

Pharma and Biotech M&A: Reflections on 2022 and the Current Outlook
Young & Partners
January 20, 2023

What happened in Pharma in 2022 and what is the outlook for 2023?

In 2022, the dollar volume of pharma deals was about the same as the year before, \$59.9 billion versus \$61.2 billion in 2021. However, there was a remarkable shift in the number of deals from only 14 in 2020 to 42 in 2022. Biotech deals are not included in these numbers.

This shift to a large number of medium sized deals is a reflection of two driving factors. First, the big pharma companies have rightly come to realize that mega mergers/acquisitions are less effective compared to targeted acquisitions of pharma companies for a specific strategic purpose. The mega deals in the past did have significant cost synergies, but for the most part they did not drive an increase in innovation and research results. Second, although the big pharma companies have revived their ability to invent new drugs, they still need to supplement their own efforts with acquisitions and collaborations with other mid-sized pharma and biotech companies.

In addition, the bio pharma balance sheets and cash flows are strong and, unlike their biotech brethren, their share prices in 2022 fared well during a period when the stock market suffered a meltdown.

The M&A market outlook for pharma deals in 2023 will likely be very strong in terms of the number of deals and flat to slightly up in terms of dollar volume. The only possible exception will be if one of the regional global players does a large deal in order to change their geographic profile. The driver of activity will remain the same as in 2022.

How about the Biotech M&A market? How did it perform in 2022 and what is the outlook?

In 2022, 45 biotech deals worth \$24 billion were completed versus 48 deals worth \$27 billion completed in 2021, representing modestly lower numbers in terms of both the number and the dollar volume of deals. There were no large transactions, with the exception of the \$6.2 billion acquisition of Arena by Pfizer.

Although we are well off the record dollar volume of \$53 billion that was set in 2020, the last two years have been the highest in years in terms of the number of deals completed. The next highest year over the last 30 years was in 2016 when 35 deals closed.

What is driving this trend? First of all, most of the acquisitions are being done by pharma companies who are looking to build their pipelines and revenues. Second, with the collapse of the IPO market, a severe reduction in equity funding, and a dramatic reduction in the share prices of biotech companies, biotech companies are more willing to consider a sale of the company at an earlier stage than they were just a year and a half ago. On the other hand, pharma companies are also using strategic partnerships and licensing as a way to access biotech company technologies and drug candidates, so M&A is not the sole method available to achieve pharma company goals.

What is the outlook for biotech M&A in 2023 and beyond? We expect more of the same in the future driven by the same factors, with a relatively robust number of biotech deals being completed for the next couple of years, along with strategic partnerships and licensing.

How will senior management approach M&A in this environment?

Management will be heavily focused on acquisitions for which there are compelling strategic reasons and where the same results cannot be obtained internally or through licensing and strategic partnerships. However, it will be challenging to determine what the right valuations are for each deal. With the collapse of the public market values for biotech companies and the downward repricing of private biotech companies in down rounds, matching buyer and seller expectations will be a challenge.

Are there any geographic considerations to note with regard to the M&A market?

As you would expect, the largest volume of M&A deals in biotech was in the United States with 31 of the 42 deals in 2020. With the largest number of biotech companies, one would expect this profile. The rest of the deals were done in Europe.

The picture, surprisingly, has been different in pharma, with Europe equaling the United States as the location where deals were completed. 15 deals were completed in Europe in 2022 versus 18 in the United States. Big pharma is more diverse geographically compared to biotech.

Will the current big picture economic and geopolitical trends materially affect the pharma and biotech M&A markets?

Although we are facing likely recessions in many global regions, and in particular the EU, no one expects the downturn to last for a long time and, as we all know, pharmaceuticals are much less cyclical than most industries. Although the war in Ukraine and the geopolitical tensions between the West and China have become severe, these factors will not have a dramatic effect on pharmaceutical demand or strategies.

However, the ongoing challenges related to supply chain problems, the dependence on China and India for API and drug production, and the ongoing efforts globally to constraint drug pricing will have an effect over time on the pharma companies and the role that M&A will play in their strategic plans.