



**Baker
McKenzie.**

Global Transactions Forecast 2020

Healthcare & Life Sciences

**TRANSACTIONAL
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Leading and closing three deals a day

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Healthcare & Life Sciences

1

Deal activity: at a glance

Fundamental strengths
to drive recovery from
a short-term slowdown

Fundamental strengths to drive recovery from a short-term slowdown



"The US election, stock markets at an all-time high, trade tensions between the US and China, and ongoing Brexit uncertainty — these factors are holding investors back."

**Ben McLaughlin,
Chair of Baker McKenzie's
Global Healthcare & Life
Sciences Group**

Healthcare and life sciences is a robust market. Though it's not immune to the economic and geopolitical headwinds affecting all industries, its underlying strength will continue to promote dealmaking.

Following a robust 2018, dealmaking activity in the sector witnessed a modest rise in 2019.

Our Global Transactions Forecast, compiled in collaboration with Oxford Economics, reflects this. We expect healthcare M&A values to total USD 391 billion in 2019 — a rise from USD 366 billion the previous year (Figure 1).

Volatility returned to the equity markets, with IPO proceeds in this sector falling to USD 16 billion, from USD 23 billion in 2018 (Figure 2).

"The global transactions boom is leveling out, and a cyclical downturn looms," says Head of the International Capital Markets Practice in Asia Pacific Ashok Lalwani.

The cautious mood that defined 2019 will sustain into 2020. Our forecast is for M&A values to slow in 2020 to USD 267 billion.

Ben McLaughlin, Chair of Baker McKenzie's Global Healthcare & Life Sciences Group, says macro forces are driving this slowdown, not sector-specific causes: "The US election, stock markets at an all-time high, trade tensions between the US and China, and ongoing Brexit uncertainty — these factors are holding investors back."

The good news is that the deceleration should be more muted than in other industries. Then starting in 2021, we expect a recovery in M&A and IPO volumes, as the global economy stabilizes and investor confidence returns.

Figure 1.
Global M&A Transactions in
Healthcare and Life Sciences

Source: Refinitiv

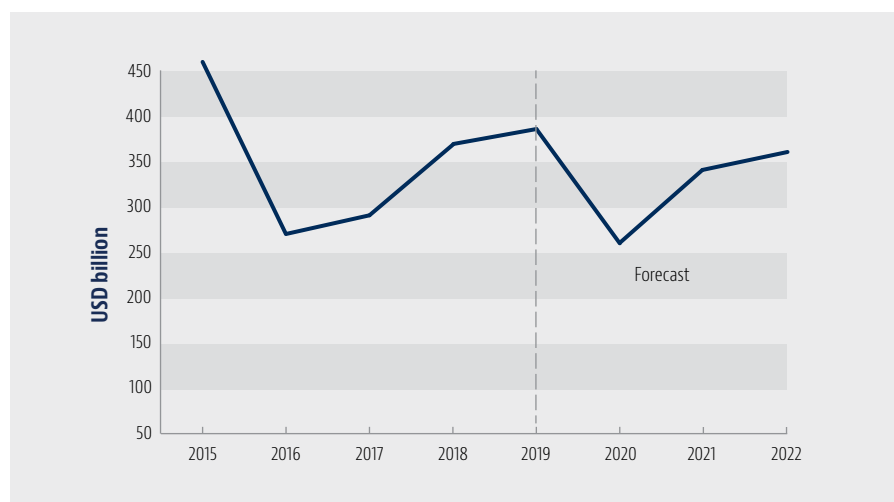
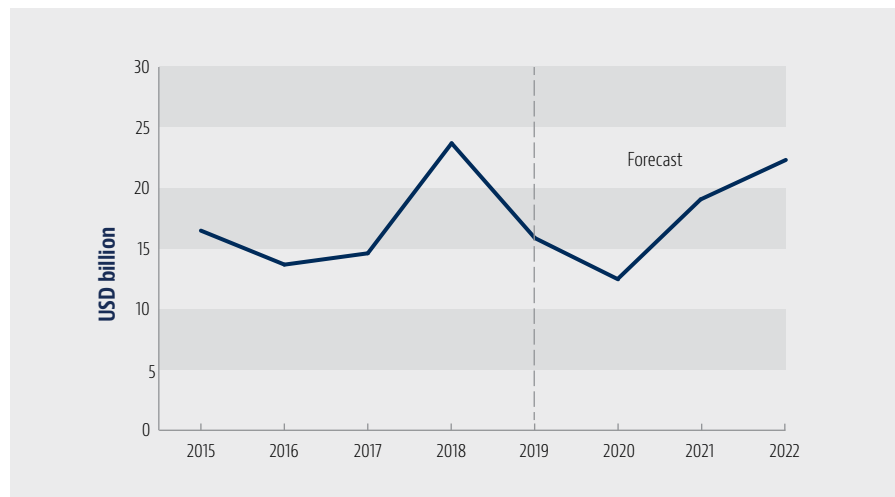


