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NATIONAL CENTER FOR
THE MIDDLE MARKET

MIDDLE MARKET INDICATOR: YEAR-END 2023

Life Sciences

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

01 Performance ramped lower for middle market life sciences companies in 2023, after a pandemic-fueled surge

In the second half of 2023, growth continued to decline from both mid-year and a year ago

- Revenue growth cooled considerably, even well below their projections in late 2022, but these companies expect revenue growth to slightly improve in the next 12 months.
- Employment growth was nearly cut in half in 2023, and middle market life sciences companies expect that to decline further in the year ahead.

Economic confidence remains high

- However, confidence at all levels has dipped over the past year.

Performance improvement edged lower

- Nearly three-fourths of responding companies improved their overall performance during 2023, slightly lower than a year ago.

More companies are adopting artificial intelligence (AI)

- Three in five middle market life sciences companies, particularly biotechnology companies, are actively testing or already using AI, and their most common uses include customer service and analyzing data. This level of adoption is far ahead of middle market companies overall.

Companies plan to accelerate expansion

- Middle market life sciences companies remain optimistic about several areas of expansion in the next 12 months, similar to their view at the end of 2022.

Expansion plans for middle market life sciences companies are far stronger than for the middle market overall, even though growth in the second half of 2023 was slower

- Views on expansion opportunities for this segment are well beyond the middle market average, such as expanding into new international markets and introducing a new product or service.
- Both revenue growth and employment growth for these companies were nearly a percentage point behind the middle market overall in late 2023, but their employment growth outlook is a point higher.

THE DATA BEHIND THE FINDINGS

Growth cools

Mean revenue growth



Projection (next 12 months): **11.5%**

Mean employment growth



Projection (next 12 months): **8.0%**

Companies improving their performance over the past year



Economic confidence remains high

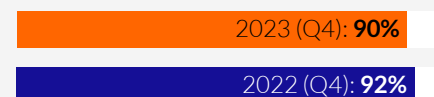
Global economy



National economy



Local economy



Trending topics

Artificial intelligence (AI)

Adoption levels

- **61%** Testing/using
- **39%** Learning/exploring/trying it out

Functions currently using AI

(Sum of 1st, 2nd, 3rd mentions)

- **61%** Customer service
- **61%** Analyzing data
- **49%** Innovation
- **48%** Improving efficiencies

Expansion plans in 2024

(Extremely/very likely)

Introduce a new product/service

80% +6 from Q4 2022

Expand into new international markets

77% -2 from Q4 2022

Expand into new domestic markets

70% -4 from Q4 2022

Revenue growth slowed for middle market life sciences companies...

Mean revenue growth

10.2% -2.2 compared to middle market

Mean employment growth

9.7% +0.1 compared to middle market

...but their expansion outlook is much brighter than the overall middle market

2024 revenue growth projection

11.5% +3.4 compared to middle market overall

Introduce a new product/service

+19 compared to middle market overall

Expand into new international markets

+36 compared to middle market overall

Expand into new domestic markets

+15 compared to middle market overall

02 Varied range of emerging risks concern middle market life sciences companies

Changes in leadership or control, such as from CEO successions or mergers and acquisitions activity, led the emerging risks for this sector

- The prime reason for their concern is that these companies have been more involved in major transitions over the past year, and well over half expect to make an acquisition in 2024, far more than the middle market overall.
- In the past two years, nearly half of middle market life sciences companies experienced a strategic disruption, which includes these types of company transitions, higher than the overall middle market. In addition, these disruptions resulted in a mean negative revenue impact of more than 20%.

Catastrophic incidents are on the radar screen for these companies

- Middle market life sciences companies place catastrophic incidents high on their emerging risks list for good reason—many of their high-value products can be lost or contaminated in these events. This also likely accounts for why catastrophic incidents factor into insurance purchasing decisions for nearly half of these companies.

Workforce was the leading factor in insurance purchasing decisions

- As middle market life sciences companies hire more employees and ask them to work longer hours due to skilled-talent shortages, the importance of identifying and implementing strategies to reduce workplace injury risks increases.

Companies plan to use AI as their best defense against challenging macroeconomic conditions in 2024

- To prepare for a potential environment of inflation, ongoing high interest rates and a possible recession, more than two in five middle market life sciences companies expect to further integrate AI applications into their businesses, such as for data analysis and customer service, well ahead of the middle market overall.
- Interestingly, companies in this sector will consider actually lowering prices and resorting to layoffs much more readily than the overall middle market, while raising prices is far down on their list of potential actions than other middle market companies.

Several risks remain concerning for middle market life sciences companies

- Beyond the top emerging risks, a number of other risks registered as significant for these companies, including regulatory/compliance, supply chain, banking stability, cost of credit/capital, cyber security, and inflation.
- Additional risks they found concerning included competitive, litigation, increasing public health concerns targeting common products and processes, talent shortage/employee retention, and access to credit/capital.

THE DATA BEHIND THE FINDINGS

Top emerging risks

(sum of 1st, 2nd, 3rd responses)

Change in leadership or control (CEO succession, M&A)



Recession



Catastrophic incidents (not cyber)



Regulatory or compliance risk



Supply chain



Banking stability



Cost of credit/capital



Cyber security



Inflation



Others



Other: Competitive 19%, litigation 18%, increasing public health concerns targeting common products and processes 16%, talent shortage/employee retention 15%, access to credit/capital 10%

How companies are preparing for 2024's macroeconomic environment**

- 43% Greater integration of AI
- 37% Lowering prices (+17 compared to middle market overall)
- 33% Company layoffs (+13 compared to middle market)
- 33% Delaying significant changes
- 30% Moving up significant changes
- 25% Buying more inventory
- 24% Raising prices (-15 compared to overall middle market)
- 24% Hiring freeze

**Inflation, interest rates, recession

Key driver of company transition risk

57% expect to make acquisition in next year

+19 compared to middle market overall

Strategic disruptions*

47%

experienced strategic disruptions in the past two years

* industry consolidation, regulations/economic conditions, customer supplier going out of business, change in ownership, etc.

