KPMG Life Sciences CEO Outlook

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Foreword

The life sciences sector is made up of a diverse ecosystem of companies and segments. They range from massive global pharma companies and regional lab powerhouses to small startup device manufacturers and innovative biotech research labs. No two life sciences companies face the same challenges or opportunities. And there is no 'typical' life sciences CEO.

Yet this survey of 120 life sciences CEOs around the world suggests there are common themes and strategies at play. As life sciences organizations across the spectrum focus on driving innovation, many are struggling to accelerate digitalization and the adoption of AI. They recognize the importance of environmental, social and governance (ESG) on public trust and growth but aren't sure they can meet their net zero objectives. Talent gaps and capability shortages emerge as continuous themes throughout.

At the same time, our 2024 Life Sciences CEO Outlook suggests sector CEOs are confident about their growth prospects and many believe they have a winning strategy in place to carry their organization into the future. Expect to see significant organic growth, coupled with savvy inorganic maneuvers and big investments into new technologies and portfolios over the next three years.

It is worth noting that — while a significant number of the world's largest pharmaceutical companies participated in our survey — the vast majority of the respondents represent smaller organizations (more than US$500M but less than US$10B in annual revenues) — biopharmaceuticals, medical device manufacturers, lab and medical testing organizations, distributors and so on. Simply put, the survey respondents reflect the broad ecosystem that is life sciences.

In this report, we unpack the key themes revealed by our survey of sector CEOs and provide some context and insight into how leaders around the world are transforming their operating and business models to help achieve their objectives. We also offer a few recommendations to help CEOs plot their next steps.

I hope you find the contents of this publication insightful and valuable.

Liz Claydon

Global Head of Life Sciences,
Global Head of Deal Advisory,
KPMG International,
Vice Chair and Partner,
KPMG in the UK

Executive summary

While economic and geopolitical uncertainty remain, life sciences CEOs are confident that their organizations can outgrow the industry and the economy. One fifth expect to see impressive **growth** — earnings growth above 5 percent and one third expect headcount growth of 6 percent or more. To deliver that, they expect to drive growth both organically and inorganically.

In part, our survey reveals that CEOs expect new **technologies** — generative AI in particular — to help unlock new growth and innovation without increasing costs or talent requirements. They are hoping new technologies will help them to improve R&D, drive productivity and enhance efficiency. Yet they are also struggling with a number of challenges that are slowing progress.

ESG and sustainability is another area where CEO ambition and ability are falling out of alignment. Life sciences CEOs clearly recognize the importance of meeting their ESG objectives and understand the impact failure would have on public trust. But they say they face challenges keeping up with shifting stakeholder expectations and worry they might miss their goals.

A common theme across both areas — and on its own — is **talent**. CEOs say they lack the talent to deliver on the benefits of generative AI. And they say they do not have the capabilities required to achieve their net zero goals. Most say they struggle just to replace retiring employees.

In this environment, life sciences CEOs will need to remain agile, make bold decisions and act with integrity. The following chapters explain why.

Key findings

What is on the minds of life sciences CEOs?

Growth and prosperity

79%

are confident in their company's **growth** prospects

But more than half

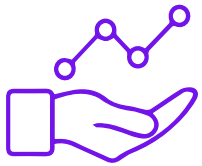
remain worried about the **economy and geopolitics**

Generative AI and transformation

60%

say that generative AI is their **top investment** priority

70%



think the pace of **progress** on generative AI regulations will be a barrier

Sustainability and public trust

43%

think they can meet their organization's **net zero goals by 2030**

51%

say that stakeholder **expectations** change faster than they can adapt

Workforce and talent

#1

workforce challenge: Replacing retiring employees with skilled ones

53%

say progress on **diversity and inclusion** has moved too slowly in the business world

