The sector M&A landscape

During the Perth 2017 Globalscope conference, the network's global Life Sciences sector team met to discuss recent transactions and the evolving underlying structural drivers of the global sector M&A landscape.

A key theme is the continued tightening of regulation, in spite of some policy uncertainty. More details can be obtained from team members or regional heads.

Sector themes

US Big Dealmaking Declines

Companies have been shying away from large takeovers following President Donald Trump's failure to move ahead with overhauling the American tax code. This is coupled with European uncertainty around Britain's extraction from the European Union.

Medical Services Activity Up

Low interest rates, higher deal leverage multiples, cash on private equity and strategic balance sheets allowed for continued consolidation in the medical services sub-sector. This has been further driven by greater demand for, amongst other things, non-invasive surgeries.

Cyberattacks

Some of the industry's most established companies, including Merck, Beiersdorf and the British NHS, were subject to the WannaCry ransomware attack this summer. Many healthcare institutions have taken to implementing some more sophisticated IT systems, as well as adhering to more stringent digital housekeeping. At the end of August 2017, the FDA announced that approximately 500,000 implantable cardiac pacemakers require a firmware update to address cybersecurity vulnerabilities. One lesson learned is that healthcare products with digital components require special quality management attention in general and even post market introduction to remain secure.

Notable recent transactions

Johnson & Johnson acquired Actelion

J&J has closed the acquisition of Swiss company Actelion for $29.4bn. Actelion has spun off its drug discovery operations and early-stage clinical development assets into a newly created Swiss biopharmaceutical company, Idorsia Ltd.

Becton Dickinson to Acquire Bard

The $24bn deal adds Bard's devices to Becton Dickinson's portfolio in the high-growth sectors of oncology and surgery. The deal is the latest in a string of deals in the MedTech sector.

Gilead to Acquire Kite Pharma

Kite is a leader in the emerging field of cell therapy in which a patient's immune cells are activated to fight cancer. The deal is expected to be worth $11.9bn. Gilead's focus previously has been on infectious diseases, and this deal is seen as a move to diversify its portfolio.

Lower-mid market observations

MDR – Medical Device Regulation for CE marking

In May 2017 the MDR was published and will be mandatory from May 2020 onwards. Slowly, more and more potential impacts are coming to light. For instance, several products, and even some software, that had previously not been classified as a medical product will be classified as such. Extensive clinical data will be required, not only for new products, but also for the re-certification of proven products. Overall, quality management and regulatory affair (QM/RA) costs will noticeably increase resulting in a higher barrier to entry in favour of established oligopolists.

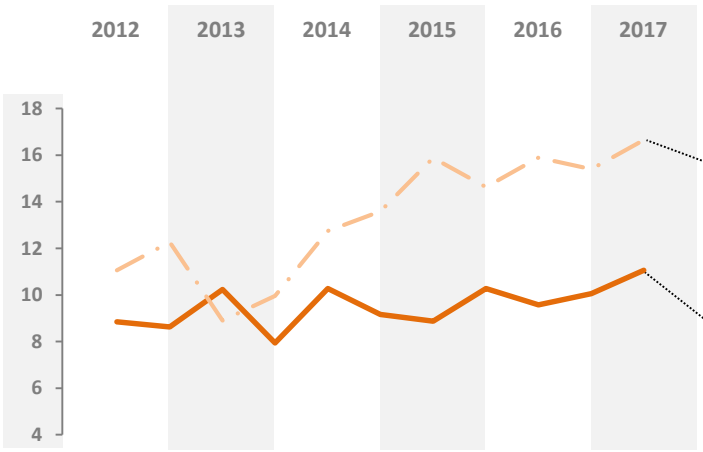
Shortfall in QM/RA Capacities Expected

Due to the MDR, notified bodies themselves need to recertify. Smaller institutions might not be able to comply. Therefore, we expect a consolidation wave in the sector. Over the next few years, both corporates and notified bodies will need more QM/RA capacities leading to a shortage in that area.

