EXECUTIVE SUMMARIES FROM SELECTED SESSIONS AT:

16TH LIFE SCIENCES
ACCOUNTING & REPORTING
CONGRESS

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HIGHLIGHTS FROM THE 16TH ANNUAL LIFE SCIENCES ACCOUNTING & REPORTING CONGRESS

Throughout the 16th Annual Life Sciences Accounting & Reporting Congress, leaders from across E&Y moderated sessions and shared insights and best practices on some of the most important issues facing finance leaders in life sciences companies.

A brief description of each of these sessions is provided below. A more detailed executive summary follows.

Chief Accountants Panel

Mark Solak led a discussion among chief accounting officers from several life sciences companies about the most significant challenges they and their companies have faced during the pandemic and what they expect the world to look like after the pandemic. They focused on changing how and where people work, taking a people-first approach with greater flexibility, and adopting tools to automate controls and aspects of the closing process.

Luminary Panel on Innovation

Tim Gordon moderated a panel of scientists who shared their thoughts on how COVID-19 is affecting the scientific and research communities. The panelists see increased collaboration, efforts to expedite clinical trials, and increased awareness of the need to improve the diversity of trial participants. These scientists see great potential in using digital technologies such as AI to leverage the massive amounts of data in healthcare to generate profound breakthroughs in drug development.

Communicating Your Long-Term Value Strategy to Investors

Marc Siegel focused this session on the growing importance to investors of nonfinancial metrics, particularly ESG (environmental, social, and governance) metrics. It has become increasingly important to investors that companies report nonfinancial metrics, which are seen as key indicators of a company's strategy and long-term value. For companies getting started, tools from the Sustainability Accounting Standards Board (SASB) can help in reporting relevant nonfinancial metrics for specific sectors.

Digital Leadership

Viq Pervaaz guided this discussion on how life sciences companies are using digital technologies to empower people and advance the business strategy. The focus of this session was how digital technologies enable individuals, teams, leaders, and entire organizations. Digital is not a singular destination; it is an ongoing journey.

Strategies for Accounting for Alternative Financing Structures


Phil Howard and Daniel Lujan were joined by accounting leaders from life sciences companies to share insights about creative ways that companies are financing R&D activities. These financing methods—which can involve significant accounting complexities—include different forms of collaboration between companies and partnerships, often have an equity kicker, can involve selling royalties, and more. Best practices in these arrangements include working closely with business development and with investor relations, and having systems in place to track the complex R&D financing arrangements.

Divestiture Strategies to Create Value


Hosting this panel of divestiture experts, Mike Banish and Savi Mittal shared E&Y research indicating that interest in divestitures remains high for both sellers and buyers. The panel discussed best practices for identifying divestiture opportunities through a regular strategic review process. They offered lessons from their experiences in the divestiture planning process, stressing the importance of preparing strategically, operationally, and financially. They also described critical parts of the divestiture marketing process, including the management presentation and due diligence.

Finance Transformation and Cost Optimization Through Automation


Stephan Choe and Tracey Gunter led a conversation looking at the keys to a successful finance transformation, which include identifying a clear business problem to solve and engaging a diverse group of stakeholders in the process. Any finance transformation initiatives need to be aligned with the overall company strategy, and individuals participating in the transformation need to have a clear sense of the personal and professional benefits, such as gaining new skills and advancing their career. The panelists examined how the pandemic has affected large-scale transformation work, which has often resulted in organizations reviewing all initiatives to ensure they still generate value and reprioritizing initiatives, while also changing the way organizations work.

CHIEF ACCOUNTANTS PANEL

EXECUTIVE SUMMARY

FEATURED SPEAKERS: Robin C. Kramer, Vice President, Chief Accounting Officer, **Biogen Inc.**; Kelly MacDonald, Chief Accounting Officer and Vice President of Finance, **Ironwood Pharmaceuticals**; Kevin MacKay, Vice President, Global Technical Accounting Advisory Services & Policy, **Pfizer**; Robert Owens, Vice President and Chief Accountant, **Bristol-Myers Squibb**; Stephen Rivera, Vice President, Global Technical Accounting Advisory Services & Policy, **Johnson & Johnson**; Mark Solak (Moderator), Partner, Financial Accounting Advisory Services, **Ernst & Young LLP**

IDEAS THAT MATTER

- For accounting leaders, the pandemic has forced **new ways of managing and communicating**.
- Leaders are taking a **people-first approach**, with emphasis on their team's health and morale. Leaders are communicating frequently, focusing on burnout, and providing flexibility and balance.
- Accounting priorities have included looking at risks and focusing more on **tools to automate controls** and aspects of the closing process.
- Post-pandemic, panelists expect greater **flexibility** around when and where people work and greater focus on the data that truly matters in making **critical business decisions**.

KEY TAKEAWAYS

During the pandemic, EY has framed conversations with clients as now, next, and beyond.