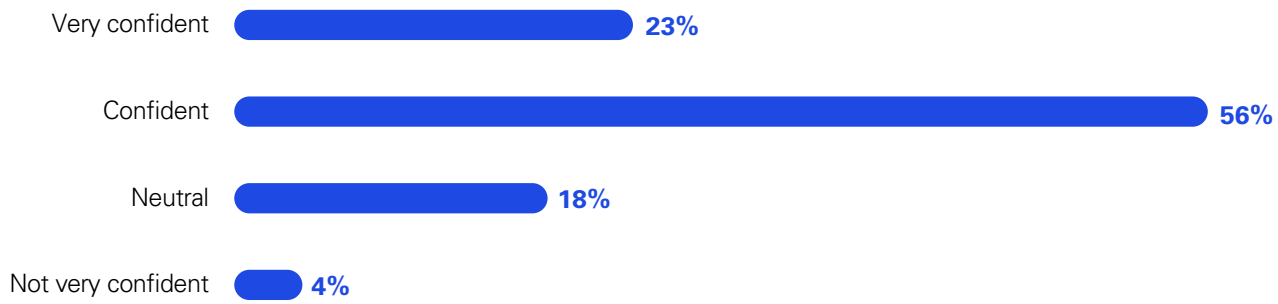
Section 1

Growth and prosperity

Life sciences CEOs are feeling bullish about their growth prospects. In our survey, 79 percent of CEOs say they are confident in the growth prospects of their company — up 10 percentage points from this time last year. Yet they are increasingly concerned about the health of the industry with just 67 percent voicing confidence this year versus 80 percent last year.

Clearly, some have big ambitions to outgrow the competition. More than a third of our respondents say they will see earnings growth of more than 2.5 percent over the next three years (20 percent think they will achieve 5 percent or more growth). The vast majority (94 percent) say they will increase headcount over the next three years and 37 percent of the total think they will grow their workforce by 6 percent or more.

Life sciences CEO growth ambitions



Q. In terms of growth prospects, please indicate your level of confidence in the following over the next three years: Growth prospects for your company

Source: KPMG 2024 CEO Outlook

"Across all segments of life sciences, we are seeing global players start to rationalize their therapeutic areas which has led to some significant M&A activity. The expectation is that a lot of this freed up cash will be used to take leading positions on some of these very innovative — and potentially competitive — opportunities."

Peter Liddell
ASPAC Region Lead for Life Sciences, Principal Advisor, Healthcare and Life Sciences, KPMG in Singapore

Confidence may be up. But significant concerns still linger related to growth prospects. In our survey, 57 percent of CEOs say economic uncertainty remains top of mind. More than half (53 percent) voice concerns about geopolitical complexity. This is not surprising — economic uncertainty influences everything from patient affordability through to investment funding and financing. The impacts of geopolitical complexity on life sciences supply chains are well documented.[1]

Perhaps not surprisingly, therefore, two-thirds of our respondents say they have already adapted their growth strategy to reflect their changing market environment. In some cases, this has likely been to respond to changes and updates to product portfolios — innovative technology-enabled solutions and next-generation therapies, for example. Many others are simply responding to shifting market considerations and competitive pressures.

“We are now in a new era of innovation in life sciences. Researchers are using multidiscipline ‘omics (genomics, proteomics, cellomics, metabolomics) to advance precision medicine and diagnostic development across disease areas. Not surprisingly, this is playing out in M&A, where the largest pharma deals in the last 12 months have been fueled in part by precision medicine in the post-genomics era.”

Kristin Pothier
Lead of Global Deal Advisory and Strategy for Healthcare and Life Sciences, and Principal, and National Life Sciences Sector Leader, KPMG in the US

66%

of life sciences CEOs have already adapted their growth strategies as a result of interrelated challenges.

Source: KPMG 2024 CEO Outlook

So how do life sciences executives plan to grow? Both organic growth and M&A are high up the priority list. In fact, 46 percent of respondents say they are likely to undertake an acquisition which will have a significant impact on their organization over the next three years. And they expect action on priorities such as digitalization, ESG and talent will help them achieve their more organic growth objectives — topics we cover in more detail in the following chapters.

[1] *Effects of Geopolitical Strain on Global Pharmaceutical Supply Chain Design and Drug Shortages,* Martha L. Sabogal De La Pava and Emily L. Tucker, Industrial Engineering Department, Clemson University, Clemson, United States

Key recommendations

When it comes to the topics of growth and prosperity, we recommend that life sciences CEOs:

Adapt to and embrace the post-genomics era

Maximize innovation and precision-based positive clinical outcomes, including understanding how to diligence the more impactful therapies, but also the ecosystem that fuels those therapies including the critical diagnostics, patient services and data/AI support.