M&A trends & market analysis

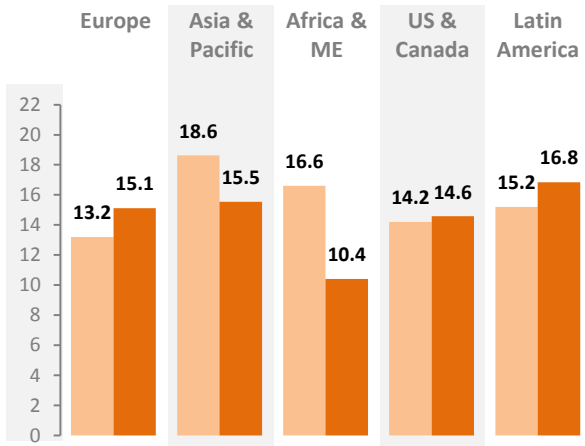
The following data are compiled specifically for the Life Sciences sector, with valuation trends over time in the first chart based on semi-annually averaged transactional data and regional and sub-sector comparisons in the second and third charts based on listed companies data as at mid August 2017.

Sector TEV/EBITDA



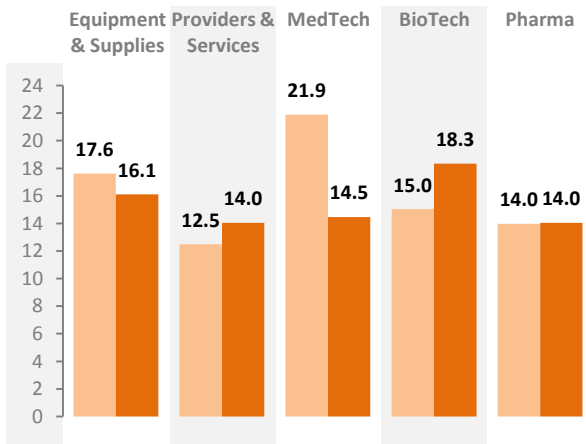
Comment	Context
All Market Life Sciences Transactions TEV/EBITDA Multiple *(Values over $5m)* has risen to **16.5** from **15.3** in 2016 H2	This compares to the current cross-sector All Market Transactions TEV/EBITDA Multiple of **14.1**
Lower-Mid Market Life Sciences Transactions TEV/EBITDA Multiple *(Values in range $5m-$150m)* has risen further to **11.1** from **9.7** in 2016 H1	This compares to the current cross-sector Lower-Mid Market Transactions TEV/EBITDA Multiple of **9.4**

Regional TEV/EBITDA



Comment	Context
All Market Life Sciences Listed Companies - TEV/EBITDA Multiple *(Values over $5m)* by region is highest in Asia & Pacific at **18.6**, 41% higher than the lowest in Europe of **13.2**	This compares to the All Market **Life Sciences** Listed Companies TEV/EBITDA Multiple of **14.7**
Lower-Mid Market Life Sciences Listed Companies TEV/EBITDA Multiple *(Values in range $5m-$150m)* by region is highest in Latin American at **16.8**, 62% higher than the lowest in Africa & ME of **10.4**	This compares to the Lower-Mid Market **Life Sciences** Listed Companies TEV/EBITDA Multiple of **15.1**

Sub-sector TEV/EBITDA



Comment	Context
All Market Life Sciences Listed Companies - TEV/EBITDA Multiple *(Values over $5m)* by subsector is highest in MedTech at **21.9**, 75% higher than the lowest in Providers & Services of **12.5**	This compares to the All Market **Life Sciences** Listed Companies TEV/EBITDA Multiple of **14.7**
Lower-Mid Market Life Sciences Listed Companies TEV/EBITDA Multiple *(Values in range $5m-$150m)* by subsector is highest in BioTech at **18.3**, 31% higher than the lowest in Providers & Services of **14.0**	This compares to the Lower-Mid Market **Life Sciences** Listed Companies TEV/EBITDA Multiple of **15.1**

Data supplied by: S&P CAPITAL IQ McGRAW HILL FINANCIAL

Analysis performed by: GLOBALSCOPE