Cautious optimism in 2024

The economic and geopolitical climate will likely continue to impact decision-making in 2024.

Over the past year, life sciences and medical technology (medtech) companies have been managing inflation, rising interest rates (which can curtail access to capital), and slower economic growth. However, in 2024, inflation seems to be lessening, rates appear to be stabilizing, if not dropping, and growth is likely to be moderate—setting up a cautious, but still active mergers and acquisitions (M&A) and capital environment.

M&A activity collectively in biopharma, platforms, medtech, and diagnostics was brighter than many expected in 2023—with 254 M&A deals and US$209.8 billion in total announced value—eclipsing 2022 figures of US$143.5 billion.¹ The overall sector fared better than the overall M&A market where US and global total deal value across all sectors fell 11% compared to 2022.²

Valuations grew for life sciences companies in most stages of their life cycles over the past year. In 2024, pharma companies will be finetuning strategies to create top-line value with strategic acquisitions, while also planning for long-term bottom-line improvements, including divestitures and cost reductions.

While glucagon-like peptide 1 (GLP-1) obesity drugs have been a boon for pharmaceutical companies, their rise, along with macroeconomic headwinds, are creating uncertainty for medtech valuations, which were down US$300 million in 2023. However, fundamentals are strong, and medtech leaders are bullish on growth in 2024, given the improving supply chain situation.

Value creation: M&A, partnerships, collaborations, new sources of capital, and shifting portfolios
M&A: Creating momentum

Pharma’s megadeals put buying power on display

A primary driver of strength in 2023 were large/mega cap pharmaceutical companies with undeployed capital (figure 1).³ Dealmakers are paying healthy premiums for assets with high commercial potential with oncology being the strongest therapeutic area attracting investment.⁴ The top 10 megadeals closed in 2023 were each worth more than US$4 billion, led by multibillion dollar deals by Pfizer/Seagen (US$43 billion) and Bristol Myers Squibb/Karuna Therapeutics (US$14 billion).³ A number of the leading acquisitions involved medicines either nearing regulatory approvals or in advanced testing.⁶

In 2024, companies should continue to expect regulatory scrutiny for a variety of investment activities. To facilitate the Pfizer/Seagen deal and address antitrust regulators’ concerns, Pfizer agreed to donate the rights of royalties from sales of cancer drug Bavencio to the American Association for Cancer Research.⁷ At the end of 2023, the US Federal Trade Commission (FTC) also settled its Amgen/Horizon Therapeutics acquisition challenge.⁸

“Blockbuster and mega blockbuster product opportunities are getting the most attention in M&A, and that will likely continue over the course of 2024. Once the best late stage assets are picked up—we should start to see more partnering and M&A for earlier stage assets, as there is a lot of interest in accessing new product growth opportunities.”

—Daniel O’Connell, CEO, Acumen

Figure 1. 2023 M&A deal characteristics in life sciences by buyer groups

<table>
<thead>
<tr>
<th>Small/mid-cap</th>
<th>Large/mega cap</th>
<th>Private equity</th>
<th>Private strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pharmaceuticals</strong></td>
<td>Pre-clinical oncology; milestone payments are common, contingent on commercialization + regulatory</td>
<td>Acquisitions of companies with approved oncology assets, particularly in the ADC space</td>
<td>Acquisitions of approved and late-stage rare disease assets</td>
</tr>
<tr>
<td><strong>MedTech &amp; diagnostics</strong></td>
<td>Geographic expansion in orthopedics and consolidate play in spine</td>
<td>Tuck-in deals across various therapeutic areas, including neurovascular, diabetes, and spine</td>
<td>Minimal activity</td>
</tr>
<tr>
<td><strong>CRO/CMO/supplier</strong></td>
<td>Strength in cell and gene manufacturing and supportive AI tools for biological drug development</td>
<td>Considerable investments in products used in protein-based drug therapy development</td>
<td>Significant capital deployed into both CROs and CMOs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Small asset acquisitions of life sciences suppliers</td>
</tr>
</tbody>
</table>

