KPMG

# Life Sciences: Australian Outlook

## Key insights from Sydney and Melbourne boardroom series

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## KPMG's Global Strategy Group and the Australian Perspective

'Pharma Outlook 2030: From evolution to revolution' forms part of KPMG's analysis of how the Life Science companies need to change if they are to thrive in the rapidly evolving health space. In May, KPMG Global Health and Life Science Centre of Excellence strategists visited Australia to share their ideas on how companies can seize the opportunities offered by disruption and to learn how the issues are playing out in Australia.

Roger van den Heuvel, Partner, Head of KPMG Life Sciences Global Strategy Group, Chris Stirling, Partner, Global Chair, KPMG Life Sciences, and Professor Hilary Thomas, Partner, KPMG Global Life Sciences Sector Team, Chief Medical Adviser, UK, joined Hans Verheul, Head of Life Sciences, KPMG Australia and pharmaceutical and medical technology industry leaders in Sydney and Melbourne.

### Two seismic shifts already reshaping the life sciences playing field

Today's pharmaceutical and medical technology companies are experiencing dramatic disruption on two main fronts.

**The downward pressure on pricing** is a main one according to KPMG's Roger van den Heuvel. He noted that governments and insurers are pressuring suppliers to reduce prices and demonstrate greater value for their therapies at the same time. "Patients and governments want prices to be dependent on measurable patient outcomes."

Professor Thomas cited KPMG's current study of 400 hospitals across New York State as a significant example. "KPMG is measuring outcome and value based pricing models across these hospitals using asthma and COPD as our treatment area. We've worked out how to capture the total costs of care so we can identify which parts of the pathway aren't working."

"On this model, New York State has kept its overall spending to 2013 levels. Using asthma as an example, 'it's great that patients' FEV1 has improved but the real savings are in the number of bed stays, acute exacerbations and how the patients felt'. The only blowout has been in drug spending. As a result, New York State has changed their attitude to suppliers. It's now, 'Come to us with your value proposition and we'll pay you for the value of your asset not whatever price you pick for your therapy'."

**A switch in focus to diagnostics, prevention and cure** is the other major shift according to Van den Heuvel. Vertical integration has brought a host of new entrants from outside the sector, including technology giants such as IBM, Google and Samsung. They are co-designing health solutions and delivery platforms. "Basically, the days of building a business strategy around a single pill or device are gone. KPMG's Hans Verheul agreed "You need to position yourselves as a partner in the Healthcare system rather than a service provider to it. Life science organisations have to evolve from providing just product, to the provision of product plus service, and ultimately aspiring to provide product plus service plus intelligence, in order to achieve even greater health outcomes. By doing so, you will help payors manage the whole healthcare budget, rather than pressuring the prices of the products used in it."

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### Three business model archetypes for the new reality

The KPMG global strategy team identified three business model architypes that should allow a life science business to succeed under these new paradigms.

**The active portfolio company** that buys and sells specialised products and services based on their competitive position and sales growth. This modular structure allows for flexibility in a rapidly changing marketplace and active life cycle management.

**The virtual chain orchestrator** is a tech data company that does not own anything physical but creates virtual solutions by applying all the patient, therapy and research data it owns. An orchestrator can guide patients through complex healthcare systems from cradle to grave on a one stop platform, enable the delivery of personalised medicine and allow pharmaceutical and medical technology companies to receive outcome based payments.

**The niche specialist** is usually a smaller company focused on a single issue. It looks at the patient pathway from prevention and diagnostics to a real cure. In the case of arthritis, it could mean symptom management and lifestyle help as well as orthopaedic devices. Niche players could eventually become part of active portfolio companies.

For the Outlook 2030 project, the KPMG team researched how these shifts and business models could playout in four large therapeutic areas – diabetes, oncology, cardiovascular and neurology.

Professor Hilary Thomas said changes in the oncology space demonstrate how a vertical chain orchestrator and niche providers can unite to deliver a whole, life-long solution.

Thomas explained that metabolism and microbiome applications have the potential to disrupt oncology as much as immunology has. “Adding metabolic or microbiome innovations to the existing shift from chemotherapy to immuno-oncology, will mean patients need a lot less ‘treatment’. Instead, they will use continual diagnostics or nanotechnology that can anticipate a tumour’s recurrence. With early signs of a recurrence, the patient goes back onto immunotherapy for a time.”

Attendees agreed that these new preventative analytics models already exist, with the recent Sugar.IQ app collaboration between Medtronic and IBM Watson being the most well-known.

Warren Bingham, founder and Executive Chairman of MedTech International commented that in Australia, advances in medical devices are happening faster than in pharmaceuticals. “We’re also seeing the value chain shifting. For example, device companies are moving into hospitals and insurance.”

Van den Heuvel agreed. “3D printing is in orthopaedics. Stryker is investing $500 million in a 3D printing factory for tailor made devices. That means no more inventory, just print the devices or instruments on demand. That’s going to drastically change the manufacturing footprint. Companies are already thinking about what platforms and collaborators they should use or whether to own the capabilities themselves.”

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Bingham added that because medical devices are closer to the end user, the race for patient data is well and truly on. "Whoever owns the data is able to go value based, get information to lean out their processes and lock in customers."

## Defining 'value'

The question of how you regulate and pay for personalised or small subset therapies and devices was a common concern.

Professor Thomas added that funding individual and targeted therapies is a real challenge for governments as well as suppliers. "You can imagine governments thinking, 'I'm happy for the tax payer to fund a drug that can be used by XX% of the population. But a drug made especially for you?' Suppliers will have to help governments identify the value in that."

Paul Cross, publisher of PharmaDispatch and Biotech Dispatch and ministerial adviser to two former Australian Health Ministers, emphasised the need for a more collaborative approach between suppliers and the government to work out how value is added and negotiated.

"There is a flatness of pricing in real terms for pharmaceuticals. It's not going away. Every time you have a new product, there has to be an offset somewhere in the health budget and it's becoming more and more difficult to find those offsets. You need to work out what you can do to reduce the government's healthcare costs. There is no point going in to sell a pill."

Michelle Burke, Director, Board of AusBiotech, was involved in the recent strategic agreement negotiations between Medicines Australia and the Commonwealth. She believes it delivers much needed certainty around pricing to both the PBS and the pharma companies for the next five years.

"The PBS savings are achieved via price reductions on drugs as they reach maturity in their life cycle. That is after 10 to 15 years in the market. This enables you to recoup your costs before the reduction kicks in. These reductions also mean that the PBS has funding for new and innovative therapies coming to market."

## Preparing for the future

KPMG's objective is to help clients perform as partners in the health ecosystem. Life science companies need to position themselves as supporting the totality of care in a disease. That means perhaps earning more IP value around platform technology rather than focusing just on molecules and devices. In doing so, the Life science industry can help the payor mitigate the growth of the bigger healthcare cost buckets, than purely on the reduction of prices of medicines and medical devices. These radical shifts require carefully planned transition maps and a willingness to embrace new ways of adding value to patients and governments alike.

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