Revisit operating and business models

With this post-genomic era innovation, new regulations, shifting reimbursement policies and ongoing economic and geopolitical realities, now is the time to reassess current operating and business models to help ensure value is being generated from assets, and that companies have the appropriate supply chain in place to maximize return.

Have a global mindset

The life sciences ecosystem is a global one, and the products, platforms and services that make up this ecosystem usually need to be distributed worldwide. Entities doing deals in this space should be thinking of distribution globally and challenges to mitigate.

Do your due diligence

With a scarcity of strong assets in the space, diligence across commercial, financial and operational and tax should be thorough and swift, in an increasingly complex space. Be ready!

Section 2

Generative AI and transformation

Innovation is key to success in life sciences. And our survey suggests sector CEOs are ramping up their investment into new technologies, digitalization and AI in order to catalyze growth and innovation.

Generative AI is a particularly hot topic. Consider this: despite high concerns about ongoing economic uncertainty, 60 percent of CEOs say that generative AI is their top investment priority. Fifty-eight percent say they are putting more capital investment into new tech than they are into new workforce skills and capabilities.

The CEOs surveyed say they expect to see big value in creating new products and driving market growth, as well as boosts to innovation, efficiency and productivity, profitability, and workforce capabilities. More than three-quarters of respondents also say AI will help them create competitive advantages in the near future (77 percent expect to see ROI in the next five years).

Despite this positivity, life sciences CEOs feel there are significant risks and concerns with the still-emerging technology, with their biggest concern being around regulation. Indeed, 70 percent of our respondents say that the pace of progress on generative AI regulations will be a barrier to their organization's overall success. Eighty-four percent say the current lack of regulation is challenging adoption of the technology.

Top expected benefits of implementing generative AI in life sciences companies

01 New product and market growth opportunities

02 Increased efficiency and productivity (through automating routine operations)

03 Increased innovation

04 Increased profitability, diversity of skills and capabilities, and upskilling the workforce for future readiness

Source: KPMG 2024 CEO Outlook

Life sciences leaders also have clear concerns about their organizations' readiness to take on new forms of AI. In our survey, just 38 percent are confident their data is ready for AI and only 37 percent think they have the right skills to fully leverage the technology.

> **"I frequently hear from life sciences CEOs who want to layer generative AI over existing processes like inventory management so they can become more agile and efficient. But these leaders also recognize their systems and data are a mess. You need proper data and infrastructure before you can get value from generative AI."**
>
> **Kristin Pothier**
> Lead of Global Deal Advisory and Strategy for Healthcare and Life Sciences, and Principal, and National Life Sciences Sector Leader, KPMG in the US

At the same time, CEOs are worried about the potential impact of the technology on their people, objectives and public trust. Eighty-six percent are concerned about the ethical challenges — bias, transparency, data privacy and so on.

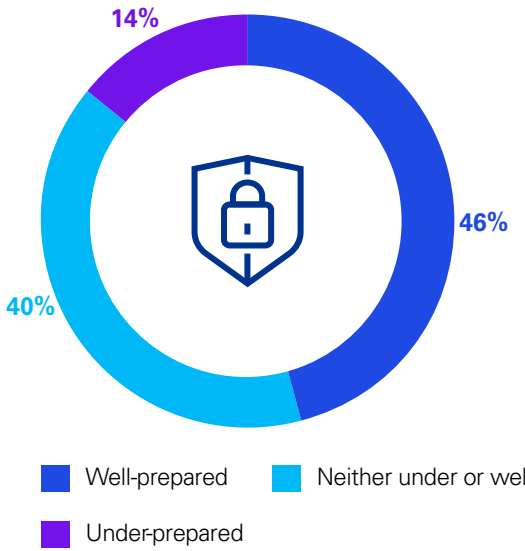
> **"As the implementation of AI becomes more mainstream in life sciences, we must be aware that this technology has the potential to increase existing health inequities. For instance, using non-diverse genomic data sets for R&D may exponentially increase health inequities in underrepresented racial and ethnic populations."**
>
> **Peter Liddell**
> ASPAC Region Lead for Life Sciences, Principal Advisor, Healthcare and Life Sciences, KPMG in Singapore

These concerns are warranted as a 2019 longitudinal examination of genome-wide association studies from 2005 to 2018 revealed an extreme lack of diversity as approximately 88 percent of the genomes used were of European ancestry.[2]

Life sciences leaders are also worried about other impacts of new AI models with a majority concerned about environmental impacts and nearly half concerned about the impact on their corporate culture.