Over the next year, some big pharma companies will continue to look to M&A to plug portfolio gaps as a result of loss of exclusivity (LoE) across various therapeutic areas. In particular, late-stage development/early-stage commercial assets—that could contribute material revenue growth over the next few years—are expected to be attractive targets.⁹
Successful acquisitions may offset LOE patents for large pharmaceutical companies. Between 2022 and 2030, pharma companies will likely lose more than US$200 billion in revenue from the anticipated tectonic patent cliff.10

Pfizer, which faces US$17 billion in potential LOE between 2025 and 2030 and significant undeployed cash on their balance sheet from their COVID-19 portfolio, closed the largest M&A deal for biopharma in 2023. In its US$43 billion deal to acquire Seagen, Pfizer gained a market leader in antibody-drug conjugate technology to strengthen its position in oncology.11 Pfizer projects an increase of US$3.1 billion in 2024 for top-line growth directly from the deal as well as bottom-line improvements over the long-term plan (figure 2).12

Source: Pfizer, “Pfizer Invests $43 Billion to Battle Cancer,” March 13, 2023
Pharma’s near-term divestures/cost reductions

The immediate term may look bleaker as multiple pharma giants announce divestitures and cost reductions including some workforce cuts. Pipeline assets may be sold to other big pharma companies, while others sell to smaller companies and retain minority stakes. Given a few high-profile successes, this trend is likely to continue in 2024.

As a result, freed-up capital may be deployed into accretive transactions. While cautiously optimistic for 2024, many experts expect that deal volume and value will pick up over the next year.

Medtech returns to growth after 2023 divestitures

While pharma M&A activity was a bright spot in 2023, medtech and diagnostics M&A was not as strong. Over the past year, activity declined across M&A and venture, but the decline was not unexpected as medtech companies focused primarily on portfolio rationalization, divestitures, and cost transformation. According to Deloitte US research, divestitures are being used to reduce debt and improve capital structures, generating improved balance sheets.

Total deal value decreased nearly 45% year-over-year to US$13.5 billion, while deal volume actually accelerated. Some stakeholders continue to be optimistic about deal volume in 2024, with companies targeting smaller deals in the US$200 million to US$800 million range.

Regulators are also scrutinizing medtech deals. A protracted battle with regulators led to Illumina divesting its interest in Grail at the end of 2023. Medtronic scrapped a US$738 million deal to buy South Korean-based EOFlow, an insulin patch-pump maker.

In 2024, M&A is poised for a positive inflection point for improved activity as strategic and private equity alike re-enter the acquisition fold. M&A activity from medtech mega-cap players is likely to include high-growth small/mid-cap companies as well as emerging companies with interesting technology that could disrupt existing businesses. Optimism is also being propelled by digital therapeutics and at-home diagnostics, growing use of biometric diagnostics, and speed to market.

Private equity: Megadeals and tougher fundraising environment

More going private

More sponsor-backed companies may decide to go private instead of languishing at a below-IPO stock price in 2024. Private equity (PE) investments in life sciences peaked in 2021 with 695 PE transactions totaling US$127.5 billion. The space includes biotech and medical device companies as well as providers of related tools and services, like contract research organizations (CROs).

Volume of P&E deals soars for life sciences suppliers

PE continues its interest in life sciences suppliers, deploying more than US$10 billion in capital into contract development and manufacturing organizations (CDMOs). M&A deal value across CROs/CDMOs/suppliers has jumped nearly 85% year over year to US$28.3 billion, while volume is up 50%. CDMOs are expected to attract more PE interest in 2024 and beyond as the need for highly specialized manufacturing facilities continues to increase.

Tougher fundraising environment

Notable PE megadeals in 2023 included the US$7.1 billion privatization of biopharma CRO Syneos Health and the acquisition of veterinary drug maker Dechra Pharmaceuticals by Sweden’s EQT for about US$6.1 billion, one of the biggest UK PE deals in 2023. However, while EQT has been very successful in fundraising over the recent years, they are looking for new sources of capital, like private wealth, in a tougher overall fundraising environment.
 Venture capital: Billion-dollar fundraises amidst biotech challenges

Life sciences dealmaking in the startup space continues to decelerate after experiencing record highs in 2021 but is still above pre-pandemic levels. Venture capital (VC) remains active and resilient compared to many other fields, and six funds that closed in the second half of 2023 now have more than US$6 billion to deploy into new investments in 2024. A notable development to kick off startup investing in early 2024 is a US$3 billion raise by biotech creator Arch—a multibillion dollar deal that comes roughly two years after raising a similar amount.

