



Challenges and Opportunities Facing the Pharmaceutical Industry

The pharmaceutical industry has emerged from the pandemic stronger in large due part to its role in researching, producing and distributing Covid-related therapies and vaccines but also due to the nature of the industry. However, the industry is now facing a crossroads of upcoming challenges, including financial pressure from the impending patent cliff.

Big pharma is poised to lose market exclusivity for many top-selling drugs from 2023 to 2028, exposing branded drug sales to an estimated \$200 billion of loss. The next cliff is set to be even larger than the last (2011-2016), and companies including Merck, Pfizer and Bristol Myers are seen as especially high risk.¹

Many businesses have already begun planning to minimize the impacts by investing in new therapies, especially cell and gene therapies, and putting a focus on mergers and acquisitions (M&A) and partnerships to bring in new revenue. One recent example is Amgen's \$27.8 billion acquisition of Horizon Therapeutics.²

Opportunities for Investment

Life sciences was ripe for M&A activity in 2021, with the year witnessing the highest deal volume in the industry despite challenging global circumstances. Comparatively, 2022 saw lower deal values and volumes. We expect deals to rebound in 2023 as cash-rich pharmaceutical companies seek to bolster their product pipelines and lower biotech values open the door for companies to strike. We've also been seeing increasing partnerships and innovative structuring deals along with portfolio reassessments leading to divestitures for non-core assets. Private equity (PE) firms are also expected to continue to look for opportunities to deploy capital amidst high levels of dry powder, especially in the services subsectors. This has been seen with J.P. Morgan's big push into life sciences with its new arm Life Sciences Private Capital, promising strong investment in the first half of 2023.³

While the research and development of treatments can result in new profits, it is a time-consuming and capital-intensive process. Pressures from supply chain disruptions, high input prices and soaring energy costs are forcing life sciences companies to focus their capital on M&A and other quicker measures to combat revenue drops. These companies will also choose to spin off legacy assets, offering new M&A opportunities for investors.

Shifting Business Models

Due to the pandemic, inflation and other geopolitical factors, the business model for life sciences companies has shifted. Whereas the goal used to be large, diversified portfolios, priorities have shifted to value a performance-centric model. This has also increased the number of spin offs, as large companies are choosing to focus on a few core sectors. More have been scheduled for 2023, including Novartis' generic business Sandoz and Johnson & Johnson's consumer products division Kenvue.^{4,5}

This model has proven successful for Merck. With approximately 40 percent of its profit coming from oncology drugs, Merck saw a 14 percent year-over-year increase in revenue and a 4 percent increase in stock prices from 2021 after spinning off its women's health business and acquiring a rare disease biopharmaceutical company.⁶

To mitigate rising costs and improve adaptability, companies also need to emphasize performance improvement and digital solutions. Deploying digital solutions like artificial intelligence (AI), cloud, real world evidence (RWE), digital twin, automation and advanced analytics with a focus on green and sustainable technology can increase performance and, subsequently, lessen cost pressures.

1. [How Big Pharma is prepping for the late 2020s patent cliff | PharmaVoice](#)

2. [Amgen Agrees to Acquire Horizon Therapeutics for \\$27.8 Billion - WSJ](#)

3. [J.P. Morgan extends new private equity arm toward life sciences \(fiercebiotech.com\)](#)

4. [Novartis announces intention to separate Sandoz business to create a standalone company by way of a 100% spin-off | Novartis](#)

5. [Johnson & Johnson names its consumer spinoff Kenvue \(fiercepharma.com\)](#)

6. [Understand How Products Impact Stock Prices | Merck | Trefis](#)

Government Measures Disrupt the Market

Companies must also consider the changes that will be occurring to government drug rebates. In August, President Biden signed the Inflation Reduction Act of 2022. Set to take effect between 2023 and 2027, it contains measures to reduce government spending and combat rising drug costs.

While these steps will allow the government to reduce its deficit by an estimated \$237 billion over the next 10 years, they present considerations for organizations looking to invest in drug development. The number of new drugs coming to market will only decrease moderately,⁷ but drug development as a whole will be impacted. The increase in Medicare coverage incentivizes focus on biologics and vaccines, and the new rebates mean companies will have to carefully consider their pricing at drug launch in order to maintain expected profits.⁸

Now is the Time

It is an uncertain yet promising time for the life sciences sector. Though the path ahead is rocky, we see ample opportunities for investment and acquisition. With high demand and strong capital flow, the life sciences sector is set for growth over the next year. Considered recession-proof, it is an ideal area to invest in during turbulent times.⁹ With proper strategy and precautions, this sector can be a profitable venture for companies.

How can A&M help?

A&M has the specialized experience in growth expansion, industry, process improvement, strategic advisory, operational, M&A and private equity to help make your transaction successful. Our experience assisting clients in the industry includes:

-  **Strategy:** assessment of size of market opportunities, designing pricing model, assessing technology, developing operating model to assist with the CGT initiatives, among others.
-  **Operations:** analysis of supply chain processes, evaluation of business' ability to scale up, manufacturing strategies including the management of the build-out of contract networks and manufacturing facilities, and other services to autologous and allogeneic therapy companies alike.
-  **M&A:** includes development of inorganic strategy, market landscape assessment for investment strategy, due diligence, tax implications and structuring and other transaction related services.
-  **Due Diligence:** financial, operational and commercial due diligence is especially critical for life sciences acquisitions and can have a significant impact on strategies for future value creation.
-  **Digital:** operational support to organizations throughout the entire digital journey, including on digital strategy, data analytics, AI and intelligent automation and cloud services.

7. [Explaining the Prescription Drug Provisions in the Inflation Reduction Act](#) | KFF

8. [Drug Pricing Reform In The Inflation Reduction Act: What Are The Implications? Part 2](#) | Health Affairs

9. [3 ways pharma can weather a recession](#) | PharmaVoice

Authors:



Simon Joyeux

Managing Director
Global Transaction Advisory Group

+1 917 774 9134

sjoyeux@alvarezandmarsal.com



Dipen Shah

Managing Director
Global Transaction Advisory Group

+1 917 438 9680

dipen.shah@alvarezandmarsal.com



Arpita Singhal

Managing Director
Healthcare & Life Sciences EMEA

+44 0 776 836 8748

arpita.singhal@alvarezandmarsal.com

ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 7,000 people across five continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

Follow A&M on:

