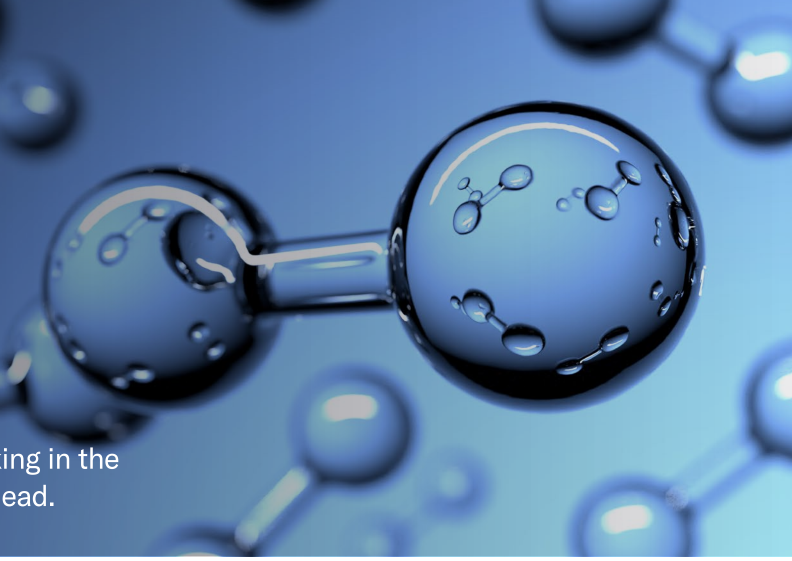

GIBSON DUNN

Deal Trends: Life Sciences

Our partners share insights on the trends shaping dealmaking in the Life Sciences sector—and what to watch in the months ahead.

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DEAL ACTIVITY

What's driving deal activity in the sector right now?

Murr: Life Sciences deal volume is up substantially, and a big driver has been the impending patent cliff that so many of the large pharma companies are facing. During the Biden administration, the antitrust environment was so difficult that relatively few large deals were being completed. This created more pent-up demand to address the patent cliff, and we're now seeing pharma M&A unleashed.

A lot of this M&A is also being driven by companies flush with cash from blockbuster drugs currently on the market, such as GLP-1s. These successes have created a significant war chest for companies to be super competitive and strategic.

There is also a significant rush for deals coming out of China right now. Over the last several years, there has been a massive uptick in large licensing deals for innovative drugs coming out of China, with U.S. and European companies bidding competitively. The sheer volume of deals and potentially best-in-class assets coming out of China right now is staggering, particularly in the antibody-drug conjugate space.

Fain: A significant number of biotechs went public between 2020–2022 and the successful subset of those are now seeking to raise additional funds or sell. With a market full of cash-flush buyers and a lot of sellers, the environment is rich as the large pharma companies rebuild their biotech pipelines.

Berns: My sense is that strategics are continuing to evaluate and acquire companies in a rather responsible manner – they're not throwing caution to the wind. While deal activity is robust, it's not undisciplined and strategics are most frequently placing their bets on later- or commercial-stage drugs with line of sight to profitability.

DEAL HEADWINDS

What's slowing or complicating dealmaking?

Berns: What is complicating dealmaking – especially right now – for companies with multiple promising assets in various lifecycle stages is the challenge of ensuring they're getting fair value for all of their assets when a buyer may only be interested in a discrete subset of those programs or modalities. This is a frequent impediment to deal execution. As legal advisors to these deals, our role is to apply creative deal structure solutions that can allow for the sale of the assets that are ready and valued, while allowing for the separate marketing or development of the more uncertain assets that require further maturation. I think this is why we'll continue to see a lot of interest in new and emerging structural solutions, such as the CVR Spin.

Fain: As we head into the election season, I think there will be a question as to potential impacts on dealmaking. While the leadership of the FTC and DOJ Antitrust Division would not change, a change in the leadership of the House or the Senate can shift the focus of congressional investigations and lawmaking focus. While I don't expect a fundamental change to the regulatory framework, for larger deals, dealmakers should consider and plan carefully for the regulatory environment at the time.

DEAL OUTLOOK

What should dealmakers expect over the next 6–12 months, and what could shift that outlook?

Murr: I think the trends we've seen so far this year will hold. Equity valuations will continue to be very relevant. Keeping an eye on the market will be important, as investors aim to find that "Goldilocks Zone" – a market that's not so low that sellers feel like they're losing value and not so high that buyers feel like they're overpaying.

The interest rate environment could impact borrowing costs and deal activity at the margins. If the Federal Reserve becomes more hawkish looking to raise rates, we might see a bit of trimming activity, in terms of increased borrowing costs, but not to the point where it's materially impeding transactions, particularly as many large pharma companies are using cash already on their balance sheets.

I don't think the midterm elections will change policy all that much, as a lot of the pricing policies set forth by the White House, like MFN and tariffs, will continue. That said, a change in congressional leadership could result in increased oversight or scrutiny of certain larger transactions.

Fain: For the Life Sciences sector, deal cycles don't tend to rise and fall in line with the general economic cycles. The product development pathway is quite long, as is the patent life; and demand is fairly inelastic. The market is robust right now and that is likely to continue over the next 6–12 months, at least.

Berns: I think it is in the early innings to know whether China is going to sustain its current position as a major engine for drug development. Right now, the market is saying yes. But whether that model is fully validated and becomes a stable pipeline, I think is yet to be seen. If it is proven as a primary path to bring drugs to market, that impact may be seen quite rapidly. This could pose a challenge for middle to late-stage companies seeking acquisition suitors if large pharma companies instead turn to China to fill their later-stage pipelines.

EXECUTING DEALS

What should corporates and sponsors be doing now to be transaction ready?

Berns: For companies concerned about ensuring they will receive fair value for all their assets when it's likely that a potential suitor may only be interested in a particular asset, they should begin thinking about deal structure solutions that can preserve value. One promising solution we're seeing emerge is the CVR Spin, which facilitates the private separation of a subset of assets via a liquidating trust and the distribution of a CVR and enabling the target company to separate those assets in a time-efficient manner concurrently with the sale of the company.

Murr: Having an internal valuation model and having a view on what a fair valuation might look like is a good idea. It doesn't necessarily need to be a formalized view, but giving some thought to what the business is worth before an offer comes in can be very helpful and allow the board to better and more rapidly respond to proposals that may come in.

Fain: The first step is having the right advisors there to help. Navigating the complex regulatory, financial and strategic considerations within the Life Sciences sector is critical to successful dealmaking both on the buy-side and the sell-side. Having financial and legal advisors who are experts in the sector to help guide boards and management is essential to achieving value, certainty and speed for both parties.

About Our Dealmakers

Ryan Murr has led more than 300 transactions totaling over $65 billion in aggregate value, spanning mergers and acquisitions, capital markets, and royalty-finance transactions, making his practice among the most active in the United States.

Sebastian Fain's practice focuses on M&A, activism defense, and corporate governance. His experience is centered on domestic and cross-border M&A, including public company mergers, private equity acquisitions, joint ventures, complex business carve-outs, and divestitures.

Branden Berns represents leading life sciences companies and investors on a broad range of complex corporate transactions, including mergers and acquisitions, asset sales, spin-offs, joint ventures, PIPEs, as well as a variety of financing transactions.