Figure 2.
Global IPO Proceeds in Healthcare
and Life Sciences

Source: Refinitiv



Megadeals persist despite the slowdown

There were some eye-catching deals in 2019. For instance, Takeda, Japan's largest pharmaceutical firm, bought Ireland-based Shire for USD 77 billion — by far the largest-ever foreign buyout by a Japanese company.

We've also seen megadeals in the medical devices space, says M&A Partner Jane Hobson, who sits on Baker McKenzie's Global Healthcare & Life Sciences Steering Committee.

At the same time, a number of blockbuster mergers are pending. These include Bristol-Myers Squibb's USD 93 billion bid for Celgene, and the transaction between GSK and Pfizer to form a new world-leading consumer healthcare joint venture.

Of course, proposed megadeals like these must overcome stringent regulatory hurdles if they're to go through. But their announcements highlight the strong structural drivers of the healthcare and life sciences M&A market.

Multiple factors driving transactions



"PE funds are looking for buy-and-build targets in new sectors. Pharma players with established products will attract investment, as there's no drug development risk. Plus, any uninvested products in their portfolios will represent growth opportunities as another factor driving acquisitions in this sector."

Jane Hobson
Partner, M&A

According to our experts, high costs and disruptive business models will bring about consolidation of core pharmaceutical products, and divestment of non-core offerings.

Companies are also looking to boost their oncology pipelines — in immuno-oncology in particular, according to Hobson.

She also points to the substantial liquidity available among private equity investors: "PE funds are looking for buy-and-build targets in new sectors. Pharma players with established products will attract investment, as there's no drug development risk. Plus, any uninvested products in their portfolios will represent growth opportunities as another factor driving acquisitions in this sector."

A recent example of this can be seen in Platinum Equity's USD 2.1 billion acquisition of leading diabetes specialist LifeScan from Johnson & Johnson.

Hobson highlights another growth area. "Given the increase in successful drug development by biotechs, and the money available to fund smaller players' development and commercialization activities, we'll also see deals driven by the need to acquire those commercialization skills," she suggests.

One interesting trend will be the growth of venture lending as an alternative to equity purchases. Low interest rates are expected to encourage venture lending to cross over from digital health and biotech into pharma and medical devices and potentially be used to help smaller firms through approval processes.

Data and biotech will be sector hotspots



"There's a growing tendency to take risks on less developed products."

Tracy Wut
Partner, M&A

As deals pick up starting in 2021, digital health is likely to be the most active sector.

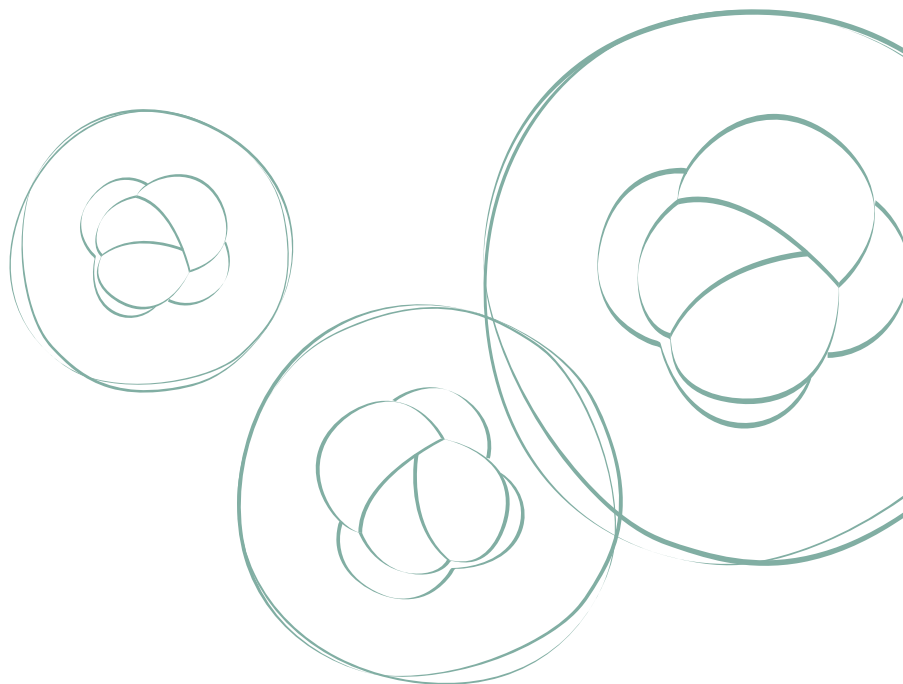
"The major players are all making tech bets," says McLaughlin. "And they're investing in a broad range of technologies: not just digital propositions like aggregated data, AI and telemedicine, but also medical devices, pathology, radiology and medical imaging."

