



## J.P. Morgan Healthcare Conference

### Five Trends We'll See in 2019

Every year, the influential J.P. Morgan Healthcare Conference brings global executives, industry analysts and policymakers to San Francisco for four days to discuss the latest advancements and most pressing industry issues. We held in-depth conversations with more than 300 executives and industry leaders at the recent 37th annual conference, and we discussed which trends will have the biggest impact on leadership and healthcare organizations in the year ahead. Here is what we heard:

# 1

#### **M&A activity will increase — as will the importance of cultural integration.**

Many leaders foresee greater industry competition leading to more M&A activity, such as big pharma companies purchasing biotech companies with assets greater than \$1 billion. There are also signs that a new PE asset class will develop, which would provide more bridge financing between healthcare ventures and classic PE.

Also, healthcare companies are becoming increasingly aware that culture is critical to successful M&A integration. For years, culture was an afterthought compared to the weightier legal, financial and operational components of a transition. Our research, newly published in Harvard Business Review, demonstrates that culture plays a crucial role in business performance when it is aligned with strategy and the business environment. As we discussed with leaders at the JP Morgan Healthcare Conference, recent merger activity in healthcare and other sectors underscores the critical role of culture.

## 2

## Shifts in funding will impact innovation and R&D, and also fuel divestments.

Medical device company leaders are seeing limited VC funding for premarket approval (PMA) products, meaning there are fewer truly new and novel technologies coming to market. Instead, money has tilted toward biopharma and biotech.

Also, large-cap pharma companies are doubling down on the development of breakthrough medicines that can pass muster with the ever-increasing reimbursement hurdles that governments have put in place.

Gene and cell therapy platforms are becoming more popular, and we will likely see more divestment of non-core products and divisions (such as consumer and animal health). These types of assets will likely be acquired by other strategic corporate and private equity firms. Non-conflicted board directors and experienced C-suite executives with deep knowledge of such business units will be in high demand, as will pre-deal advisors and potential future non-executive directors or C-suite executives in the resulting new companies. PE firms will likely have to hold onto these companies for longer periods of time in order to deliver their anticipated returns, meaning their focus on management team dynamics will be even more important.

In big pharma, dividend growth and share buybacks continue to be a major theme. The ever-increasing dividend payouts led by the biggest companies is creating a cash crunch for companies with a market cap of less than \$5 billion, which means they will struggle to expand R&D capabilities and fund product launches.

Also, the demand for cutting-edge R&D and chief commercial officer talent will outstrip supply. Such candidates must have a laser-like focus on the quality of the science, the investors, the board, management teams and, increasingly, the company's cultural dynamics. In any case, companies looking to secure such talent will need to ensure they optimize their go-to-market messaging when approaching such discerning executives.

## 3

## Data is the next frontier.

Digital technology has dramatically transformed the healthcare industry over the past several years, from progress in diagnosis and treatment to myriad advancements in therapy and patient monitoring. Digital tools also open new marketing channels, and they have a dramatic impact on patient advocacy. Companies that have lagged in this area are fervently trying to catch up and are using AI to drive better R&D investments. As a result, innovative senior executives who have change-leadership experience and an awareness of cultural importance are highly valued today — regardless of which sector they are from.

However, we are seeing evidence of a minority of large-cap healthcare companies shifting the digital teams back into traditional line functions to continue their change journey, away from the chief digital officer responsibilities. We are also seeing large-cap pharma companies develop enterprise-wide data acquisition and analytical-processing

capabilities to thoughtfully integrate the massive volumes of data they are generating. In our opinion, companies that have cultural agility, executive intelligence and diversity of thought are more likely to translate insights into meaningful competitive advantage.

# 4

## Increased need for talent means higher competition for key roles.

There is more talent movement than ever across all stages of companies — people are moving from big pharma to VC-backed, early-stage companies, and everything in between. There is also a real interest from VC and PE in building a talent pipeline as they realize how competitive the market is.

Generally speaking, the talent market is trending toward biotech startups and PE-backed companies. There are likely many reasons for this movement, but one motivation seems to be driven by researchers' desire to leave some legacy behind rather than take a more anonymous position with a larger company. As we noted before, companies looking to secure such talent must ensure they optimize their go-to-market messaging if they want to be seriously considered as destinations.

Where there was previously a preference for executives with industry experience, companies are going directly to academic medical centers and other hospitals or universities for R&D talent.

Unsurprisingly, in a few years China will surpass the United States as the biggest healthcare market. Subsequently, the war for talent is getting even tougher as Chinese companies are recruiting more aggressively from Western organizations.

# 5

## Leadership profiles are changing as agility is a more desired skill.

The rapidly changing healthcare industry means leaders need to create a compelling vision and ensure their companies can adjust on the fly. Leadership agility is becoming more important, and the traditional sales/bottom-line oriented executive is becoming less relevant. As the commercial focus is shifting more toward the patient, direct-to-consumer work and multichannel experience becomes more valuable. There is also growing consolidation within the industry, which has reduced the management pools at the top of the organizations. European compensation for CEOs is lower than in American pharma and medical technology companies, and some board members feel this contributes to a lower interest in CEO positions and ultimately correlates with regional performance differences.

## Conclusion

Despite these challenges, we still believe the healthcare industry is at an exciting place right now: we're seeing a rapid pace of development as well as a convergence of science, technology and medicine that will help create new scientific paradigms, innovative business models and creative partnerships that will develop at an ever-increasing rate.

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