KPMG

Dealmaking still a key to growth

M&A trends in life sciences

Q3’23

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Introduction

Life sciences M&A holds steady as economy gains strength

For the fifth quarter in a row, M&A held steady in medical devices, pharmaceutical services, and diagnostic and lab services. The 194 deals announced or closed in Q3'23 tracked average quarterly volumes in 2019 and 2020—196 and 194, respectively. That said, deal volume is down compared to Q4 2020 through Q2 2022, and that decrease is due to recession concerns, high interest rates, inflation, and high valuations.

The mix of acquirers changed, however: strategic buyers made more deals in each quarter of 2023, and financial investors made fewer. Several trends are driving this disparity. Macroeconomic uncertainty, antitrust scrutiny, and wide ask/bid spreads make some targets less attractive, while many corporate acquirers need bolt-on acquisitions to grow, for example by entering new markets, accessing new technologies, or offering new products or services.

More dealmakers in both categories tell us they anticipate a return to normal economic conditions. Inflation in the US had retreated to 3.7 percent by September 2023, for example, from more than 9 percent in June 2022, giving more buyers confidence even as interest rate hikes continued. Recession fears are easing, and interest rates appear to be topping out.

These and other trends suggest modest increases in life sciences dealmaking in 2024.

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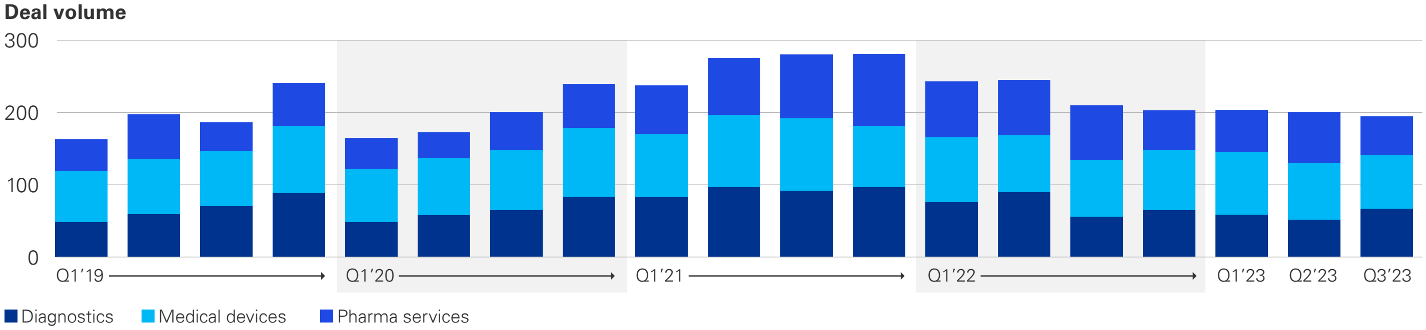
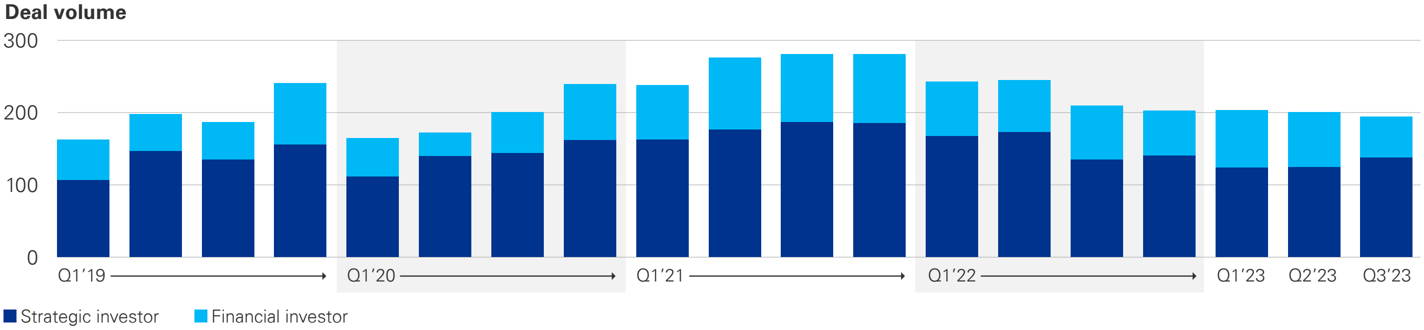
Life sciences deal activity by sub-sector



