

Breaking Biotech M&A out of a Slump

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Biotech mergers and acquisitions (M&A) have stagnated in recent times. The last big deal was in 2019 when American drug major Bristol-Myers Squibb (BMS) acquired US-based Celgene for \$74 billion. After a relatively unremarkable 2022 for biotech M&A, 2023 started with a flurry of billion-dollar acquisitions both globally and in the Asia-Pacific region. The latest examples include Astellas Pharma, a Japan-based company, acquiring American firm Iveric Bio for \$5.9 billion in May 2023, and American pharmaceutical giant Pfizer proposing a \$43 billion acquisition of US-based Seagen in March 2023. This surge of activity indicates an accelerating M&A landscape in the biotech industry. Let's explore the industry's expanding M&A landscape.



2022 was an unspectacular year on the biotech M&A front. The industry witnessed a decline in both deal volume and value, as potential purchasers exercised caution due to economic and geopolitical uncertainties. The aggregate total deal value of all M&A transactions signed in 2022 has significantly dropped by 55 per cent, plummeting from \$225 billion to just \$103 billion during the same period, according to IQVIA Pharma Deals.

But that's set to change and the landscape is looking hopeful fuelled by several billion dollar acquisitions by big pharma firms. Five big pharma companies (AstraZeneca (UK), Pfizer (USA), Sanofi (France) Merck (USA) and GSK (UK)) have announced acquisitions worth approximately \$60 billion in total, raising hopes that this could be a rebound year for biotech M&A.

AstraZeneca was the first to make a move, announcing on January 9, 2023, its plan to acquire CinCor Pharma, a US-based company, for \$1.8 billion. The acquisition aims to enhance AstraZeneca's pipeline for treating hypertension and chronic kidney disease. Then, on March 13, 2023, came Pfizer's proposed acquisition of Seagen for an eye-popping \$43 billion, enhancing the American multinational's position as a leading company in oncology. On the same day, French drugmaker Sanofi acquired US-based Provention Bio for \$2.9 billion to bolster its portfolio of diabetes medicines.

On April 16, 2023, US-based behemoth Merck purchased Prometheus Biosciences, an American clinical-stage biotechnology company specialising in immune-mediated diseases, for \$10.8 billion. On April 18, 2023, British drug major GlaxoSmithKline (GSK) announced its acquisition of Canadian firm BELLUS Health for \$2.0 billion, gaining access to a potential best-in-class treatment for chronic cough.

Other notable deals include Italian firm Chiesi Farmaceutici's acquisition of UK-based Amryt Pharma for \$1.47 billion, expanding its rare disease offerings. German-based mRNA major BioNTech SE is poised to acquire InstaDeep, a UK-based AI startup, for £562 million (~\$701 million). Swedish Orphan Biovitrum AB (SOBI) is acquiring American firm CTI BioPharma Corp for \$1.7 billion, aiming to enhance its blood-related cancer therapies portfolio.

These deals focus on cancer, rare diseases, diabetes, and immune system disorders. These areas of research have witnessed significant success in clinical trials and have proven to be highly profitable. Experts believe one of the reasons driving the deal making is due to the pending patent cliff.

“The reason for the higher M&A is two fold. First, larger pharmaceutical companies have a constant need for new products and product candidates and are acquiring and partnering with biotech companies to supplement their internal R&D. The second reason is because biotechs are not cut off from a lot of funding with the drying up of private and public financing, so they sell themselves earlier than they otherwise would,” said **Peter Young, Chief Executive Officer and Managing Director, Young & Partners, USA.**

The APAC landscape

Several pharmaceutical companies in the region have recently announced acquisitions. The largest acquisition was made by Japan-based Astellas Pharma, which acquired US based Iveric Bio for \$5.9 billion. The acquisition of Iveric, a company specialising in ophthalmology treatments, stands as a significant step for Astellas in building their product portfolio in the area of blindness and regeneration. In another notable deal, US-based mRNA giant Moderna made its first acquisition by purchasing Japanese DNA supplier OriCiro Genomics K.K. for \$85 million.

Other deals include Indian drug major Sun Pharma acquiring US-based Concert Pharmaceuticals for \$576 million. Japan-based Olympus bought Taewoong Medical of Korea for \$370 million. Sisram Medical, an Israel-based company, made an acquisition by purchasing PhotonMed of China for \$38 million.

It is worth noting that Japan is emerging as a clear winner with the most deals to date, with five out of the six acquisitions being made by Japan-based companies. Surprisingly, no acquisitions were announced from China. The biotech industry in the region witnessed a series of modest M&A deals, with Astellas standing out as the only player involved in a billion-dollar transaction.

More deals on the horizon?

Experts foresee a surge in dealmaking as positive market trends indicate an increase in M&A activity.

“After a slow M&A deal environment in 2022, we’re seeing a marked increase in 2023. Many of the more recent deals have had multiple bidders on the same asset. This is a change from what we’ve seen in recent years, where the significant majority of announced M&A deals had only one bidder. At the present time, many equity valuations remain depressed and large pharma has revenue gaps to fill. Given this dynamic, and the fact that equity valuations seem to have stabilised, we expect the pace of deals to pick up in the back half of 2023 and into 2024,” said **Ryan Murr, Partner, Gibson, Dunn & Crutcher LLP, USA.**

Echoing similar sentiments Peter Young said, “M&A will continue to be very active for the acquisition of biotech companies for the above reasons. However, it will not be across the board and will focus on certain therapeutic areas that are considered to be the most promising.”

Chinese biotech firms are ripe for consolidation due to decreased valuations resulting from COVID-19 and geopolitical tensions. M&A activity is expected to rebound as domestic companies aim to expand globally, acquire new technology, and introduce new products in China, according to Bain & Company's M&A report.

“Multinational healthcare and life sciences corporations continue to show strong interests in the China market due to the size and potential of this single market. We have seen a few multinational corporations successfully closed and continued to

explore additional targets to consolidate,” said **Zhang Hong, Head of Private Equity Practice at Baker McKenzie FenXun (FTZ) Joint Operation in Shanghai.**

The Bain report further anticipates that South Korea's biotech industry will experience significant M&A activity and a resurgence of private equity deals, with a particular focus on the provider and services sectors. Strategic acquirers in the pharma and medtech fields are expected to play a leading role in deal value.

“In Australia, biotech executives remain optimistic for the future, post-pandemic. They recognise that big pharma faces patent expiries and difficulties induced by R&D work which stalled during the pandemic. Big pharma now wishes to fill what has been described as a ‘massive earnings hole’ by either acquiring revenue-producing biotechs or entering into licensing and collaboration deals. I expect to see more takeover bids for ASX-listed commercial-stage biotechs. A number of biotechs have sought advice on the steps they need to take, were they to receive an unsolicited takeover bid from big pharma. Biotechs should be prepared for such an approach,” said **Ben McLaughlin, Partner, Baker & McKenzie, Australia**

The future looks promising, whether that means we will see more modest M&As or billion dollar transformational buyouts, we will have to wait and watch.

Ayesha Siddiqui