Life Sciences CFO Forum

April 20, 2023

Amid a sharp slowdown in the economy, inflationary pressures, continued geopolitical uncertainty, and a persistent talent shortage, life sciences companies are grappling with a wide variety of issues. Although technology modernization offers a distinct opportunity to remain competitive, it also brings new risks.

Kenneth Kim, senior economist from KPMG Economics, gave an in-depth overview on the current economic state and its impact on the industry. The discussion about digital acceleration in CFO organizations comprised insights from Anand Sekhar, principal, Technology Enablement, and Prashanth Brindavan, KPMG Life Sciences lead.

Reflecting on the current economic state

The cumulative effects of the pandemic and the ongoing Russia-Ukraine war have taken a toll on global economic growth projections. Spurred by the highest inflation in decades, supply chain disruptions, and commodity price spikes, leading central banks continue to tighten monetary policies to keep inflation in check.

With credit conditions stiffening further, unemployment is expected to tick higher in 2023 while reducing households' purchasing power and increasing the cost of business operations. These factors are likely to push the US economy into a mild recession by midyear, which could also cause a mild contraction in the GDP. However, Kim cautioned that the economy might spiral into a deeper recession if banks continue to tighten fiscal policies.

While a weakening economic environment is likely to see a drop in available job openings, the labor market could remain relatively tight this year. Kim said that, although the current unemployment rate is currently unchanged at 3.5 percent, it might surpass 5 percent by year's end. The talent shortage in healthcare and life sciences could be a challenge for some time: The US population experienced sluggish growth in 2021, stifling the country's potential source of future talent. "The challenge for companies going forward, irrespective of a recession, is hiring talent," he stressed.

Although rising costs are putting a significant dent in consumers' purchasing power, US households still have "dry powder," i.e., $1.1 trillion in excess savings. "This is one of the key reasons the US is not yet in a recession," Kim said. However, if inflationary trends continue, this accumulated savings could suffer a record drop and even be depleted.

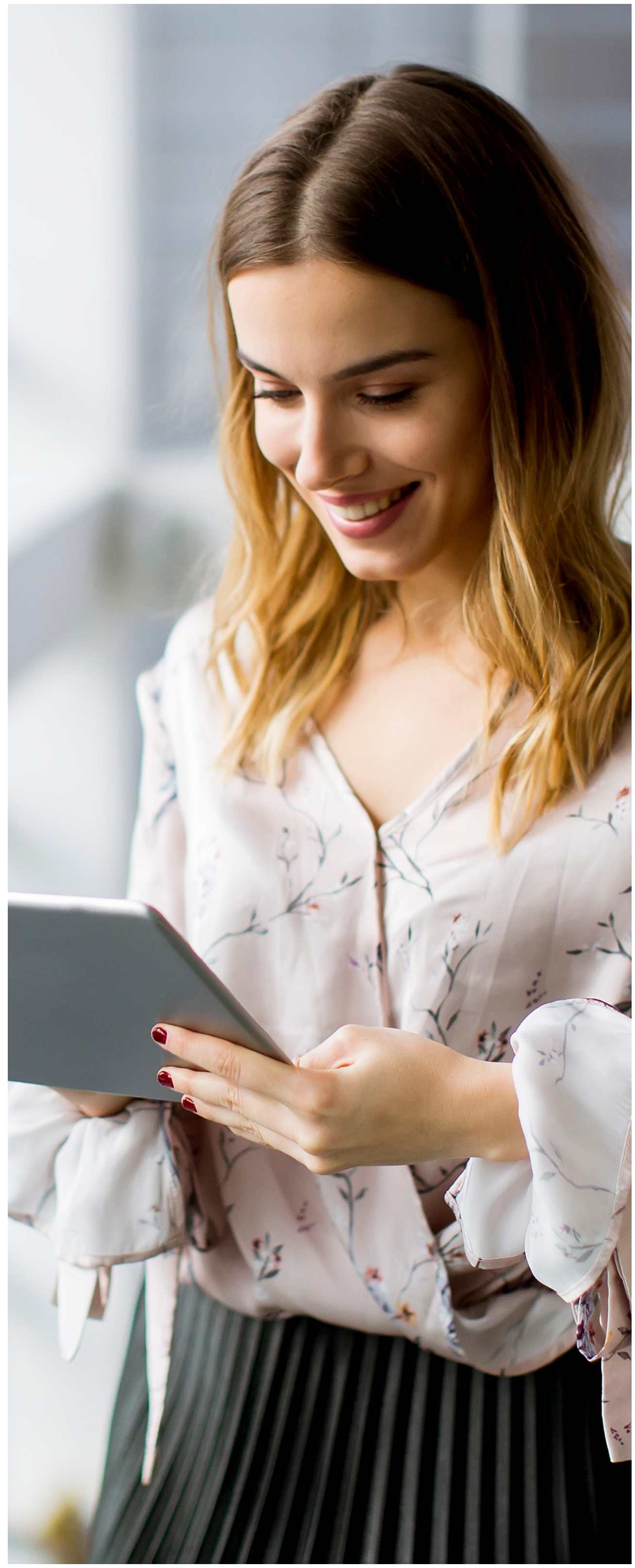
Life sciences industry trends and impact

