

Fit for the future *17th Annual Global CEO Survey*

Key findings in the pharmaceuticals and life sciences industry

February 2014



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Sector snapshot

Sector snapshot

Pharmaceuticals and life sciences CEOs believe that technology is transforming the sector and they're using strength in innovation to make the most of it. They're also focused on regulation and integrity. Facing the talent challenge is a key priority too, particularly with demographics and shifts in wealth also radically reshaping the sector.

Sector snapshot

Technology, demographics, and shifts in wealth are transforming the sector

Pharmaceuticals and life sciences CEOs are even more convinced than their peers that technological advances will transform their businesses in the next five years. And they're more conscious than other CEOs of the huge role demographics will play – 72% see it as a transformative trend, compared to 60% across the sample. More are also expecting a big impact from global shifts in economic power.

Pharmaceuticals and life sciences CEOs believe technology will help more than hinder

Only around a third of sector CEOs are concerned that the speed of technological change may negatively impact growth, compared to nearly half of CEOs across the overall sample.

Innovation is a top priority – and protecting intellectual property a worry

Sector CEOs are already transforming their R&D function to cope with transformation – 38% say they've completed or have in progress a programme to change their R&D and innovation strategies, more than across the sample as a whole. And the same number believe that their R&D departments are well-prepared for the challenge.

Too relaxed when it comes to cyber-security?

A surprising 57% of pharmaceuticals and life sciences CEOs are not concerned that cyber threats including lack of data security could threaten growth. That's despite a boom in big data and data analytics – 79% agree there's a need to change strategies in that regard, although just 23% have already started.



Sector snapshot

Regulation is not all bad

The pharmaceuticals and life sciences industry is highly regulated, and nearly four-fifths of CEOs (79%) are concerned that over-regulation could put the brakes on growth. That said, a full 72% recognise its value, believing that their production and/or service delivery quality standards improved over the past 12 months as a result of regulation.

76%
have cut costs

Integrity is a big issue

The industry is taking safety seriously; more pharmaceuticals and life sciences CEOs strongly agree that it is important to them to ensure the integrity of their supply chain (76% vs 58% overall). And sectors worry about the impact of bribery and corruption. 61% believe it could slow down growth, compared to 52% of CEOs overall.

<40%
are well-prepared
for change
(customer services HR, IT departments)

But sector CEOs are positive about facing the talent challenge

Only around half of pharmaceuticals and life sciences CEOs are concerned about the availability of key skills, this year, far fewer than their peers across the sample. Fewer are concerned about rising labour costs in high-growth markets too. That may be because many have already taken steps to revamp their talent strategy to capitalise on major trends – 43% say they've already begun or completed a change programme, compared to 32% overall.

Confidence in growth

90%

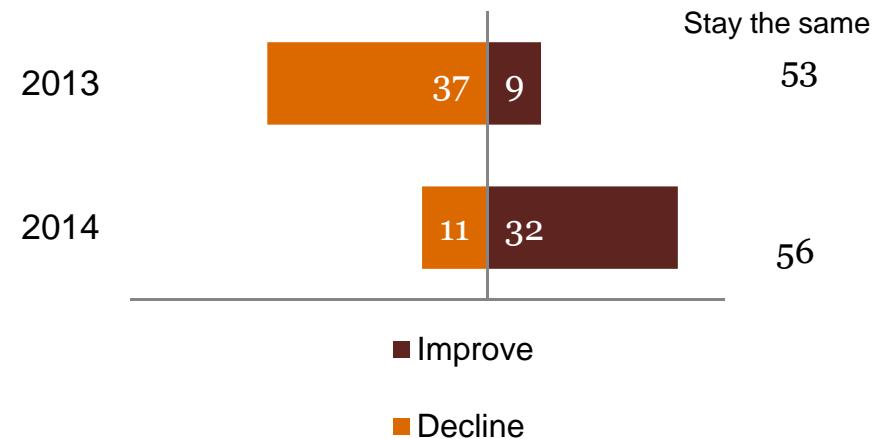
*of pharmaceuticals and life sciences
CEOs are somewhat or very confident
of growth over 3 years*

Views on the economy are looking up

32% of pharmaceuticals and life sciences CEOs believe that the global economy will improve in the next 12 months, compared to just 9% last year. And while a third expected to see the economic situation worsen last year, this year only 11% are anticipating a global decline.

Still, many pharmaceuticals and life sciences CEOs are **worried about continued slow or negative growth in developed markets (65%)**. It ranks higher in their list of concerns than does a slowdown in high-growth markets (57%). That reflects the continued importance of mature markets, a trend we also see in deal locations.

Q: Do you believe the global economy will improve, stay the same, or decline over the next 12 months?



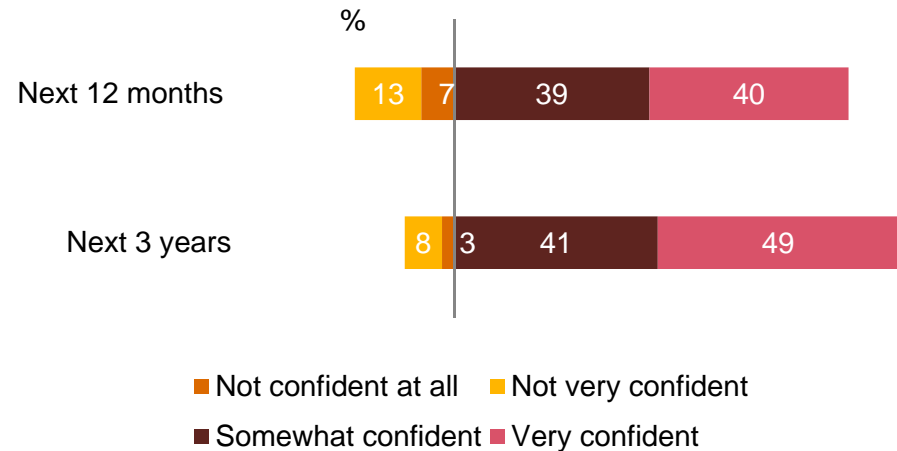
Base: All respondents 2014 (Pharmaceuticals & life sciences, 119);
2013 (Pharmaceuticals & life sciences, 90)
Source: PwC 16th Annual Global CEO Survey 2013
PwC 17th Annual Global CEO Survey 2014

More CEOs expect middle term growth for their companies, but not for the industry

Far more pharmaceuticals and life sciences CEOs – 49% – are very confident in their company’s growth looking out over the next three years.