When it comes to the topic of digital transformation, cyber security is also a top concern. The inevitability of an attack is clear to sector CEOs. Three-quarters of our respondents say that cybercrime and cyber insecurity will likely negatively impact their organization over the next three years. But they are also fairly confident in their preparations — just 14 percent of CEOs admitted they might be under-prepared for a cyber-attack and 46 percent think they are well-prepared.

Life sciences company cyber attack preparedness



Q. How well prepared is your organization for a cyber-attack?

Source: KPMG 2024 CEO Outlook

[2] Mills, M.C., Rahal, C. A scientometric review of genome-wide association studies. Communications Biology, 2, 9 (2019).

Key recommendations

In order to reap the expected benefits of generative AI and digital transformation, life sciences CEOs should:

Enhance data and technology infrastructure

Legacy platforms and siloed data prevent companies from making insight-informed decisions and hamper their ability to realize the full value of AI and other technology. Back-office transformations leveraging target operating models, alongside leading practices and processes, and Software as a Service platforms can help life sciences organizations to overcome these challenges.

Understand the complexities of digital labor

When deploying AI to address workforce challenges, life sciences CEOs should understand the complexities of digital labor, such as the differences between augmentation and automation and which tasks and roles could benefit from these approaches. This starts with undertaking assessments of work and tasks that are changing through technology — whether Gen AI or other automation. Through these assessments individual roles and entire functions' work is deconstructed, analyzed so that opportunities to employ technology can be identified.

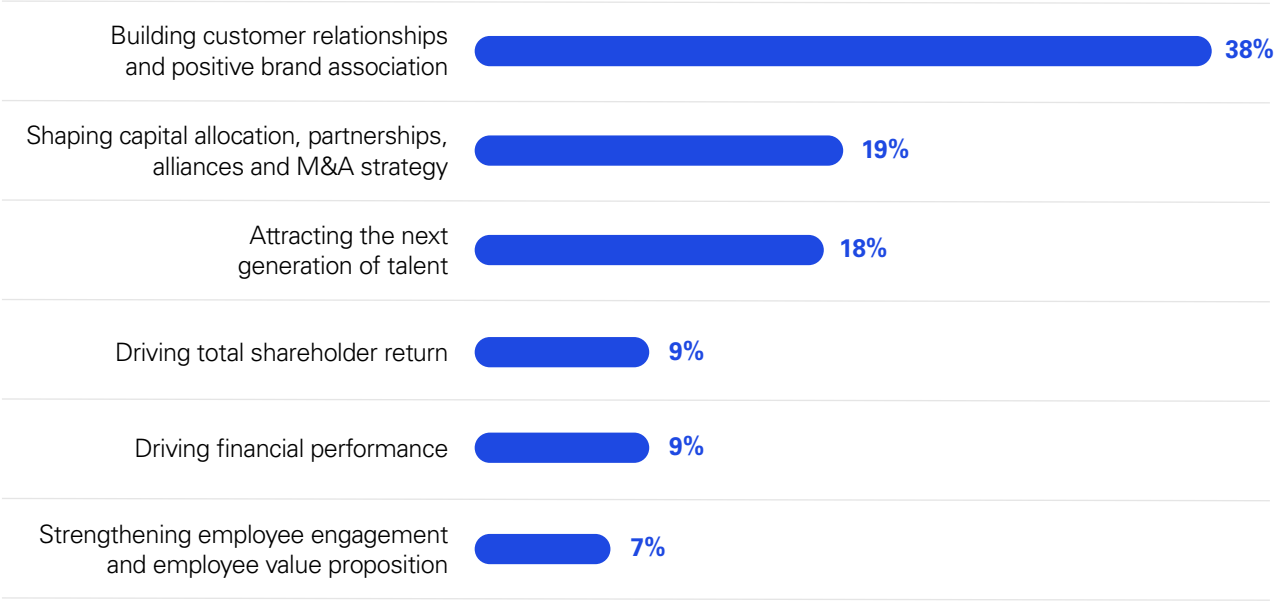
Section 3

Sustainability and public trust

Life sciences CEOs understand and recognize the link between sustainability and public trust.