Life sciences companies have maintained strong growth despite economic headwinds. In particular, employment in research and development (R&D) remains firm with 6 percent growth. Further, rising commodity costs and interest rates led to a higher producer price index for medical and surgical devices last year.

Kim also emphasized the aging population of the US, and by 2030, nearly a quarter of the population is expected to be over 65 years by 2040. An aging population means an elevated need for pharmaceuticals and medical devices.

In terms of the deal environment, there has definitely been a contraction this year, with the few deals that have gone through focused on economies of scale and increasing productivity. However, economists expect that the Federal Reserve may aim to deliver a final interest hike in May, which may spur a resurgence of activity in the M&A deal market.

> **"Deal activity remains constrained, due to higher interest rates engineered by the Feds along with a potential recession."**
>
> —Participating CFO



Alleviating the impact of the downturn with innovation

Anand Sekhar, KPMG Technology Enablement leader, spoke about the rapidly evolving role of CFOs. Stakeholders increasingly expect CFOs to tackle complex strategic and operational issues, well beyond the traditional boundaries of the finance function, to help future-proof businesses against disruption. With current economic conditions, the following three factors are shaping finance leaders' agenda:

- Cost containment: Managing cost control issues, e.g., labor costs and supplier prices
- Data intelligence: Deriving insights from advanced data analytics to enhance decision-making
- Workforce strategy: Embracing new ways of working and cultivating finance talent

As CFOs elevate their roles to strategic business partners, Sekhar emphasized the need to be at the center of technological change, harnessing its power to drive efficiency. He stressed that next-generation tools should allow for:

- Interaction: Delivering more harmonized, human-centered experiences for end users
- Intelligence: Visualizing data and delivering insights
- Information: Using modern data platforms, such as data lakes and data warehouses, to acquire and ingest data from various sources
- Automation: Optimizing and automating repetitive and manual efforts to allow the workforce to focus on higher-level tasks

There was almost unanimous consensus among the participating CFOs about the importance of data and actionable insights to build predictive capabilities. As new technologies make enterprise-wide data easier to use, data intelligence is emerging as the key to unlocking business value and gaining a competitive edge. Digital literacy is, in fact, now a business imperative.

> **Finance organizations need to have a digital mindset as part of their skill sets going forward."**
>
> —Participating CFO

When it comes to the potential challenges of developing a fully integrated data strategy, Sekhar recommended that organizations align with business objectives and ensure they have clear KPIs. He added that poor data quality issues can be avoided by establishing robust governance around consolidation. Sekhar echoed the plans of many CFOs to enable organizational agility with dedicated, specialized Centers of Excellence (CoEs) to help finance organizations create a digital mindset and elevate the value of services delivered to the business.

Leveraging technology to accelerate transformation efforts

Sekhar turned the participants' attention to generative artificial intelligence (AI). Pharmaceutical companies are already using these models to enhance preclinical drug discovery, while other industries are using the tool to forecast demand with improved accuracy.

While cost savings, improved value, and competitive edge are obvious benefits, AI risks remain a major concern. Sekhar emphasized how these models can be utilized for fraudulent and counterfeiting activities leading to misinformation, biases, and security threats. "The adoption of GenAI is going to spike in the coming years, and the infrastructure supporting it must grow as well," he said. "Within KPMG, we have built a responsible AI framework whereby we can evaluate these models and help organizations mitigate risks."

Topics for future sessions

The CFOs in attendance at the forum expressed interest in the following topics for future sessions:

- Cost takeout: In the face of the Fed's rate hikes, life sciences companies are looking for ways to contain costs so they can still fund deal activities and R&D.
- Talent management and retention: Since rising labor costs are putting pressure on margins, life sciences companies are exploring new approaches to talent engagement and retention.
- Digital literacy: Life sciences companies are looking for guidance on fuller adoption of a digital mindset to allow faster responses to market shifts and better engage their workforce.

"70 percent of leading CFO organizations are increasing spend on data-related activities, and about 74 percent agree that enterprise data can radically change the business model."

—KPMG 2022 Elevating Finance survey

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