That’s a lot higher than those who expect the industry to grow, though. Just 29% of pharmaceuticals and life sciences CEOs say they are very confident in their industry’s prospects for revenue growth over the next three years.

We saw this pattern in the overall sample as well. CEOs clearly have confidence in their ability to growth their own businesses, even if they foresee challenges for their industries.



Q: How confident are you about your company’s prospects for revenue growth over the next 12 months and three years?

Base: All respondents (Pharmaceuticals & life sciences, 119)

Source: PwC 17th Annual Global CEO Survey 2014

49% vs. **29%**
Company growth vs. **Industry growth**

Over-regulation, debt & deficit responses, and a slower economy are seen as the top three threats

Over-regulation

More than three-quarters of pharmaceuticals and life sciences CEOs believe over-regulation could sidetrack growth prospects. That's far more than across the sample as a whole.

Percentage who are concerned about over-regulation

79%

Debt and deficits responses

Pharmaceuticals and life sciences CEOs, like their peers overall, are concerned about the ability of debt-laden governments to tackle soaring deficits. It's a worry that's been increasing over the past several years.

Percentage who are concerned about government responses to debt and deficits

76%

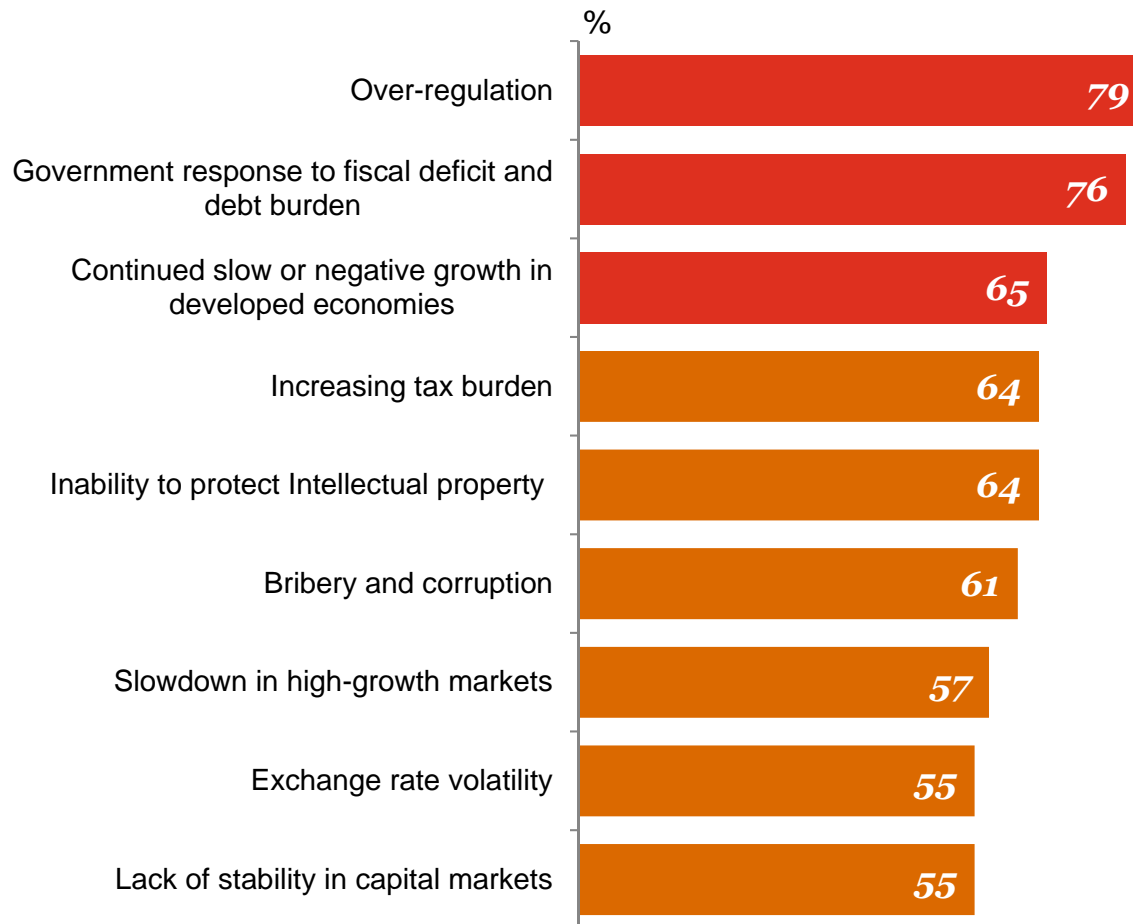
Poor growth in developed economies

Pharmaceuticals and life sciences CEOs are slightly less worried about this poor or negative growth in developed economies than the sample as a whole. It's "business as usual" for them as growth rates in these markets have been low for some years now.

Percentage who are concerned about poor growth in developed economies

65%

But there are also other issues pharmaceuticals and life sciences CEOs believe could affect growth



Q: How concerned are you, if at all, about each of the following threats to your growth prospects? Top choices listed

Base: All respondents (Total sample, 1344; Pharmaceuticals & life sciences, 119)

Note: Respondents who stated 'extremely' or 'somewhat' concerned.

- 64% of pharmaceuticals and life sciences CEOs are concerned about the increase tax burden, compared 70% of the overall sample.
- Reflecting the importance of innovation to the sector, 64% of pharmaceuticals and life sciences CEOs are concerned that an inability to protect intellectual property will hamper growth, far more than the 43% across the sample as a whole.
- The sector also worries about the impact of bribery and corruption. 61% believe it could slow down growth, compared to 52% of CEOs overall.

The global rebalancing act

37%

*of pharmaceuticals and life sciences
CEOs expect China to be their main
non-domestic growth market in the
coming year*

Pharmaceuticals and life sciences CEOs are expanding more in mature markets

More growth confidence in Western Europe

Around a third of pharmaceuticals and life sciences CEOs planning deals have their eyes on Western Europe when it comes to transactions.

Pharmaceuticals and life sciences CEOs looking at Western Europe for planned deals

30%

North America stands out

Compared to the overall sample, more CEOs who are planning deals are looking to North America. Still, interest has declined from last year.

Pharmaceuticals and life sciences CEOs expecting a merger, acquisition, JV or strategic alliance to be in North America

37%

Asia less appealing

Pharmaceuticals and life sciences CEOs were markedly less likely to be interested in transactions in south or south-east Asia, or Australasia.