Indeed, in our research the top reason respondents say they have adopted an ESG strategy is to build customer relationships and create positive brand associations. Many also believe it will help them attract the next generation of talent and strengthen employee engagement. At the same time, CEOs recognize the important bottom-line benefits of a strong sustainability and ESG strategy. Almost one-in-five say their ESG strategy helps them shape their capital allocations and M&A decisions. A similar number say it will help attract the next generation of talent.

Where ESG strategy will have the greatest future impact



Q. Where do you see your ESG strategy having the greatest impact over the next three years?

Source: KPMG 2024 CEO Outlook

"The life sciences sector is a firm believer in the importance of sustainability, with a number of large European based pharma companies, in particular, being in the vanguard of ESG. That is working its way through the supply chain and we're seeing material changes in the life sciences ecosystem."

Jon Haynes
EMA Region Lead of Life Sciences, Client Lead Partner, KPMG in the UK

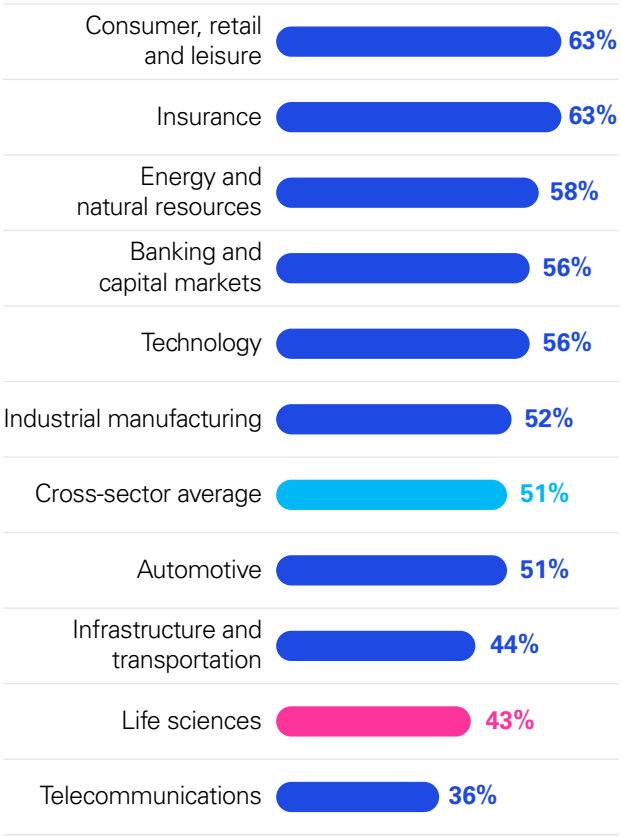
According to the international non-governmental organization, Health Care Without Harm, if the health sector were a country, it would be the fifth-largest emitter on the planet.[3] The NGO indicates that 71 percent of the sector's emissions primarily come from the health care supply chain through the production, transport and disposal of goods and services, such as pharmaceuticals, medical devices, hospital equipment and other items.[4]

Life sciences companies have a key role to play in the transition to net zero. Positioned in the middle of the value chain, life sciences companies' emissions are indirectly affected by activities of their upstream suppliers, such as raw materials and ingredients manufacturers, as well as the direct emissions produced by their own operations.

However, our survey reveals that just 43 percent of sector CEOs are confident they can meet their organization's net zero goals by 2030 (that is the second-lowest level of confidence amongst the 11 different sectors surveyed as part of this research). Life sciences leaders cite a lack of skills and expertise, the complexity of decarbonizing their supply chains, challenges gathering and analyzing data and problems, and setting up the right internal controls.

What is clear is that CEOs are taking the challenge personally. In our survey, 61 percent of CEOs say that — as confidence and trust in governments declines, the public is looking to businesses to fill the void on societal challenges. And they are prepared to step up. More than two-thirds say they are willing to take a public stand on politically or socially contentious issues, even if their Boards were concerned about the risk. The problem is knowing what stand to take. More than half of our respondents say that stakeholder expectations regarding ESG change faster than they can adapt their strategy. Given that 23 percent worry that failure to meet expectations may be a threat to their continued tenure, it is a challenge they will quickly need to solve.