In setting the context for this session of accounting leaders, EY's Mark Solak explained that at the outset of the COVID-19 crisis, EY talked with clients along three time frames: now, next, and beyond.

- **Now** was during the spring of 2020, at the outbreak of COVID-19.
- **Next** is the world's current holding position.
- **Beyond** is the new normal, once the world fully returns to work.

Solak asked panelists for observations from each time frame.

NOW *(the early days of the pandemic, which are now in the rearview mirror)*

In the pandemic's first few months, accounting leaders focused on organizational survival, shifting to remote work, and changing how they managed and communicated. Panelists' observations from this period included:

- Implemented daily calls and emphasized transparency.
- Pushed teams to be agile and flexible.

- Leveraged existing playbooks and business continuity plans.
- Focused on identifying areas of the business that might be impacted, prioritizing risks, and taking advantage of enterprise risk management programs.
- Proactively engaged in being a "detective" versus monitoring.

"A couple of things really helped us. We activated and actioned our Business Continuity Plan, and it worked really well. We also leveraged the structure of our existing Enterprise Risk Management program to evaluate the risk landscape."

Kevin MacKay, Pfizer

NEXT *(the current holding position or purgatory we find ourselves in)*

After getting past the first few months, organizations have settled into an indefinite holding period. During this time accounting leaders are extremely focused on the morale of their team members and making the current situation sustainable.

"It is clear that the consensus is that maintaining the culture and maintaining optimism is one of the biggest challenges."

Mark Solak, Ernst & Young LLP

Priorities during this time include:

- Taking a people-first approach by focusing on the morale of team members with virtual happy hours, birthday celebrations, town halls, and more. All panelists are sensitive to employee fatigue, burnout, and having balance in life.
- Engaging in frequent personal communication to build and sustain relationships.
- Investing in employees' home workspaces so people are comfortable and productive.
- Continuing recruiting efforts to fill positions and onboard new employees.
- Identifying opportunities where technology can automate and streamline processes, particularly helping facilitate a remote close.

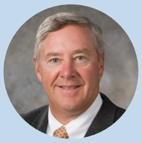
"We have taken this opportunity to step back and identify areas where we can prioritize and streamline investments to automate some of these controls."

Kelly MacDonald, Ironwood Pharmaceuticals

BEYOND *(the longer-term future after the pandemic)*

In envisioning what the world will look like after the pandemic, the panelists believe that some of the changes that have taken hold during this time will be sustained. These include:

- Continuing to prioritize employee morale and relationships with frequent communication.
- Greater flexibility in where and when people work. The panelists don't envision that all employees will work from home on an ongoing basis, but also don't envision that everyone will work from 9 to 5 in an office. Panelists anticipate more of a flexible, hybrid environment.



"I wouldn't be surprised if in the beyond period we ended up being a little bit more in the middle [between 100% in an office and 100% from home] where there's a lot more flexibility . . . we have to find ways to really change the way we train and develop people . . . and we need additional emphasis on being inclusive."

Robert Owens, Bristol-Myers Squibb

"What do we really need to make decisions at the executive level? . . . What do I need to provide to make them comfortable for the audit?"

Stephen Rivera, Johnson & Johnson

- Reduced need for corporate real estate, with fewer people working in an office.
- Greater use of technology to automate certain tasks.
- Simplifying the organization's data requirements by moving away from over-analysis to focus on the data that is truly needed for business decisions and audits.
- Taking the opportunity to rethink and reinvent the business by focusing on what truly matters.

Want to learn more?

Contact us at **mark.solak@ey.com**

LUMINARY PANEL ON INNOVATION

EXECUTIVE SUMMARY

FEATURED SPEAKERS: Christopher Austin, MD, Director, National Center for Advancing Translational Sciences, National Institutes of Health; Victor Lei, PharmD, Senior Research Scientist, Center for Health Incentives and Behavioral Economics, University of Pennsylvania; Niven Narain, PhD, Co-Founder, President, and CEO, BERG Health; Tim Gordon (Moderator), FAAS, Global Financial Accounting Advisory Services Leader, Ernst & Young LLP

IDEAS THAT MATTER

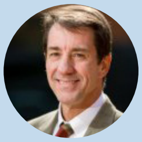
- While COVID-19 has been terrible, there are silver linings. Among them are increased collaboration, efforts to expedite clinical trials, and increased awareness of the need to improve the diversity of trial participants.
- The era of digital medicine has begun. The digital infrastructure, massive amounts of data, powerful processing, and AI provide the ability to transform healthcare diagnoses and practice.
- Together, AI and biology can pioneer profound breakthroughs in drug development.

KEY TAKEAWAYS

In the medical and scientific world, multiple practices have changed due to COVID-19.

For the first few months of the COVID-19 pandemic, as the world was forced to work from home and as virtually all scientific research focused on coronavirus, research on most of the 7,000 diseases that affect humans came to a halt. However, Chris Austin from the NIH said that despite the terrible circumstances associated with COVID-19, there are silver linings which he hopes will have long-lasting impact on science and medicine. Among them are:

- Greater collaboration. Often in the scientific community the various players have differing incentives and are reluctant to work together. But this pandemic has brought together a wide variety of people, focused them, and motivated them to work together with great urgency.



