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Life sciences highlights

Global Capital Confidence Barometer

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A note from Peter Behner, EY Global Life Sciences Transaction Leader

Life sciences company expectations for merger and acquisition (M&A) activity have increased in the first half of 2019, as regulatory and policy concerns have waned

In the latest EY *Capital Confidence Barometer*, 53% of life sciences executives say that they expect their company to actively pursue M&A in the next 12 months, up from 48% six months ago and well above the 43% average since 2010. At the same time, 81% expect sector M&A to improve, up from 66% a year ago.

This improvement in M&A expectations comes as executives see a strong macroeconomic and business environment, rather than the stock market slump they feared last fall: 96% see the global economy improving. Meanwhile, 90% of life sciences executives see improving global corporate earnings, 89% note improving credit availability and 81% expect improving equity valuations – all higher than their global counterparts.

At the same time, the trade and regulatory issues that seemed to concern life sciences executives in 2018, including talk about slowing the growth of US drug prices, seem to be less of a concern now. Only 8% see regulation or trade and tariff uncertainty as the greatest external risk to the growth of their business.

Pursuing technology to enhance therapeutic focus

Almost every life sciences executive (99%) said they were planning significant investments in technology this year. This makes sense, as we move into a world where health care can be delivered anytime, anywhere. Technology investment plans were nearly evenly split among creating new products and services, reducing risks, improving the customer experience, improving financial data access and analysis, and improving internal efficiencies.

2019 marks the 10th anniversary of EY's *Capital Confidence Barometer*, and those 10 years underscore how much technology is changing the life sciences industry. Ten years ago, it cost nearly a million dollars to sequence a genome, blockchain-enabled patient data and nanosensors didn't exist and it wasn't possible to monitor vital signs on a smart watch.

Life sciences companies now face an environment where technology and consumer companies have the data analytics skills, connected devices, and customer relationships and information to influence health care.

Access to new technology, production capabilities and talent (24%) vies with access to new markets in adjacent sectors or via geographical expansion (25%) as the types of deals where executives expect to create more value in the next three years. More also see the impact of digital technology and transformation to their business model, the threat of digitally enabled competitors and the impact of sector blurring or convergence as the most prominent topic (31%) on their boardroom agenda in the next six months.

While life sciences companies are investing in technology, much of it is piecemeal, with rare exceptions such as Roche's acquisition of Flatiron Health and Novartis's investment in a range of data-centric capabilities. A greater emphasis on building digital capabilities to align with a company's therapeutic focus can improve clinical testing and help speed the development of new treatments.

More frequent portfolio reviews bring the focus needed for innovation

As life sciences companies continue to ramp up their pursuit of acquisitions, they need to concentrate on creating therapeutically focused and data-centric businesses in order to maximize success. Life sciences businesses with more focused portfolios are more likely to outperform their less-focused counterparts. A total of 42% of life sciences respondents say they are now reviewing their portfolios quarterly, compared with only 2% a year ago. A majority said their most recent portfolio review led them to differentially invest capital in a particular business unit. By reviewing portfolios more often, executives are building agility and resilience into their strategy, allowing them to engage in the digital ecosystems that are beginning to emerge. Active portfolio management is essential to establish platforms of care that focus on specific outcomes in a constantly changing environment.

Macroeconomic environment and risks to growth

Despite concerns of a slowing economy as a primary threat to growth plans, companies remain optimistic about their own performance and growth potential.

96% see the global economy as improving.

78% expect revenue growth of 6%–15% in the next year.

34% cite slowing economic growth as the greatest external risk to their business.

Portfolio reshaping and long-term value creation

Companies are building resilience into their operations and are instilling financial discipline as they realign to future-proof growth.

39% say pressure from activist investors is compelling them to reconfigure operations or geographic footprint.

42% are reviewing their portfolio at least quarterly.

46% are focused on reducing costs to free up investment capital.

M&A outlook and major themes

Executives are more bullish in their outlook and are looking for future growth and transformation through M&A.

81% expect the sector M&A market to improve.

53% expect to actively pursue acquisitions in the next year.

58% expect to aim future deals on access to new markets, customers and intellectual property.

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