



Accelerating the future

Life sciences M&A, divestments
and restructuring

Life sciences and healthcare predictions 2030

Deloitte Centre *for*
Health Solutions

Life sciences M&A, divestments and restructuring

Unlocking growth and creating leaner, resilient business models

Prediction 2030

Over the past five years, M&A activity has rebounded strongly, driven in part by a step-up in investor activism. M&A has become a critical element in the corporate strategy of every life sciences company, helping to unlock growth and innovation and replenish portfolios. Divestments of non-core assets, alongside implementing operational efficiencies and streamlining portfolios, released capital to invest in new products, drive growth and help restructure the business. Strategic partnerships and alliances within and between the different life sciences sectors have driven external innovation. A key driver was the need to fill the gaps in the product portfolios of those large biopharma companies that were adversely affected by the significant 'patent cliff' experienced during the 2020s. While patent expirations are a regular occurrence, the unprecedented scale of the loss in the past decade propelled companies to be more proactive. The adoption of AI technologies also disrupted all aspects of the life science value chain. For example, most pharma companies have integrated AI-for-drug discovery technology platforms into their approach to clinical development. Partnerships between pharma and technology platform players have become a crucial investment strategy for life sciences to acquire skills in advanced analytics and GenAI to enhance their approach to M&A.



The world in 2030

- Growth in acquisitions, particularly late-stage development/early-stage commercialisation assets, has helped offset 'loss of patent exclusivity' for most large pharma companies.
- Some pharma companies have focused their investment more on traditional therapeutic areas like non-communicable and rare diseases, whereas others have invested in acquiring new drug classes (building on the success in the 2020s of mRNA platforms, antibody-drug conjugates, and cell and gene therapies).
- Mergers of equals, spin-offs and portfolio consolidation have led to the rise of a dynamic consumer health industry.
- The MedTech industry has become more consolidated after busy M&A activity in the early 2020s has helped moved the dial from point solutions to end-to-end workflows.
- Highly focused strategies (vertical or horizontal integration or advanced therapeutic modalities) continue to drive consolidation among contract research organisations (CROs), contract development and manufacturing organisations (CDMOs) and contract manufacturing organisations (CMOs).
- Dealmakers focus on assets coming to market that fuel cross-sector convergence, blurring traditional sector boundaries between industries (such as diagnostics, wearables, subscription-based healthcare and Software as a Medical Device (SAMDD)).
- Companies look for assets to improve their ESG profile and pay a significant premium for this, as companies recognise it as a factor for increasing value.
- Biotech companies focus increasingly on partnerships with larger players, in order to access resources, expertise and new markets.

Conquered constraints

Skills and talent

Having the skills to assess potential targets and external innovations quickly has been crucial in implementing M&A strategies, including developing or acquiring talent with AI/GenAI skills to help companies compete effectively in deal-making. Likewise, M&A deals can also bring new skills into the company. Skilled interdisciplinary leaders with AI-friendly tech-savvy boards, and teams with valuation, modelling, regulatory and compliance skills have helped create a mature risk-based approach to M&A.

Funding and business models

The appetite of private finance including venture capitalists for investing in life sciences has increased significantly since the mid 2020's, with private equity companies active across both the buy and sell side, especially in assets that can potentially cure or prevent diseases. Government grants have also remained an important source of funding for innovation in areas of unmet need, as well as investing in the underlying infrastructure. In addition, there has been substantial investment in new business models that focus on early-detection and preventive care and digital health diagnostics. Bolt-on deals and milestones payments continue to be used as de-risking strategies.

Regulation

Biopharma has invested in regulatory specialists to co-manage M&A deals from early in the negotiations through to monitoring compliance across the whole process. Joint ventures are increasingly used to demonstrate the viability of the business proposition, giving regulators more confidence in the arrangement. Although the Inflation Reduction Act (IRA) has impacted the funding available for M&A it has also helped improve speed and incisiveness of decision making.

Digitalisation and data

To avoid decreased valuations and potential loss of intellectual property due to data breaches, companies have strong cyber defence strategies to proactively monitor for violations and weaknesses and continually maintain security of data management systems. During due diligence and deal negotiations for M&A, IT systems and apps/services are assessed for cyber risks (Cyber Reconnaissance) and mitigations implemented.