"The world has really changed in the last three months. We've seen a massive increase in collaboration and as a result, increased efficiency and effectiveness as people are sharing insights and working together."

Christopher Austin, NIH

- Changes in human subjects protections. Processes have been streamlined, digitized, and expedited.
- Shifts in administering clinical trials. Previously, providers were only compensated if patients visited a hospital to get examined. Greater acceptance and use of telemedicine during COVID-19 has changed this and created greater flexibility.
- Changing medical practices. Medicine has become increasingly specialized and segmented. The pandemic has shown the need to adjust medical training and to increase the use of informatics.
- Increased attention to inclusion. Research often does not have enough people in trials from underrepresented minorities. COVID-19 has brought this issue to the fore and focused attention on the need to solve this problem.
- Forcing a conversation about the future. Often when things change, they then go back to how they were before. But leaders throughout healthcare are contemplating how to sustain some of the positive changes that have occurred during the pandemic, such as collaboration, use of informatics, and faster, more efficient administrative processes.

Dr. Austin believes it is very likely that at least one vaccine candidate will be shown to be useful by this fall or early winter, but that will be followed by a host of manufacturing and distribution challenges. Also, even if a vaccine is effective at inducing immunity, it is uncertain how long this immunity will last.

Over the next decade AI has the potential to transform healthcare.

The era of modern medicine, which began around the industrial revolution, has led to dramatic improvements in healthcare. It included use of tools and technologies, creation of methodologies and evidence, specialization, and eventually creation of antibiotics. This was followed in the late 1900s by the era of evidence-based medicine, which focused on collection of data and use of systematic processes to develop evidence about what works. However, even as the amounts of data and evidence were increasing, the infrastructure for data and analytics had not yet been developed.

But that has changed, as healthcare has entered the era of digital medicine. There are now more powerful data systems and processing, which makes artificial intelligence possible. AI can be used in developing new treatments and changing how clinicians practice medicine.

"Over the past 10 years there has been the development of better data systems and more processing power. We can now do a lot of different things with machine learning, deep learning to build products within this space . . . and begin to help and change the way we practice medicine."

Victor Lei, University of Pennsylvania

Several positive examples show the potential of AI to improve the speed and accuracy of diagnoses and to precisely identify patients for appropriate interventions. But there have also been failures where the data provided to clinicians was uninterpretable and nonactionable. Also, algorithms can be flawed and can be biased.

The use of AI to transform healthcare requires learning from both the successes and failures and seamlessly integrating AI into clinician workflows.

Together, biology and AI can lead to breakthroughs in drug development.

Niven Narain, CEO of BERG Health, stressed that data is not the endpoint and AI is not a product; it is an amazing tool. He emphasized the need for the scientific community to "be humble and embrace the complexity of biology." Together, biology and AI—through BERG's process of "interrogative biology"—can develop precision drugs for specific populations more quickly and less expensively.

"We're moving into an era where we can now use biology and AI to plan for pre- and post-market access more effectively.

Niven Narain, BERG Health

In addition to its ongoing drug development efforts, BERG Health is working in partnership with molecular biophysics experts—using the country's fastest computer to screen hundreds of millions of molecules—to identify novel insights to repurpose existing drugs to prevent individuals with COVID-19 from progressing.

"This conversation gives us hope that we can use technology to improve outcomes and what we do in this industry is save lives."

Tim Gordon, Ernst & Young LLP

Want to learn more?

Contact us at **tim.gordon@ey.com**

COMMUNICATING YOUR LONG-TERM VALUE STRATEGY TO INVESTORS

EXECUTIVE SUMMARY

FEATURED SPEAKERS: Marc Siegel, Partner, Ernst & Young LLP; Laura Kiernan, IRC, CPA, CEO & Founder, High Touch Investor Relations

IDEAS THAT MATTER

- Increasingly, investors are interested in a company's nonfinancial metrics, such as ESG, as these metrics are seen as important elements of a company's strategy and long-term value.
- Reporting nonfinancial metrics is now table stakes. Tools from SASB can help organizations get started in reporting material metrics for each sector.
- Companies need a cross-functional approach to gathering and reporting ESG data, with the finance organization playing a key role.

KEY TAKEAWAYS

Increasingly, nonfinancial ESG metrics play a key role in driving company valuations.

Those investors and asset owners with a long-term perspective—such as insurance companies and pension funds that invest with a 30-year horizon—want to know if the companies they are investing in will be around over the long term. Many of these asset managers are increasingly focused on long-term, nonfinancial metrics.

"The financial metrics that we've always relied on present a shrinking picture of the total long-term value of a corporation."