Revenue impact

84%

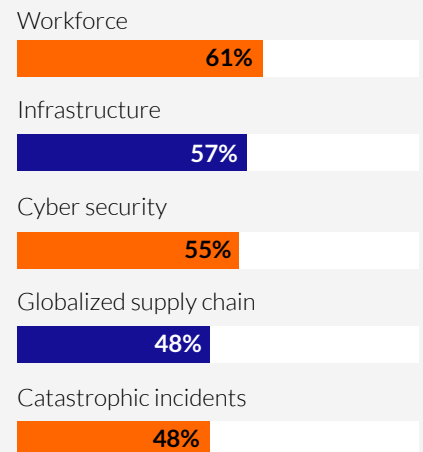
of those companies had a 10% or higher revenue impact from these disruptions

22.5%

mean revenue impact

Concerns factoring into insurance purchasing decisions

(Sum of 1st, 2nd and 3rd concern rankings)



03 Economic and talent risks are most challenging to manage for middle market life sciences companies

Half of these companies have difficulty managing inflation, recession, and workforce-related risks, although that is significantly lower than a year ago

- Most middle market life sciences companies recognize that inflation has increased the replacement costs of their insured assets, but only about half will consider increasing their coverage in response.
- The current replacement values of equipment and building contents are notable areas where many companies remain underinsured, often only discovered when an actual loss occurs.

Middle market life sciences companies recognize gaps in insurance coverages

- For several types of insurance, these companies noted that their potential needs for coverage were far greater than their perceptions that they had adequate coverage.
- Middle market life sciences companies are more international than the middle market overall and many specific industries, but fewer than a third of these companies believed they had adequate multinational coverage, while more than two-thirds acknowledged that they either needed more of the coverage, didn't currently have but needed the coverage, or were considering the coverage.

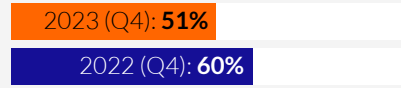
Many companies are not prepared for disruptions

- More than a third of middle market life sciences companies are not adequately prepared for fundamental disruptions, including catastrophic incidents, prolonged power outages, and fire or water damage.
- For the nearly half of these companies that experienced strategic disruptions, more than a third acknowledged that they could have been covered if they had purchased available insurance.
- In addition to potentially being underinsured for higher property and equipment values, these companies often underestimate how long it will take to get back up and running after an insured loss, which points to the need for adequate **business interruption coverage** and more thorough and realistic **business continuity plans**.
- Risk mitigation strategies can often help in minimizing or preventing damage from occurring. For example, water shutoff valves can prevent water damage within properties. Companies can improve their climate resiliency through a full-spectrum **natural hazard risk assessment**, featuring a physical locations risk analysis, mitigation and adaptation strategies, and business continuity planning services to help manage climate-related exposures and impacts.

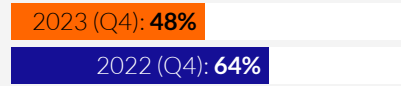
THE DATA BEHIND THE FINDINGS

Middle market life sciences companies find risks extremely/very challenging to manage

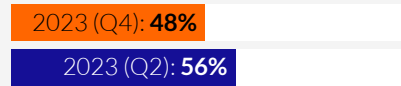
Inflation risk



Recession risk



Talent shortage/employee retention***



***new survey choice in 2023 Q2

Role of insurance in disruptions

Strategic disruptions****

44% Covered
36% Coverage available but not purchased

**** industry consolidation, regulations/economic conditions, customer/supplier going out of business, change in ownership, etc.

Preparedness for disruptions

(Completely/very prepared)

59% Prolonged power outage
63% Fire/water damage
65% Catastrophic incidents

Insurance impacts of inflation

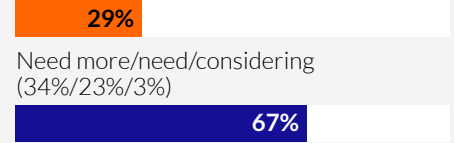
92% of companies say the replacement value of covered assets has increased due to inflation

56% of companies say they will consider increasing coverage amounts
-22 from Q4 2022

Insurance adequacy/needs

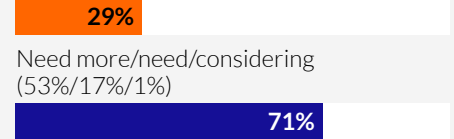
Multinational

Adequately covered



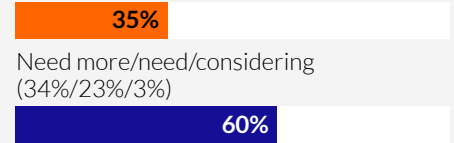
Accident & Health (Business Travel Accident/Occupational AD&D)

Adequately covered



Environmental (pollution liability)

Adequately covered



Middle market life sciences companies can rely on Chubb for expert advice on managing their unique risks

Whether you may need to close gaps in coverage from emerging risks, level up coverage for today's higher replacement values, or create business continuity plans, Chubb and its agent and broker partners can provide specialized services to help mitigate exposures and offer customized, comprehensive insurance solutions for managing your risks.

For more information about these or other topics, visit [chubb.com](https://www.chubb.com).

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