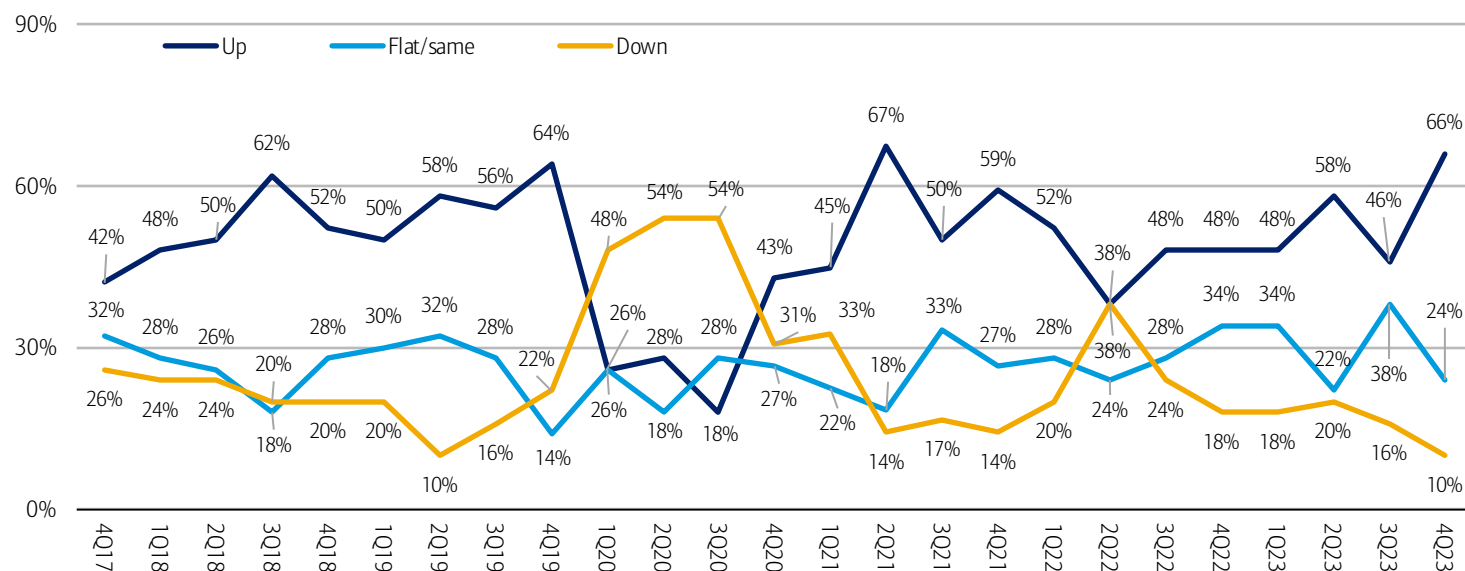
Key takeaways are:

- 66% of respondents expect capex to increase y/y (vs 46% in Q3) and 10% expect capex to decrease y/y (vs 16% in Q3). The 66% is above the average 1Q16-3Q23 (excluding 2020) level of 51% and 48% in 4Q22.
- In total, capex budgets are expected to be up 4% on average (vs up 1% on average last quarter). There remains wide variation, from budgets down 35% to up 50% (last quarter, range was down 50% to up 50%).
- The % that put Imaging equipment as a #1-priority remains lower vs history (27% put Imaging equipment as #1-priority, vs average 1Q16-3Q23 excluding 2020 level of 31%, and vs 32% in 4Q22). Prioritization of robotic surgery remains elevated (16% vs average 9%, and vs 16% in 4Q22). Prioritization of hospital beds is slightly elevated vs history (16% vs average 12%, and vs 6% in 4Q22).
- The % who recently canceled and/or delayed capex is down, at 19% vs 23% last quarter. Those who canceled and/or delayed capex cited cash flow concerns and tighter operating budgets. One mentioned capex delay due to staffing shortages.
- The % that expect access to financing to be more difficult is down, at 32% vs 56% last quarter, though still elevated vs history (average 1Q16-3Q23 excluding 2020 level is 23%). 4Q23 is the second quarter in the last six quarters where at least some respondents expected access to financing to improve.

Question: How would you describe your hospital/hospital system's plans for capital spending in 2024?

