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Reviewing Global Biotech Investment

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Pharmaceutical companies are strategically acquiring assets to reduce risk in anticipation of upcoming patent expirations. It is possible that certain M&A activity has been influenced by concerns regarding the potential impact on existing product portfolios. However, in today's challenging economic landscape, dealmakers are being driven to think outside the box and consider creative solutions to achieve growth amidst ongoing uncertainty.

The investment outlook for the biotech industry returned to pre-COVID-19 levels in 2023, following a peak in 2021 and a decline in 2022. There is a strong likelihood that it will continue to gain momentum in 2024, as numerous deals were announced during the fourth quarter of 2023. The sourcing and commercialisation of novel biological development are complicated by deglobalisation and the confrontation between the US and China. The potential impact of the 2024 US presidential election on global and domestic policy is a concern within the industry. Geopolitical tensions have the effect of diminishing cooperation, causing disruptions in the initial public offerings (IPO) sector and imposing financial penalties.

Consequently, these factors contribute to the unpredictability of economic forecasts. The future of public financing for biotech was uncertain in 2023 and is improving gradually. However, venture capitalists have consistently shown a strong interest in investing substantial amounts of money in innovative technologies that have the potential to revolutionise the industry. Most of the financing has been allocated to cutting-edge platform technologies, such as artificial intelligence (AI)-enabled drug development, cell and gene therapy (CGT), and messenger ribonucleic acid (mRNA).

Biotech M&A Trends

As a proportion of all acquisitions, M&A (mergers and acquisitions) for clinical-stage firms dropped to 15 per cent in 2023 from about 25 per cent in 2021-22, indicating a change in investors' preferences for riskier assets. The transaction value of acquisitions in the biopharmaceutical industry experienced a significant increase, while the overall deal value grew substantially during the second half of 2023. In the year 2023, there was a notable increase in M&A activity compared to the sluggish pace observed in 2022. During this period, there were more than 10 deals that exceeded a value of $1 billion, and two of these deals even surpassed the $10 billion mark.

Biopharmaceutical companies that achieve positive results in clinical trials experience reduced vulnerability to a slow market due to their ability to attract significant investor attention and witness substantial increases in their stock prices. Many life science investors have a long-time horizon and use a wait-and-watch strategy, which contributes to the adhesive nature of the biopharmaceutical business.

Pharmaceutical companies are strategically acquiring assets to reduce risk in anticipation of upcoming patent expirations. It is possible that certain M&A activity has been influenced by concerns regarding the potential impact on existing product portfolios of Medicare prescription price negotiations under the Inflation Reduction Act (IRA). Large biopharma firms like Novartis, AbbVie, BMS, AstraZeneca PLC, Eli Lilly and Company, and Roche Holding AG are setting the standard. Several major pharmaceutical companies, such as Abbvie, BI, Bayer, and J&J, have not engaged in any significant (M&A) activities within the past two years. It is highly probable that they will do so in 2024.

Cardiometabolism has the potential to gain equal prominence among acquirers, like oncology and immunology. The success of Novo and Lilly's GLP-1 brands in the fields of diabetes and obesity is expected to have a positive impact on M&A, potentially paving the way for more companies to enter the market. In 2023, oncology accounted for 51.1 per cent of the deals. The field of oncology is expected to maintain its primary focus, as several M&A have been announced for 2023. BMS has announced its acquisition of Mirati Therapeutics for a total of $4.8 billion. Roche has announced its acquisition of Carmot Therapeutics for a substantial sum of $3.1 billion. Carmot Therapeutics specialises in the development of drugs for oncology and metabolic diseases.

AstraZeneca has announced its acquisition of Gracell Biotechnology, a company specialising in the development of innovative cellular therapies for cancer and autoimmune diseases. The deal is valued at $1.2 billion. In other areas outside of oncology, the central nervous system (CNS) and immunomodulators will continue to play a significant role. As an example, BMS, with a focus on the CNS, has agreed to acquire Karuna Therapeutics for a substantial sum of $14 billion. Karuna Therapeutics specialises in the development of groundbreaking drugs for mental and neurological disorders. AbbVie has announced its acquisition of Cerevel Therapeutics Holdings, a company specialising in the development of treatments for neurological illnesses. The deal is valued at $8.7 billion. AstraZeneca acquired CinCor, a pharmaceutical company specialising in cardiovascular, metabolic, and renal diseases, for a substantial sum of $1.8 billion.

Antibody-drug conjugates (ADCs) are older than advanced technologies like CGT. Major pharmaceutical corporations favour lower-risk ventures. Despite fewer agreements than in 2022, ADC's transaction value increased. CGT contains the largest deals, although 2023 saw fewer and lower prices. AbbVie purchased ImmunoGen for $10.1 billion on February 12, 2024, to develop and market next-generation ADCs, expanding its cancer portfolio. On December 14, 2023, Pfizer purchased Seagen for $43 billion. Monoclonal antibodies target cancer cells and deliver cell-killing chemicals in Seagen's antibody-drug combo treatment.

Tmunity was acquired by Gilead Sciences' Kite Pharma for $1.3 billion on February 22, 2023. Tmunity creates novel cell receptors and T-cell platforms to control T-cell activation and direction. Orchard Therapeutics, a pioneer of revolutionary gene therapeutics for severe orphan illnesses, was bought by Kyowa Kirin for $477.6 million.

Outlook for 2024 and beyond

Strategic partnerships, licensing arrangements, joint ventures, and other low-risk collaborations have, to some extent, replaced traditional acquisitions. Nevertheless, M&A will continue to be an attractive strategy for biopharmaceutical companies to quickly establish a presence and bridge revenue shortfalls.

Big biopharma companies are efficiently filling gaps in their pipelines by acquiring promising biotech startups through a series of smaller transactions rather than relying on the large deals of the past. These companies continue to make a limited number of significant acquisitions to address gaps in their portfolio. Our focus is on obesity, rare diseases, the central nervous system (CNS), oncology, and immunology. RNA-based therapies, the glucagon-like peptide 1 (GLP-1) class, and ADCs will receive increased investment.

If companies don't have access to their preferred funding options, they may need to explore alternative sources of investment such as public shares, debt finance, or royalty monetisation. High interest rates can make debt financing seem less attractive. Therefore, biopharma companies will engage in bolt-on acquisitions to achieve significantly better value. In 2024, acquirers will continue to have a cautious approach towards risk, prioritising transactions involving targets that have been de-risked. These targets will typically include assets that are in Phase III or were marketed in 2023. Except for biotech companies that have late-stage assets, the current market favours buyers.

Small/emerging biotech companies are poised to maintain their stronghold on innovation. Given the nature of these pre-commercial biotech enterprises, it is likely that many of them will pursue M&A exits. This is because it will take some time for the market's financial situation to fully recover. Commercial and late-stage enterprises are often viewed more favourably by buyers due to their predictable future, which can result in higher prices. Pre-clinical enterprises do not have enough information to support a potential purchase, so acquirers will not further complicate an already risky situation.

Buyers are likely to be drawn to the precision medicine sectors, given the incorporation of comprehensive omics data sets, the pursuit of regenerative treatments, and the discovery of significant genetic alterations on a large scale. Platform companies should explore opportunities to broaden their focus beyond rare illnesses and oncology to tackle other important areas where there is a lack of medical alternatives. In today's challenging economic landscape, dealmakers are being driven to think outside the box and consider creative solutions to achieve growth amidst ongoing uncertainty. Dealmakers will consider different approaches to drive growth in 2024, including licensing and partnership agreements, joint ventures, structured deals for R&D financing arrangements, and spin offs and divestitures.

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