Pharmaceuticals and life sciences CEOs expecting transactions in southeast Asia

19%

US tops the list of growth markets, followed closely by China

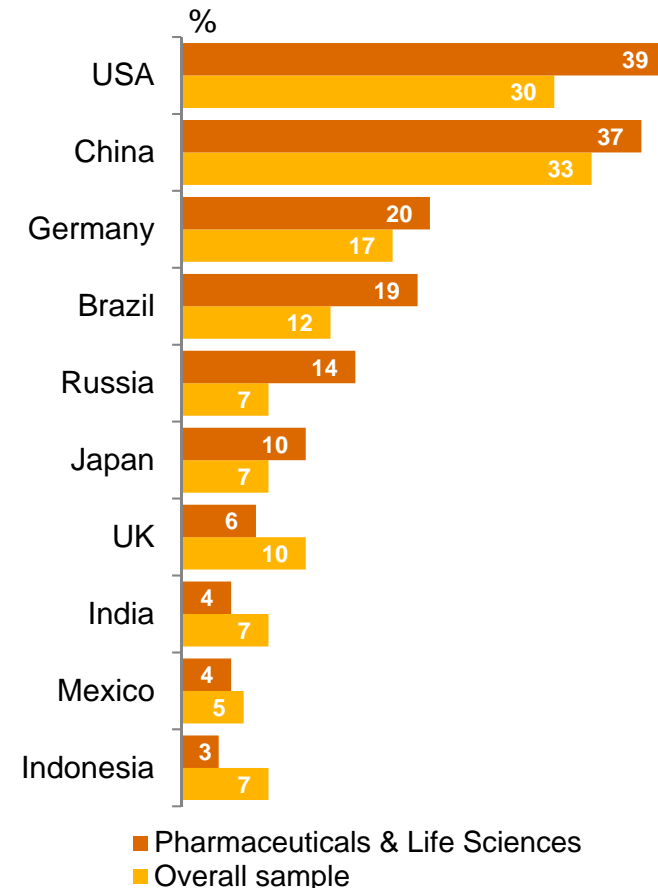
US remains a key growth market

39% of pharmaceuticals and life sciences CEOs expect the US market to be their major non-domestic growth driver.

And China (37%) is next on the list of countries that CEOs expect to drive growth over the next 12 months. Germany, Brazil and Russia round out the top five.

With Mexico, India and Indonesia also featuring on the CEOs growth list, there are six emerging economies in the ten non-domestic markets CEOs expect to drive growth.

Q: Please rank the three countries, excluding the country in which you are based, that you consider most important for overall growth in the next 12 months.



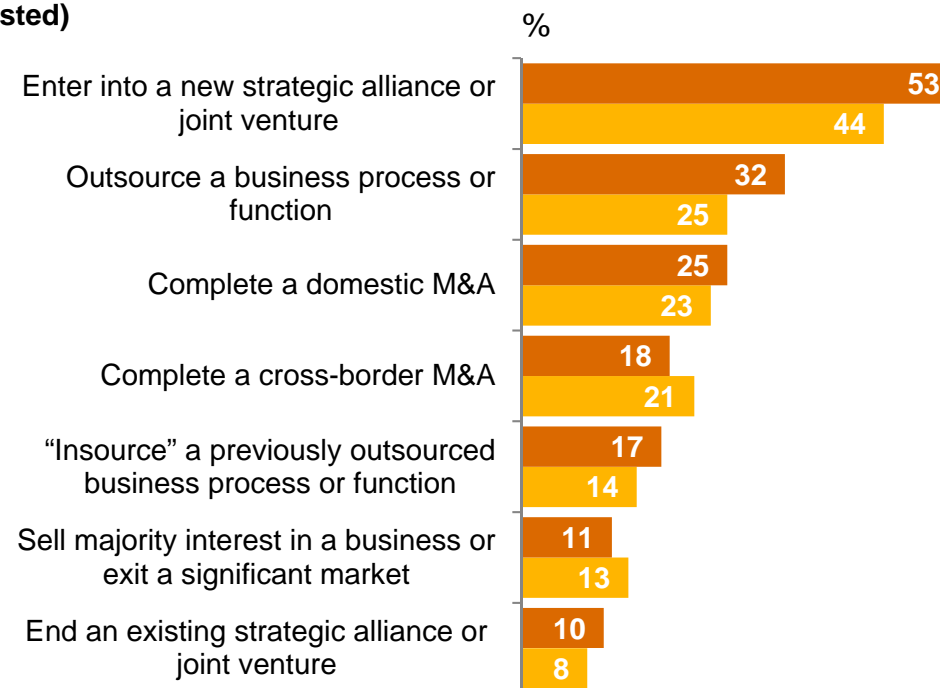
Base: All respondents (Total sample, 1344 ; Pharmaceuticals & life sciences, 119)
Source: PwC 17th Annual Global CEO Survey 2014

New strategic alliances or joint ventures are the main restructuring activities planned

The pharmaceutical and life sciences industry's appetite for collaborative co-creation continues. The sector's CEOs are more likely than other industries to be looking at alliances, JVs or outsourcing.

When it comes to M&A, they're keeping things close to home, with less desire for cross-border deals than their peers in other industries.

Q: Which, if any, of the following restructuring activities do you plan to initiate in the coming twelve months? (cost reduction not listed)