Confidence in meeting net zero goals by 2030



Q. To what extent do you agree with the following statements? We are confident we can meet our net zero goals by 2030.

Source: KPMG 2024 CEO Outlook

[3] Karliner, J., Slotterback, S., Boyd, R., Ashby, B., and Steele, K. (Sept 2029). Health Care Without Harm: Climate-smart health care series, Green Paper Number One. Healthcare Without Harm and Arup.

[4] Ibid

Key recommendations

To address challenges related to meeting net zero goals:

Undertake risk assessments

Life sciences leaders should strive to ensure that they have a comprehensive understanding of their organizations' impact and exposure to climate change — through the completion of carbon footprint and climate change risk assessments (including scenario analysis).

Reduce supply chain decarbonization complexity

Life sciences companies can leverage technical solutions through supply chain engagement and net zero-aligned procurement policies, investment in low-carbon R&D, upskilling, and the development of sectoral decarbonization pathways to identify emission hotspots.

Section 4

Workforce and talent

With many life sciences organizations now looking to grow their workforces and competition for key skills and capabilities increasingly tight, many CEOs are sharpening their focus on attracting and retaining talent. The challenge for the sector is that most roles require highly specialized skills and many key capabilities are learned on the job. Not surprisingly, therefore, CEOs in our survey say their number one workforce challenge is replacing retiring employees with skilled ones. Other challenges include knowledge transfer between employees and managing differences and tensions resulting from corporate responses to social and global issues. As such, our survey suggests that life sciences organizations are implementing a variety of strategies to try to attract and retain the talent they require. As mentioned in the previous chapter, many organizations are looking to leverage their ESG strategy to attracting the next generation of talent.

Improving organizational diversity will also clearly be a key strategy. In our survey, more than half of the respondents say that progress on diversity and inclusion has moved too slowly in the business world. And they believe that change must start at the highest levels — 83 percent say that achieving gender equity in their C-suite will help them meet their growth ambitions and 78 percent believe that achieving their diversity goals requires change across leadership at the senior level.

53%

of life sciences CEOs agree that progress on diversity and inclusion has moved too slowly in the business world.

83%

of life sciences CEOs agree that achieving gender equity in their C-suite will help them meet growth ambitions.

Source: KPMG 2024 CEO Outlook

Forty-three percent of the life sciences leaders in our research are placing more capital investment in developing workforce skills and capabilities, seven percentage points higher than the average across the 11 sectors surveyed. Many are also turning to technology to address workforce challenges. Life sciences CEOs say the top three functional areas their organizations plan to make generative AI investments in over the next three years are sales and marketing, IT, R&D, and finance and accounting.

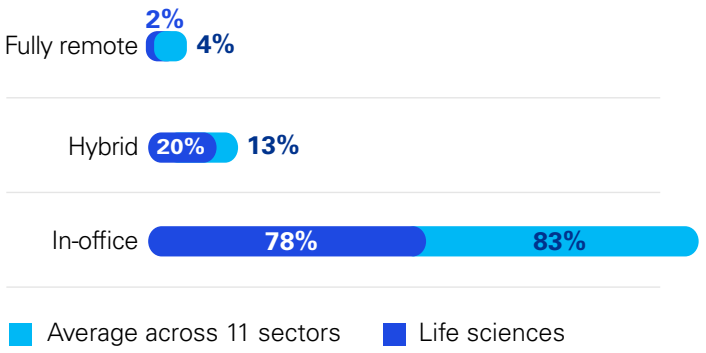
> **“Many pharma companies see the interplay between generative AI, talent, and growth. They are looking to generative AI to help make their people more productive, thereby allowing them to scale without necessarily increasing their talent requirements.”**
>
> **Jon Haynes**
> EMA Region Lead of Life Sciences, Client Lead Partner, KPMG in the UK

Post-pandemic, where corporate employees work continues to be a hot topic. When looking to the future of work arrangements, the predictions of life sciences leaders are significantly more flexible than the CEOs in the 11 other sectors surveyed when it comes to hybrid working.

Organizations are also starting to think more dynamically about their workforce. For example, we are helping a number of life sciences organizations rethink their operating models to make better use of offshore talent within their geographic region and globally."

