Life sciences M&A
2023 trends

Life sciences M&A was a bright spot for dealmaking in 2023. Will it continue in 2024?

Pharma M&A rebounded in 2023, and we think the tailwinds will continue, spreading to MedTech.

Dealmaking in 2023 was brighter than many expected, eclipsing the $135 billion figure from 2022, with $163 billion worth of deals announced through the end of October. The primary driver of strength in 2023 was the pharmaceutical segment, where 2023 M&A activity exceeded the same period in 2022 by 35%.[1]

Based on these trends, Deloitte has identified several key trends across the life sciences space, and we see momentum continuing into 2024.

Deloitte's 2024 life sciences M&A predictions:

1. **Pharma continues to plug gaps**
   With big pharma continuing to face loss of exclusivity events across various therapeutic areas,[2] we believe 2024 will be another strong year for big pharma to plug portfolio gaps through M&A. We suspect big pharma will continue to target late-stage development/early-stage commercial assets that can contribute material revenue growth from 2026 to 2030. While the immediate term looks bleaker, with multiple pharma giants announcing cost reductions and divestitures, we expect freed-up capital to be deployed into accretive transactions.

2. **GLP-1 proofing of portfolios**
   The rise of GLP-1s has created tremendous opportunities for obesity and obesity-related assets across the pharmaceutical development life cycle. On the other side of this phenomenon, the success and clinical efficacy of GLP-1s with regard to treating obesity and downstream diseases has created tremendous anxiety for pharma and MedTech companies with therapeutics that could be disrupted, including cardiovascular disease and end-stage renal disease. Our clients are consistently asking us, "What is the impact of GLP-1s?" regardless of the underlying disease state. We predict that pharma companies will seek out superior obesity drugs[3] or complementary assets[4] and flock to "GLP-1-resistant" therapeutic areas like rare diseases, neurology, and oncology, and we think MedTech companies may search for assets that are not impacted by GLP-1s or assets for which an increase in longevity could portend an increase in utilization.

3. **AI acceleration**
   As AI continues to broadly disrupt all sectors of the economy, we believe life sciences companies will revisit AI opportunities. Our clients have expressed renewed interest in the space, and we have seen several AI-based drug development partnerships signed in Q3 and Q4.[5] The rise of AI has created many opportunities across all subsectors, including drug development in pharma, medical diagnosis in MedTech, and manufacturing efficiencies across contract development and manufacturing organizations (CDMOs), MedTech, diagnostics, and any company with a manufacturing presence. We do caution that the first wave of AI drug development companies has yet to bear much fruit, so there may be some initial trepidation or, at the very least, deals that are structured to minimize risk.

4. **Big pharma to big pharma**
   Throughout 2023, we saw many big pharma companies rethink their portfolios.[6] This entailed divesting assets to smaller companies and retaining minority stakes, as well as selling pipeline assets to other big pharma companies. Given a few high-profile successes, we think this trend will continue in 2024.

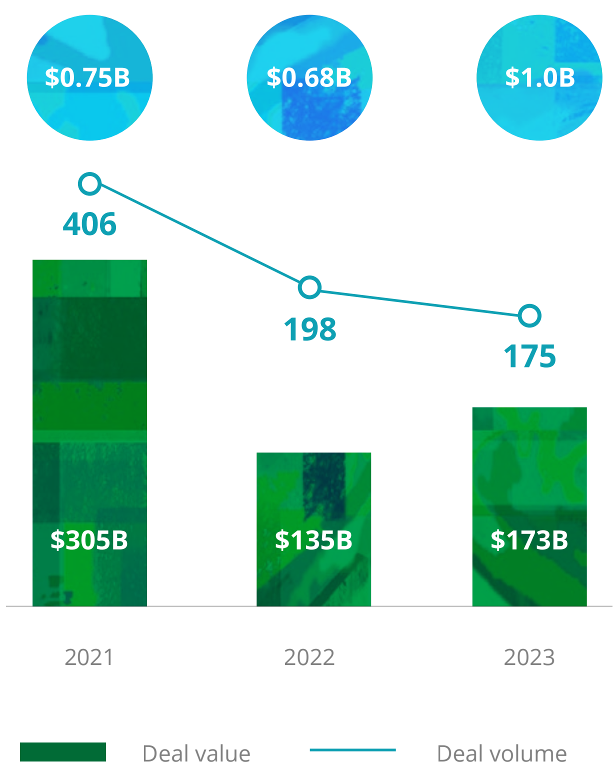
5. **MedTech turns from bearish to bullish for M&A**
   After slow periods in 2022 and 2023, we think the flurry of divestitures in the past two years will lead to MedTech companies returning to growth M&A. Based on our analysis of SEC filings and conference calls across the top 20 MedTech companies by market cap, divestitures are being used to reduce debt and improve capital structures across the industry. While internal development is certain to play a critical role, we believe MedTech will search for high-growth small/mid-cap companies as well as emerging companies with interesting technology that could disrupt existing businesses.

