



How to make the most of a downturn

Healthcare and Life Sciences



People need medical treatment and medicine in good times and bad, but healthcare and life sciences (HCLS) companies are not immune to economic downturns. Patients tightening their belts may forego the elective surgeries that are important sources of revenue for hospitals, with associated impacts on the medical devices and medicines used in these procedures. And in a severe recession with widespread job losses, some patients may lose insurance coverage. In this brief paper, we look at how HCLS companies may be affected by the slowdown in U.S. GDP growth and a possible recession—and how they can avoid the worst impacts and plan for new growth.¹

What to prepare for

Most executives in HCLS, like those in other industries, are bracing for a possible recession. Responding to our July survey, 77 percent said they were concerned or very concerned—the largest share of respondents in any industry we surveyed—and 40 percent estimated the odds of a recession are greater than 50 percent. They were also more likely to expect the recession to last more than a year than respondents in other industries, with the exception of those in energy, natural resources, and chemicals.

Healthcare leaders have particular concerns about an economic downturn. Many hospital systems and other providers are already feeling intense margin pressure due to inflation in labor and supply costs. A severe shortage of nursing staff is not only raising costs but also limiting providers' ability to deliver services in some settings, depressing revenue. Many smaller hospitals kept their

Four actions for HCLS leaders

01. Pursue smart M&A:

Use the downturn as an opportunity to rebalance portfolios to improve competitive position

02. Use data for performance improvement:

Lean into analytics that will uncover where potential cost saving measures could improve financial performance and margins

03. Focus on what will sell now:

Understanding immediate patient and healthcare provider needs is paramount in a down market

04. Find new ways to attract, retain and build talent:

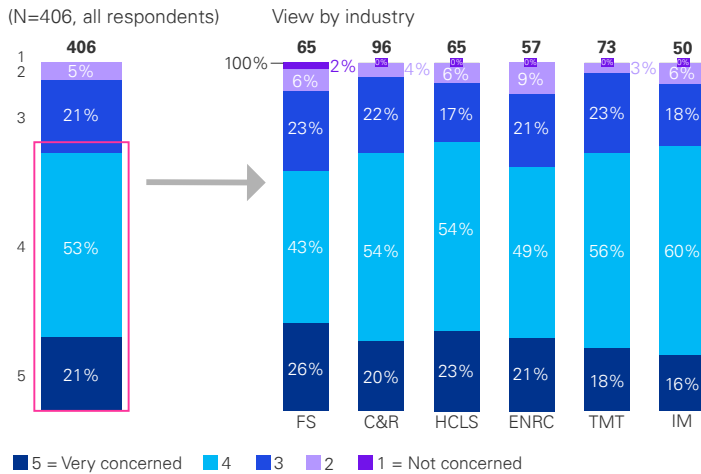
Double down on ways to address the industry's significant talent challenges

¹ Source: For more on the overall economic outlook, please see "Making the most of a downturn," KPMG LLP, 2022.

HCLS executives are more likely to be “concerned” or “very concerned” about the U.S. economy

74% Showing high level of concern by selecting 4 or 5 out of 5

On a scale of 1 to 5, how concerned are you about the U.S. Economy?



Source(s): Economic Slowdown Survey Results

heads above water during the pandemic with government support. But today, with that support gone, volumes back to normal, labor and supply costs rising, and larger interest payments looming, some of these smaller institutions will face some difficult choices.

Most biopharma companies are in a much stronger position. Demand for drug therapies is less vulnerable to economic downturns, and pharma companies continue to pursue innovation in good times and bad. That said, biopharma and medical device companies tend to be impacted by inflation and have been exposed to supply chain, logistics and labor issues that can slow production.

The relative inelasticity of demand for pharma therapies and devices may be reflected in the survey results: 80 percent of LS respondents are forecasting YOY revenue growth in 2022, compared to only 59 percent of those in HC.

How HCLS companies are getting ahead of the downturn

Based on our research and experience serving clients across industries, we know that leading companies that take decisive action before a downturn—and find opportunities to invest in growth ahead of recovery—come out on top. In our analysis of companies across industries during the Great Recession, for example, we found that the top quartile of companies in total shareholder returns cut costs and raised EBITDA margins before the recession hit, which helped them preserve margins as sales slowed. Many used the downturn to plot fresh growth strategies—shedding businesses that no longer had sufficient growth potential, for example, and snapping up promising new assets, including some at lower prices.