Exhibit 4: Expectations for capital spending

66% of respondents expect capital spending to be Up, up from 46% in 3Q23 and below the average 1Q16-3Q23 (excl. 2020) level of 51%



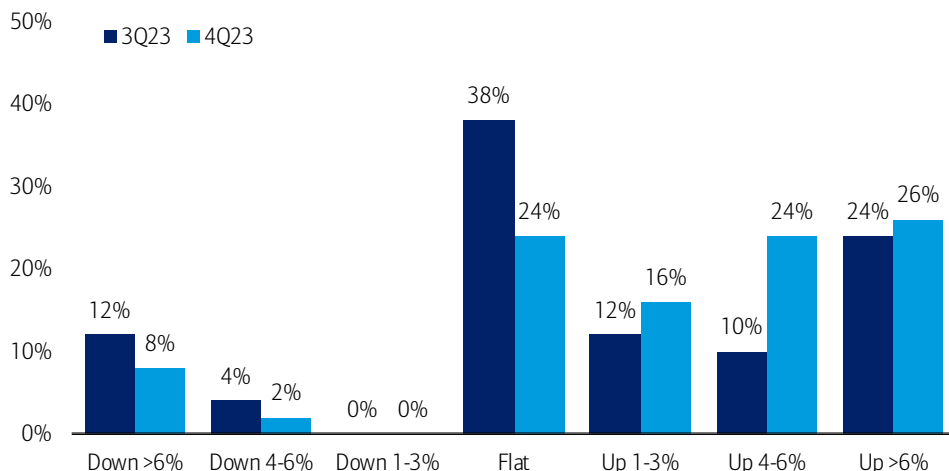
Source: BofA Global Research, n = 50

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Above, we aggregated responses into overall trends (66% Up / 24% Flat / 10% Down). Below, we further break out these same responses to show how the range in magnitude of responses (e.g., Up 1-3% vs Up >6%) has changed since last quarter.

Exhibit 5: % Of hospitals that report a given % change in capex budget

In our current 4Q23 survey, respondents on average report that their capex budget is up 4% for 2024 vs 2023 (range: minimum -35% to maximum +50%). In our 3Q23 survey last quarter, respondents on average reported that their capex budget was up 1% for 2024 vs 2023 (range: minimum -50% to maximum +50%).



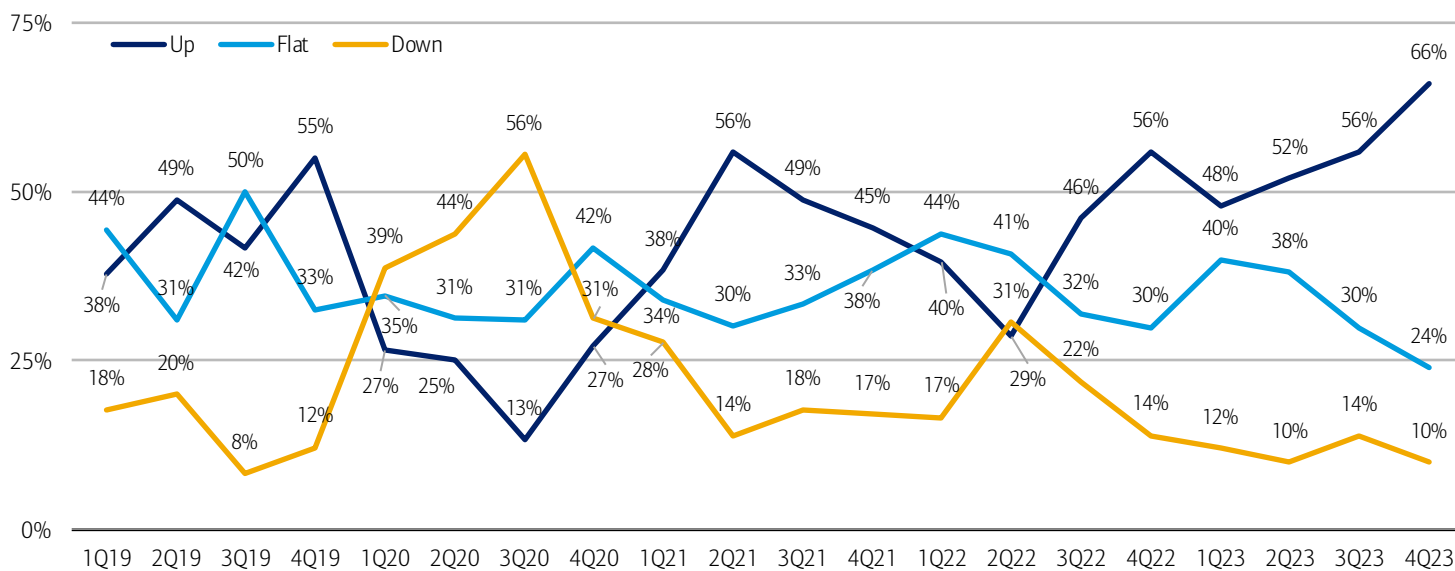
Source: BofA Global Research, n = 50

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Question: How would you describe your competitors' plans for capital spending in 2024?