The pace of biotech IPOs stalled in 2023 with only 19 drugmakers pricing initial share sales. Many experts are cautiously optimistic for 2024, and some anticipate a roller coaster year. Six IPOs kicked off 2024, however, including a US$93.8 million deal for gene editing startup Metagenomi—one of the rare biotech companies to go public recently without a drug already in clinical trials.

Biotech also hit a 10-year peak for bankruptcies with 18 companies filing for protection, preceded by 8 in 2022, and the next highest year in 2014, with 7. Three companies already filed in early 2024, Humanigen, Athersys, and Invitae (which is preparing for sale).

Partnerships and collaborations: Expanding capabilities in tech and R&D

Integrating AI/ML

Representing a broader industry transition, there is a growing focus on precision medicine and personalized therapies that leverage advanced technologies, like artificial intelligence (AI) and machine learning (ML). The promise of AI is expected to drive additional new partnerships in 2024 as large companies look to obtain new technological capabilities, secure industry talent, and drive competitive advantage.

Several AI-based drug development partnerships were signed in Q3 and Q4 of 2023. The Verge Genomics/Alexion (AstraZeneca Rare Disease) collaboration is worth US$42 million up front—consisting of a fee, equity, and near-term payments—and the potential for US$840 million in downstream royalties. The collaboration will use CONVERGE®, Verge’s AI-enabled approach for identifying novel drug targets for rare neurodegenerative and neuromuscular diseases.

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

Medtech companies continue to explore strategic collaborations across the health care ecosystem to leverage AI. GE HealthCare recently signed a US$44M contract with BARDA to develop Al-augmented ultrasound technology. 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.

Medtronic partnered with NVIDIA and Cosmo Pharmaceuticals to integrate NVIDIA’s AI technologies into its GI Genius™ intelligent endoscopy module. They’ve also partnered with IBM Watson Health to develop AI tools for the diagnosis and treatment of heart disease.

R&D picking up steam and a multibillion-dollar deal

LoE is also driving market leaders to various types of partnerships. The top 20 highest value licensing, collaboration, and partnerships deals in 2023 were each worth at least US$1 billion—the total reaching about US$75 billion already by Q3 2023—with the largest transaction having a potential value of US$22 billion.

Half the deals in the top 20 list for 2023 were around oncology assets and technology platforms, followed by cardiology and neurological diseases. In the booming area of antibody-drug conjugates, Merck and Co. and Daiichi Sankyo came together in a US$5.5 billion deal that has a potential lifetime value of US$22 billion. The deal was the largest in a decade and unusual in that it involved a US$4 billion upfront cash payment. Daiichi Sankyo will retain rights for Japan, and the two giants will collaborate globally to develop candidates in other markets.
In 2024, biotech companies with strong late-stage pipelines are ripe for acquisition and seeking exits. But many small to mid-cap biotech companies facing a cash crunch are also looking to acquisitions, while a record number go bankrupt. Partnerships are a growing trend and may be an alternative to M&A to boost values in 2024.

**New sources of capital: Partnerships and strategic collaborations as alternatives to M&A for biotech**

Tighter capital markets for small and midsize biotech companies in 2023 required many companies to find alternative ways of financing, including cutting costs and private investment. IPOs and public markets cooled, and venture funding investment was lower than in 2022 but still above pre-pandemic levels. At BIO Europe in late 2023, pharma companies made clear that substantial funding will be available for early-stage investment. However, biotech companies are still cautious and uncertain about how readily accessible funds will be.

**Addressing challenges with creativity and resourcefulness**

Biotech companies are increasingly looking at partnerships and other creative collaborations as an alternative, or precursor, to M&A. The length of time to get regulatory clearances can be especially challenging, and many small to midsize biotechs have shorter cash runways for 2024 than in the past. In addition, prior to M&A, alliances and joint ventures may be used to demonstrate the viability of the business proposition, leaving regulators more comfortable with the arrangement.

**Reaping the benefits of partnerships and strategic collaborations**

Some substantial benefits may be gained via joint efforts to acquire or have access to:

- New capabilities and resources, like expertise, manufacturing, commercialization for large-scale indications, established infrastructures globally, and advanced technologies, e.g., AI
- New markets and patient populations
- Ecosystem-wide synergies and gap funding through public/private partnerships
- A trusted relationship that builds a pathway to future M&A

To find a symbiotic collaborator, companies need to first critically assess fit, complementary skills/resources, and the values/benefits that bring each partner to the table. But even when fit is determined and the deal has been structured and negotiated, the real work begins.

“Small to midsize biotechs may underestimate the resources and effort a partnership will take. When you have a limited resource base to start with, there are not a lot of departments to hand these things off to. Also, companies shouldn’t underestimate the work it will take to build trust—and to stay true to the principles that were the basis for partnering in the first place.”

—Renee Aguiar-Lucander, CEO, Calliditas Therapeutics
New sources of capital: Public/private partnerships for biomedical innovation

With tightened funding in the private sector, some companies find that government funding can become gap funding. COVID-19 provided an exemplary model for how governments can work with collaborators to advance care and treatment for all diseases, and, contrary to popular belief, government and nongovernmental institutional investment in biomedical areas does not reduce private spending on R&D.54

A government’s ability to subsidize research and development in areas of unmet need may serve as a mechanism to drive research to the last-mile pipeline (figure 3).56 Two mechanisms that some governments have used in the past could be key to de-risking high-risk research areas:

- **Push incentives** that reduce the cost of development by offering financial, tax, and technical incentives regardless of anticipated failure in the market

Beyond the pandemic, governments may continue to move disruptive ecosystem-wide solutions for biomedical innovation by:

- Prioritizing patients and communities in the innovation pipeline
- Leveraging the full continuum of relationships and partners
- Supporting funding and collaboration infrastructure for last-mile innovations

Figure 3. Three synergy strategies for governments and collaborators
• **Pull incentives** that reward developments already considered relevant in the market and scientifically viable by helping ensure developers’ financial viability into the future, even in inefficient markets. Breakthrough biomedical innovations are not only possible but probable with government investment in the right infrastructure and incentives.

**New sources of capital: Medtech VCs launch new funds**

After a downturn, VC investing in medtech started garnering renewed interest in mid-2023. Neuralink, Elon Musk’s brain-reading startup (via implantable chips), and Beta Bionics, a low-touch automated insulin delivery system for diabetics, started an upturn with nine-figure deals.

**More selective investing**

Venture capital investors are searching for visionary medtech founders to make more selective investments in 2024, and the digital health market could have promising opportunities for real innovators. The most active category of medtech VC funding has been cardiovascular surgical devices. From 2020 through Q3 2023, Qiming Venture Partners is the leading medtech venture investor and Medtronic, the top acquirer (figure 4).

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**Figure 4. Top medtech acquirers and VC investors from 2020 to 30 September 2023**

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<tr>
<th>Investor</th>
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<td>Thermo Fisher Scientific</td>
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<td>Laborie Medical Technologies</td>
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<tr>
<td>Philips</td>
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<td>Corporation</td>
</tr>
<tr>
<td>Ottobock</td>
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<td>PE-backed company</td>
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<tr>
<th>Investor</th>
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<th>Early-stage VC</th>
<th>Late-stage VC</th>
<th>Venture growth</th>
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<td>13</td>
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<td>CVC</td>
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</table>

Source: Pitchbook, Geography: Global
At the end of 2023, experts estimate the average cash balance at large medtech companies stood at approximately US$5 billion, up US$1.5 billion since early 2019. Potential areas of M&A interest include mechanical circulatory support; transcatheter mitral and tricuspid valve repair and replacement; pulsed field ablation; peripheral vascular solutions; interventional devices to treat venous thromboembolism; and diabetes technology. The left atrial appendage (LAA) closure market for reducing stroke is valued at US$1.4 billion and captured the interest of two companies, Johnson & Johnson and Medtronic, in separate deals. The LAA market is projected to reach US$6 billion by 2030.

