Deals accelerate amid increasing buyer competition and scarcity of transformative growth targets
Life sciences companies accelerate dealmaking as rising competitive intensity, scarcity of transformative growth targets and greater access to financing fuel confidence in M&A

In the 13th edition of the Capital Confidence Barometer, our findings show life sciences companies continuing their focus on M&A to reinvigorate growth and optimize portfolios. In fact, 85% of all respondents expect the M&A market to continue to improve, a new high from six months ago. Deal intentions have also continued to increase, with 57% of life sciences respondents indicating that they intend to actively pursue acquisitions in the next 12 months. Life sciences executives are particularly bullish on the number and quality of acquisition opportunities, as well as the likelihood of closing deals.

Reflecting this confidence, dealmaking volume continues to increase among life sciences companies as other industries are slowing, with roughly double (40% vs. 23% six months ago) the percentage of life sciences companies expecting to complete more deals than in the prior 12 months. Biopharmas also show an increased interest in pursuing larger deals over the next 12 months, but the majority are still focused on smaller, “bolt-on” deals.

Accommodating capital markets, combined with fierce competition for the most desirable targets, have been pushing asset values higher, though not enough to temper the mood of life sciences dealmakers so far. “Firepower”— the ability to fund transactions based on balance sheet strength and market capitalization – has also reached new heights at the time of this survey, helping to drive dealmaking enthusiasm. (For more on our Firepower Index, see EY’s 2016 Firepower and Growth Gap report at ey.com/firepowerindex.)

This accelerating deal pace is not without its downsides. As more companies with full deal pipelines are realizing, the rush to get deals done has invariably resulted in some transactions falling short of expectations, in part due to inadequate due diligence on the front end, as well as suboptimal integration execution.

As the broader life sciences industry transforms, more companies are focusing on growth, often fueled by M&A, while simultaneously looking to shed underperforming or non-core assets. More companies are actively pruning portfolios through divestitures while targeting acquisitions to rebalance portfolios and better align with strategic and financial objectives.

Overall, there is a feeling of urgency among dealmakers within the industry as life sciences companies face continued pressure to achieve growth targets amid the M&A frenzy. Management teams must challenge their internal assumptions about value creation via acquisition and critically examine their business portfolios to create the greatest value for their shareholders.

Jeff Greene
EY Global Life Sciences Transaction Advisory Services Leader
Dealmaking among life sciences companies continues to remain strong as the growth imperative and competitive dynamics perpetuate deal flow. The improved outlook for the M&A market (from 62% a year ago to 85% today) suggests that deal pipelines are advancing to the late stages, despite third-quarter market volatility. Looking ahead, almost half of life sciences executives expect their deal pipelines to increase over the next 12 months, and 57% of life sciences respondents expect to actively pursue acquisitions over the next year.

Q: Do you expect your company to actively pursue acquisitions in the next 12 months?

Expectations to pursue an acquisition

- Global respondents
- Pharma, biotech and medical tech respondents

Life Sciences

- 85% of executives expect the M&A market to improve in the next 12 months
- 57% of executives expect their companies to actively pursue acquisitions in the next 12 months
- 56% of life sciences executives say they have three or more deals in their pipelines
- 48% of life sciences executives anticipate their deal pipelines will increase over the next 12 months

Global

- 83% of executives expect the M&A market to improve in the next 12 months
- 59% of executives expect their companies to actively pursue acquisitions in the next 12 months
- 55% of life sciences executives say they have three or more deals in their pipelines
- 35% of life sciences executives anticipate their deal pipelines will increase over the next 12 months
At the same time, deal fundamentals are up across the board, with respondents appearing exceptionally positive about the likelihood of closing deals, as well as the quality and number of acquisition opportunities.

Life sciences companies have nearly doubled their expectations for increased deal volume in the last six months (to 40% from 23%) amid greater competition, scarcity of growth targets and rising valuations.

**M&A outlook**

Please indicate your level of confidence in the following at the global level.

Life Sciences

<table>
<thead>
<tr>
<th>% of positive attitude</th>
<th>Deal metrics</th>
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<tbody>
<tr>
<td>Likelihood of closing acquisitions</td>
<td>60%</td>
</tr>
<tr>
<td>Quality of acquisition opportunities</td>
<td>55%</td>
</tr>
<tr>
<td>Number of acquisition opportunities</td>
<td>84%</td>
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**Global**

- **40%** of executives expect to complete more acquisitions than in the prior 12 months
- **47%** of executives expect the price of assets to increase over the next 12 months
- **26%** of executives cite buyer competition as one of the main challenges to their M&A strategy over the next 12 months
Given the urgency life sciences companies feel to complete deals, there will inevitably be disappointments as some fall short of expectations.

27% of executives cite poor operating cost assumptions as the most significant issue for deals not meeting expectations.

54% of executives expect to allocate 10% or more to emerging markets in the next 12 months.

21% of executives say their company will be focusing on cost reduction and operational efficiency over the next 12 months.

In terms of where life sciences companies are looking to make deals, it would appear that emerging markets are making a comeback as 54% of life sciences respondents indicate they are planning to allocate 10% or more of their acquisition capital to emerging markets, an increase of 23 percentage points from six months ago.

Despite the dealmaking frenzy, life sciences companies continue to shift their attention toward cost reduction and operational efficiency, particularly as they continue to feel the pressure from investors to improve operational performance in an era where relative outperformance is simply not good enough if more can be done.
For a conversation about your capital strategy, please contact us:

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How EY’s Global Life Sciences Sector can help your business

Life sciences companies – from emerging to multinational – are facing challenging times as access to health care takes on new importance. Stakeholder expectations are shifting, the costs and risks of product development are increasing, alternative business models are manifesting, and collaborations are becoming more complex. At the same time, players from other sectors are entering the field, contributing to a new ecosystem for delivering health care. New measures of success are also emerging as the sector begins to focus on improving a patient’s “health outcome” and not just on units of a product sold. Our Global Life Sciences Center brings together a worldwide network of more than 7,000 sector-focused assurance, tax, transaction and advisory professionals to anticipate trends, identify implications and develop points of view on how to respond to the critical sector issues. We can help you navigate your way forward and achieve success in the new health ecosystem.

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