A quick review of activity in 2023

As shown in **figure 1**, M&A deal value was relatively strong in 2023, while deal volume also increased sharply. Pharmaceutical companies have remained somewhat insulated from higher rates and inflation, readily deploying capital, while other sectors have pulled back dramatically.

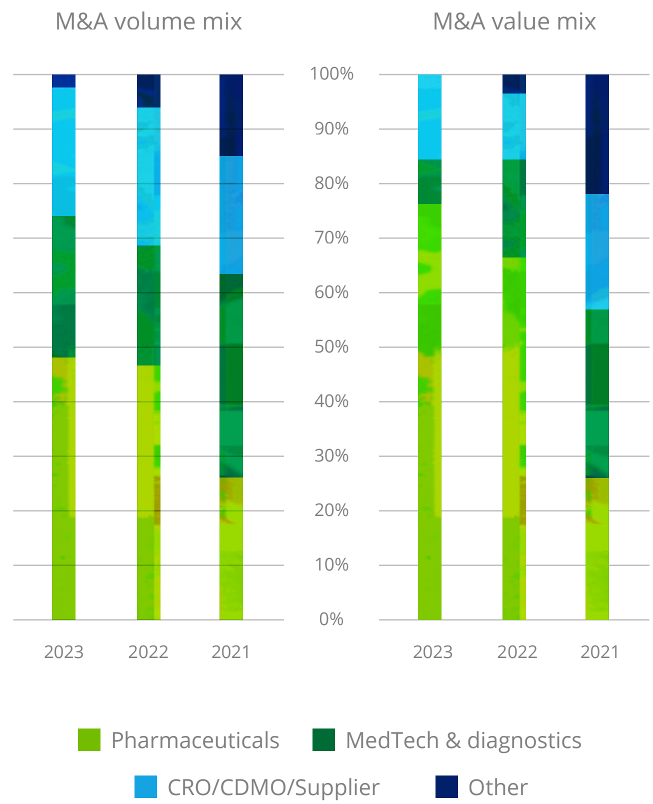
That said, venture activity has experienced a much sharper decline from both a value and volume perspective, though that has increased the size of median rounds raised as venture investors have been much more selective about investments.

Figure 1: M&A and venture activity in life sciences (2022–2023)



Source: Deloitte analysis of CapIQ and Crunch base data on October 31, 2023

Figure 2: M&A and venture activity in life sciences by subsector (2022–2023)



Source: Deloitte analysis of CapIQ and Crunch base data on October 31, 2023

MedTech and diagnostics activity declined across both M&A and venture, though the decline comes as no surprise, as MedTech companies focused primarily on portfolio rationalization, divestitures, and cost transformation in 2023. We see this inflecting in 2024 as strategics and private equity alike re-enter the acquisition fold.

Figure 3: M&A deal characteristics in life sciences by buyer groups (2023)

	Small/mid-cap	Large/mega cap	Private equity	Private strategic
Pharmaceuticals	**Pre-clinical oncology;** milestone payments are common, contingent on commercialization + regulatory	Acquisitions of companies with **approved oncology assets,** particularly in the **ADC space**	Driven largely by one acquisition in the **antibiotics space** seen as a platform for further growth	Acquisitions **of approved and late-stage rare disease assets**
MedTech & diagnostics	**Geographic expansion** in orthopedics and **consolidation play in spine**	Tuck-in deals across various therapeutic areas, including neurovascular, diabetes, and spine	Minimal activity	Large transaction in interven-tional urology; otherwise, limited tuck-in activity
CRO/CDMO/supplier	Strength in **cell and gene manufacturing** and supportive AI tools for biological drug development	Considerable investments in products used in **protein-based drug therapy development**	Significant capital deployed into both **CROs and CDMOs**	Small asset acquisitions of life sciences suppliers

Total deal value <$1B Total deal value $1-$5B Total deal value >$5B

Source: Deloitte analysis of CapIQ and Crunch base data on October 31, 2023

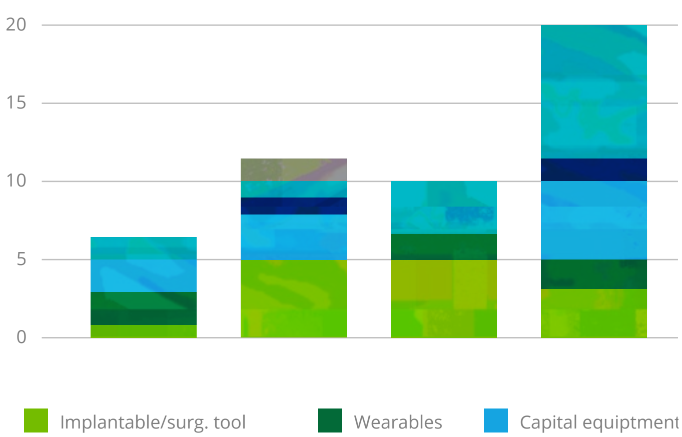
Pharmaceuticals

We predicted that 2023 would be strong for M&A in pharmaceuticals, and that has proven prescient thus far, with deal value jumping 46% year over year to $130.6 billion. Oncology represented the majority of deal value in 2023, though total deal volume declined and was roughly in line with CNS and endocrine and metabolic from a volume perspective.

