

CHUBB®



NATIONAL CENTER FOR
THE MIDDLE MARKET

MIDDLE MARKET INDICATOR: YEAR-END 2022

Life Sciences

Partnering with the National Center for the Middle Market (NCMM), we surveyed 1,000 executives from middle market companies. Enclosed are the results, showcasing the general business trends and evolving risks affecting this segment.

KEY FINDINGS

01 Strong performance continues for middle market life sciences companies

Fueled by the pandemic, middle market life sciences companies continued their robust growth in the second half of 2022

- Mean employment growth accelerated throughout the year to a Covid-era high, and these companies expect it to climb past 20% in 2023, even as some larger pharmaceutical companies are beginning to experience layoffs.
- Companies maintained revenue growth in 2022, but believe it will slow slightly in the next year.
- Higher revenue and wage growth put more business income at risk from an insured loss.

Most middle market life sciences companies have confidence in the economy at all levels

- Confidence in the global and national economy moved ahead of the local economy for the first time in more than a year.
- Companies expressing confidence in the global economy spiked more than 10 points since year-end 2021.

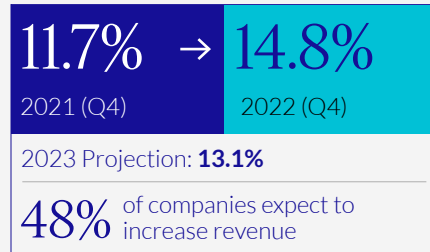
Companies expect expansion opportunities to widen in 2023

Middle market life sciences companies' top expansion plans – expanding into new international markets, taking on new debt, and making an acquisition – jumped sharply in the second half of 2022, vaulting past the prime opportunity areas noted at mid-year 2022 – introducing a new product or service, expanding into new domestic markets, and bringing in new equity investment.

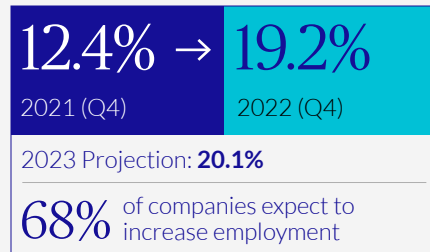
The data behind the findings

STRONG PERFORMANCE CONTINUES

Mean revenue growth



Mean employment growth



Companies responding that their performance improved in 2022



CONFIDENCE IN THE ECONOMY

Global economy



National economy



Local economy



IN 2023, MIDDLE MARKET LIFE SCIENCES COMPANIES EXPECT TO:

Expand into new international markets

79%

+12 from Q4 2021

Take on new debt

77%

+29 from Q4 2021

Make an acquisition

75%

+23 from Q4 2021

Expand into new domestic markets

74%

+11 from Q4 2021

KEY FINDINGS

02 Supply chain, workforce remain top concerns for middle market life sciences companies

Unlike middle market companies overall, middle market life sciences companies continue to note supply chain issues as their main business concern

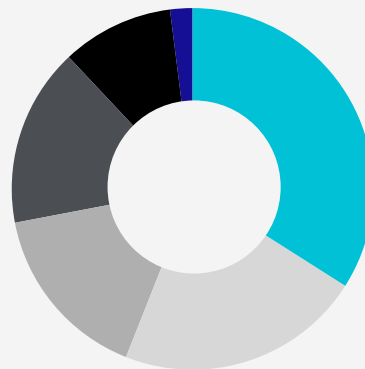
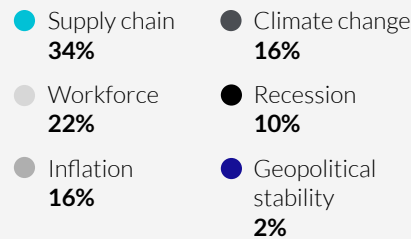
- Half of these companies were impacted by supply chain disruptions in the second half of 2022, more than double the level of a year ago.
- Life sciences companies have weathered many supply chain challenges during the pandemic. However, some:
 - Pharmaceutical companies are still dealing with backlogs for sourcing ingredients from overseas.
 - Biotech companies are struggling to access manufacturing capacity in the wake of vaccine production and
 - Medical device companies are finding raw materials and components difficult to secure.
- Most companies are experiencing supply chain management challenges, from the growing complexity of the supply chain to supplier due diligence or audits to negotiating terms with suppliers.

Workforce became a larger concern for middle market life sciences companies since mid-year

- As they continue to grow, most of these companies are challenged by finding or hiring talent with the right skills, particularly scientists and technology specialists.
- In response, companies are addressing the challenge by taking steps – such as bringing in consultants or contractors, outsourcing and raising salaries or wages significantly – that could change their risk exposures.