Kristin Pothier
Lead of Global Deal Advisory and Strategy for Healthcare and Life Sciences, and Principal, and National Life Sciences Sector Leader, KPMG in the US

Predicted working environment for corporate employees in three years' time



Q. In three years' time, how do you envision the working environment for corporate employees whose roles were traditionally based?

Source: KPMG 2024 CEO Outlook

Key recommendations

Workforce shaping and strategy

To meet growth ambitions and plan for the impact of technology on their workforces, life sciences CEOs should have their HR leaders undertake workforce shaping and strategy exercises. These activities align workforce and enterprise-level strategies by designing structures that define how activities support organizational goals and call out clear accountabilities for the most important priorities, such as ensuring diversity and inclusion. These exercises can also help to ensure organizations have enough staff and/or team members with the right skills and experience, now and for the future.

How KPMG can help

A global organization of KPMG life sciences professionals provides support to the world's leading pharmaceutical, biotech, medical device and other companies in the sector.

KPMG member firms help life sciences companies to navigate complex business challenges such as delivering better and lasting financial results for stakeholders, leveraging technology to help increase competitive advantage, and unlocking the power of ESG to transform businesses and build a more sustainable future.

In these challenging times, business leaders require insights and guidance from professionals they can trust. KPMG uses a multi-disciplinary approach which allows us to pull resources from across geographies, disciplines and areas of experience across the life sciences sector, including:

- Assurance and integrity
- Cyber security
- Deal advisory
- Digital and technology transformation
- ESG and sustainability
- People and talent management
- Risk and compliance
- Tax transformation

Contact us to learn more about how KPMG professionals can help address your organization's current and future challenges.

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Methodology

The 10th edition of the KPMG CEO Outlook, surveyed 1,325 CEOs between 25 July and 29 August 2024, and provides unique insight into the mindset, strategies and planning tactics of CEOs.

All respondents had annual revenues over US$500M and a third of the total companies surveyed had more than US$10B in annual revenue. The survey included CEOs from 11 key markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, UK and US) and 11 industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications). NOTE: Some figures may not add up to 100 percent due to rounding.

This report draws on the views of 120 life sciences leaders. In the life sciences research, the two largest sub-sectors were pharmaceuticals (representing 45 percent of respondents) and biotechnology (representing 19 percent). The best-represented countries based on organizational headquarters were the US, Japan, India, China and Germany.

About the authors

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Kristin has almost 30 years of experience in strategy consulting and scientific and clinical research in the healthcare and life sciences industries. Her areas of focus include commercial and growth strategies, implementation, due diligence, integrations and separations. Kristin is a leader in precision medicine and in clinical diagnostics laboratory innovation, developing product and service strategies and operations with on-the-ground experience globally. Her book, *Personalizing Precision Medicine*, has garnered attention worldwide for its all-inclusive and comprehensive look at precision medicine. Kristin also works with health systems and affiliated organizations on their innovative services strategies, diligences, and operations, including clinical trial program development, clinical and anatomical pathology laboratory builds, health IT, hospital services, and clinical outreach strategies. Kristin holds a graduate degree in Clinical Epidemiology, Health Management, and Maternal and Child Health from the Harvard School of Public Health and a BA in Biochemistry from Smith College.

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Peter has more than 30 years' experience working with life sciences industry sector clients across the Asia Pacific region to help them enhance their operational and financial performance. His key areas of expertise include operational strategy; supply chain and logistics advisory; business process analysis, improvement and redesign; and project, change and risk management. Peter has designed and run large scale transformation programs that have driven value throughout clients' portfolios by accelerating opportunities to mitigate excessive business complexity and unnecessary operational costs, whilst helping them to position for growth and in accessing new markets.

Jon Haynes
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Jon has worked in the life sciences, consumer and retail sectors for more than 30 years and is Client Relationship Partner for several large clients in these industries. As EMA Region Lead of Life Sciences, Jon is responsible for the regional sector strategy. He also ensures that KPMG firms in the region have the support they need to help clients navigate complex business challenges such as delivering better and lasting financial results for stakeholders, leveraging technology to help increase competitive advantage, and unlocking the power of ESG to transform businesses and build a more sustainable future.

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