

News release

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Increased competition from new entrants,

new sources of capital to lift life sciences M&A in 2018

- ▶ **2018 M&A value to exceed 2017's US\$200b**
- ▶ **US\$160b in overseas cash should contribute to deal activity**
- ▶ **Rise of customer-centric care platforms could spark return of mega-mergers**

SAN FRANCISCO, 8 JANUARY 2018. A surge in mergers and acquisitions (M&A) by life sciences companies is expected in 2018, prompted by increased competition from new entrants and new sources of capital, and the change in US corporate tax laws, particularly a lower tax rate for the repatriation of cash held offshore. This is according to the EY [2017 M&A Firepower Report: Life sciences deals and data](#), which provides insights and analysis on three life sciences subsectors: biopharma, biotechnology and medical devices.

The EY Firepower Index, now in its sixth year, tracks a group of life sciences companies and looks at their collective firepower, which measures a company's ability to do M&A based on the strength of its balance sheet. Together, a company's market capitalization, cash equivalents and debt capacity provide the firepower needed for deals.

The report shows that global M&A deal value in 2018 is expected to exceed 2017's US\$200b, as companies in the sector continue to focus on capital allocation strategies, including M&A, to generate inorganic growth. In fact, 60% of life sciences leaders indicate that they plan to actively pursue M&A this year, according to the latest EY [Global Capital Confidence Barometer \(CCB\): Life Sciences](#). This swell in activity is expected to be further aided by offshore cash, about US\$160b among the top 10 US life sciences companies.



Jeff Greene, EY Global Life Sciences Transaction Advisory Services Leader, says:

“Life sciences companies are using their firepower to create competitive advantages, especially as technology and non-traditional players threaten their current business models. To protect profits, remain competitive in key therapeutic areas and build scale to confront new challenges in the supply chain, biopharma and medtech leaders will seek more transformative M&A in 2018, including mega-mergers, and cash currently held offshore may be used to fund these investments.”

Return of the mega-merger

The report shows that the emergence of customer-centric care platforms could spark cross-industry mega-mergers and large scale consolidation within the highly fragmented biopharma sector, where the top five companies in the trillion-dollar global pharmaceutical market each have no greater than 5% market share.

Pamela Spence, EY Global Life Sciences Industry Leader, says:

“To compete, life sciences companies must deliver more value to patients, including services that help to differentiate their products beyond pills or devices. They must enable the frictionless transfer of behavioral, psychological, social and economic data generated by patients, providers and payers to create more effective personalized therapies and better customer outcomes.”

Other key findings highlighted in this year’s report include:

- ▶ **Increased competition in traditional therapeutics sets stage for consolidation:** As the pace of US innovative drug approvals – and generic drug approvals – surge, consolidation among life sciences companies is expected in key therapeutic sectors, such as oncology. Incumbent leaders are projected to lose share as continued innovation and new biosimilars enter the market, creating greater competition.
- ▶ **New, emerging sources of firepower:** Well-capitalized non-traditional buyers are increasingly investing in the life sciences sector, resulting in increased cross-sector M&A activity. Life sciences leaders recognize this trend in EY’s *CCB: Life Sciences* report, where they identified increased competition from companies outside the sector as the top disruptive force to the industry.



China is increasingly investing in the life sciences sector – and much of that investment is moving outside of its own borders. Large specialty pharma companies have divested assets that are finding homes among Asia-Pacific strategic investors, including generics companies or private equity firms. Technology companies have also increased investment in the sector and have the firepower to complete more M&A deals in 2018 – in fact, a group of just seven technology sector disruptors boasts more than 50 life sciences companies.

- ▶ **Biotech independence:** As target valuations increase and the availability of private and public capital remains plentiful, biotech companies have more opportunities to take products deeper into development and stay independent for longer, reducing their need to pursue sales. Venture capitalists – traditional players, crossovers and strategic investors alike – remain interested in financing biotechs, in some cases providing enough capital to push some to achieve so-called “unicorn” status, with more than US\$1b valuations.

For more on the *EY 2017 M&A Firepower Report*, visit www.ey.com/firepower

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About the EY Firepower Index

The EY Firepower Index measures companies' capacity to fund transactions based on the strength of their balance sheets. It has four key inputs: 1. Cash and equivalents; 2. Existing debt; 3. Debt capacity, including credit lines; and 4. Market capitalization. In constructing the model, the following assumptions were made: first, a company will not acquire targets that exceed 50% of its existing market capitalization; second, the debt/equity ratio of the combined entity created by a transaction cannot exceed 30%.

While some pharma companies have made acquisitions that go beyond these upper limits, our intent is to apply a uniform methodology to measure relative changes in firepower. The Firepower Index measures capacity to conduct M&A transactions financed with cash or debt. It does not directly measure the ability to conduct stock-for-stock transactions. However, increases in a company's stock price do boost its firepower under the EY Firepower Index's formula. That is because rising equity value enables companies to borrow more to finance transactions.

In our report, companies were classified as big pharma, specialty pharma/generics or big biotech based on their size, geographic reach and product portfolio.



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

As populations age and chronic diseases become commonplace, health care will take an ever larger share of GDP. Scientific progress, augmented intelligence and a more empowered patient are driving changes in the delivery of health care to a personalized experience that demands health outcomes as the core metric. This is causing a power shift among traditional stakeholder groups, with new entrants (often not driven by profit) disrupting incumbents. Innovation, productivity and access to patients remain the industry's biggest challenges. These trends challenge the capital strategy of every link in the life sciences value chain, from R&D and product supply to product launch and patient-centric operating models.

Our Global Life Sciences Sector brings together a worldwide network of 15,000 sector-focused professionals to anticipate trends, identify their implications and help our clients create competitive advantage. We can help you navigate your way forward and achieve sustainable success in the new health-outcomes-driven ecosystem.

For more information, visit www.ey.com/lifesciences