Exhibit 6: Expectations for competitors' capital spending

66% of respondents expect competitors' capital spending to increase, up from 56% in 3Q23



Source: BofA Global Research, n = 50

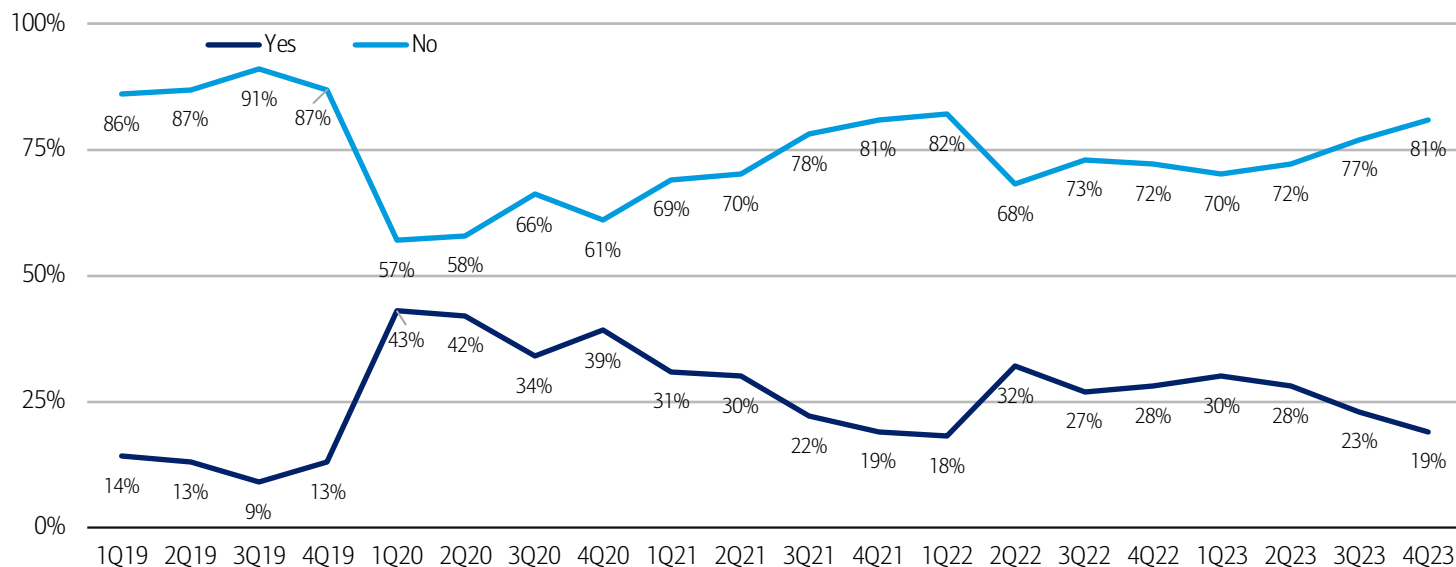
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Question: Has your hospital/hospital system recently decided to cancel or delay any capital equipment purchases?

Exhibit 7: Canceled and/or delayed capital equipment purchases

19% of respondents recently canceled and/or delayed capital equipment purchases, down from 23% in 3Q23



Source: BofA Global Research, n = 50

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Below are respondents' rationale for canceling and/or delaying capital equipment purchases.

Exhibit 8: Detailed responses from our survey

Hospitals cited cash flow concerns and tighter operating budget. One mentioned delaying capital due to staffing shortages.

Open responses

Budget trends continue to be down, reducing capital to save cash to meet general operational requirements

Financial performance caused a change in capital deployment plan

Beds, computers, parking lot upgrades, patient furniture

Waiting until later in Q1, 24 to determine where things are holding

Availability of the specific equipment impacted delivery

Lack of cash and funds at this time. We need those funds to cover other areas.

Due to capital needs for the hospital tower construction

We lack sufficient capital to do all the things we need to do

Cost escalation

Staff shortages

Cash flow

We go on deferment if EBIDA or Investment Earnings decrease to a level that causes us to have cash flow concerns; we remove the restrictions once things stabilize

Delays while awaiting financial forecasting and changes in new facility building cost

Losing money from operations and days cash declining also

We are attempting to preserve capital for the rest of the fiscal year

Just treasury management delays to comply with bond covenants

Source: BofA Global Research, n = 50

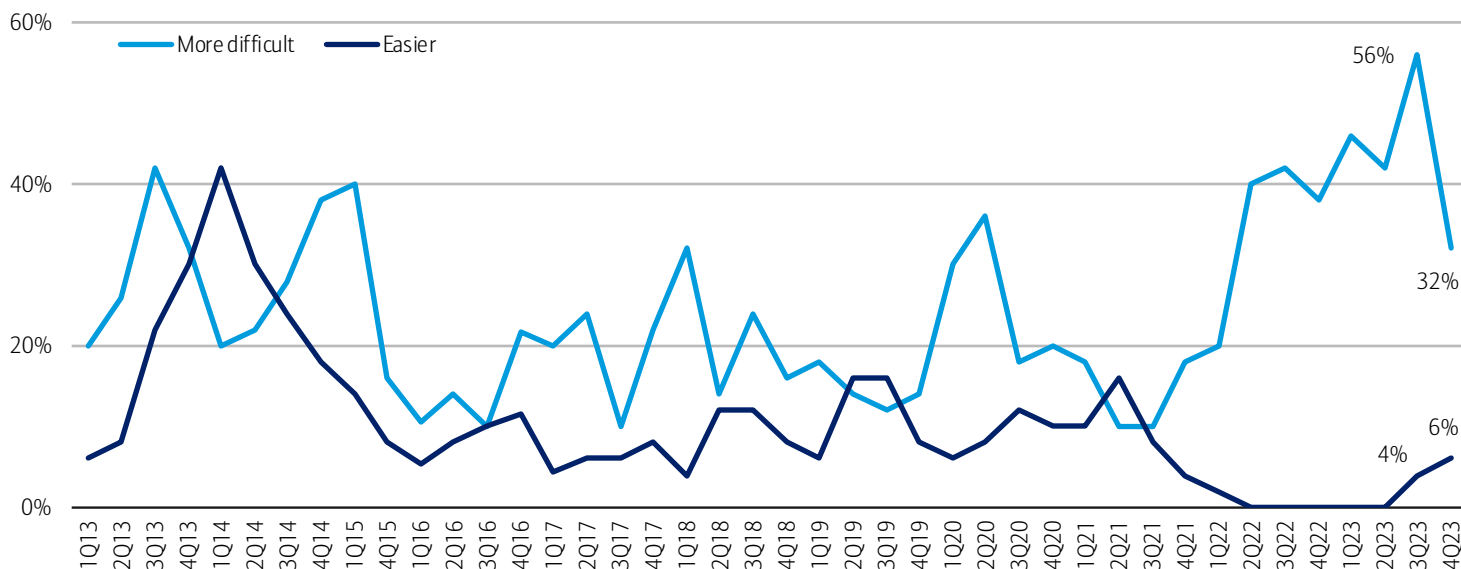
*Comment provided if respondent decided to Cancel, Delay, or Cancel & Delay capital equipment purchases

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Question: Do you expect your hospital's access to financing to be more difficult, the same, or easier in 2024?

Exhibit 9: Access to financing over time

32% of respondents expect access to financing to be more difficult, down significantly from 56% in 3Q23



Source: BofA Global Research, n = 50

*62% of respondents expect access to financing to be equally as difficult this year, up from 40% in 3Q23. Due to a change in the surveying company, no survey was conducted in 2Q15 and 3Q15.

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Question: Thinking about your hospital/hospital system's capital spending on medical equipment, what are your top priorities for 2024?

We asked hospitals to rank their priorities for capital spending. In the exhibit below, we look at what % of hospitals put each category as their #1 priority.