The data behind the findings

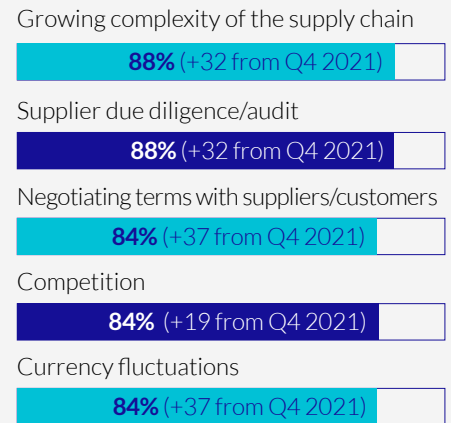
BIGGEST CONCERNS FACING MIDDLE MARKET LIFE SCIENCES COMPANIES



SUPPLY CHAIN MANAGEMENT CHALLENGES

51% Impacted by supply chain disruptions in past six months (+30 from Q4 2021)

Most challenging aspects

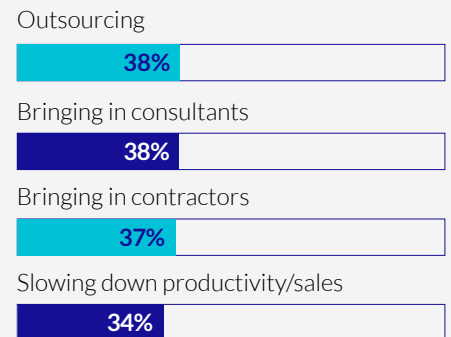


ADDRESSING WORKFORCE CHALLENGES

84% Challenged* by finding/hiring employees with the right skills

56% Salaries/wages increased 6% or more

Due to workforce/hiring issues, companies have experienced:



*extremely/very/somewhat challenged

KEY FINDINGS

03 Risk management challenges have expanded

Several risks have become challenging to manage for the majority of middle market life sciences companies

- Two-thirds of companies now find legal, regulatory or compliance, and insufficient cyber security risks challenging to manage, up significantly during 2022, with recession and inflation risks close behind.
- Governments continue to apply pressure on these companies around drug and device pricing, patent protection, and the ability to write off research and development expense.
- Companies finding risks challenging to manage rose by double digits for several risks.

Most middle market life sciences companies experienced non-pandemic disruptions in the past two years

More than a third acknowledged that they could have been covered for these disruptions if they had purchased available insurance.

Middle market life sciences companies should take a proactive approach to evaluating and managing the risks they face from supply chain disruptions, inflation, potential recession, and cyber security. Strategies include:

Risk mitigation – Identifying approaches to mitigate exposures and prevent losses helps control the cost of risk. It may make sense to implement capital improvements, such as replacing roofs or installing water shutoff valves, and conduct employee ergonomic assessments, among other measures.

Business continuity planning and insurance adequacy – A thorough business continuity plan can help estimate replacement costs and duration of loss, find weak links and workarounds in supply chains and computing environments, and address climate exposures. These inputs enable companies to fine-tune the level of risk they assume through coverage limits and deductible levels.

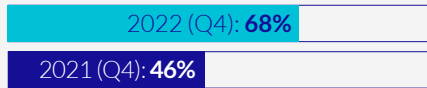
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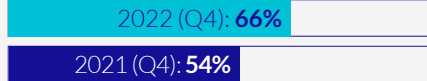
The data behind the findings

MIDDLE MARKET LIFE SCIENCES COMPANIES FINDING RISKS EXTREMELY/VERY CHALLENGING TO MANAGE

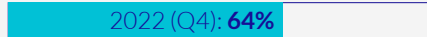
Legal, regulatory, compliance risk



Insufficient cyber security

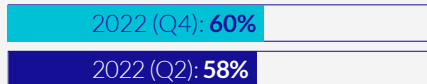


Recession risk*



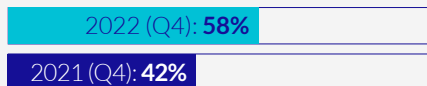
*New response choice in Q4 22

Inflation risk**

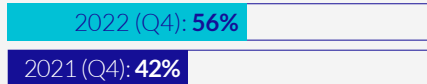


**New response choice in Q2 22

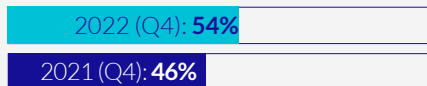
Change in leadership/control



Catastrophic incidents (not cyber)



Supply chain risk

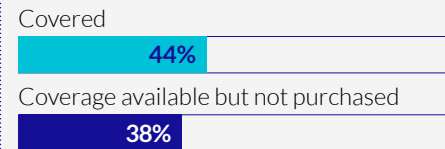


ROLE OF INSURANCE IN DISRUPTIONS

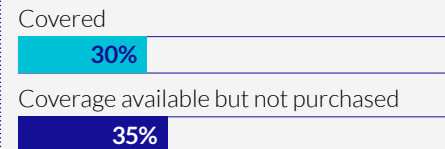
93% Experienced non-pandemic business disruptions in the past two years

Key losses covered or could have been covered:

Operational disruption



Strategic disruption



RESOURCES TO STAY UP TO DATE ON THESE RISKS

- [Insurance for life sciences companies](#)
- [Protecting businesses from supply chain disruption](#)
- [Cyber risk management information](#)
- [Economic forces impact commercial property replacement costs](#)

More than ever, middle market companies need expert advice on how to manage evolving risks



Chubb, along with its agent and broker partners, can provide insights on the exposures surrounding these risks, as well as specialized risk engineering services to evaluate and mitigate exposures. Additionally, Chubb can offer solutions for managing these risks through customized insurance coverages that provide essential protection.

For more information about these or other topics, visit chubb.com.