Imagine the world in 2030*

How M&A has helped develop end-to end technology solutions for treating cardiovascular disease (CVD)

With the adoption of health technology solutions, such as telehealth and remote patient monitoring, M&A deals have increased consolidation in the health technology industry. Malik is the CEO of a MedTech company, MTHome, which provides support for patients with acute and long-term CVD. Over the past five years, MTHome has developed or acquired digital health tools and technology with proven clinical outcomes for treating CVD and improving well-being. Malik is passionate about health equity, so only companies that can prove they have accessibility and health equity programmes are considered for acquisition or partnerships. His company has established a number of value-based funding arrangements with leading hospitals to manage the end-to-end out-of-hospital care needs of patients with CVD, with revenues based on effective care management and keeping them out of hospital. It has also recently used investment from a private equity firm to build an AI-enabled, cloud-based analytics platform to store data generated from monitoring CVD devices. These data are integrated into individuals' EHRs for clinician review. Clinicians use an AI-enabled clinical decision tool that analyses anonymised data and insights on patient outcomes from the platform to determine need for any changes in actual treatment plans. In the past year, MTHome has expanded this service by acquiring a command centre that specialises in remote monitoring for CVD patients. Patients can interact 24/7 with a GenAI virtual mental health coach, and an easy-to-use app puts them in touch with community volunteers to reduce feelings of loneliness and isolation.

Biopharma companies leverage technology to improve M&A and divestiture deals

In the early 2020s the Board of SenseD established a strategy aimed at mitigating the impact of losing patent exclusivity in 2026 for two blockbuster drugs. Connie, the product director for SenseD, has been working since 2024 on the company's strategy team, focused on using M&A and divestments to improve its return on investment. She reviewed the company's product portfolio and identified assets that were no longer core to their primary business of immune-genomics and so should be divested. She used a new GenAI tool to review large volumes of scientific and medical literature to identify potential acquisition targets in this priority R&D area. Connie evaluated companies that were developing targets of interest, and subsequently the company acquired some whose late-stage preclinical results were proving successful. The company uses a GenAI-powered horizon scanning platform to identify several ways to accelerate and create efficiencies within and between deals. This includes more cost-effective management of transaction costs by understanding entanglements and long lead-time separation activities, analysing large clinical datasets to create more precise valuations and identifying synergies and using scenario planning to improve the company's return on investment.



Regulators work collaboratively with LSHC companies from early-stage M&A deals to ensure market fairness

The increasing pace and volume of M&A and divestment activity has called for a more prominent role for regulators in approving deals and ensuring that they ultimately benefit patients and uphold the integrity of healthcare systems. Sana, a regulator with many years of experience in LSHC industries, is currently responsible for using AI, simulation and digital twin technology to scrutinise proposed mergers to assess their impact on market competition, particularly regarding essential medicines and medical devices. She assesses the potential risks of price hikes and compares the risks of stifling innovation and limiting access to life-saving treatments, especially for vulnerable populations. This has become increasingly important in the past five years, as health equity and fair pricing and reimbursement have become an important part of every country's health strategy. Furthermore, Sana considers the impact of mergers on data privacy, particularly the consolidation of sensitive patient information, and whether the risks have been thoroughly assessed to ensure compliance with all relevant regulations. She is aware that regulation should be an enabler and not an impediment to innovation and efficiency. She therefore engages in early dialogue with LSHC companies, to address potential regulatory hurdles early on, to accelerate the delivery of groundbreaking treatments and technologies to patients.

* Note: All elements on this page are from a perspective of 2030 and are fictional

Evidence in 2024

M&A activity is expected to pick up in 2025

The value of **M&A deals** in life sciences reached US\$163bn in 2023 (deals announced up to the end of October), surpassing the \$135bn figure for 2022. The pharma segment, the value of M&A activity in 2023 exceeded the same period in 2022 by 35%. Many big pharma companies have reassessed their portfolios, divesting assets to smaller companies (while retaining minority stakes), and selling pipeline assets to other big companies, as well as continuing to target late-stage development/early-stage commercial assets that can generate growth from 2026 to 2030. Among life sciences suppliers, the value of M&A deals increased by nearly 85% year on year to US\$28.3bn. Total deals in MedTech, however, fell by nearly 45% year on year to US\$13.5bn, as MedTech companies focused on divestments and reorganisations, although deal volume increased. Nevertheless, completed divestments that have helped improve balance sheets and stable interest rates might increase the appetite of private equity.¹

Evolving role of ESG in corporate M&A

Deloitte's 2024 ESG in M&A Trends Survey showed that companies are increasingly incorporating ESG considerations into their M&A strategies. 91% of respondents expressed a high or very high level of confidence that their organisation could assess accurately the ESG profile of a potential acquisition. Moreover, 63% of LSHC corporate respondents have decided not to proceed with an acquisition due to concerns with its ESG performance. 63% of respondents said that their organisation was willing to pay a premium (3-6%) with 14% a significant premium (>6%) for an asset with a positive ESG profile.²

GLP-1s are shaking up the markets

The demand for GLP-1s drugs has increased substantially in this sector of the market, with the first biopharma companies benefitting from investing in this space. Many other biopharma companies are trying to either develop their own assets or buy-in via M&A deals. For example:

- **Amgen** is conducting a clinical trial on its weight loss drug MariTide. Interim phase 2 results showed that participants can lose up to 14.5% of their body weight by day 85 after start of treatment.³ Following the announcement of these results, Amgen's market capitalisation increased by US\$20bn.⁴
- **Roche** has acquired Carmot Therapeutics Inc, a clinical-stage biotechnology company that focuses on metabolic diseases, including diabetes and obesity. Its clinical pipeline includes both GLP-1 receptor agonist and GLP-1/GIP receptor agonist assets.⁵

- Pharma companies, particularly those ahead of the curve, are looking to ramp up their manufacturing capabilities. **Novo Holdings** is acquiring **Catalent** (which provides CDMO services, delivery technologies and manufacturing solutions).⁶ And **Eli Lilly** acquired a manufacturing facility from **Nexus Pharmaceuticals**.⁷

Pharma's 'patent cliff' requires a more focused, proactive approach

Between 2022 and 2030, pharma companies will likely lose more than US\$236bn in revenue from the anticipated '**patent cliff**', as 190 drugs (including 69 blockbusters) lose exclusivity. This represents some 46% in sales at risk for the top ten pharma companies over the next decade. Biopharma are therefore looking for innovative assets to fill the gap in their product portfolios, either by increasing R&D spend or through inorganic growth and M&A. They are also, reviewing their portfolios to divest lower margin generic products and non-core facilities.^{8,9}

Investment in development platforms to boost growth outlook

Research by **Morgan Stanley** into company financial reports and data from Visible Alpha and FactSet suggests that Big Pharma has US\$383.1bn of firepower available for deal-making and evidence that while pharma companies are talking up their pipelines, they are also turning to M&A deals to boost their growth outlook. One option finding favour is to invest in development platforms that can generate multiple new drugs (and drug types/classes), such as mRNA, gene editing or next-generation antibody technology.^{10,11}

Venture capital in LSHC

Intuitive Surgical's venture arm added a US\$150mn fund in late 2023 for start-ups focusing on minimally invasive care, bringing its total assets under management in 2024 to US\$250mn across three investment areas: improving health care access and coordination; precision diagnostics and interventions; and a secure, enriched digital health ecosystem.¹²



Technology is playing an increasing role in M&A

Deloitte's 2024 Global Divestiture survey of 500 executives from companies headquartered in ten countries across Americas, Europe and Asia Pacific found that technology is playing an increasing role in M&A. Although only 14% indicate they are 'mature' (use large datasets, advanced statistics, Gen AI), 99% of all respondents indicated that their organisations have started to incorporate GenAI or advanced data analytics into their M&A processes. Most agree that improving technological savviness will improve divestiture outcomes. Survey respondents that seemed to be tech-savvy sellers were nearly twice as likely to report faster-than-expected time to divest compared to less tech-savvy peers and 2.5 times more likely to identify and mitigate stranded costs.¹³



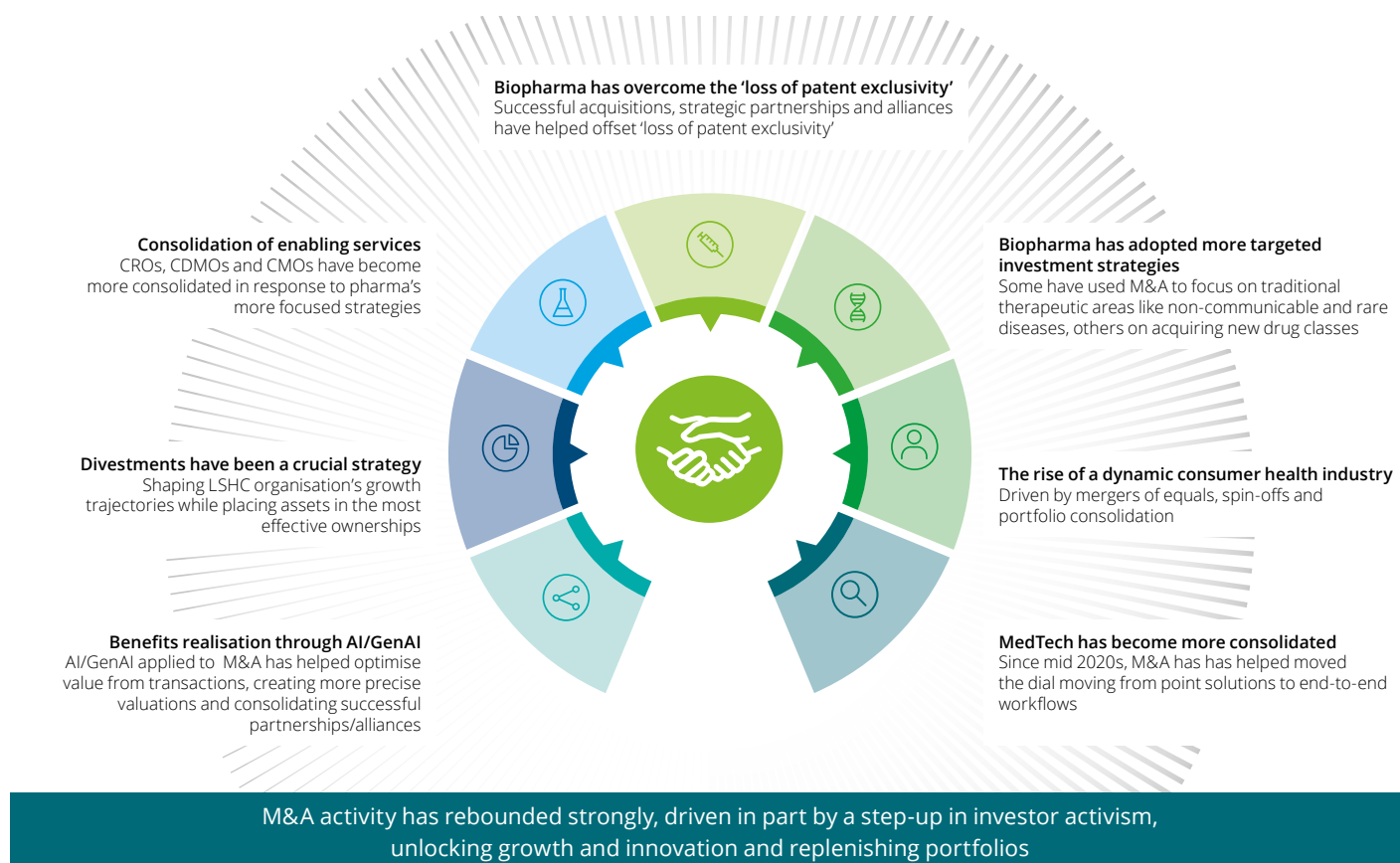
Artificial intelligence and the transformative power of GenAI