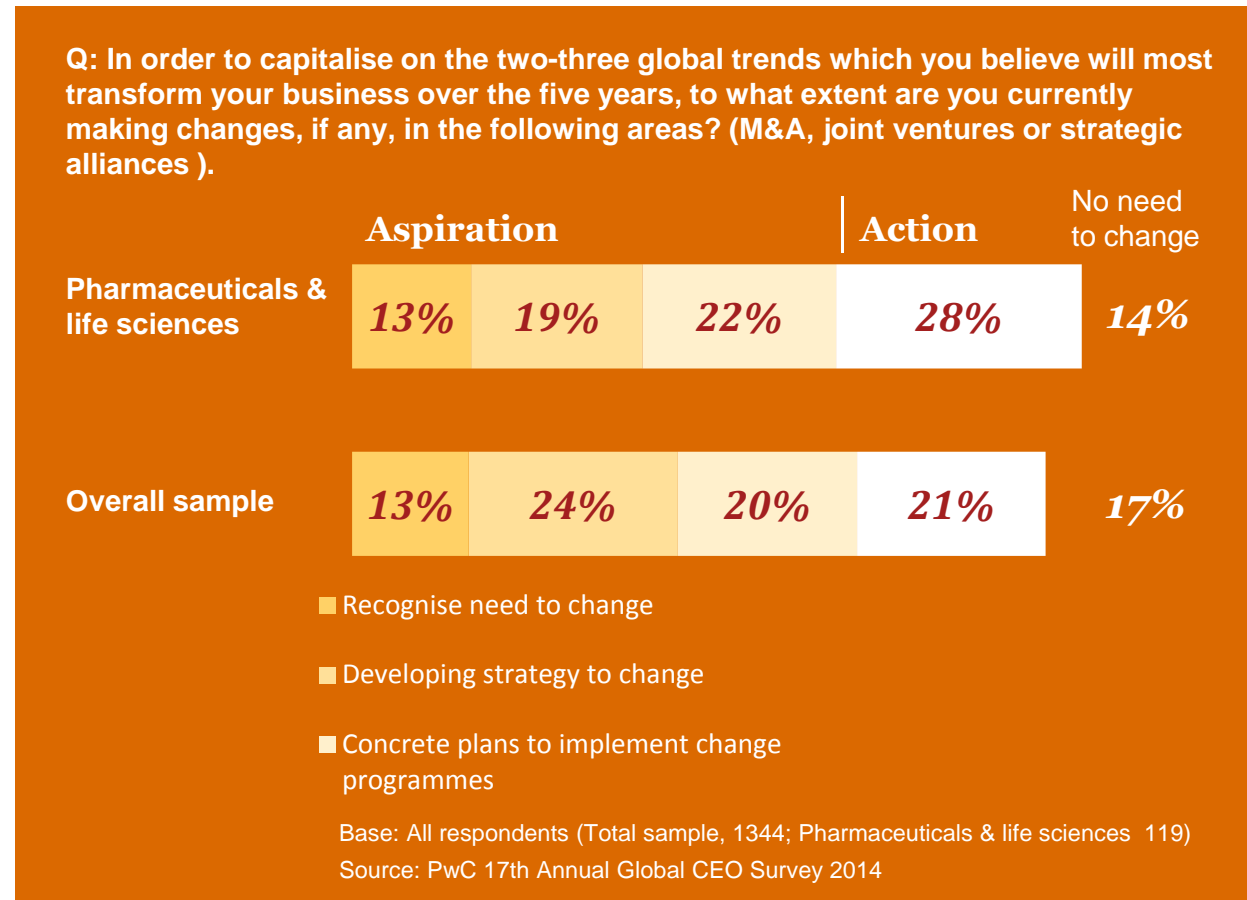
■ Pharmaceuticals & life sciences
■ Overall sample

Base: All respondents (Overall sample, 1344, Pharmaceuticals & life sciences, 119)

Source: PwC 17th Annual Global CEO Survey 2014

Half of pharmaceuticals and life sciences CEOs are actively changing their transaction strategies

Pharmaceuticals and life sciences CEOs are ahead of the curve when it comes to change programmes around their transaction strategies. Over one quarter (28%) have programmes completed or underway, compared to 21% cross-industry, while a further 22% have firm plans to take action.



Transforming business

The biggest trend is the ageing population. This is going to create both a massive risk and a massive opportunity for the world ... The IT explosion and what we are working on right now is going to lend itself to managing the challenges that come with the ageing population.

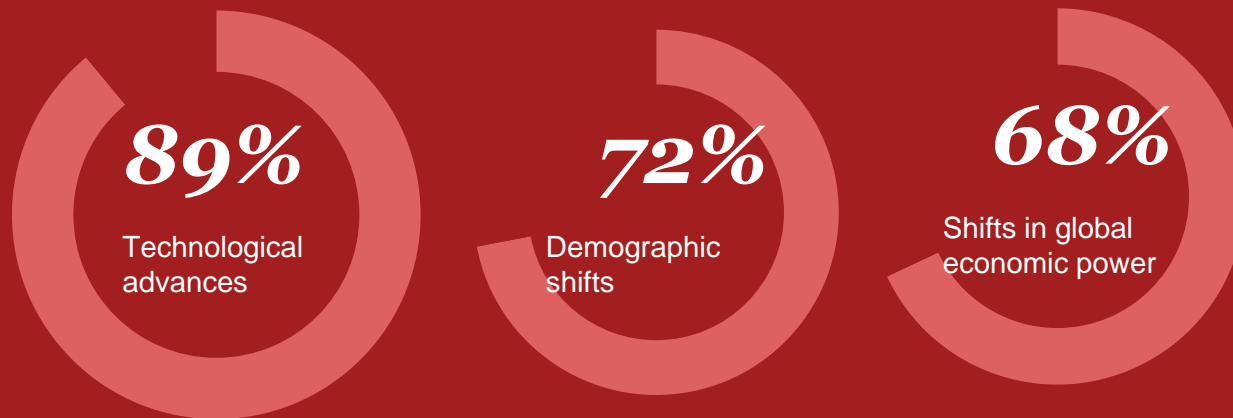
Joseph Jimenez

CEO, Novartis

CEOs recognise that global trends are transforming business

Headed up by technological advances

Q: Which of the following global trends do you believe will transform your business the most over the next five years? (Top trends pharmaceuticals & life sciences CEOs ranked in their top 3.)

