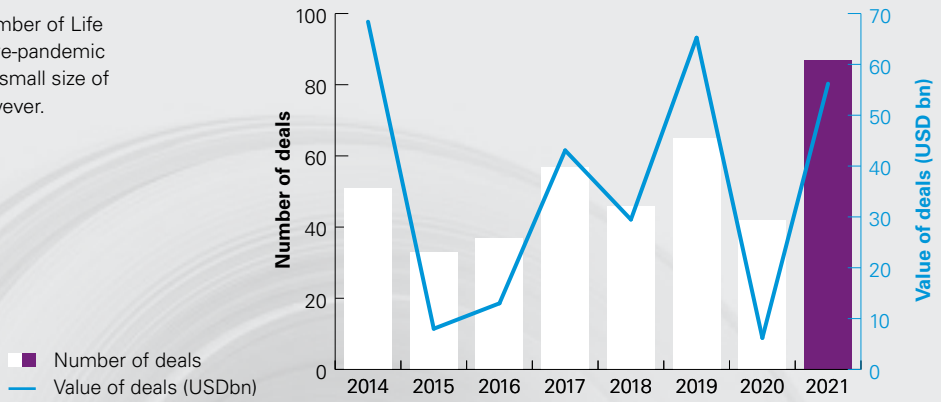
The innovation renaissance: Are you ready to invest in the future of Life Sciences?

The COVID-19 pandemic has wreaked havoc on a large number of economies and communities globally, with disastrous consequences for countless individuals. The speed and extent with which the pandemic spread caught many by surprise, yet it also spurred businesses into rapid action. It accelerated ground-breaking innovation in Life Sciences at a breathtaking pace across diagnostics and vaccines, with more to come. With a heightened awareness of the need and opportunity to innovate, Life Sciences players have been seeking out new sources of innovation and technology by applying their firepower to M&A. Involving some of the sector's leading names in Switzerland, which areas of Life Sciences are seeing the biggest surge in interest?

Number and value of deals
per year

With 87 M&A transactions in 2021, the number of Life Sciences deals in Switzerland surpassed pre-pandemic levels to reach a record high. The relatively small size of most deals kept total deal value lower, however.



Securing innovation through M&A

While the bulk of last year's transactions were motivated by a desire to expand portfolios or geographic footprints, an increasing number of deals aimed to acquire innovation. The growing quest for transformative technologies such as mRNA, cell and gene therapies, and bispecific antibodies will drive further investment interest in the sector. On the supply side, the deal pipeline will be aided by large biopharma companies' ongoing strategies of selling non-core pipeline assets and lower-performing products in order to free up capital to invest in pre-revenue, cutting-edge products.

Looking ahead, the increased interest in innovation should be bolstered by the upward trend in venture capital activity and growing number of Life Sciences IPOs. Given the considerable amount of funds available, we also anticipate the coming year will intensify Private Equity activity.

Diagnostics: Boosted by the pandemic

COVID-19 had a significant impact on the diagnostics industry, pushing diagnostic test platforms and reagents to the front lines of healthcare. The demand for new point-of-care testing, liquid biopsies, DTC testing and less-invasive sampling options for COVID-19 is likely to remain high. These innovations have been brought forward in record time and are likely to change the face of diagnostic testing by benefiting approaches to other infectious and chronic diseases. Demand for companion diagnostics to determine whether or not certain patients have the necessary biomarker(s) is also growing as the market for targeted medicines expands.

The pandemic's effects can already be seen in diagnostics M&A transactions last year. There was a particular focus on infectious diseases, such as Roche's USD 1.8bn acquisition of GenMark Diagnostics, which provides molecular diagnostic tests to detect multiple pathogens from a single patient sample for a broad range of infectious disease testing needs. Roche also signed a share purchase agreement with TIB Molbiol to expand its PCR-test portfolio in the fight against new infectious diseases. On a smaller scale, CalibreScientific bought HUBERLAB, the Switzerland-based distributor of consumables, reagents and tools selling into pharmaceutical labs. We expect to see more such deals in 2022, especially in remote and point-of-care testing.

Wraparound services: High demand for new capabilities

The sudden increase in demand from biotechs and pharma companies for development and manufacturing capacities and capabilities has brought contract research organizations (CROs) and contract development and manufacturing organization (CDMOs) into focus. CDMOs and CROs are using M&A to help meet the additional demand from biopharma's global growth and diversification.