Marc Siegel, Ernst & Young LLP

In particular, environmental, social, and governance (ESG) metrics have become increasingly important to investors. These metrics help investors understand a company's strategy and how the company will create value in the long term. Laura Kiernan said that all investors care about ESG and approximately 35% of actively managed investments have some sort of ESG metric as part of their charter.

"Reporting on ESG metrics has become mainstream. It is essentially mandatory for mid to large companies and is becoming increasingly important for smaller companies."

Laura Kiernan, High Touch Investor Relations

It is now essential for companies to report nonfinancial metrics to investors.

To attract and retain investors, companies want to make it easy for investors to understand their story and their strategy. Companies need to simply and clearly emphasize important nonfinancial metrics in their marketing materials, in the language they use, on earnings calls, in press releases, and even in SEC filings.

"By reporting on these various nonfinancial metrics, it helps investors understand how the company is tracking to its goals and objectives, which in turn makes it easier for investors to make an investment decision."

Laura Kiernan, High Touch Investor Relations

Investors seem to be coalescing around frameworks from SASB and TCFD.

A common question asked by companies is, "How do we get started reporting on ESG metrics?" Currently, there is no set framework and no definitive way to do this.

However, in the US, investors seem to be coalescing around disclosures recommended by the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (FCFD). It seems the majority of companies see SASB as a good place to start because it focuses on disclosures that are likely to be relevant in specific sectors. (Learn more at www.sasb.org.)

Importantly, companies that focus on material nonfinancial metrics and are demonstrating the ability to create long-term value are producing positive stock returns.

"What we've found is that companies that focus on the material ESG metrics and do not focus on the immaterial ESG metrics, those are the ones that maximize their stock performance return."

Marc Siegel, Ernst & Young LLP

Within organizations, there is not a clear owner for ESG; the key is being cross-functional.

Board members often ask EY where responsibility for ESG should reside within companies. There isn't one obvious home for ESG. In different organizations it resides in different places. It might be overseen by the audit committee or the risk committee. It might report up through the CEO, the CFO, the general counsel, or even treasury.

Regardless of which function oversees ESG, the best practice is connectivity and a cross-functional approach. It is the board's role to ensure that management is thinking about ESG in a cross-functional way. As part of this cross-functional approach, it is important to create a consistent narrative for all investors to understand.

As organizations take a cross-functional approach, leading companies are leveraging their finance organization to play a key role in finding and reporting the appropriate data.

> "What we've seen is that investors are asking for this information, companies are providing this information, and the financial organization can and should be involved in helping the company develop a cadence for reporting this information."
>
> Marc Siegel, Ernst & Young LLP

Other countries are ahead of the US in thinking about ESG.

Compared to the US, investors and companies in other countries are much farther along in thinking about and reporting on nonfinancial metrics. In fact, there is a push in Europe to mandate disclosure of nonfinancial metrics. Internationally, these metrics are becoming table stakes.

Momentum is accelerating based on recommendations made at the World Economic Forum and statements from organizations such as the Business Roundtable.

The overriding conclusion from many investors is a desire for both attractive investment returns and progress in achieving nonfinancial metrics. Investors want to see a positive trend and constant improvement.

Want to learn more?

Contact us at **Marc.Siegel@ey.com**

DIGITAL LEADERSHIP

EXECUTIVE SUMMARY

FEATURED SPEAKERS: Viq Pervaaz, Partner, People Advisory Services, **Ernst & Young LLP**; Fernando Salinas, Global Vice President Human Resources, R&D, Digital, Business Development and External Innovation, **Johnson & Johnson**

IDEAS THAT MATTER

- **Digital is an enabler.** It is about adopting the right technologies to enable the business strategy.
- **People must be at the center of a digital transformation.** A digital transformation is about enabling individuals, teams, leaders, and the entire organization. It requires different skills and capabilities.
- A digital transformation is an iterative **journey**, a **mindset**, and a **cultural change**.