Exhibit 10: #1 Capital spending priority

General diagnostic (dx) imaging equipment, robotic surgery, and hospital beds were most often put as #1 priorities

#1 Capital spending priority	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
General dx imaging equipment (MRI/CT/X-ray)	34%	34%	34%	30%	34%	26%	26%	22%	24%	34%	44%	46%	32%	26%	28%	32%	32%	20%	20%	27%
Robotic surgery	6%	12%	12%	8%	8%	6%	8%	8%	10%	10%	8%	2%	18%	12%	20%	16%	10%	10%	18%	16%
Hospital beds	14%	12%	16%	16%	16%	12%	12%	10%	12%	12%	8%	12%	18%	14%	12%	6%	12%	26%	12%	16%
Hybrid OR equipment	2%	2%	4%	6%	6%	4%	0%	2%	2%	2%	2%	2%	6%	4%	0%	0%	6%	4%	8%	8%
Linear accelerators	4%	4%	2%	6%	4%	2%	2%	8%	6%	0%	0%	0%	2%	0%	6%	6%	2%	4%	4%	6%
Medication / supply dispensing systems	2%	4%	2%	8%	2%	4%	2%	2%	6%	0%	0%	2%	2%	2%	0%	2%	0%	0%	4%	6%
Point-of-care dx equipment	0%	6%	6%	0%	2%	6%	0%	2%	2%	4%	2%	2%	2%	4%	4%	4%	8%	2%	6%	6%
Ventilators	4%	0%	6%	0%	18%	12%	12%	6%	2%	6%	8%	4%	0%	2%	0%	2%	4%	0%	0%	4%
3D mammography equipment	10%	8%	0%	6%	2%	0%	2%	0%	0%	0%	2%	2%	2%	0%	0%	0%	2%	0%	2%	4%
Cath lab equipment	10%	8%	8%	6%	2%	6%	12%	12%	10%	12%	10%	6%	4%	16%	10%	12%	22%	12%	4%	4%
Infusion pumps	2%	2%	2%	4%	2%	2%	4%	10%	4%	8%	6%	6%	4%	2%	6%	2%	0%	2%	2%	2%
Patient monitoring devices	8%	4%	2%	0%	2%	10%	10%	12%	14%	4%	8%	14%	8%	14%	10%	12%	10%	8%	10%	0%
Energy-based surgical devices	0%	0%	2%	4%	0%	0%	0%	0%	0%	0%	0%	0%	0%	2%	2%	0%	0%	0%	2%	0%
Molecular dx equipment	2%	0%	0%	2%	0%	4%	2%	4%	0%	2%	0%	2%	2%	0%	0%	4%	2%	0%	0%	0%
Genomic sequencing equipment	0%	0%	0%	0%	0%	0%	0%	0%	2%	2%	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Disinfectors / Sterilizers	0%	0%	0%	0%	0%	4%	2%	2%	2%	4%	0%	0%	0%	0%	0%	2%	0%	0%	0%	0%
Other	2%	4%	4%	4%	2%	2%	6%	0%	4%	0%	0%	0%	0%	2%	2%	0%	0%	2%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: BofA Global Research, n = 50

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Below we look at what % of respondents put each category within their top 3 priorities.

Exhibit 11: Top 3 capital spending priorities

General diagnostic (dx) imaging equipment, hybrid OR equipment, and robotic surgery were most often put within top three priorities.

Top 3 capital spending priorities	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
General dx imaging equipment (MRI/CT/X-ray)	20%	24%	19%	22%	20%	13%	17%	18%	20%	19%	19%	20%	19%	19%	15%	20%	21%	17%	16%	18%
Hybrid OR equipment	5%	4%	5%	7%	4%	6%	4%	5%	4%	3%	5%	3%	7%	8%	9%	5%	10%	11%	12%	14%
Robotic surgery	7%	5%	9%	5%	5%	3%	7%	5%	7%	9%	10%	9%	14%	9%	9%	10%	9%	9%	11%	11%
Hospital beds	11%	13%	12%	11%	13%	10%	10%	12%	11%	10%	11%	11%	13%	11%	10%	11%	11%	15%	13%	10%
Patient monitoring devices	15%	12%	15%	9%	11%	11%	13%	14%	13%	11%	13%	13%	7%	13%	11%	12%	10%	9%	11%	8%
Cath lab equipment	9%	7%	8%	6%	5%	7%	6%	9%	6%	8%	10%	7%	7%	12%	12%	11%	14%	12%	9%	8%
Linear accelerators	2%	3%	1%	3%	3%	3%	2%	3%	2%	3%	2%	0%	3%	2%	5%	3%	3%	3%	5%	5%
Medication / supply dispensing systems	5%	5%	5%	8%	3%	7%	7%	3%	7%	5%	4%	2%	5%	5%	2%	5%	3%	3%	5%	5%
Infusion pumps	5%	4%	7%	9%	8%	5%	6%	7%	7%	7%	7%	10%	6%	4%	6%	4%	5%	6%	7%	5%
Ventilators	2%	1%	3%	3%	15%	10%	9%	6%	5%	3%	5%	5%	5%	3%	4%	3%	3%	2%	2%	4%
Point-of-care dx equipment	5%	5%	6%	2%	5%	9%	7%	6%	5%	9%	3%	6%	5%	7%	5%	5%	7%	4%	4%	4%
Energy-based surgical devices	2%	3%	1%	3%	1%	2%	1%	1%	1%	2%	2%	3%	2%	1%	2%	1%	0%	3%	1%	3%
3D mammography equipment	7%	5%	3%	5%	3%	3%	3%	2%	4%	3%	2%	3%	2%	3%	4%	1%	1%	1%	1%	2%
Molecular dx equipment	3%	1%	1%	1%	0%	3%	1%	3%	1%	2%	1%	2%	1%	0%	1%	2%	3%	0%	1%	1%
Genomic sequencing equipment	0%	1%	1%	0%	1%	0%	0%	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%	1%
Disinfectors / Sterilizers	2%	1%	3%	3%	3%	6%	3%	3%	3%	4%	1%	3%	2%	1%	1%	3%	0%	1%	2%	1%
Other	1%	4%	2%	3%	1%	2%	4%	3%	4%	0%	1%	3%	1%	1%	1%	2%	1%	2%	1%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: BofA Global Research, n = 50