To remain competitive, Swiss CROs and CDMOs have sought to diversify their portfolios, scale up their operations, and broaden their competencies across the value chain. For instance, Basel-based CDMO Ten23 health bought Swissfillon to expand into fill-finish manufacturing capabilities along with existing drug product development services to give their combined group of customers an enhanced offering. Similarly, SGS, the Switzerland-based testing, inspection and certification company that did not previously have any CDMO activities in its portfolio acquired Quay Pharma, a UK-based CDMO.

Deals targeting the delivery of gene therapy are also becoming more prevalent. Examples from the past 12 months include Lonza enhancing its exosomes service offering by acquiring Codiak BioSciences' exosomes manufacturing plant and Exosomics' services unit in Italy. These transactions are understandably small compared to the US where Thermo Fischer acquired PPD for USD 20.4bn and Dahaner acquired Aldevron for USD 9.6bn.

We expect the number and size of transactions in Switzerland to rise over the course of 2022, driven by the ongoing impacts of COVID-19 and a healthy pipeline of innovative cell and gene therapies.

Cell and gene therapy: Switzerland as a hot spot

Investor interest in next-generation cell and gene therapies remains high. Innovation in this area is being led by early-stage biotech companies. Given the risk profiles of new technologies, direct acquisitions are giving way to more creative deal structures. Leading players such as Roche and Novartis increasingly rely on transactions that include small upfront payments and larger deferred capital outlays that are contingent on the target achieving pre-defined development milestones. Roche's recent acquisitions in cell and gene therapy have been structured in this way, such as Adaptimmune (USD 150m upfront plus up to USD 3bn if all milestones are met), Shape Therapeutics (total deal value of around USD 3bn if all milestones are met) and Lineage Cell Therapeutics' cell therapy (USD 50m upfront plus USD 620m in milestones plus royalties).

As biopharma companies place significant bets on cell and gene therapy start-ups, they must consider the organizational and cultural issues that can arise when a traditional pharmaceutical company integrates a much smaller biotech start-up. Acquisitions of innovative biotech start-ups are often fraught with challenges such as losing key technical talent, failing to address cultural differences, or applying a one-size-fits-all operating model. Integration methods must be tailored for start-ups, with biopharma companies exerting the right amount of control to manage risks without stifling the entrepreneurial spirit that generates innovation.

Major trends affecting M&A going forward

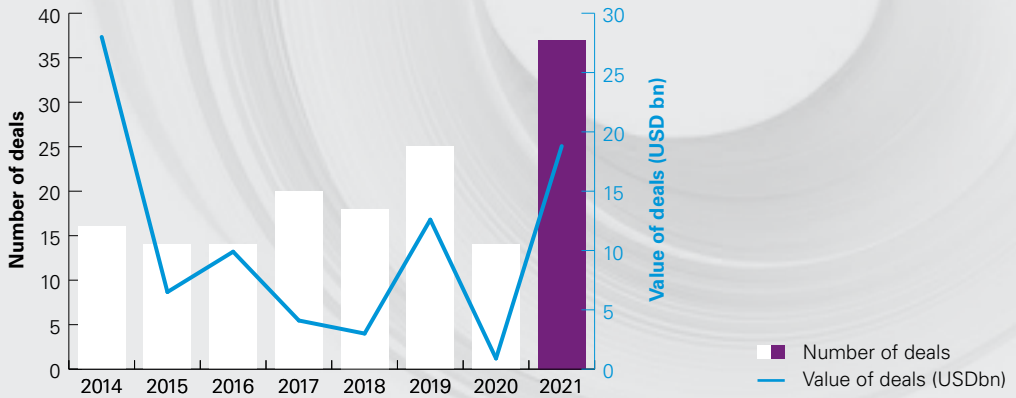
As the above-mentioned trends in securing external innovation, diagnostics, wraparound services and cell and gene therapies influence deal rationales and choice of targets, what does the M&A scene look like for the coming years? A number of key opportunities and challenges in Private Equity, Big Pharma and medical devices are helping to shape future deal activity in the sector.

Private Equity: Significant liquidity seeking a home

The number of Private Equity deals in Life Sciences in Switzerland are considerably lower than in the US or EU, with around 60 percent of Swiss Life Sciences deals last year being led by corporates – overwhelmingly pharmaceutical and biotech companies – and only 40 percent by Private Equity. The direct opposite was true for the US, where 70 percent of deals were by Private Equity.

