

Compete & Collaborate

What is
success in
a connected
world?*

Pharmaceutical and
Life Sciences summary

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The PricewaterhouseCoopers 11th Annual Global CEO Survey – ‘Compete & Collaborate’ – examines the impact of an increasingly connected world on the way companies work, grow, deal with risk and, ultimately, achieve business success. We focus on collaboration this year because achieving the correct balance between this emerging business model and traditional management discipline is a key to leveraging results in the connected world.

The survey divides into two main sections with special attention in each to the key enablers and barriers to success:

- Section 1 – The business environment: Business confidence, M&A, global risks, and climate change
- Section 2 – The impact on business models: People and change, collaborative business networks, and regulations

In addition to providing the analysis of the views of 1,150 CEOs, each section includes the personal views of individual CEOs who provide their perspective on how their organisations are meeting the challenges and addressing the opportunities of a connected world. In this Sector Summary, we look specifically at how Pharmaceutical and Life Sciences (PLS) company CEOs view and are addressing these challenges and how their views compare and contrast with CEOs across all industries. The PLS industry includes companies producing branded and generic drugs, biotechnology products, and diagnostics and medical devices.

Full findings of the PricewaterhouseCoopers 11th Annual Global CEO Survey are available at www.pwc.com/ceosurvey

Globally, PLS is one of the world’s most important sectors and one of the key contributors to the global economy. In research recently conducted by PricewaterhouseCoopers for the report *Pharma 2020: The Vision – Which Path Will You Take?*, the firm estimates that the global market for pharmaceutical products (excluding medical devices) will more than double in sales to \$1.3 trillion by the year 2020. While the G7 countries will continue to be the primary markets driving PLS growth, the E7 countries (Brazil, China, India, Indonesia, Mexico, Russia and Turkey) are steadily becoming more prosperous, with GDP projected to triple over the next 13 years. The E7 are expected to account for as much as one-fifth of global pharmaceutical sales by 2020 – a 60% increase since 2004.

Underlying this growth are demographic, epidemiological and economic shifts that will transform the market. Demand for effective treatments is continually rising, as the population ages, new areas of medical need emerge and the disease burden of the developing world increasingly resembles that of the developed world (e.g., many developing countries are seeing a significant rise in hypertension and diabetes as their economies become more prosperous). Another developing threat involves predictions that the rise in greenhouse gases will potentially affect the world’s health, resulting in the spread of diseases such as malaria, cholera and higher prevalence of respiratory illnesses such as asthma and bronchitis.

The diseases of the developing world increasingly resemble those of the developed world, and greater affluence is making some countries much more attractive markets

The business environment

Executives in the industry report that over the short term (next 12 months) confidence levels are similar to the overall global figures with 50% of industry respondents indicating they are very confident and 34% indicating they are somewhat confident in their company's revenue growth. Longer term (next 3 years), industry CEO's confidence is slightly higher (94%) than the global responses (91%) which suggests that in spite of the challenges on a number of industry-specific fronts (i.e., R&D pipeline, increased regulatory burden and pricing concerns), executives remain relatively hopeful that their companies will continue to prosper into the future.

With respect to major threats, respondents are more concerned than other industries about pandemics and health crises (47% for industry compared to 29% for global), protectionist tendencies of national governments (50% for industry compared to 40% for global), low-cost competition (56% for industry compared to 50% for global), over-regulation (78% for industry compared to 58% for global) and intellectual property (IP) rights (63% for industry compared to 32% for global). For the branded segment, successfully addressing the growth of generic drugs and ensuring adequate IP protection (especially in developing countries) are major strategic challenges. Events such as the SARS outbreak and the ongoing challenge of HIV infections make it clear how devastating health crises can be. The scale and nature of these events often

require a joint response from industry and government where decisions involving research, manufacturing and distribution are significantly influenced by government policy.

Respondents indicated that new product development (38% for industry compared to 20% for global) is considered as the main opportunity for business growth in the next 12 months. Well over three quarters of the CEOs see technological innovation (81% for industry compared to 65% for global) as the key source of gaining competitive advantage over the long term.

Not surprisingly, since many of the players in the sector are large, multi-nationals, views about financing growth did not vary significantly from global figures – virtually all indicating that growth would be primarily funded from internally generated cash flow. The debt market was clearly a less popular choice with the sector's CEOs (13% for industry compared to 31% for global).

Collaborative business networks: Opportunistic & Systematic

In recent years there has been a rapid increase in the number and variety of deals between pharmaceutical and life sciences companies. The reasons include: R&D deals to fill gaps in product pipelines, marketing deals that offer access to new or under penetrated markets, and sourcing arrangements that support cost containment strategies.