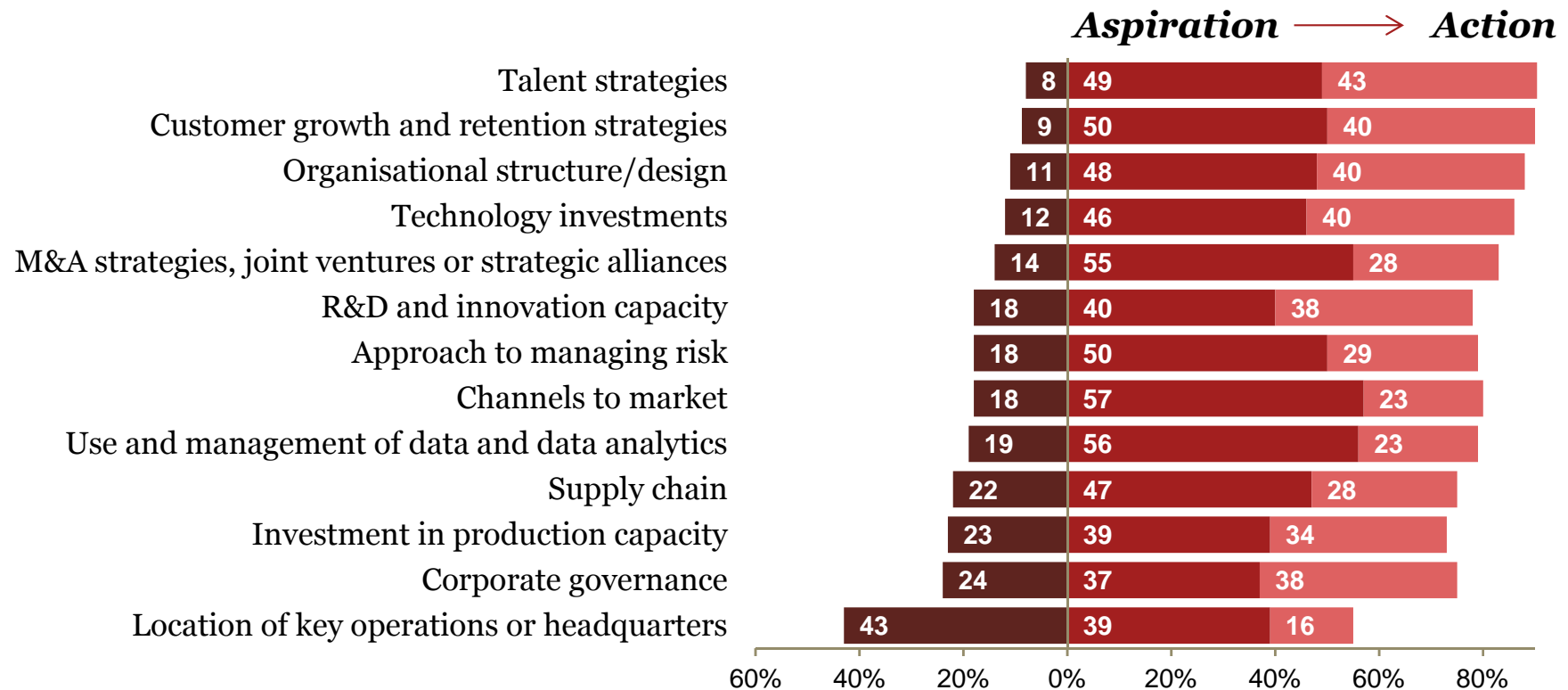


Base: All respondents (Total sample, 1344; Pharmaceuticals & life sciences, 119).
Source: PwC 17th Annual Global CEO Survey

Nearly 90% of pharmaceuticals and life sciences CEOs identified technological advances such as the digital economy, social media, mobile devices and big data as key trends transforming their business.

More than half also pointed to demographic fluctuations and global shifts in economic power, in line with the global sample.

And pharmaceuticals and life sciences CEOs recognise they'll need to change in response



■ No need to change ■ Recognise need/developing strategy/concrete plans to change ■ Change programme underway or completed

Q: To what extent are you currently making changes, if any, in the following areas?

Base: All respondents (Pharmaceuticals & life sciences, 119)

Source: PwC 17th Annual Global CEO Survey 2014

Pharmaceuticals and life sciences CEOs are embracing innovation and technological change

- More pharmaceuticals and life sciences CEOs (44% vs. 35% overall) see product and service innovation as their main route to growth.
- The sector's CEOs are confident in their ability to keep up with a changing world. Just 32% of pharmaceuticals and life sciences CEOs are concerned about the **speed of technological change** – lower than across the overall sample (47%).
- And more believe that their R&D department is ready to cope. 38% say it's well-prepared, compared to 28% overall.

In other research,* we've found that the most successful CEOs are doing three things to 'industrialise' innovation – i.e., to make it repeatable, dependable and scalable.

They're focusing on breakthrough innovation in all its forms; putting disciplined innovation techniques in place; and collaborating much more actively.

We think it's important to recognise that innovation means more than new product development. It can also help improve processes, or create new services or business models.

* PwC's Breakthrough innovation and growth

And they're already emphasising technology's role in innovation

Joseph Jimenez
CEO, Novartis

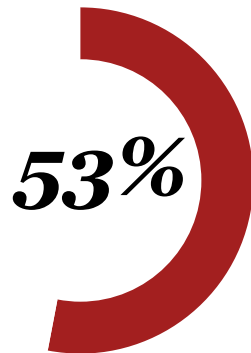
“For Novartis it’s all about science-based innovation. We have many competitors who fail at innovation. I expect that in five years from now we will have extended our lead in innovation. We continue to invest in research and development and therefore I expect to accelerate our growth, because we will come up with some very innovative products.”

“We have to fully utilise new technologies like bioinformatics, like immunotherapy against cancer. There are many emerging technologies we must get to grips with right now in order to be able to capitalise on them in 10 years’ time.”

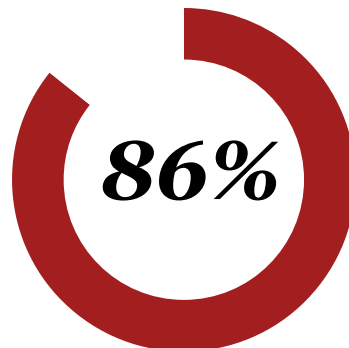
But while more than half have plans, just over one third have acted

Most pharmaceuticals & life sciences CEOs want to improve their company's ability to innovate

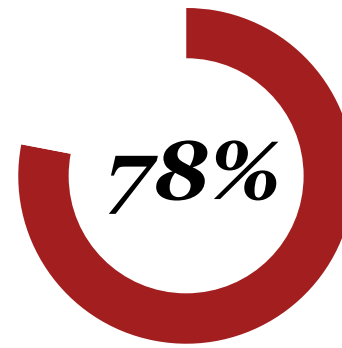
Develop an innovation ecosystem



Change technological investments



Alter R&D and innovation capacity



There's a glaring gap between

Aspirations

and

Actions



40%

Have started or completed changes



38%

Have started or completed changes

Q: Which, if any, of these national outcomes is your organisation focusing on as a priority over the next three years?

Q: To what extent are you currently making changes, if any, in the following areas?