Life sciences deal activity by investor type



Significant life sciences deals

Acquirer	Target	Rationale	Status	Value (billions)
Elliot	Syneos Health	Accelerate transformation, invest in technology	Announced	$7.1
Danaher	Abcam	Expansion	Announced	$5.7
Sartorius	Polyplus	New capabilities	Announced	$2.8
Coloplast	Kerecis	Build presence in biologics	Announced	$1.3
Permira	Ergomed	Take private	Completed	$0.9

About the data: Data was sourced from CapitalIQ, Refinitiv, Pitchbook, and KPMG analysis. The Q3'23 values and volumes data cited are for U.S. deals announced between 7/1/2023 and 9/30/2023. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or changes in deal outcomes.

By the numbers

Rebound likely in 2024 after a year of business as usual

Overall life science deal volume in Q3'23 fell by about 5 percent below the average of the previous four quarters. That said, with 597 deals in the first three quarters, 2023 is likely to end with total volume in line with 2019 and 2020. As noted, strategic buyers took up the slack in Q3 as financial investors made just 57 deals, their lowest volume in three years.

Dealmaking trends and considerations vary in each of the three subsectors.

Medical device deal volumes reached their lowest volume since Q1'20, but we expect several factors to drive a rebound in 2024. The post-pandemic return of elective surgeries is likely to accelerate, for example, and companies with healthy margins will look to build scale in existing procedure areas. Some firms doing business in lower-margin sectors will seek acquisitions to expand into new procedure and device categories, while others will look to acquire scarce capabilities and talent.

Advances in AI-supported devices in surgery, diabetic care, cardiology, and other areas could yield opportunities in 2024. In August, Medtronic announced a 40-site pilot program in collaboration with Cydar Medical to help surgeons perform minimally invasive surgery with three-dimensional maps of patient tissue.[1]

In September, Abbott announced that it would acquire Bigfoot Biomedical and its smart insulin management system, which uses connected insulin pen caps to display dosing recommendations based on data from an integrated continuous glucose monitor.[2] Financial terms were not disclosed.

While the cost of capital may continue to limit some deals in the medical device space, we anticipate that as start ups with AI begin to show the impact of their solutions in this space, it will fuel M&A competition and lead to an uptick in deals. It is just unclear if this will happen in FY24 or later.

In **pharma services,** only 54 deals were announced or closed in Q3'23, tied for the lowest quarterly volume since Q3'20.

Many companies in the subsector are still recovering from the pandemic whipsaw. After producing vast quantities of sterile injectables for vaccines, for example, many contract development and manufacturing organizations (CDMOs) now have excess manufacturing capacity.[3]

These and some other gaps are likely to narrow in the year ahead, since demand for many pharma services continues to be strong. Major pharma companies and emerging biotechs continue to outsource functions at every stage of drug development, from clinical testing to securing regulatory approvals and commercializing new therapies.

Cell-and-gene therapy manufacturing is a strong area of interest, as is the need for contract research organizations (CROs) to take a more data-driven approach to clinical trial development. In July, Thermo Fisher acquired data intelligence firm CorEvitas, a provider of regulatory-grade, real-world evidence for approved medical treatments and therapies for $912 million.

Private equity seems increasingly ready to get back into pharma services—PE's most active life sciences subsector for years. We believe hub services will likely see more activity, and that technology solutions and services that support clinical trials will pick up again:

- In September, private investors including Elliott, Patient Square Capital, and Veritas completed their acquisition of Syneos Health, an integrated biopharmaceutical solutions organization. As a privately held company, Syneos plans to accelerate its transformation, invest in technology to differentiate its integrated solutions, and serve customers better.[4]
- Also in September, PE group Permira bid $880 million for Ergomed, a CRO based in the UK that conducts early stage drug trials and pharmacovigilance research.[5]
- In October, Advent International and Warburg Pincus closed on their $4.25-billion acquisition of Baxter International BioPharma Solutions, an injectables CDMO now called Simtra.[6]