KEY TAKEAWAYS

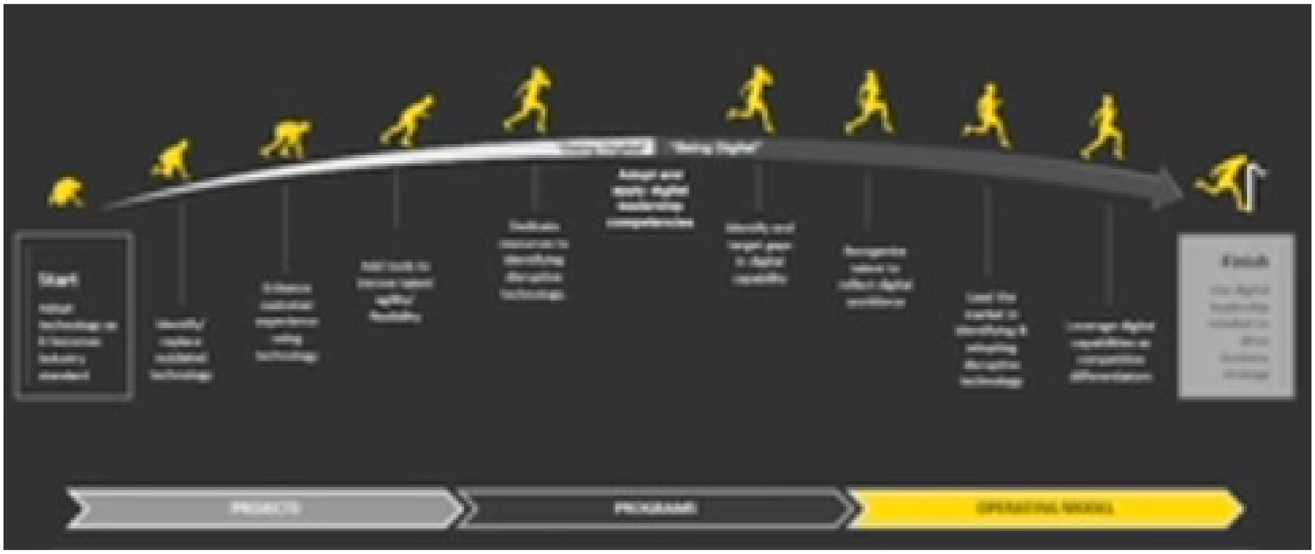
Digital is about enabling the business strategy.

The term "digital" is typically associated with technology and is seen as disruptive. However, digital is an enabler and the best digital strategies are human ones. Digital is truly about adopting the right technologies to enable an organization's people to bring the business strategy and innovation to life.

> "Digital is a concept. It is tools, enablers, culture, skills and capabilities to empower power, empower an organization, and empower a business strategy."
>
> Viq Pervaaz, Ernst & Young LLP

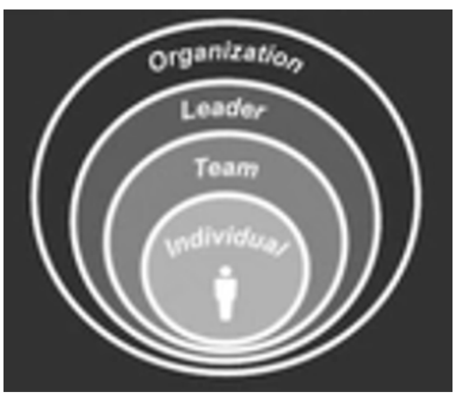
Digital is not a one-size-fits-all solution. Digital is very customized to every particular environment.

In addition, digital is not a static state. It is an ongoing process and an evolution. It is important for every organization to understand where it is in its digital evolution and where it wants to go.



Digital transformations occur on multiple levels, guided by vision and purpose.

A digital transformation is not merely implementing some new technology. It is enabling people to work differently in executing a new, more powerful type of business strategy. The dimensions of a digital transformation include individual, team, leader, and organization.



"Organizations with leaders prepared to lead in this transformative time are outpacing everyone else."

Viq Pervaaz, Ernst & Young LLP

LEVEL	DESCRIPTION
Individual	Each individual is an "N of 1" with their own skills, mindset, emotions, and anxieties. A digital transformation must start by communicating to individuals the purpose of the transformation and the skills required.
Team	It is important for teams to be guided by a common vision and to have complementary skills that allow the team to achieve its goals. Teams require a common vision, along with governance and standardization.
Leader	Effective leaders are critical to a digital transformation. Leaders must be able to communicate the purpose of the transformation effort in a simple, clear way so it is understood by all. Leaders of transformations need very human skills and capabilities, such as empathy, resilience, the ability to connect people, and a 360° way of thinking and working.
Organization	An organization-wide digital transformation must be guided by a clear vision that explains WHERE the organization is going and by a purpose that explains WHY the digital transformation is essential. All aspects of the organization must be integrated as part of the transformation including the HR operating model and workforce capabilities. In many organizations a digital transformation will include use of automation and will require upskilling and reskilling.

Digital transformation is an iterative journey.

A digital transformation doesn't happen overnight. It is an exercise in change management, and is a step-by-step journey, requiring iteration along the way. Change management is difficult because humans are naturally averse to change. It is the role of leaders to lead individuals, teams, and the organization through a profound change in mindset.

The primary success criteria and benefits of digital transformation are:

- Talent. A digital transformation creates a new set of human capabilities and attracts new types of talent.
- Efficiency. A digital transformation makes the workforce more efficient, increases organizational capacity, and can reduce the cost of service.
- Excellence. Digital transformations help organizations achieve a new level of excellence, differentiation, and competitive advantage.

> "Effective digital transformations put people at the center."
>
> Viq Pervaaz, Ernst & Young LLP

Want to learn more?

