Life sciences highlights

Global Capital Confidence Barometer

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A note from Peter Behner, EY Global Health Sciences and Wellness Transactions Leader

M&A activity reaches new heights as life sciences companies see dealmaking as a cornerstone of their growth strategy

Following a modest 2018, life sciences M&A has roared to life in 2019, exceeding the US$300 billion mark year to date. If this pace continues, the industry is on track to experience its best dealmaking year since EY began surveying M&A activity 10 years ago.

According to the most recent edition of the EY *Capital Confidence Barometer*, 64% of life sciences executives say their company is planning to actively pursue M&A in the next 12 months, up from 53% six months ago. It's a trend two-thirds of life sciences executives say will improve within the sector in the year ahead.

In contrast to 2014, when deal volume was also high, 2019's exceptional deal total wasn't due to greater deal activity, but to spending on fewer, richer deals. Indeed, analysis by EY researchers suggests that as of 30 September 2019, the total number of deals across the different life sciences domains – big pharma, medical technology, biotechnology and specialty or pharma generics – dropped 38% year on year and is 47% below the average for the previous five years.

That said, dealmaking has become a cornerstone of the life sciences growth strategy, with executives indicating they are planning to actively pursue M&A in the next 12 months.

Life sciences companies pour more investment capital into digital and technology

With empowered patients expecting anytime, anywhere health services, life sciences companies continue to invest in digital and technology. Sixty-seven percent of life sciences executives say that their companies plan to focus 25% or more of their total annual investment capital on digital and technology; 40% say they will devote 25% or more of that digitally focused investment capital on new growth opportunities.

Life sciences companies are feeling the impacts of digital transformation on several fronts, but most especially as it reduces barriers to entry, allowing new players to enter the market, thereby increasing competitive pressures. Meanwhile, with technology giants investing in health – as seen in the recent announcement by Google, which has moved to acquire Fitbit through a reported US$2.1 billion deal – they are blurring the boundaries between life sciences and other industries.

At the same time, even as life sciences companies seek to ramp up their digital capabilities, particularly around artificial intelligence (AI) and machine learning, as well as analytics, almost two-thirds of life sciences executives expressed challenges in attracting and retaining talent. Of this proportion, 70% say the challenge is hiring the specific technical skills their core business requires or digital and technology specialists. Given that half of life sciences executives say their digital capabilities are infused throughout the business, unless companies throughout the industry find ways to attract and retain talent with the right skill sets, this gap is anticipated to increase, slowing life sciences companies' ability to compete in an area that is vital for their future. It is of little surprise, therefore, that life sciences companies cite acquiring talent and acquiring technology as their top two strategic drivers for M&A.

Expect the M&A party to continue into 2020

As we look ahead, we expect the M&A party that has propelled dealmaking to historic highs to continue into the new year. The regulatory and geopolitical uncertainty that softened dealmaking in 2018 has been a non-issue in 2019. Yet even if the global economy were to enter into a recession tomorrow, most of the health and life sciences industry would be largely insulated from the impact due to the industry's limited demand and price elasticity. In fact, in some areas, life sciences companies will see growth from a downturn.

This may explain the confidence life sciences companies have in their sector's economy, with 71% saying it is growing (versus 49% a year ago) — a sentiment 37% say has improved over the last six months. This, combined with their expectations for increases in pipeline activity and deal closures, suggests that dealmaking will keep driving growth across the industry in 2020.

Major M&A themes

M&A intentions remain strong and the C-suite predicts the prolonged dealmaking upcycle will continue.

69% are expecting the global M&A market to improve in the next 12 months.

64% are planning to actively pursue M&A in the next 12 months.

55% expect an increase in hostile and competitive bidding in the next 12 months.

Talent and technology

Finding the right talent and technology at speed is driving deals as executives articulate long-term value beyond traditional financial metrics.

57% expect an increase in cross-sector M&A driven by technology and digitalization.

63% say they are having difficulties hiring or retaining staff.

21% say the main strategic drivers for pursuing deals are both acquiring talent and technology.

Macroeconomic and external environment

Strong corporate earnings and open credit markets point to a continued upswing in equity markets.

51% do not expect an economic slowdown in the near to mid term.

70% are actively planning to respond to ongoing geopolitical, trade and tariff concerns.

48% cite regulatory impacts — trade disputes, climate-change policy or regulatory uncertainty — as the greatest external risks to their business.

EYG no. 005169-19Gbl

1908-3230919

ED None