



# Value-Based Contracting

An overview of value-based contracting for life science companies, specifically relating to revenue recognition considerations

KPMG Healthcare and Life Sciences

## What is Value-based contracting?

**Value-based contracting** is an approach to structuring agreements between payers and providers that ties payment to the outcomes and value of care provided rather than to the volume of services rendered.

Within life sciences value-based contracting is typically seen in contracts where payment is tied to the outcome of the treatment (i.e., the medicine is reimbursed only in the case it is efficacious for the given patient).

In a value-based contract there is a **direct link** between the **value** provided and consideration to which an entity is entitled. As outcomes are unknown at contract inception and could still be unknown once the medicine is provided to the patient, accounting for value-based contracts presents many challenges. All facts and circumstances must be carefully considered to ensure proper accounting treatment is applied, and revenue is recognized accurately for each specific type of value-based contract.

## Examples of Value-based contracting terms



### Outcomes-based contract

A contract designed to tie costs or discounts to patient outcomes. This is currently the most common type of publicly disclosed value-based contract.



### Conditional treatment continuation

An arrangement in which continuation of coverage of treatment is conditional on meeting short-term treatment goals frequently complemented by free trial of the medication.



### Indication-based pricing

A contract in which the net price of a medication varies for different indications based on an agreement between the contracting entities.



### Regimen-based pricing

A contract in which the net price of a medication decreases when a patient must take a second medication to make the treatment regimen more effective.



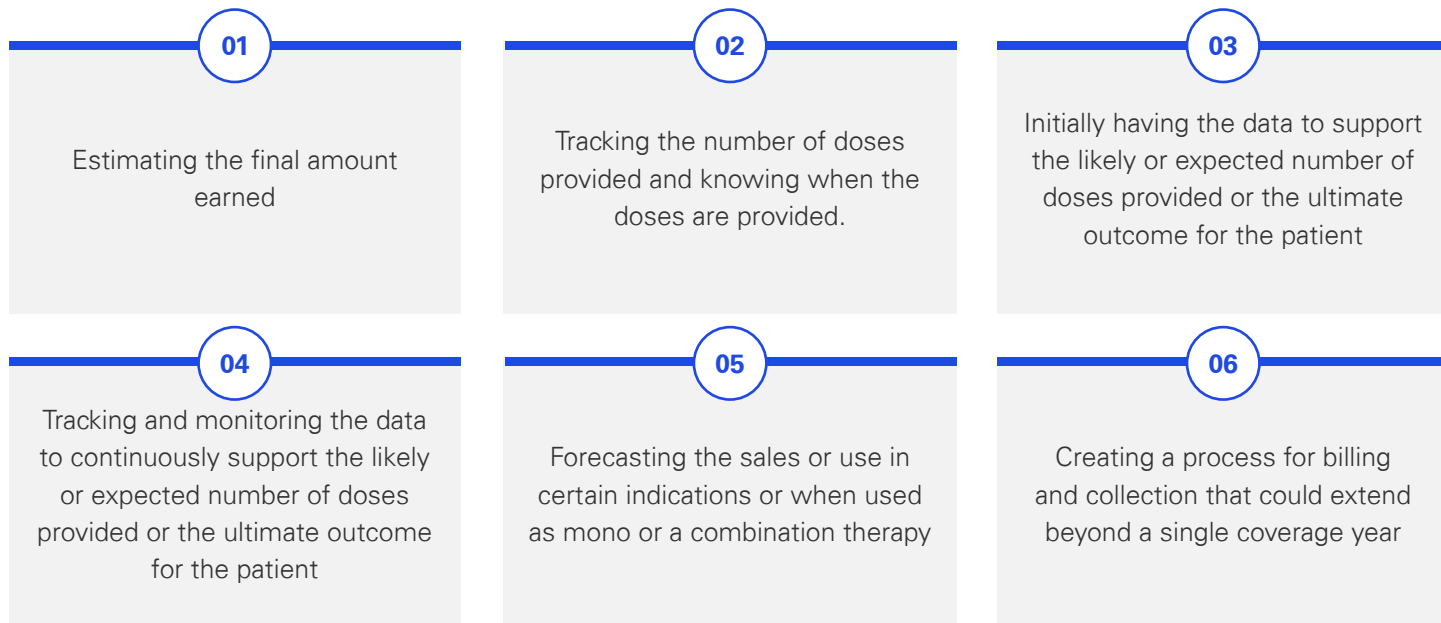
### Expenditure cap

The agreement limits the medication cost per patient to a certain negotiated threshold.

## Crucial aspects of Value-based contracting that impact accounting



## Typical accounting challenges that companies face, include but are not limited to:



With these challenges, companies should assess the appropriate accounting and may consider the following questions:



## Key revenue recognition challenges

Depending on the value-based contracting terms, significant management judgment might be required when identifying performance obligations and/or estimating the transaction price.

01

Does the contract contain an **enforceable right to payment** and sufficient information to determine the transaction price?

02

Are outcomes **clearly identified and measurable**? Does the contract include customer options that could give rise to separate performance obligations?

03

Should an entity use 1) the “**expected value**” or 2) the “**most-likely amount**” method to determine the variable consideration? Once the variable consideration is determined, should any portion of the transaction price be restricted?

04

How should the variable consideration be **allocated among performance obligations**?

05

Are there measurable and reliable clinical and operational metrics in place, that **substantiate a performance obligation is satisfied**?

## How KPMG can add value to you

### Our value to you during negotiation/ renegotiation of contracts –

- **Review contracts** to document and analyze key terms and conditions for the value-based contract
- **Research** applicable accounting guidance in relation to revenue recognition to ensure adherence to relevant standards for particular scenarios
- Assist with **allocation of variable consideration** to performance obligations
- Assist with adoption of appropriate accounting approaches to minimize the risk of inaccuracies or errors in financial reporting
- Assist with end of period **financial statement review** and revenue recognition
- Provide industry **best-practices and benchmarking**

## About KPMG Healthcare and Life Sciences

KPMG LLP is one of the largest providers of professional services – advisory, strategy, audit and tax – to healthcare and life sciences industry globally with more than 4,200 dedicated industry-specific partners and professionals. Our deep knowledge base, as well as our extensive experience helping clients move from strategy through to execution to value creation, positions us to take on the role of a trusted adviser. Further, KPMG has a proprietary set of tools and methodologies to deliver data-driven insights.

We understand the regulatory, commercial, operational, and accounting complexities unique to the industry and provide a client-centric, integrated suite of services to assist our clients in achieving strategic and business results.

## Contact us



### Alex Neil

Partner, HCLS Deal  
Advisory Service Leader  
[alexneil@kpmg.com](mailto:alexneil@kpmg.com)



### Hillary Cimock

Partner, Account Advisory  
Service Leader  
[hfinder@kpmg.com](mailto:hfinder@kpmg.com)



### Nataliya Oginska

Managing Director,  
Accounting Advisory Services  
[nataliyaoginska@kpmg.com](mailto:nataliyaoginska@kpmg.com)



### Chandan Dargan

Managing Director,  
Accounting Advisory Services  
[cdargan@kpmg.com](mailto:cdargan@kpmg.com)



### Steven Pham

Director,  
Accounting Advisory Services  
[stevenpham@kpmg.com](mailto:stevenpham@kpmg.com)

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Please visit us:



[kpmg.com](https://www.kpmg.com)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2025 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

DASD-2025-18040