Among the senior HCLS leaders who said their companies already have plans to navigate a recession, more than 70 percent are considering cost-out or margin improvement efforts. They are also re-evaluating long-term planning or strategy. Even some of the biggest hospital systems are scrambling to cut costs, including outsourcing non-care-related functions such as information technology,

labs, pharmacies, and food services. Providers are also offloading non-clinical related tasks to other employees to make sure that their clinical team is working at the top of their license. While large, for-profit chains have the financial strength to endure a period of declining volume, small regional hospitals could be forced to consider other options. This could be an opportunity for platform players to expand geographically.

We expect many HCLS players will use M&A to position their organizations to withstand a downturn and plot post-recession growth. After a record year for M&A in 2021 many large biopharma companies focusing on integrating their new businesses in 2022. Even so, after a drop in M&A activity in the first quarter, we have seen new deal activity rebounding in Q2 and Q3. Three-quarters of respondents to a May KPMG survey said their companies still have moderate M&A appetite. An even larger share say they are unlikely to divest assets in the next three years. With more buyers than targets, some valuations could remain relatively high even if the downturn persists.



How Amgen and other biotech leaders outperformed in the Great Recession

When dark clouds appear on the economic horizon, biotech can be an attractive option for investors seeking long-term growth. Each company in the sector has challenges and opportunities, but at the time of this writing, the S&P 500 had declined by 8.8 percent in the past 12 months while the NYSE Arca Pharmaceutical Index had risen 3 percent.²

Robust innovation pipelines, promising clinical trials, and pending regulatory approvals are major reasons why investors are still bullish on biotech. An important new drug can significantly expand earnings no matter what's happening in the economy. The industry also has hundreds of billions of dollars in cash, along with access to huge quantities of credit, to make acquisitions.

In the 2008-09 recession, the prospect of new drugs attracted investors to Amgen. From January through December 2008, in the trough of the Great Recession, investors bid up Amgen's share price by more than 24 percent while the S&P 500 fell more than 38 percent. They weren't speculating—the company's earnings rose by 32.5 percent to \$4.2 billion in fiscal year 2008, thanks in part to strong demand for the company's drugs to treat cancer, anemia, and other illnesses. In 2009, Amgen shares rose again on news about drugs for bone cancer and osteoporoses, and breast cancer.

What you can do now

KPMG LLP advisers to healthcare and life sciences leaders recommend four key moves to make now:



Pursue smart M&A: An economic downturn can be an opportunity to rebalance the portfolio to improve competitive position—divesting slower-growing businesses and investing in new sources of growth. Valuations of many early-stage companies have started to come down from historical or record highs, which could represent opportunities for acquirers.



Focus on what will sell now: In a challenging market, the most effective commercial strategies address immediate customer needs—"tactical innovation" that promptly and significantly improves the patient experience, for example, rather than innovation for its own sake.



Use data for performance improvement: Avoid blunt-instrument cost-cutting by using data-driven analyses to identify where cuts would hurt growth. Use performance analytics to devise clearer, more realistic plans to improve performance in good times and bad.



Find new ways to attract, retain and build talent: Healthcare and life sciences have significant talent challenges and need to innovate in recruiting and retention. The outperformers in the years ahead will know more about what their nurses, physicians, researchers and other highly skilled people want out of life in addition to money. Some providers are launching residency programs for nurses to attract and retain nursing talent.

² Source: "How Recession Proof Is The Pharmaceutical Industry?," Oct. 2, 2019, Forbes.

How KPMG can help

KPMG has a long history of helping HCLS leaders navigate economic cycles. A few of the questions we help clients answer:

01. How can we drive profitability while pursuing innovation and maintaining the quality of our products and services?

KPMG provides clients with proven tools and functional and industry experts to help identify the most promising cost-saving opportunities that will not affect quality.

02. How can we raise margins quickly? We tap clients' internal data and vast new sources of external data to identify where and how they can find savings and what to avoid. With the latest performance analytics, senior leaders can shift their thinking to make performance improvements stick.

03. Where are our biggest growth opportunities? Our global HCLS strategy team can assess the landscapes of emerging technologies and companies to identify those poised for growth in a changing marketplace.

04. What is the correct value of a target, and how compelling is the investment thesis? Our experienced, specialized teams build the forecast models, valuations, and the overall strategic points of view to justify spinoffs and acquisitions—or avoid them.

05. How can we integrate an acquisition to create sustainable value quickly? KPMG has teams dedicated to helping HCLS companies develop and execute integration strategies across all back- and front-office functions.

06. How can we maximize the value of a divestment? Our skilled, experienced strategists help clients run sophisticated analyses to identify optimal capital creation options and help clients build the strongest core portfolios. Once the divestment options are identified, KPMG professionals support the operational separation of the entities across all major functions.

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