Contact us at **viq.pervaaz@ey.com**

STRATEGIES FOR ACCOUNTING FOR ALTERNATIVE FINANCING STRUCTURES

EXECUTIVE SUMMARY

FEATURED SPEAKERS: Cindy Anderson, Chief Accounting Officer, **Alnylam**; Daniel Lujan, Senior Manager, Assurance Services, **Ernst & Young LLP**; Brent Sabatini, Director of Corporate External Reporting and Technical Accounting, **Amgen**; Phil Howard (Moderator), Partner, **Ernst & Young LLP**

IDEAS THAT MATTER

- In the life sciences industry, companies are using multiple creative ways to finance R&D. These different financing methods can raise a host of accounting complexities.
- Financing methods can include different forms of collaboration, can have an equity kicker, can involve selling royalties, and more.
- Best practices include working closely with business development (BD) and investment relations (IR), and having systems to track these complex arrangements.

KEY TAKEAWAYS

Accounting for R&D collaborations can be extremely complex

As life sciences companies explore different ways to fund R&D, having some form of collaboration with another company is increasingly common. Collaborations can include investments, licensing, royalties, cost sharing, profit sharing, and more. Accounting for the various forms of collaborations can be extremely difficult.

One piece of advice is to understand the scope of the collaborations and to determine what accounting guidance to apply, which depends on the structure and terms in the collaboration agreement.

"Determining what guidance to apply in collaborations continues to depend on the structure and specific terms of each agreement. It also depends on the company's accounting policy."

Dan Lujan, Ernst & Young LLP

Per Dan Lujan, FASB issued a follow-on standard—after revenue guidance came out a few years ago—that clarified when specific transactions within a collaboration should be accounted for under the revenue guidance. But, this standard didn't tell companies what to do with everything else in the collaboration arrangement that doesn't have a vendor/customer relationship.

In practice, there are great complexities in determining how to account for and allocate consideration between each element of a collaboration. It is important to understand all of the terms of the collaboration agreement and to understand the economics of the transaction. Lujan explained that it is important to define what each party is paying and expecting to receive in return for their consideration, which often involves a great deal of judgment.

Brent Sabatini pointed out that when thinking about these types of transactions, companies must use several different types of accounting including revenue recognition, collaboration accounting, R&D accounting, asset acquisition, and derivative accounting. He suggests starting by looking at the control language, as well as protective rights versus participating rights.

"It's really important to make sure you understand the terms of the securities."

Phil Howard, Ernst & Young LLP

R&D collaborations often involve an equity component, which can add accounting complexities.

As life sciences companies explore different ways to fund R&D, having some form of collaboration with an "equity kicker" is increasingly common. Collaborations with an equity can add unique complexities.

- If the collaborator is a private company, accounting issues can include valuation considerations and possible restrictions in selling the equity. Cindy Anderson observed that it is important to look at when the equity was originally issued, what the restrictions are, and whether or not any restriction is attached to the security or is based on an agreement between the companies. A question is whether any lockup transfers with the security.
- If the collaborator is a public company, the price of the stock can fluctuate between the time of an initial agreement and the fair value when the deal closes. This fluctuation in price can lead to premiums or discounts that must be accounted for. Sabatini explained that when you have a delta between the price you paid and the fair value at the closing, you have to go back to the agreements and go through two different types of accounting: asset accounting and acquisition accounting.

Another source of R&D financing is when a company sells rights to specific revenues or royalties.

Phil Howard has seen increased market activity involving sales of future revenue transactions, especially if a company has a product that the company doesn't plan to market but wants to find a way to monetize. When a company sells its rights to specific revenues or royalties, shared Dan Lujan, there is a presumption that this is a debt financing. This only way to overcome this presumption is for the company to demonstrate that it has transferred all of the risks and rewards of ownership from that revenue stream to the buyer—and the company has no significant continuing involvement in the generation of cash flows.

In demonstrating this, multiple factors must be considered, which involve revenue forecasts, models, disclosures, and having appropriate internal controls in place for the estimation process. Cindy Anderson sees companies do a partial monetization of a royalty. She said that a company is able to recognize 100% of the income royalty on their top-line P&L but the payments out to the purchaser of the royalties are debt payments that go against the liability balance as opposed to the P&L. This is favorable to the P&L from an accounting point of view.

"When you sell a royalty . . . a lot of companies might do a partial monetization of their royalties, so they're retaining some of the ownership of it . . . for a lot of companies the process can have a very favorable P&L treatment."

Cindy Anderson, Alnylam

Several best practices can help accounting teams in working through these complexities.

Best practices include working closely with the BD group and IR, as well as sharing material disclosures with collaboration partners. It is important to be in close communication with collaboration partners to ensure consistent messages to analysts and others.

"We work very closely with our business development group. There's a deal lead and a modeling lead; we work closely with both of them."

Brent Sabatini, Amgen

Also, it is necessary to have appropriate systems in place to track costs and other important data. An effective collaboration doesn't just track accounting information; it also tracks operational data.

Want to learn more?