[1] "Medtronic Announces First Patient Treated in Global Collaboration with Cydar Medical," Medtronic press release, August 23, 2023
[2] "Abbott to Acquire Bigfoot Biomedical," Abbot press release, September 5, 2023
[3] "CDMO capacity does not equal capability, says VintaBio," BioProcess International, July 20, 2023
[4] "Syneos Health Closes Transaction with Private Investment Firms," Syneos press release, September 28, 2023
[5] "Ergomed/Permira: buyout group sees drug trial group as contract thriller," Financial Times, September 4, 2023
[6] "Advent International and Warburg Pincus Complete Acquisition of Baxter's BioPharma Solutions Business," Warburg Pincus press release, October 2, 2023

Diagnostics and lab services dealmaking reached its highest volume in more than a year, however we are seeing roughly half the number of deals than occurred in 2021 and the first half of 2022. Some COVID-19 testing companies, once flush with cash, have gone out of business, while others continue to search for sustainable new business models.

The holy grail would be for a company to produce a diagnostic test that would be fast, affordable, accurate, convenient, and less invasive. Some companies are beginning to approach those milestones, and partnerships are enhancing that potential. For example, Simple HealthKit, which offers a wide range of in-home diagnostics, has partnered with retail giant Walmart to offer tests for conditions including diabetes and sexual health. The collaboration makes sense given the fact that 90 percent of Americans live within just 10 miles of a Walmart, and working directly with the retailer could reduce test turnaround time. Similarly, Healthy.io, which utilizes the camera on a smart phone to produce diagnostics around kidney disease and wound care, is developing partnerships with payers and pharmaceutical companies. Its relationship to BCBS Idaho is enabling the payer's patient base to test the company's Minuteful Kidney test, and a recent deal with pharmaceutical firm Boehringer Ingelheim is also focused on expanding access to that FDA-approved test.

Questions remain about how far the decentralized testing trend has progressed, and what the future will look like for lab companies and their partners, but consumers and healthcare providers alike are relying more heavily on testing—about 70 percent of medical decisions now depend on lab tests, according to CDC data.[7] Consumers are also using more tests at home. In addition, Clinical Laboratory Improvement Amendment (CLIA) waived test volume is growing at an annual rate of 18 percent, with the largest increases in infectious agent antigen detection and qualitative or semiqualitative immunoassays. For example, CLIA-waived HIV test volume increased 15 percent from 2021 to 2022. This trend suggests that the growth in decentralized, point-of-care testing via CLIA-waived tests continues to increase significantly.

[12] "FDA moves to tighten oversight of laboratory-developed tests to make them safer and more accurate," CNN.com, September 29, 2023

Outlook

Could life sciences M&A pick up in 2024?

Even with the continued uncertainty in the US economy, we believe life sciences M&A could pick up in 2024. One reason is that for most large companies, organic growth is still more expensive, uncertain, and time-consuming than well-executed acquisitions.

If life sciences M&A volume increases next year, it could in part be driven by the current landscape in the PE space. PE continues to raise even more funds and is sitting on historic levels of dry powder. At some point, we believe that PE will have to put those funds to work, even if uncertain economic conditions persist, because their investors expect returns on their investments.

We also expect more deals across borders—several of the biggest deals in the quarter were international. Many life sciences companies abroad want to enter the profitable US market, for example, while some buyers in the US may want to make plays in overseas M&A markets that are less competitive. Also, the value suppression on outside the US assets is likely much greater as recessions are hitting international economies, so bargain shopping in the EU, APAC, and LATAM could expand.

Key considerations as we look ahead

We expect the most successful acquirers to excel in these areas:

1 Adapt to the changing market

As new technologies and business models emerge in life sciences, adapt your business to new customer types and customer preferences.

2 Look to partners, including untraditional ones

Life sciences partnerships can facilitate the development of end-to-end services that can close gaps in your operation. And collaborating with nonconventional partners can help expand your customer base.

3 Look globally

Some of the biggest life sciences deals of the year involved ex-US companies that have significant cash to invest and/or differentiated products and services.

4 Focus on extracting value from acquisitions

Given the high number of acquisitions already completed over the last few years, high multiples, high interest rates, and other challenges, life sciences companies may want to focus their energies on value creation and integration of already acquired companies.

How we can help you

KPMG helps its clients overcome deal obstacles by taking a truly integrated approach to delivering value, using its depth of knowledge in the life sciences industry, data-supported and tools-led insights, and full M&A capabilities across the deal lifecycle.

With a life sciences specialization, our teams bring both transactional and operational experience, delivering meaningful results and creating value.

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