Pharma firms and medical device manufacturers are acquiring data-led tech propositions — and vice versa. However, increasing data protection regulation around the world may be a barrier to some of these deals.

Meanwhile, biotech is set to be a growth area in China, says M&A Partner Tracy Wut: "There's a growing tendency to take risks on less developed products."

It's a move being driven by a number of factors: government policy, availability of domestic and international private capital, the return of Chinese talent to the Chinese market and increasing demand for better and more effective treatment.

For similar reasons, single-purpose drugmakers will be an IPO hotspot, says McLaughlin. "This is the innovative end of the market as big pharma reduces R&D spend. Once niche producers develop a drug, they'll need to raise funds to commercialize it, and to begin developing the next one."



Emerging market trends reflect local conditions



"The region has many emerging markets, with burgeoning middle classes who are demanding healthcare services, and can increasingly afford them."

Ashok Lalwani
Head of the International Capital
Markets Practice in Asia Pacific

Lalwani underlines the growth potential for healthcare and life sciences across South Asia: "The region has many emerging markets, with burgeoning middle classes who are demanding healthcare services, and can increasingly afford them."

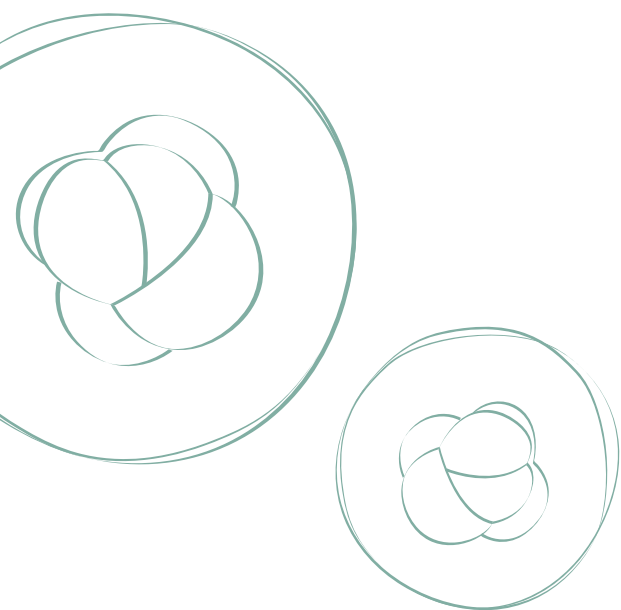
As an example, he points to "Modicare," the Indian government's introduction of health insurance for 500 million people in 2018.

A lack of infrastructure in these markets will focus investment on hospitals and clinics, telemedicine, and drone delivery of medicines, he forecasts.

On the downside, banking and corporate scandals in several Asian countries have damaged trust in the capital markets. These could hamper IPO activity in the region.

Hospitals and clinics are set to become a particular hotspot in China, and are attracting investment from hospital groups and private equity funds from across the world thanks to three key trends: urbanization, the rising middle class and an ageing population.

The trend for consolidation will be prevalent in the country. "The Chinese market is fragmented, with large numbers of domestic players. And the government is pushing them to be more efficient, to lower the price of healthcare, while increasing their regulatory burden. This will encourage restructuring and consolidation," says Wut.



Regulation presents threats and opportunities

The regulatory landscape is a potential challenge to transaction volumes, with tightening foreign investment controls in a number of jurisdictions, making deal outcomes harder to predict.

"This will trigger caution from investors, particularly Chinese players, given the restrictions in their home jurisdiction. And with ongoing trade tensions between China and the US, we expect low levels of Chinese investment in American healthcare and life sciences businesses," Hobson says.

On a more positive note, Wut underlines two positive regulatory developments in China: the streamlining of the drug approval process, and the abolition of certain rules on joint ventures. "These won't be transformative, but they should make the outlook rosier for healthcare and life sciences deals," she says.