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DIVESTITURE STRATEGIES TO CREATE VALUE

EXECUTIVE SUMMARY

FEATURED SPEAKERS: Mike Diamante, VP Finance, Global Operations & Business Services, **Medtronic**; Savi Mittal, Strategy and Transactions, **Ernst & Young LLP**; Sean O'Leary, Divestitures, Corporate Development, **Bristol-Myers Squibb**; Carl Stanzione, Senior Finance Director, **Johnson & Johnson**; Mike Banish (Moderator), Strategy and Transactions, **Ernst & Young LLP**

IDEAS THAT MATTER

- In life sciences, the **divestiture market** is likely to remain healthy going forward.
- Thinking about divestitures should be part of frequent **strategic portfolio** reviews.
- **Preparing** for divestitures is a rigorous process that involves identifying the right divestiture candidates, preparing strategic, operational, and financial information, developing a management presentation, participating in due diligence, and engaging in post-close governance.

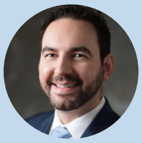
KEY TAKEAWAYS

Divestiture activity is likely to remain a priority for both sellers and buyers.

Each year E&Y conducts a corporate divestiture study. E&Y's most recent study, involving over 1,000 global C-suite executives and 25 activist investors, was published in May 2020. Key takeaways include:

- **Divestments sentiments are relatively bullish,** as 78% of respondents plan to do a divestiture within two years, down just slightly from 84% last year, which was a record high. In the next 12 months, 57% expect to do a divestiture.
- **Companies feel they've held assets too long,** with 72% believing they've held their assets too long compared to 63% a year ago.
- **COVID-19 is going to trigger a portfolio review,** with 65% of respondents expecting that the pandemic will cause them to reshape their portfolio and will trigger potential divestment activity.

> "I think you're going to see, especially with the market affected by COVID, companies looking to reevaluate their portfolios."
>
> Mike Banish, Ernst & Young LLP



Research by E&Y has found that those companies that divested during the 2008 global financial crisis achieved much higher total shareholder returns (+24%) than companies that didn't divest during this time. This data provides comfort to those companies that are considering divestitures but may be nervous to pull the trigger.

A similar study by E&Y on the buyer side found that active acquirers between 2008 and 2010 had greater total shareholder returns than companies that didn't engage in acquisitions. Savi Mittal expects that many boards will be less interested in share buybacks and dividends, wanting to preserve cash to be able to engage in opportunistic M&A activity.

"Both buyers and sellers need to be cognizant that in this recovery period there are probably going to be very interesting opportunities for transactions."

Savi Mittal, Ernst & Young LLP

When identifying divestment opportunities, the key is strategic fit.

In considering divestitures, it is natural to start with the financials. But the panelists stressed that the key is to engage in frequent portfolio reviews—multiple times per year—and to focus on the strategic fit.

"Whenever you're evaluating a portfolio, you should start with the strategy of the business and answer the question, 'Does the asset fit the overall strategy of the company or will it fit the strategy in the future?' . . . You should always lead with the strategy."

Mike Diamante, Medtronic

In reviewing a portfolio's assets, organizations may apply a product life cycle lens. This involves looking at each asset based on its maturity and profitability. Another lens is to engage in a category review, assessing an asset based on its position within a category.

Part of the divestiture process is rigorous cross-functional planning.

An effective divestiture process may be led by finance but should be cross functional, involving operations, accounting, procurement, tax, and regulatory. It is also likely to involve external resources that need to be managed, such as attorneys, accountants, investment bankers, and audit and tax professionals. To effectively manage all of these resources a strong governance process is required.

"Don't underestimate the value that operations folks can bring."

Sean O'Leary, Bristol-Myers Squibb

As part of the divestiture planning process, sellers need to prepare strategic, operational, and financial information for multiple types of buyers.

In preparing a divestiture for any type of buyer it is necessary to define:

- Deal perimeter, which includes the people, facilities, and assets going with the deal. This includes any types of systems.
- Operating model, which encompasses how the business works and provides a point of view on the future state. This include the physical and financial flows of the business.
- Financials, which includes both deal financials and often audited financials. The financials can vary based on whether potential buyers are strategy buyers or financial buyers, and whether they are in the US or international.

"Nine times out of ten, you're going to be doing audited financials of some kind . . . if you want to keep the buyer pool as broad as possible, you're probably going to want to embark on doing GAAP-compliant audited financials or some derivative thereof."

Carl Stanzione, Johnson & Johnson

Panelists also stressed the need for companies to be agile and flexible in a deal environment. Savi Mittal noted that a seller that is well prepared actually gives a buyer greater confidence and makes the entire process smoother.

Critical parts of the divestiture process include the management presentation, due diligence, and even post-close governance.

After thoroughly preparing for a divestiture, the next step is to develop a management presentation, which can require a significant amount of time, especially for finance. The presentation begins with a business overview and market highlights, and includes operational and commercial capabilities. It is important for the finance section to be aligned with the audited financials.

Complexities for carve-out divestitures can include a lower level of materiality than for the overall company and dealing with the balance sheet when a carve-out is comingled with other businesses.

Part of the divestiture marketing process can also involve due diligence. It is important to engage the right people in the organization to participate in due diligence.