Although lagging behind the US and EU, Private Equity is demonstrating a healthy interest in Swiss Life Sciences, and funds have considerable war chests to be deployed. Of the 37 PE-related deals in Life Sciences in Switzerland in 2021, a number of transactions stood out for their size. These include Partners Group's USD 1.9bn acquisition of leading European generics player Pharmathen. Interest can be expected to pick up further due to COVID-19 raising the sector's profile, combined with heightened interest in new technologies.

Number and value of Swiss Life Sciences deals being led by Private Equity



Apart from generic manufacturers, Swiss Private Equity activity in 2021 focused on hospitals and healthcare providers, medtech manufacturers and CROs. Going forward, we expect investments to also focus on biotechs and drug discovery deals, which were a key area of interest in the US and EU last year.

The IPO landscape in Switzerland is also growing rapidly. There was a three-fold increase in both the value and number of IPOs in 2021 with six Life Sciences IPOs totaling USD 1.1bn compared to two in 2020 totaling USD 377m. This indicates the growing number of start-ups with the maturity to acquire or be acquired. We expect this trend to yield a new wave of M&A activity in the near future.

Big pharma: Divesting non-core businesses to invest in cutting-edge technologies

A number of Big Pharma deals focused on growth, such as CSL's intention to acquire Vifor to expand its renal and iron deficiency business, among other areas. Yet, a growing number of transactions target the acquisition of specific capabilities or technologies: Roivant Sciences absorbed Silicon Therapeutics to merge Silicon's computational physics work with Roivant's own VantAI drug discovery outfit; Immunai acquired biocuration and data integration business Nebion; Vifor purchased Inositec and Sanifit Therpautics; and Novartis agreed an option, collaboration and license agreement with BeiGene to strengthen its immunotherapy pipeline.

As noted, big pharma companies are freeing up funds to invest in higher-potential pre-revenue or leading-edge products by selling non-core pipeline assets and under-performing commercial products. We may see more deals over the next couple of years that mirror J&J's decision to spin-off its consumer health division or AstraZeneca's sharpened focus on priority medicine in respiratory and immunology by transferring rights for Ekliar and Duaklir to Covis Pharma.

Medical devices: Focus on building scale and diversification

2021 was a difficult year for many medical device companies, with supply chain disruptions, fewer elective procedures and delays in capital sales. Elective procedures fell during the pandemic and are taking time to recover, with more than 30,000 procedures postponed in Switzerland alone. This has depressed demand for devices used in deferrable procedures such as aesthetics, knee surgery and vision correction. Deals in this area in Switzerland were small, bolt-on acquisitions that focused on achieving scale or diversifying, with less emphasis on innovation. DKSH acquired MedWorkz, a Singapore-based medical device distributor to strengthen geographic reach, for example. Similarly, Colfax Corporation's agreement to acquire Mathys, the Switzerland-based manufacturer and supplier of artificial joint replacements and synthetic bone replacement product, aimed to expand their reconstructive business beyond the US.

We see clear trends emerging that will drive M&A in this space. These include the imperative to build additional capabilities such as in clinical diagnostics, as demonstrated by DKSH's acquisition of Bosung Technologies, a South Korean provider of scientific instrumentation including clinical diagnostics. We also observe some interest in robotics, such as through DePuy Synthes' acquisition of OrthoSpin to further solidify its commitment to Medtech innovation.

The recovery in demand and the continued reconfiguration of portfolios should drive acquisitions in this market in the next year. Established players are seeking new growth opportunities by investing in early stage companies such as those that offer connected devices. As their environment begins to return to normal in, medical device companies must maintain their focus on innovation and diversification while ensuring suitable risk management by structuring deals to succeed in the face of uncertainty.

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What to expect going forward

We anticipate a fresh wave of M&A activity in the coming year, with the potential to transform the Life Sciences ecosystem, fueled by the availability of considerable Private Equity funding and the greater interest in innovation. In addition, as large biopharma companies continue to sell older non-core pipeline assets and invest in cutting-edge technologies, we expect deal volumes to be dominated by small to mid-size acquisitions, partnerships, licensing transactions, and strategic R&D deals with innovative start-ups. As deals to acquire innovation capabilities from start-ups become more common, it is critical for biopharma businesses to hedge their bets by using creative deal structures and to maximize value creation through a well-thought-out strategic plan for integration and scale-up.