HEALTHCARE & LIFE SCIENCES

Life Sciences M&A: Investment Lifecycle Optimization

Dealmaking in the biopharma sector may have trended lower in early 2022, but activity could rebound into 2023 as the economic outlook becomes clearer.

Big pharma certainly seems to have returned to the table in the latter half of 2022, with notable acquisitions by Pfizer of Biohaven Pharmaceuticals and Global Blood Therapeutics and Amgen's acquisition of ChemoCentryx and recently announced deal to buy Horizon Therapeutics for $27.8 billion.

Even J.P. Morgan is aiming for success in the sector. The bank launched its new life sciences private equity arm in November with an eye on gene therapy and autoimmune fields, among others within the sector.[1]

Yet, M&A activity in the biopharma sector has not returned to 2021 levels, which was a record year across all industries. For life sciences, which includes biopharma, medtech and pharma services, the sector experienced healthy activity in 2021 with 145 deals valued at $40 billion, according to Bain & Company's 2022 Global Healthcare Private Equity and M&A report.

So far in 2022, the sector recorded multiple-year lows in both activity and value, but the outlook for 2023 appears somewhat healthier due to available cash on hand, the need to continually improve technology and the anticipated settling down of recently high valuations.[2]

Looking to 2023, market watchers predict a more robust year for life sciences company deals despite buyers losing access to previously cheap financing that had promoted record M&A activity globally. Even considering inflation and economic uncertainties, PE firms will focus on value creation instead of relying on buy-and-build strategies to drive profitability.

In this fast paced and complex merger space within the sector, corporate and PE organizations will need to be armed with more than just due diligence and deal support. Deal execution requires keen insights, a strategy that aligns with the buyer and an ability to create value along the complete lifecycle of the acquired target.

A Roadmap for Corporates: Performance Optimization

Companies are looking to enter or expand their presence in the industry by maximizing value through mergers, divestitures, spin offs and carve-outs, a tactic more and more investors have taken in recent years. But it's not enough for organizations to properly execute due diligence and integration in the current M&A environment. Performance improvement will be even more critical now to fend off margin pressures from higher raw material costs, energy prices, supply chain costs and wage increases.

By not pressing for performance improvement in every area of the business, companies are forsaking significant opportunities to create value and impact the top and bottom lines.

Effectively improving performance of a potential life sciences acquisition should include the following steps:

Strategy Creation: Before targeting an acquisition, companies should incorporate their organization's mission and vision and conduct a full assessment of their core business to build a strategy. From there, companies can determine measurable goals, identify adjacent business opportunities to grow revenue and evaluate strategic options to enhance performance.

R&D and Portfolio Mix: Fully evaluating the asset mix will identify the kind of acquisition that would complement a company's business strategy. How efficient is the research and development (R&D) function, and does it align with a full understanding of the competitive landscape? R&D is just one asset in the portfolio that will support product sales and marketing and impact the type of target a company pursues. Are the company's drug discovery processes, clinical trial design and operations, recruitment and program prioritization optimized?

Portfolio Enhancement: When it comes time to strike a deal, companies should have the tools to screen assets and prioritize them according to their acquisition strategy portfolio mix evaluation. Due diligence must not only include financial assets and liabilities, but also key personnel, scientific scrutiny, commercial viability and operations evaluations.

Revenue Generation: As the target is acquired, how soon can product be commercialized? Aligning the sales and marketing functions with key developmental tasks can improve revenue opportunities. Those tasks include developing a commercial excellence program, executing and planning the product launch, establishing pricing, market and patient access reimbursement, product lifecycle management and proactively manging medical affairs.

Operation Excellence: Using a multitude of available and bespoke tools, companies can use digital initiatives, analytics, efficient manufacturing processes, supply chain tactics and quality control to optimize the profit and loss statement. Of course, this goes beyond the initial targeting of an acquisition, but the deal is an opportunity to improve performance and create value in the acquired company as well for the whole organization.

1. https://www.fiercebiotech.com/biotech/jp-morgan-launches-new-life-sciences-private-equity-arm-fund-breakthrough-biopharmas
2. https://www.pwc.com/us/en/industries/health-industries/library/pharma-life-sciences-deals-outlook.html

A Roadmap for PE firms: Investment Lifecycle Strategy

From acquisition to exit, optimizing the target company over the investment lifecycle will boost opportunities to create value.

The following process can improve performance and value from initial investment to asset exit.

Investment Strategy: Deciding where and when to invest is crucial. In taking advantage of life sciences opportunities, PE investors can focus on biopharma, medtech and pharma services, then decide whether the target is an initial investment in the market segment or a roll-up with existing investments. Every investment strategy should include an exit strategy plan, or at least a hypothesis about the eventual sale outcome.

Due Diligence: In addition to the important task of financial due diligence, companies should also focus on commercial operations and executions. For commercial due diligence, PE firms should evaluate the market and competitive landscapes and capture customer feedback that will help arrive at a revenue forecast. Operational due diligence should assess capabilities, capacity, gaps and required investments. Identify investment enablers and barriers.

Transaction Execution: PE investors must plan the deal structure and terms. Which entity will own the acquisitions and what kind of governance will be required? Consider post-deal operations efficiencies. The transaction should include an optimal capital structure through financial scenarios modeling and risk assessment.

Profit and Loss Statement Optimization: Investors should focus on revenue growth, considering the product positioning, product investment and the R&D outlays required. Then they can employ a cost reduction strategy across cost of goods sold, R&D and selling, and general and administrative (SG&A) expenses to improve margin.

Asset Monetization: When it comes time to exit the investment, a solid assessment of the business growth potential of the asset post-exit should be determined. When identifying the potential buyer, it is important to ask if it will it be a corporate company, strategic partnership or another PE firm. Conduct due diligence to support the transaction and terms and underscore the value proposition for the buyer, such as strategic growth, and the seller, who is eager to monetize the investment.

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: growth objectives, R&D and marketed product portfolio required to deliver it, along with commercial excellence programs.

Operations: analysis of supply chain process, systems, manufacturing strategies and others.

M&A: includes development of an investment and deal strategy, taking into account due diligence, valuation and pre and post-merger integration requirements.

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 digital strategy, data analytics, AI and intelligent automation.

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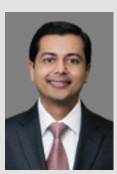

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