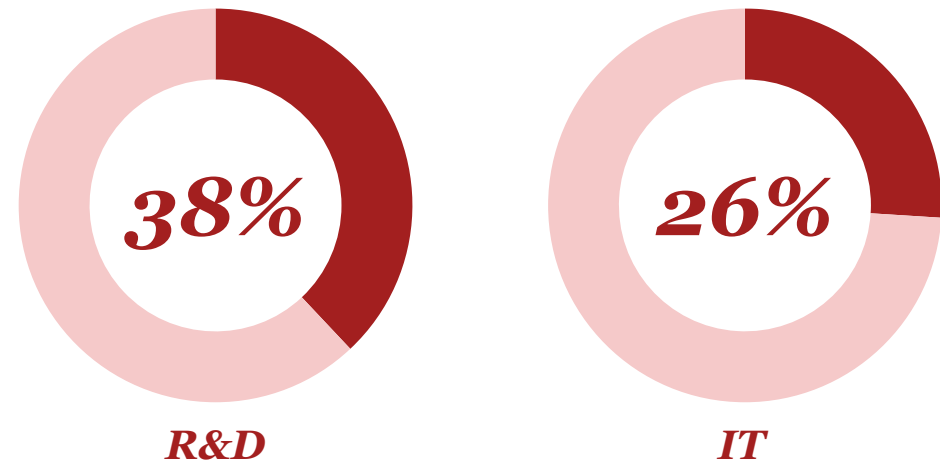
Base: All respondents (Total sample, 1,344; Pharmaceuticals & life sciences, 119) Aspirations responses include: recognise need to change, developing strategy to change, concrete plans to implement change programmes, and change programme underway or completed.

Source: PwC 17th Annual Global CEO Survey 2014

But there's work to do to in both areas

While nearly four in ten pharmaceuticals and life sciences CEOs told us that their R&D functions are well-prepared for change, just over a quarter show the same confidence in their organisation's IT department.

Q: Thinking about the changes you are making to capitalise on transformative global trends, to what degree are the following areas of your organisation prepared to make these changes?

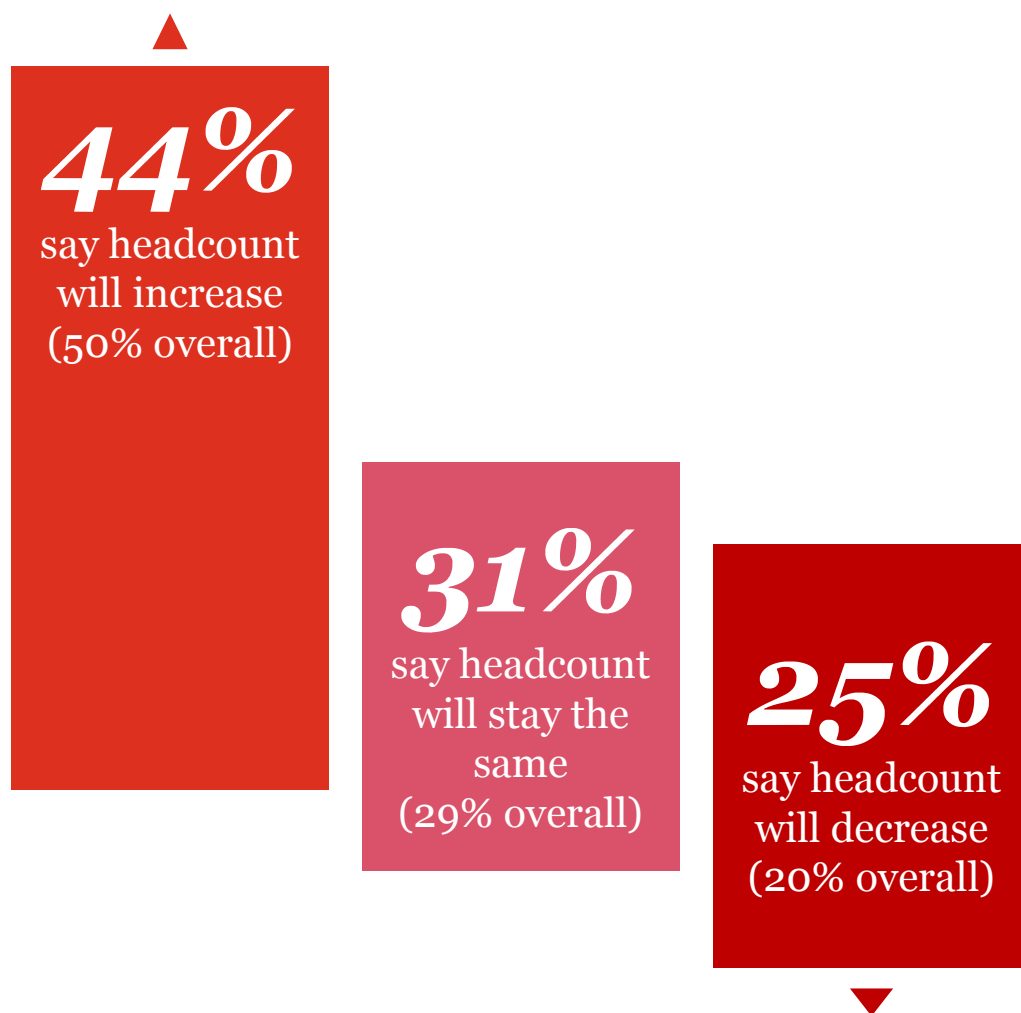


- Well-prepared
- Somewhat prepared, not prepared, don't know or refused

Base: All respondents (Pharmaceuticals & life sciences, 119)

Source: PwC 17th Annual Global CEO Survey 2014

More pharmaceuticals and life sciences CEOs are taking on staff than letting them go



Nearly half of pharmaceuticals and life sciences CEOs say headcount will increase in the coming 12 months. But this is less than the overall sample predicts.

A quarter expect to reduce their workforce, compared to one fifth overall.

