EY
Building a better working world

Life Sciences
Global Capital Confidence Barometer

Jeff Greene
EY Global Transaction Advisory Services Leader, Life Sciences
+1 212 773 6500
jeffrey.greene@ey.com

A note from Jeff Greene, EY Global Transaction Advisory Services Leader, Life Sciences

The M&A optimism and appetite we saw in October resulted in a record first quarter.

Year to date, US$150b in life sciences deals have been proposed. Expectations continue to be positive, with 50% of executives planning to pursue M&A in the next year. This is down from the peak of 60% six months ago, but well above the sector average of 42% over the last eight years.

Executives' desire to focus on core innovation helped drive the deals announced so far this year. No subsector marks this more obviously than consumer health, where big pharma players such as Pfizer, Novartis and Merck KGaA have divested or are looking to divest their consumer health businesses. The proceeds from these disposals are being deployed to revitalize portfolios and reduce debt.

This record start to the year has not been without its challenges. Seventy-six percent of executives highlighted they have either failed to complete or canceled a deal in the last year, motivated by competition or valuation issues. One of the contributing factors has been the re-emergence of private equity (PE). The current M&A cycle that started in 2013 has been dominated by corporate acquirers. Over the period 2013–16, corporates have accounted for, on average, 98% of the M&A market by value. This tide is turning, with 77% of executives expecting to see even more competition for assets in the next year. Of those executives expecting more competition, 66% expect that competition to come from PE.

This trend began to accelerate in 2017 when PE accounted for 6% of the M&A market (in deal value). PE continues to have an appetite for non-core assets from big pharma and medtech, accounting for 3% of the M&A market in the first quarter of this year.

Competitive bid processes are not the only challenges boardrooms need to address. Forty-six percent of executives believe political uncertainty is the greatest near-term risk to the growth of their business. Drug prices continue to be on the political agenda and often in the headlines, however, the continued rise of nationalism and protectionism does not seem to be discouraging companies from cross-border M&A. Thirty-four percent of executives are expecting an increase in cross-border dealmaking over the next 12 months.

Our recent paper on life sciences M&A, *2018 M&A Firepower Report: Life Sciences Deals and Data*, highlighted how buoyant capital markets have been for small and mid-sized biopharmas and medtechs, and the potential return of megadeals. The confidence in financial markets continues, with all financial indicators in our survey remaining stable or improving. The proposed tie-up between Takeda and Shire would be the largest transaction since the megadeals in 2009 (Pfizer and Wyeth merger), 2013 (Abbott and AbbVie separation) and 2015 (Allergan and Actavis merger).

Executives remain confident about dealmaking over the next 12 months, with 66% expecting the M&A market to improve. A major driver for this centers on the need for life sciences companies to mitigate the next patent cliff and, consequently, transform their portfolios by both buying and selling assets. Seventy-four percent of executives see portfolio transformation as the most prominent boardroom issue.

Analytics, artificial intelligence and real-time data gathering are allowing companies to make better-informed decisions about their portfolio. Seventy-six percent of executives say the main result of their portfolio review was divesting an asset identified as underperforming or at risk for disruption.

In our just-published paper, *Progressions 2018: Life Sciences 4.0 — Securing value through data-driven platforms*, we discuss the capabilities life sciences companies need to succeed in today's data-driven era. Our analysis shows that to avoid disruption from new entrants, life sciences companies must form partnerships to boost their patient engagement, personalization and data skills. Partnerships formed thus far are focused on the creation or enhancement of products and services, or to collect and structure real-world data.

M&A continues to offer a viable solution for companies looking to fill gaps in portfolios, gain new sources of revenue, and achieve the customer-centric and digital capabilities needed to participate in platforms of care.

M&A outlook

Executives are signaling confidence in near-term conditions for dealmaking.

50%

plan to **pursue M&A** in the next year.

57%

expect their **M&A pipelines** to increase.

34%

say **cross-border deals** will be the main theme for M&A, while another 32% report a return of PE activity.

Macroeconomic environment

Executives are navigating a range of external issues that could affect growth strategy.

68%

view the **global economy** as improving in 2018.

46%

of executives believe **political uncertainty** is the greatest near-term risk to the growth of their business.

49%

say **rising inflation** is the biggest risk to their investment plans.

Growth and portfolio strategy

Divestitures are a critical component of successful portfolio transformation as executives raise capital to fund technology-driven strategies.

74%

see **portfolio transformation**, including both buying and selling assets, as the most prominent boardroom issue.

76%

say the main result of their **portfolio review** was divesting an asset identified as underperforming or at risk for disruption.

41%

expect shareholder activists to focus on **disposal of assets** over the next 12 months.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

EYG no. 03035-184GBL

1802-2578997

ED None

ey.com/ccb

About EY's Transaction Advisory Services

How you manage your capital agenda today will define your competitive position tomorrow. We work with clients to create social and economic value by helping them make better, more-informed decisions about strategically managing capital and transactions in fast-changing markets. Whether you're preserving, optimizing, raising or investing capital, EY's Transaction Advisory Services combine a set of skills, insight and experience to deliver focused advice. We can help you drive competitive advantage and increased returns through improved decisions across all aspects of your capital agenda.