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News release

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Pharmaceuticals industry gathers forces: after a weak year for M&A in 2017, significant pick-up expected for 2018

- **Pharmaceuticals and medtech groups spent USD 203 billion in 2017 – about 20 percent less than the previous year**
- **Biggest deal: USD 30 billion Actelion takeover by Johnson & Johnson**
- **Firepower for acquisitions has increased by 10 percent to USD 1.34 trillion**
- **Higher transaction volume expected again in 2018**
- **Technology companies are putting pressure on the pharmaceuticals industry**

Basel, March 13, 2018. Pharmaceuticals and medtech companies exercised caution in 2017 and held back on acquisitions. The main reasons for this were the excessively high prices for potential takeover candidates and the political uncertainties in the USA – especially regarding the precise form the US tax reform would take, which came into force in January. As a consequence, M&A volumes fell by more than 20% year-over-year in 2017 to USD 203 billion.

In the overall subdued M&A market, the purchase of Swiss pharmaceuticals company Actelion by US group Johnson & Johnson – worth almost USD 30 billion – set the tone. This was followed by an acquisition by US group Becton Dickinson, which bought US medical equipment manufacturer C.R. Bard for USD 24 billion.

The restraint shown by the industry overall may come to an end this year, however. The US tax reform has been finalized and firepower – that is, the funds that companies can mobilize to make acquisitions – has increased by almost 10 percent year-over-year to USD 1.34 trillion. This is the third-highest value in the history of the report.

These are the results of a study conducted by the auditing and consulting firm Ernst & Young (EY), which surveyed the financial data of the largest pharmaceutical, biotech and specialty pharmaceutical companies. The Firepower Index by EY measures the purchasing power of bio-pharma companies for M&A transactions on the basis of their balance sheet strength and market capitalization. According to the index, the purchasing power of a company rises with increasing market capitalization, or if there is an increase in cash or cash equivalents or a decline in debt.

“We expect an M&A volume of well above USD 200 billion in 2018”
“High market prices and, in particular, the pending tax reform in the USA, caused pharmaceutical companies to stand on the sidelines in 2017. This wait-and-see attitude might well come to an end in 2018, however,” says Jürg Zürcher, Biotech Leader at EY Switzerland. “Pharmaceutical companies are being driven by the rapid pace of technological development and equally rapidly changing customer expectations. At the same time, large technology companies are pushing their way into the life sciences market. Some groups may therefore use the firepower they have amassed to make strategic takeovers to fend off the competition. We expect M&A volumes to rise well above USD 200 billion again in 2018.”

Thomas Gees, Business Development Leader for Life Sciences in Basel, adds: “In response to changing customer expectations, we will also see some mega-mergers across sectors as medtech and pharmaceutical companies do everything they can to set themselves apart from the competition. The challenge going forward will be to stay flexible when aligning business models to the new market environment. An important focus here will be on personalizing therapies in order to selectively treat individual illnesses.”

The big pharma companies were especially and noticeably restrained in 2017, with deal volumes falling from USD 143 billion in 2016 to just USD 71 billion in 2017, impacted in particular by the absence of a mega-merger like the takeover by Bayer of rival Monsanto. Although still not yet complete, this takeover alone – at USD 66 billion – was almost equivalent to the total of all big pharma deals combined in 2017. Specialty pharma companies also applied the brakes last year, investing only USD 7 billion. This is the lowest figure since 2009, and contrasts sharply with their expenditure of USD 44 billion in 2016.

War chests are full for 2018 – the firepower of medtechs in particular is at a record high

The restraint shown in 2017 has boosted the cash available for 2018: the industry is well prepared to undertake major takeovers or mergers, with total firepower of USD 1.34 trillion. Medtech companies in particular have more firepower behind them than ever before, at around USD 256 billion. Only specialty pharma companies saw a renewed drop in their war chests – a decrease by 24 percent to USD 26 billion. “The capital market finally has medtech companies on their radar again,” says Gees. “In terms of both venture capital and the stock market, the financing situation of medtechs improved significantly last year. This is testament to the strong investor confidence in the innovative capability of medtechs. Specialty pharma companies evidently still have some catching up to do. They invested the most in acquisitions in 2014 and 2015 compared with their peers, and in the process used up a large portion of their firepower.”

The industry as a whole could go on a major shopping spree in 2018, however. In the Global Confidence Barometer conducted by EY in December 2017, 60 percent of life sciences managers said they wanted to step up their acquisitions in the next 12 months. In April 2017, the figure was just 46 percent.

Technology groups are putting pressure on the industry

The pressure for companies to assert themselves against the competition through non-organic growth is also increasing. Technology giants such as Amazon, Apple, Samsung or Google parent Alphabet are now also encroaching on the life sciences market – and are bringing massive quantities of capital with them. The firepower of the seven largest technology groups is greater than that of the 65 largest life sciences companies, at close to USD 1.7 trillion.

“The money for mergers and takeovers is there, and so is the desire,” says Zürcher. “On the all-important US pharmaceuticals market, the conditions are right again in the wake of the newly passed tax reform. At the same time, pressure from technology companies is increasing as they hone their focus on the overall highly fragmented life sciences market."

The rapid pace of technological progress is another major driver of M&A activities. "Today, it is no longer enough simply to have a good product. The collation and analysis of large amounts of data, along with the Internet of Things, are shaking up the whole process of value creation – and that is precisely where new competitors such as Amazon or Alphabet are entering the market. The more data, the better. That is what also makes size so important. By means of acquisitions or joint ventures, pharmaceuticals companies must in the future build health platforms that focus on customers. In the end, this could be of benefit to all: companies will be able to tap into new sources of revenue and save money thanks to an improved data setup. Patients will receive products that are more effective and better tailored to their specific needs," concludes Zürcher.