And CEOs are concerned about developing a workforce that can cope with a changing world

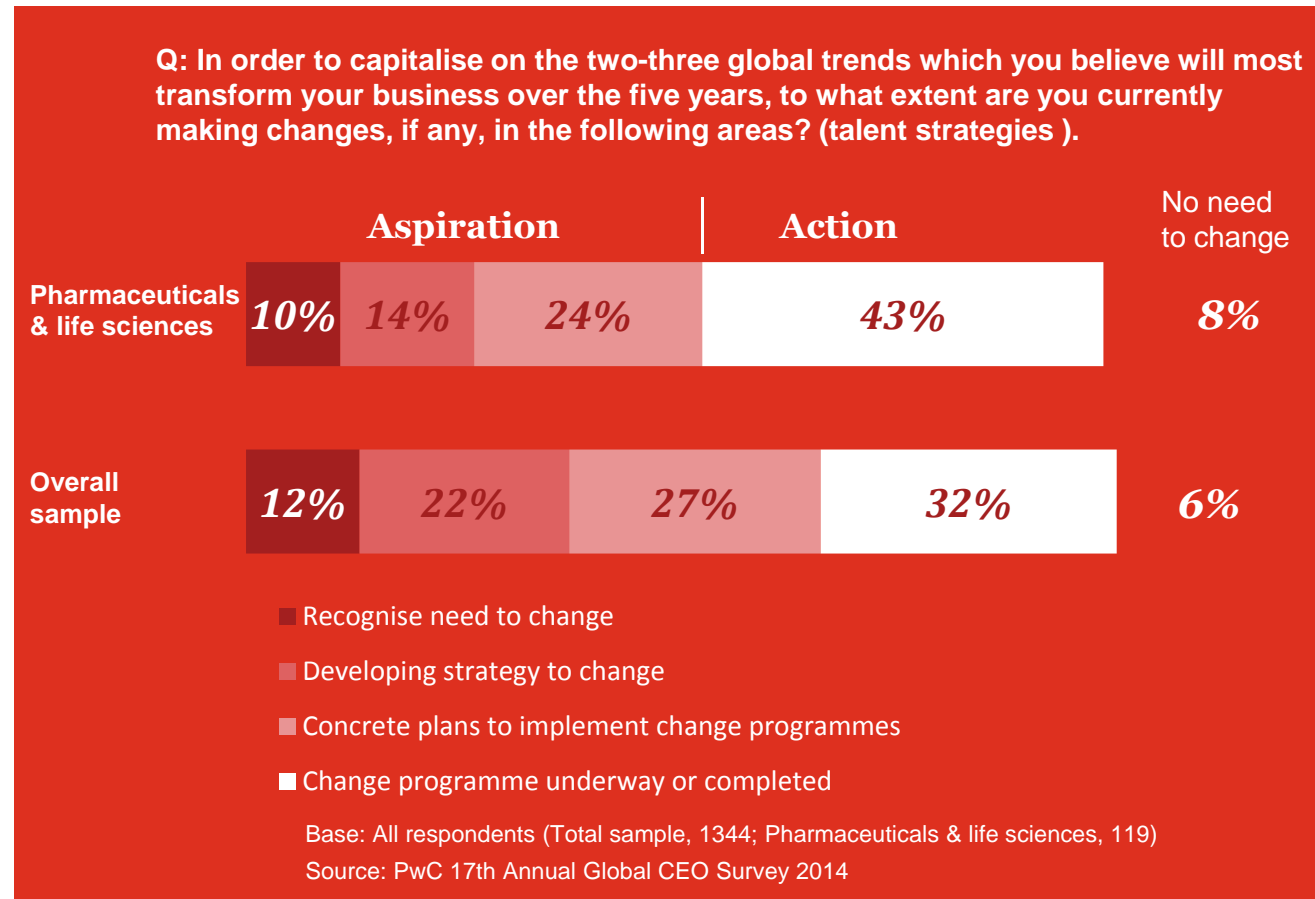
- 51% of pharmaceuticals and life sciences CEOs are worried about the availability of key skills. It's a continuing concern. As consumerisation dramatically changes the delivery of healthcare, old business models need to change, and that includes people and skills.
- 37% of pharmaceuticals and life sciences CEOs believe that **creating a skilled workforce** should be a government priority, but only 19% believe that the government has been effective.
- So many are taking action themselves – 64% say a creating a skilled workforce is a priority for their company.

Talent is one of the main engine of business growth. So one of the biggest issues CEOs face, as these huge demographic changes occur, is finding and securing the workforce of tomorrow – particularly the *skilled labour* they need to take their organisations forward.

In response, pharmaceuticals and life sciences CEOs are transforming their talent strategies

Pharmaceuticals and life sciences CEOs overwhelmingly agree they'll need to change their talent strategies to cope with future trends. 43% are already doing so, compared to under a third of CEOs across the overall sample.

And 38% believe their HR departments are well-prepared to make changes, compared to 30% overall.



The sector's CEOs also need to serve consumers in new ways

- The world is getting wealthier: the number of middle-class consumers is projected to rise dramatically over the next 15 years, especially in Asia.
- But major inequalities in income remain. Average incomes in the E7 countries are still less than a third of those in the G7 countries, for example.
- And the shift in the balance of economic power is making it easier for emerging-market competitors to fight for the same consumers that mature-market companies are targeting.

CEOs face three key challenges. They have to chase a moving target, as consumers evolve in different ways in different markets. They have to address the needs of more diverse – and demanding – customer segments. And they have to fight off increasingly intense competition.