Panelists shared several best practices from their divestiture experience.

These best practices include:

- Get the right people involved, both internally and externally, as early as possible.
- Make sure the deal financials reconcile to the audited financials.
- If you don't have an IT solution, invest in one.
- Be flexible and agile.
- It is critical to establish post-close governance.

Want to learn more?

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FINANCE TRANSFORMATION AND COST OPTIMIZATION THROUGH AUTOMATION

EXECUTIVE SUMMARY

FEATURED SPEAKERS: Tracey Gunter, Partner, **Ernst & Young LLP**; Carrie Nichol, Vice President, Controller, and Chief Accounting Officer, **Zimmer Biomet**; Stephan Choe (Moderator), Partner, **Ernst & Young LLP**

IDEAS THAT MATTER

- Successful finance transformations don't begin with technology; they start by **identifying a clear business problem** the transformation aims to solve.
- A key to success is **engaging stakeholders** and convincing them a transformation has benefits to the organization and to them personally in developing their skills and advancing their career.
- The COVID-19 pandemic has forced organizations to review all transformation initiatives to ensure they still generate value and **reprioritize** their **initiatives** based on the ROI.

KEY TAKEAWAYS

The key to a successful finance transformation starts with having a clear goal.

Often people think about a finance transformation as a technology initiative, yet technology is merely an enabler. An effective finance transformation starts with answering, "What are we trying to achieve?" and entails articulating a vision of where the organization is headed.

"In thinking about successful transformations, it's really understanding what you're trying to solve and putting together a vision that says where you're going and a roadmap that gets you there."

Tracey Gunter, Ernst & Young LLP

Other critical success factors are:

- Focusing on people, processes, and data.
- Engaging stakeholders in the transformation so they are personally and emotionally invested.
- Bringing together stakeholders from inside and outside of the organization.
- Recognizing that a finance transformation is a major undertaking and you will need assistance from the right external service providers.

- Starting with a smaller scale and building momentum through quick wins.

In asking people in the organization to take on the work of a finance transformation, it must be aligned with the company's priorities and the overall strategic plan. This starts at the C-level and cascades down to finance.

"Everything we do starts with the mission and our ability to translate what's important to all of the stakeholders."

Carrie Nichol, Zimmer Biomet

After achieving broad strategic alignment, it is important for leaders to convey to each person what's in it for them personally. Through her experience, Carrie Nichol has found that for those who participate, "The actual journey of undertaking a finance transformation is part of the reward." During this journey individuals will develop new skills and capabilities, will be forced to work through significant challenges, will gain exposure to senior leaders in the organization, and will advance their careers.

Tracey Gunter observed that an organization's ongoing communication plan is also a critical success factor.

The COVID-19 pandemic has affected how companies think about financial transformation.

The pandemic has been a very stressful time for companies in the healthcare industry. Some companies such as Zimmer Biomet were impacted by COVID when elective procedures stopped, which forced the company to take a hard look at all of its initiatives. Employees have also been stressed by working from home, and balancing work, school, and all of life's competing pressures. In this environment, pursuing a large-scale finance transformation comes with additional complexities.

However, because of the value of transformational projects, it is important to keep moving forward with these initiatives. Best practices for proceeding in this environment include:

- Prioritizing the transformational initiatives to pursue the most important ones. At Zimmer Biomet, in light of the pandemic, it was necessary to resell projects that had already been approved to demonstrate that the value still exists and the project is still a priority.
- Having a clear framework to guide the prioritization process.
- Carefully selecting which employees are involved in the transformation initiatives, which can often feel like a second job. At this moment, not all employees are able to take this on. Leaders must make sure that involvement in the transformation is a good fit for employees at this time.
- Breaking virtual meetings into shorter chunks. Instead of day-long, in-person meetings, have shorter, more frequent virtual meetings.
- Setting boundaries for employees around meetings and work.
- Keeping communication constant and open.

"You have to prioritize. You have to focus on the initiatives that are going to get you the highest ROI and benefit for the organization."

Carrie Nichol, Zimmer Biomet

Want to learn more?

Contact us at **stephan.choe@ey.com** or **tracey.gunter@ey.com**

SPONSOR'S PERSPECTIVE

The rise of the empowered consumer, coupled with technology advancements and the emergence of digitally focused entrants, is changing every aspect of health and care delivery. To retain relevancy in today's digitally focused, data-infused ecosystem, all participants in health care today must rethink their business practices, including capital strategy, partnering and the creation of patient-centric operating models.

The EY Health Sciences and Wellness architecture brings together a worldwide network of more than 20,000 professionals to build data-centric approaches to customer engagement and improved outcomes. We help our clients deliver on their strategic goals; design optimized operating models; and form the right partnerships so they may thrive today and succeed in the health systems of tomorrow. We work across the ecosystem to understand the implications of today's trends, proactively finding solutions to business issues and to seize the upside of disruption in this transformative age.

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