The impact on M&A

Large language models (LLMs), like GenAI, can be deployed to make effective use of data, insights and benchmarks from past M&A and divestiture transactions, optimising value from transactions. GenAI can be used in M&A deals to source and screen targets (e.g., analyse scientific literature, clinical trial data, and patent filings to identify promising new therapies and healthcare technologies) or conduct due diligence (by analysing large volumes of contracts and financial statements to identify potential risks and opportunities), reducing manual effort and costs and accelerating deal timelines.^{14,15} However, data inaccuracy and risks around cybersecurity and data privacy are significant hurdles. It is crucial to mitigate these risks to enable the widespread use of GenAI in M&A deals. Further potential applications are in:

- precision valuations: GenAI/LLMs can analyse clinical trial data, market trends for specific therapies, and competitor landscapes to develop more precise valuation models for drug pipelines, medical devices and healthcare technologies, mitigating uncertainties inherent in life sciences R&D.
- strategy development: generating data-driven insights across the company's financial health, market positioning and growth trajectory, providing support in developing successful deal strategies.
- analysing vast datasets of patient information, genomic data and market trends to provide insights into the potential of personalised medicine, digital health solutions, and emerging healthcare technologies, in order to inform deal strategy, develop effective IP and licencing agreements.

Impact of M&A and divestments on life sciences growth and innovation in 2030



Source: Deloitte analysis.

- establishing successful partnerships/alliances: by analysing data from merging companies, GenAI can identify potential synergies in research capabilities (including human resources), drug development pipelines, manufacturing processes, and sales and marketing infrastructures, maximising the value created through the M&A transaction.

Example(s)

Several AI-based drug development partnerships were signed in Q3 and Q4 of 2023. For example, the **Verge Genomics/ Alexion (AstraZeneca Rare Disease)** collaboration was valued at US\$42 million—consisting of an upfront fee, equity, and near-term payments—with a potential deal value of US\$840mn plus potential downstream royalties. The collaboration will use CONVERGE®, Verge’s AI-enabled approach for identifying novel drug targets for rare neurodegenerative and neuromuscular diseases.¹⁶

AbbVie made an upfront payment of US\$30mn with potential milestone payments and royalties to AI/ML company **BigHat Biosciences** to commence an antibody research collaboration in oncology and neuroscience.¹⁷

GE HealthCare recently signed a US\$44mn contract with **BARDA** to develop AI-augmented ultrasound technology.¹⁸ A partnership was also formed with **Mayo Clinic** for innovation in medical imaging and theranostics, to enhance precision diagnosis and improve patient treatment using multi-modal data, AI and digital health solutions.¹⁹

Medtronic partnered with **NVIDIA** and **Cosmo Pharmaceuticals** to integrate NVIDIA’s AI technologies into its GI Genius™ intelligent endoscopy module.²⁰

Endnotes

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