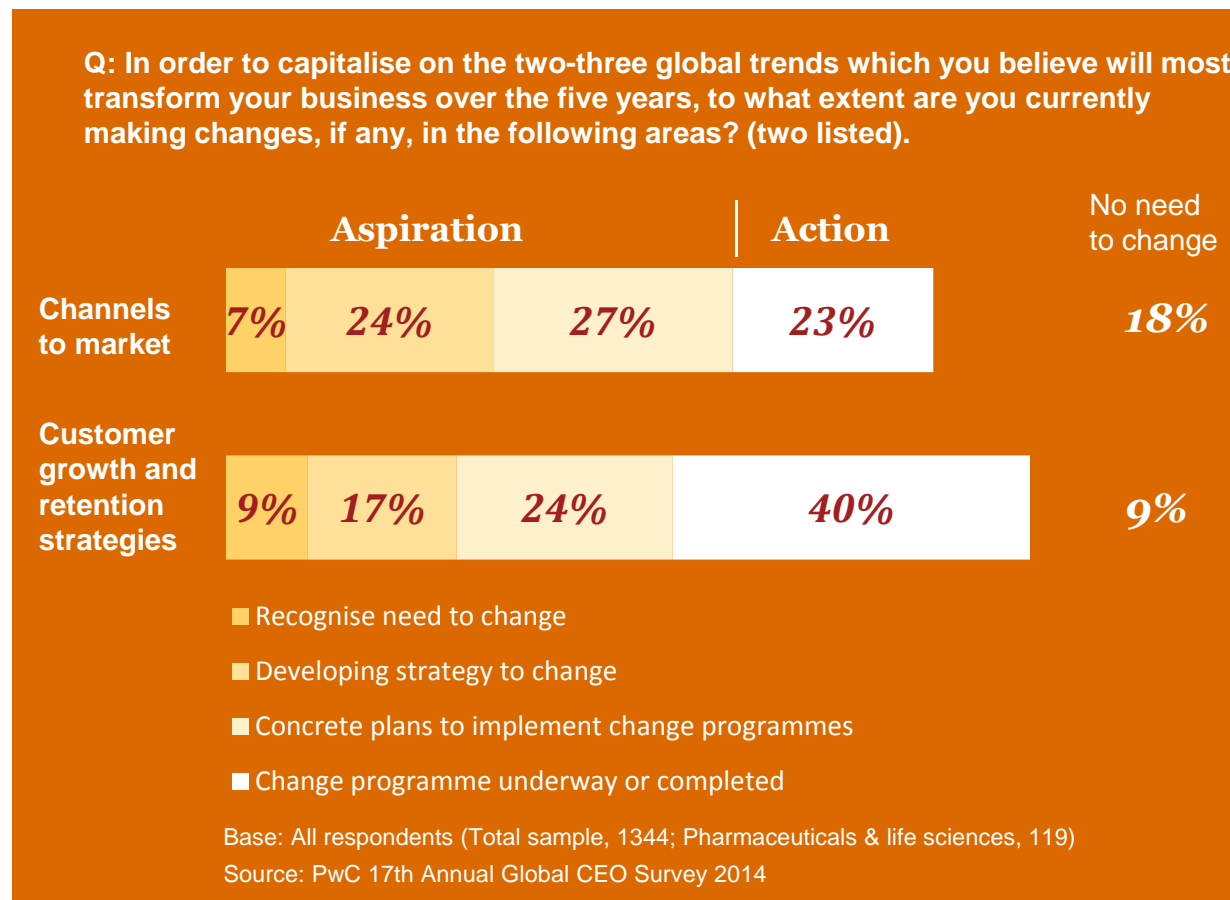
The general population as a stakeholder has probably made the biggest shift in terms of their expectations. They don't care what is legal, they care about what is right. What is right is what they perceive as good ethical behaviour.

Joseph Jimenez, CEO, Novartis

So they're focusing on customer retention and channels to market

The vast majority of pharmaceuticals and life sciences CEOs plan to change their customer growth and retention strategies – with nearly two-thirds actively engaged already.

Similarly, most are looking to refine channels to market, with half taking action in this area.

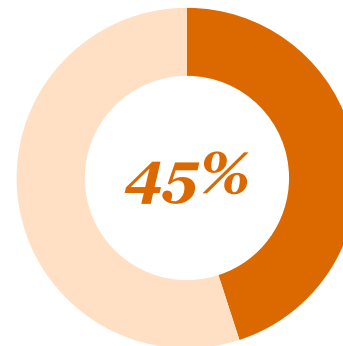


And they're preparing their organisations to adapt

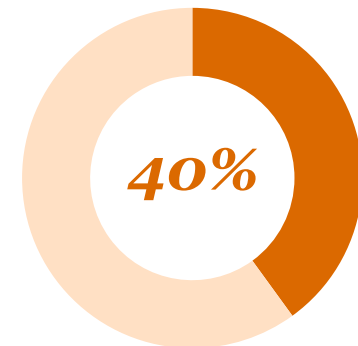
The customer-focused departments of pharmaceuticals and life sciences companies are more likely than the overall sample to be well-prepared for change.

Nearly half the sales departments are up to speed in this area, with customer service and marketing/brand management following closely behind.

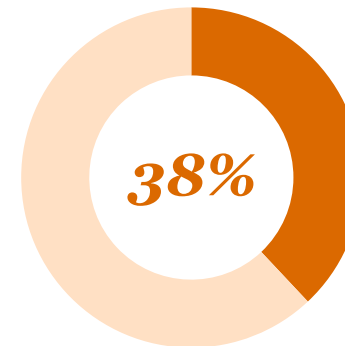
Q: Thinking about the changes you are making to capitalise on transformative global trends, to what degree are the following areas of your organisation prepared to make these changes?



Sales



Marketing & brand management



Customer service

■ Well-prepared

■ Somewhat prepared, not prepared, don't know or refused

Base: All respondents (Pharmaceuticals & life sciences, 119)

Source: PwC 17th Annual Global CEO Survey 2014

About PwC's 17th Annual Global CEO Survey



We surveyed 1,344 business leaders across 68 countries around the world, in the last quarter of 2013, and conducted further in-depth interviews with 34 CEOs.

Our overall survey sees a leap in CEOs' confidence in the global economy – but caution as to whether this will translate into better prospects for their own companies. The search for growth is getting more and more complicated as opportunities in both developed and emerging economies becomes more nuanced, leading CEOs to revise the portfolio of overseas markets they will focus on.

In 'Fit for the future: Capitalising on global trends', we also explore three forces that business leaders think will transform their business in the next five years: technological advances, demographic changes and global economic shifts. We show how these trends, and more importantly the interplay between them, are creating many new – but challenging - opportunities for growth through: creating value in totally new ways; developing tomorrow's workforce; and serving the new consumers.

We also show how, in responding to these trends, CEOs have the opportunity to help solve important social problems.

Pharmaceuticals & life sciences respondents

119

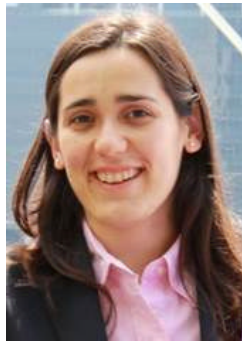
In countries across the world

40

In short, the demands being placed on business leaders to adapt to the changing environment are increasing exponentially; CEOs are having to become hybrid leaders who can successfully run the business of today while creating the business of tomorrow.

This sector key findings report takes a closer look at responses from pharmaceuticals and life sciences CEOs. It is based on 119 interviews, conducted in 40 countries around the world. We also cite more in-depth conversations with two sector CEOs.

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Acknowledgements

Our thanks to the following CEO quoted in this document.

Joseph Jimenez, CEO
Novartis, Switzerland



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