**Tapping medtech giants’ venture arms**

Visionary startup founders may find opportunities through medtech giants’ venture arms, like Boston Scientific and Johnson & Johnson. For example, Johnson & Johnson Development Corporation (JJDC), Johnson & Johnson’s venture arm, has innovation teams for early-stage startups around the globe—including in Shanghai, Boston, San Francisco, and London—with its most notable exits including 23andMe, Nevro, and Grail.

Intuitive Surgical’s venture arm added a US$150 million fund in late 2023 bringing their total assets under management to US$250 million in 2024 across three investment areas: improving health care access and coordination; precision diagnostics and interventions; and secure, enriched digital health ecosystems.

In addition to access and affordability, new business models that focus on early-detection and preventive care are drawing investment. Also promising are digital health companies that focus on diagnostics to improve patient outcomes.

**New sources of capital: Medtech funding through government initiatives**

The road to digital health and medtech innovation is being supported through many diverse economic initiatives with a growing focus on making medical services and devices for consumers more affordable and accessible.

Some examples of recent government biomedical or medtech initiatives around the globe include:

**United States**—The US administration recently designated 31 tech hubs across the country with 13 dedicated to either biomedical or medtech innovation. Some examples are the Greater Philadelphia Region Precision Medicine Tech Hub and Elevate Quantum Colorado. Quantum computing has the potential to train AI in medical diagnostics more efficiently.

**Canada**—Over CAD$2.1 million through PrairiesCan will help enable Alberta’s health and medical technology sector to ramp up the commercialization of human mobility and home health innovations.

**Scotland**—The Medical Device Manufacturing Centre (MDMC) has been awarded £3.35 million of additional funding from Scottish Enterprise to develop medical device innovation and improve the industry’s sustainability.

**United Kingdom**—The UK government is providing the National Health Service (NHS) with £21 million across 64 trusts to deploy new AI tools for the diagnosis and treatment of patients.

**Australia**—The Australian government has set up an AUD$50 million fund for a combined AUD$115 million with Brandon BioCatalyst & ANDHealth towards a BioMedTech Incubator program.

**Shifting portfolios: Value creation in a new era of blockbuster drugs**

Some companies are doubling down on oncology and specialty diseases, while others are committing to more prevalent chronic disease areas. In oncology, the Pfizer/Seagen deal escalated the excitement around antibody drug conjugates (ADCs), setting off a deal-making frenzy to snap up ADC assets and technologies.

Merck, Daiichi Sankyo, BMS, and AbbVie all began making moves to access and/or expand their position in ADCs by the end of 2023. Japan’s Daiichi Sankyo is also investing US$1.08 billion to create an “international innovation center” by 2030 in Germany and will equip the site to develop and manufacture future ADCs. The size of ADC investments reflects a growing and increasingly valuable drug class that some proponents hope may eventually replace some forms of standard chemotherapy.
Momentum is expected to continue, as the approach—using antibodies’ specificity for targeted delivery of potent cytotoxic drugs—comes of age. In 2024, deals from Johnson & Johnson/Ambryx and Roche/MediLink Therapeutics kicked off the year as well as smaller acquisitions and licensing. Pharma and biotech interest is also attracting venture financing to ADC start-ups.

In parallel, the market is rewarding those focused on more prevalent disease areas with the excitement over and growth of GLP-1 obesity drugs—a trend not seen in recent years. Those companies not active in either are finding themselves needing to explain their portfolio and scientific strategies.

At the 2024 J.P. Morgan Healthcare conference in January, Novartis found itself needing to explain the choice to double down on radioligand therapies (RLT), a platform where the company believes it can continue its established leadership for the long-term. Like ADCs, RLTs act like a guided missile but use a ligand to target cancer cells and kill them with a therapeutic radioisotope. Novartis believes RLTs deliver better efficacy while producing less adverse events than ADCs.

Rise of the GLP-1 weight loss boom, valuations, and market projections

Drugs originally developed to treat type 2 diabetes are now being formulated as popular weight loss drugs. Eli Lilly manufactures Mounjaro for diabetes (approved 2022) and its newly approved version for weight loss, Zepbound. Novo Nordisk is also an obesity drug market leader with Wegovy (approved 2021) and Ozempic (approved 2022).