PricewaterhouseCoopers' M&A Insights report states that for 2006 (the most recent year where annualised data is available) there were 2,112 deals across the pharmaceutical, biotechnology, medical device and healthcare services sectors with a total deal value in excess of \$212 billion (compared to 2,048 deals and \$152 billion in 2005).

The variety of deals is also increasing; over the last two years there has been a trend toward middle market pharma to pharma M&A (especially in Europe), medical device consolidation, more biotech to biotech deals, and continued focus on divestitures of non-core assets by major players¹. The concept of networks resonates with executives in the sector (28% agree strongly that networks will be a defining organisational principle for business as opposed to 17% globally).

According to the survey, PLS companies have completed slightly more cross border mergers or acquisitions in the past twelve months, and slightly more are planned than the global average. Also, sector CEOs expect to realise greater value from transactions than their global counterparts. Interestingly, only 13% of sector respondents think that joint ventures & strategic alliances will play a greater role in the growth of their business, compared with 30% globally. Given that the sector has extensively used alliances over the last decade or more, the lower number suggests that this strategy is well established in PLS with its use still on the upswing in other sectors.

¹ PricewaterhouseCoopers M&A Insights: Analysis & opinions on global M&A activity from our network of local pharmaceutical and life sciences industry advisers (2006/2007)

Regulations: Public & Private

Given that the PLS industry is one of the most heavily regulated industries in the world with many companies operating in multiple jurisdictions, the burden of successfully managing complex rules and regulations is a major issue facing CEOs. As would be expected, industry executives almost universally indicated that they rated the need to consider regulatory requirements when making business decisions as a top priority (91% for industry compared to 63% for global). There was significant divergence of views around how government could improve the business environment. By a substantial margin, industry CEOs thought that government could improve healthcare (53% for industry compared to 11% for global). Additionally, the survey showed that industry executives felt that significant improvement was needed in product safety regulations (23% for industry compared to 11% for global).

With respect to the issues related to global warming, CEOs views were somewhat less differentiated from their global counterparts with 47% of respondents in the sector agreeing that developed countries should accept more responsibility and costs than developing economies for mitigating climate change (compared to 36% globally). 53% agree strongly that governments should take more of a leadership role in determining mitigation strategies for climate change (compared to 39% globally).

People and change: Strategy & Execution

PLS CEOs rate the ‘people agenda’ as one of their top priorities (91% for industry compared to 89% for global). However, interestingly, only 53% see personally dealing with it as the ‘best use of their time’ versus 67% for global respondents. CEOs do recognise the importance of global experience in the success of their organisations – 63% consider this as a critical factor, compared with 55% globally.

In terms of skills, sector CEOs see the ability to combine technical ability with business expertise as the top skill they want in employees (94% for industry compared to 83% for global). They also saw the ability to adjust to external and internal changes quickly and developing and leading others as important (88% for both industry and global). As one would expect, creativity and innovativeness were seen as top qualities in employees (scoring over 80%). A substantial majority of executives (75%) view collaborating with networks of external specialists as critical. This underscores the importance of external sources of innovation (e.g., National Institutes of Health, academic medical centers, etc).

The sector’s CEOs were clearly confident in their ability to meet the challenges of their business with 94% agreeing with the statement that ‘my leadership has the capability to lead significant change’ (only 55% globally

agreed with the statement). From an HR perspective, one of the top challenges facing most organisations is successfully driving change and overcoming ineffective and inefficient processes. Being able to implement new processes, structures and systems to support organisational and operational realignment is seen as fundamental. Over two thirds (69%) of sector executives say they have deployed new business processes in the last three years.

Looking forward

This year’s survey findings point to a number of fundamental concerns facing pharmaceutical and life sciences companies. Simon Friend, PricewaterhouseCoopers’ Global Pharmaceutical & Life Sciences Industry leader sums up the situation in this way: ‘The entire global health care system is undergoing a seismic shift. The industry is being held far more accountable – for products that demonstrate outcomes at reasonable prices – by all players across the continuum. To flourish, companies will need to invest more in research, understand and demonstrate the value of their products, lower the cost of distribution, collaborate with partners at home and abroad, and provide value-added services to customers. Effectively meeting these challenges will deliver enormous rewards in terms of human health and business success’.

This summary provides a sampling of some findings within the Pharmaceutical and Life Sciences sector. Full findings of the PricewaterhouseCoopers 11th Annual Global CEO Survey are available at www.pwc.com/ceosurvey

For additional information regarding PricewaterhouseCoopers’ Pharmaceutical and Life Sciences sector practice, please visit www.pwc.com/pharma