Looking ahead, we believe 2024 holds tremendous promise from an M&A perspective. With $11 billion in venture funding since 2021 on top of numerous initial public offerings and other business development and licensing activities, as well as market interest in antibody drug conjugates, bispecific antibodies, and CAR-T, we believe oncology will continue to be a strong driver of M&A activity. In addition, with the first CRISPR approval in 2023, we believe cell and gene therapies—in particular, rare diseases M&A activity—will continue to be a strong driver in 2024 and beyond.

Equally as important, big pharma will continue to plug portfolio gaps ahead of several loss of exclusivity events; and after the large bolus of venture funding allocated to biotechnology since 2020, there are several assets with critical Phase 2 and Phase 3 readouts in 2024 that will undoubtedly draw interest.

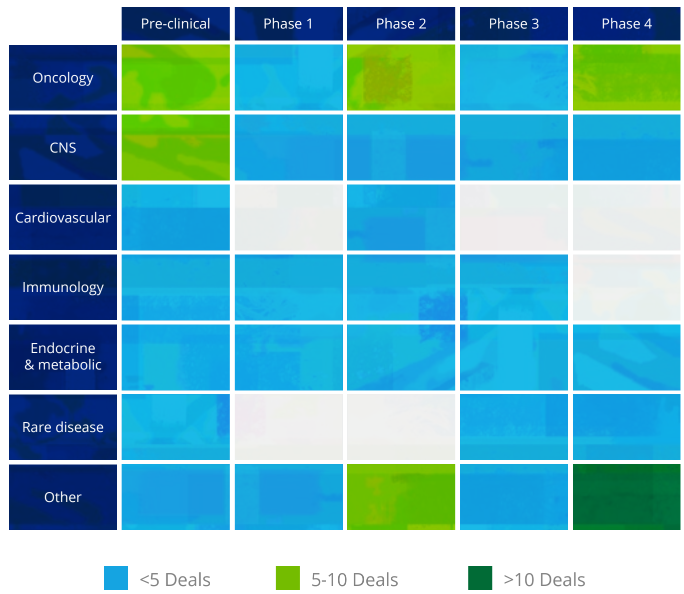
Figure 5: Breakdown of 2023 MedTech M&A activity



Source: Deloitte analysis of CapIQ and Crunch base data on October 31, 2023

Figure 4: Breakdown of YTD 2023 pharmaceutical M&A deal volume by stage of development and therapeutic area

M&A deals (n=92)



Source: Deloitte analysis of CapIQ and Crunch base data on October 31, 2023

MedTech and diagnostics

While pharma M&A activity was a bright spot in 2023, MedTech and diagnostics has not experienced the same strength. As we mentioned at the beginning of 2023, MedTech companies shifted their attention to divestitures and transformations rather than searching for accretive growth M&A. As a result, total deal value has shrunk nearly 45% year over year to $13.5 billion, though deal volume has actually accelerated as companies have targeted deals in the $200 million to $800 million range.

Following two years of declining M&A activity, we anticipate 2024 will be a positive inflection point. Valuations in MedTech have declined over GLP-1 fears, several strategics have completed divestitures that have generated improved balance sheets, and interest rate stability should help tempt private equity buyers back into the market. Although it may be challenging to top the megamergers of the mid-2010s, we believe 2024 will be a year of improved activity.

Other sectors

With private equity deploying more than $10 billion in capital into CDMOs and continued interest in high life sciences suppliers, M&A deal value across CROs/CDMOs/suppliers has jumped nearly 85% year over year to $28.3 billion, while volume is up 50%. Due to the stability of cash flows and increasing need for highly specialized manufacturing facilities, we anticipate that CDMOs will continue to attract private equity interest in 2024 and beyond.

Closing

2023 will not go down as a banner year for life sciences M&A, but overall, deal value and transaction activity were resilient in spite of several macro headwinds that curtailed M&A activity in other sectors. With MedTech potentially rebounding, we think the M&A backdrop for 2024 looks favorable if not slightly more positive than it did heading into 2023.

Endnotes

1. Capital IQ; company filings.
2. SEC filings for top 10 biopharma companies.
3. Ludwig Burger, "Roche joins race for obesity drugs with $2.7 billion Carmot deal," Reuters, December 4, 2023.
4. Lilly, "Lilly to acquire Versanis to improve patient outcomes in cardiometabolic diseases," press release, July 14, 2023.
5. Inside Precision Medicine, "Verge and AZ ink potential $840M drug discovery deal," September 8, 2023.
6. AstraZeneca, "Alexion, AstraZeneca Rare Disease, enters agreement with Pfizer to acquire a portfolio of preclinical rare disease gene therapies," press release, July 28, 2023; Pfizer, "Roivant and Pfizer form new Vant company focused on developing TL1A drug candidate for inflammatory and fibrotic diseases," press release, December 1, 2022.

Contacts

Interested to understand how this impacts you?

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