Among biopharma market leaders, Novo Nordisk and Eli Lilly have some of the highest valuations due to long-term growth expectations and category leadership in metabolic diseases—including diabetes and obesity as the most prevalent. By the end of Q1 2024, Novo Nordisk’s market capitalization reached a high of US$572.92 billion, rising from US$88.53 billion in late November 2016. Eli Lilly had a market cap high of US$740.30 billion, rising from US$74.1 billion in November 2016.

The positive sentiment associated with the potential of their GLP-1 drugs is bringing Eli Lilly and Novo Nordisk valuations on par with or greater than some leading tech growth stocks, like Tesla, as well as being disproportionate to the S&P 500 Pharma Index (figure 5). Analysts predict this upward trajectory to continue.
Experts say the treatment of obesity is on the verge of heading into mainstream primary care—comparable to the growth of hypertensive drugs that ballooned into a US$30 billion market in the 1990s. The rising prevalence of lifestyle-related diseases is expected to continue to drive up overall GLP-1 agonist drug market projections. By 2030, the potential market is being priced anywhere from US$37 billion to more than US$100 billion. While no one knows exactly how big it might be, the surge is being driven by treatments for obesity and diabetes—a potential market of 30 million people in the United States alone by the end of the decade.

In addition, GLP-1 agonists are being heralded as Science’s “2023 Breakthrough of the Year” as potential new uses for the drugs emerge. GLP-1s are showing promise for cardiovascular disease and investigations are underway for drug addiction, Alzheimer’s, and Parkinson’s diseases. These new uses may increase insurance coverage down the line.

Beyond the ability to meet the surging demand, another headwind to be navigated in 2024 and beyond is likely to be the lack of access and broader insurance coverage for obesity drugs. In the United States, lack of reimbursement for obesity treatments under government health care programs essentially makes these medications unaffordable. Programs for low-income Americans do cover the drugs in some areas, but access is fragmented.

 Millions of older Americans on US Medicare cannot access the drugs, mostly because obesity drugs were originally classed as cosmetic in 2003. US lawmakers plan to push for a change in 2024. If 10% of Medicare beneficiaries with obesity used a GLP-1, the annual cost to Medicare is estimated to be between US$13.6 billion and US$26.8 billion. But the total annual medical cost in the United States for obese adults averages US$1,861 higher than medical costs for people with healthy weight.

Public and private payers could learn from guidelines in several EU countries, such as Norway, the Netherlands, Poland, and Italy. These countries have reimbursement policies that may demonstrate a pathway to affordable coverage in the United States—slowing the progression of the disease. For example, some European coverage models deploy effective, but lower-cost medications for patients with lower BMI that do not meet the criteria for “obesity” but whose health could still benefit from treatment.

Competition in weight loss market heats up, and digital health support services grow

Competitors and lower cost formulations that may also have potentially fewer side effects may be new entrants to the market. New products will need to distinguish themselves by clear advantages, and pharma companies have begun investigating:

- Novel molecular targets with alternate routes of administration
• Extended treatment intervals
• New double- and triple-agonist mechanisms

Competition is already ramping up as Pfizer and Amgen are expected to release new data in 2024, and several drugs in development may become attractive for acquisition. In late December 2023, Roche took over unlisted obesity drug developer Carmot Therapeutics in a US$2.7 billion upfront deal.

Figure 6. Notable global VC deals for weight loss startups

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<thead>
<tr>
<th>Name</th>
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<td>$58.7</td>
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<td>$7.9</td>
<td>$12.5</td>
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Source: Pitchbook

GLP-1 proofing portfolios

While the rise of GLP-1 has created tremendous opportunities in obesity and obesity-related assets, some market leaders are also looking to GLP-1 proof their portfolios, flocking to “GLP-1-resistant” therapeutic areas like rare diseases, neurology, and oncology. Medtech companies may search for assets that are not impacted by GLP-1s or assets for which an increase in longevity could mean an increase in utilization.
Interested in learning more about Value creation: M&A, partnerships, collaborations, new sources of capital, and shifting portfolios and its impact on global life sciences? Check out these Deloitte publications:

- Measuring value from digital transformation
- Biopharma’s digital supply chain
- Life Sciences M&A Trends
- Health plans’ financial performance
Endnotes

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