

Navigating the Financial Meltdown for Biopharma

A review of pharma and biotech equity market, IPO, and M&A trends and outputs through the first half of 2022—and implications for the future as disruptions continue to have an impact



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The biopharmaceutical industry over the years has gone through many business and financial cycles. Fortunately, it has only been impacted by a few of the business disruptions, for example, supply chain problems, clinical trial problems due to the pandemic demands on hospitals, and curtailed activities in Ukraine and Russia.

The financial disruptions have been far more impactful. The current biotech down cycle that started last year is particularly severe and comes on top of the negative effects of some of the global economic and geopolitical disruptions.

The biotechnology industry has gone in and out of favor with venture capitalists and the public equity markets over long cycles. The pharmaceutical industry, on the other hand, has been much less affected.

The following are some of these financial disruptions and their implications:

1. There has been a huge decline in the stock market prices and values of biotechs. This is making it much harder to raise money for those biotech companies already public, in terms of price and the amount they can raise. It is also having an impact on the M&A market in terms of value expectations by sellers and buyers. Pharma company shares, on the other hand, did quite well on both an absolute and general market relative basis.
2. There has been a plunge in the number of biotech IPOs (see Figure 1 on facing page); so many biotechs that were planning to go public cannot go public now. That is causing them to have serious funding problems, since the IPO market has been an important source of very attractive equity funds and a way for the private owners to have liquidity for their shares, i.e., a way to sell shares.
3. As one would expect, the huge drop in biotech stock market valuations has been pushing down the private equity raise valuations and availability. Venture capital firms have taken big paper losses on the existing ownership positions in private and public biotech/biopharma companies and are reluctant to make new investments in pri-

vate biotech companies or, if they do, they are demanding much lower valuations.

4. Many private biotech organizations are running out of money, so there are downsizing announcements on a regular basis. Some of the biotech companies will not survive and will have to shut down. This down cycle happens to the biotech sector on a regular basis, so this is not a new development in the history of the industry, but it has disastrous effects.
5. Debt financing has become much more expensive and difficult to obtain, which has hurt life sciences companies that need to borrow. It has also made acquisitions that include debt financing, more commonly by Big Pharma, much more difficult.
6. All of this is having a major impact on the M&A market as well, for a whole host of reasons. Biotech M&A continues to slow with uncertainties about valuation and a slew of failed clinical trials. Pharma M&A dollar volume also has slowed (but not the number of deals), as pharma companies focus on smaller M&A deals, strategic partnerships, licensing, and selected biotech acquisitions instead of larger pharma transactions.

The following sections highlight data behind the stock market, IPO, and M&A trends impacting the industry through the first half of 2022, and the future outlook.

STOCK MARKET PERFORMANCE SO FAR IN 2022

During the first half of this year, global equity markets performed poorly due to a host of issues, including high inflation, expected interest rate increases, concerns about economic growth, and the Russian invasion of Ukraine. By the end of the first six months of 2022, the S&P 500 had decreased 21.1% and the S&P Euro 350 had dropped by 15.3%.

Although the larger biopharma organizations did well, with the Y&P US biopharma index increasing by 9.9% and the Y&P European biopharma index by 3.1%, the general biotech NBI

Worldwide Biotechnology: Number of IPOs

- IPO volume in terms of number of IPOs in the first half of 2022 has fallen dramatically.

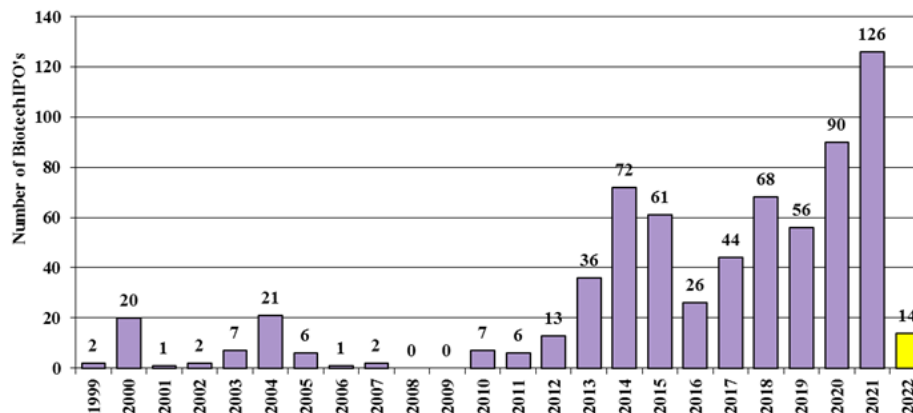


Figure 1

Source: Young & Partners

index suffered. The NBI index fell by 20.3%. Even the Y&P biotech mid-small cap index fell by 9.7%.

BIOTECH EQUITY FINANCING

There was a dramatic slowdown in the number and dollar volume of biotech equity offerings with only 79 equity offerings, worth \$7.8 billion, completed in the first half of 2022, vs. 360 offerings, worth \$52.1 billion, completed in 2021.

The slowdown in IPOs was also severe. Only 14 IPOs, worth \$1.6 billion, were completed in the first half of 2022, compared to 126 IPOs, worth \$26.7 billion, in all of 2021.

PHARMA EQUITY FINANCING

Pharma equity issuance dollar volume in the first half of 2022 totaled \$5.2 billion, vs. \$17.8 billion for all of 2021, a dramatically slower dollar pace.

The number of offerings was also significantly down, with 26 offerings in the first half of 2022, vs. 92 offerings in 2021.

In essence, the industry is executing a smaller number of larger-equity offerings.

BIOTECH M&As

In the first half of 2022, 20 biotech deals, worth \$12.3 billion, were completed, vs. 48 such transactions, worth \$26.6 billion, completed in 2021.

The total dollar volume was slightly lower on an annualized basis compared to 2021, but most of the value was due to the \$6.2 billion acquisition of Arena Pharmaceuticals by Pfizer, which was completed in March. The number of deals plunged, as buyers held back given the uncertainties about valuations and a flurry of failed Phase III clinical trials.

The dollar value of the pipeline of deals announced but not closed as of June 30 was only \$23.6 billion (11 deals).

PHARMA M&As

On the pure pharma side, there were 19 transactions completed in the first half of 2022, worth \$27.7 billion, vs. 14 deals completed in all of 2021, totaling \$61.2 billion. This marked a pickup in the number of deals but a slowdown in the dollar volume of deals, continuing the slowdown in 2020.

The relative focus of the large pharma companies has been less on pharma acquisitions and more on acquiring biotech companies and using strategic alliances, joint ventures, and in-licensing to achieve pipeline growth.

As of June 30, 2022, the dollar value of deals announced but not closed was only \$5.2 billion (eight deals).

FINANCIAL OUTLOOK

In summary, we are experiencing a financial meltdown for biotech companies in terms of stock market valuations, IPO and private funding, and M&A activity that will likely persist for a long period of time. This has happened many times following a period of overexuberance. The result will be biotech downsizing and forced sales/mergers. Biotechs, overall, will face capital shortfalls and will have to pursue painful strategic and financial actions.

Pharma, on the other hand, is doing well in terms of its stock market valuations, but it, too, is suffering from a more difficult equity issuance market. Although pharma M&A volume is down and will continue to be subdued, it is more the result of pharma's strategic focus on alternative ways to expand through biotech M&A, strategic alliances, and licensing, rather than an inability to execute pharma M&A deals. 