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Below we show capital equipment exposure and recurring revenue by company for additional context on implications for capex in medtech.

Exhibit 12: Capex and recurring revenue by company

GEHC, SYK and ISRG have some of the highest capital exposure in medtech

	ABT	BAX	BDX	BSX	EW	GEHC	ISRG	MDT	SYK	TFX	ZBH
Capital Equipment	8%	10-15%	15%	<5%	<5%	~50%	25%	5%	25%	<5%	5%
Recurring Revenue	92%	90%	85%	~95%	95%	~50%	75%	95%	75%	>90%	~95%

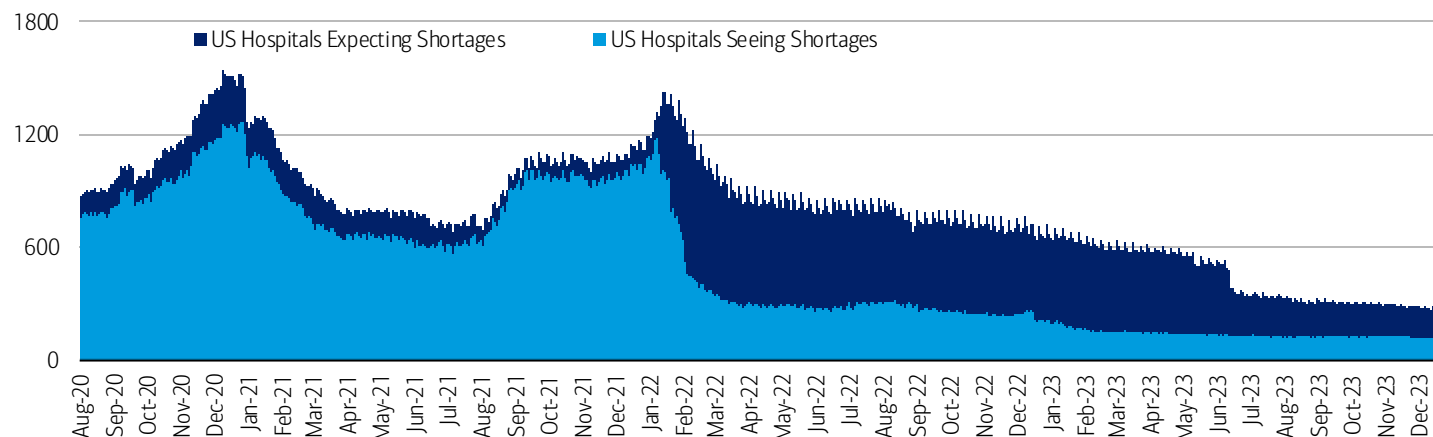
Source: Company filings, BofA Global Research

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of US hospitals seeing and expecting staffing shortages has come down

Exhibit 13: # of US hospitals reporting or expecting staffing shortages

The # of US hospitals seeing and expecting staffing shortages has come down. Roughly 2.3% and 5.4% of US hospitals are seeing and expecting staffing shortages, respectively, down from 3.5% and 12.5% in January 2023.



Source: HHS, BofA Global Research. Data through December 2023.

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