Meanwhile, the regulatory agenda for digital health IPOs will be dominated by data protection and cyber risk.

"Ask healthcare leaders what keeps them awake at night, and their top two answers are data privacy and cyber threats," says McLaughlin. These concerns will dampen listings to an extent.

"Data aggregation and analytics have enormous potential to transform healthcare," McLaughlin explains. "But governments are regulating on what can and can't be done with personal data. It's a tension that needs to play out." In this climate, however, there are opportunities for firms with data protection and cybersecurity offerings tailored to the needs of healthcare and life sciences businesses.

What's more, new EU regulations on biosimilar drugs could encourage IPOs. Biosimilars are a new battleground for pharmaceutical companies.

"Europe is the first region to relax regulation around them, which could make European manufacturers attractive investment targets," says McLaughlin

Licensing to remain a central growth strategy



"Authorities in many jurisdictions are raising the bar for evidence of a product's effectiveness in connection with decisions about pricing and reimbursement."

Randall Sunberg
Partner, Head of Baker
McKenzie's North America
Healthcare & Life Sciences Group

In the healthcare and life sciences industry, licensing is a mainstay of businesses' efforts to supplement their R&D, and extend the reach of their technologies.

According to Randall Sunberg, Head of Baker McKenzie's North America Healthcare & Life Sciences Group, licensing and collaboration arrangements will play a major role in the market over the next few years — particularly in the biotech space.

"Investors in many privately held and VC-backed biotech firms are looking for their exit moment. As M&A and IPO markets soften in 2020, that exit may not be so readily available. Licensing is a good way to move a company closer to that point, by making it a more attractive acquisition, or a more compelling IPO proposition," says Sunberg

A further driver of licensing deals will be new and emerging technologies, such as gene therapy, gene editing and CRISPR (Clustered Regularly Interspaced Short Palindromic Repeats). "Innovation in this area is so fast, and so powerful, pharma companies are desperate to be at the forefront," says Sunberg. "Licensing is an effective way for them to stay at the cutting edge."

"Another hot area is predictive medicine and companion diagnostics. This will lead to IP licensing and collaboration opportunities in arenas such as biomarkers, with companies looking to develop more targeted products, and needing to leverage licensing and collaboration arrangements to do so," he adds.

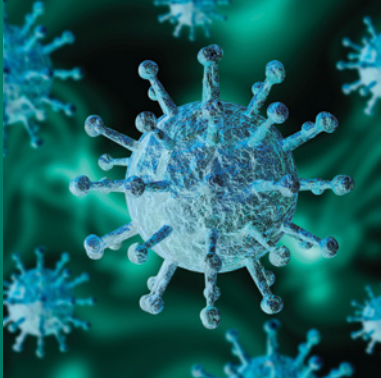
Sunberg says it's an area that faces regulatory barriers, however: "Authorities in many jurisdictions are raising the bar for evidence of a product's effectiveness in connection with decisions about pricing and reimbursement."

These hurdles aside, we can expect licensing and collaboration to remain central to the healthcare and life sciences deals landscape in the coming years.

A recent example of this is Gilead's USD 5 billion R&D pact with Galapagos, which allows them to gain access to a portfolio of compounds, including six molecules currently in clinical trials, more than 20 preclinical programs, and a drug-discovery platform.

In 2020, healthcare and life sciences — like all industries — will see transactions cool. But as the winds of uncertainty die down, the sector's deals market will prove a fertile hunting ground.

How will COVID-19 affect transactional activity?



The rapid spread of COVID-19, also known as the coronavirus, brings an air of caution to the market.

In the short term, it is expected to weaken China's growth sharply, causing global disruption. According to M&A Partner Grace Tso, "deal flow will definitely be slower as investors may tend to be more cautious in concluding deals given the circumstances, as there is uncertainty on the value of assets. There could be expectation that the value of assets may go down." M&A Partner Sze Shing Tan agrees, that in the shorter term there may be "delays in deal execution as a result of restrictions on travel and office closures, which continue to disrupt business activities."

In response to the outbreak, the healthcare and life sciences sector is facing several issues on a global scale, including several health-related laws in China are being expedited and fast tracked. In correlation with research organizations and universities looking at both new and existing therapies to help prevent and treat the virus, we expect cross-border collaboration frameworks to increase for drugs and other medical products. There may also be growing investor interest for antiviral drugs, monoclonal antibodies, vaccine developers, diagnostics, digital healthcare services, medical supplies and medical equipment.

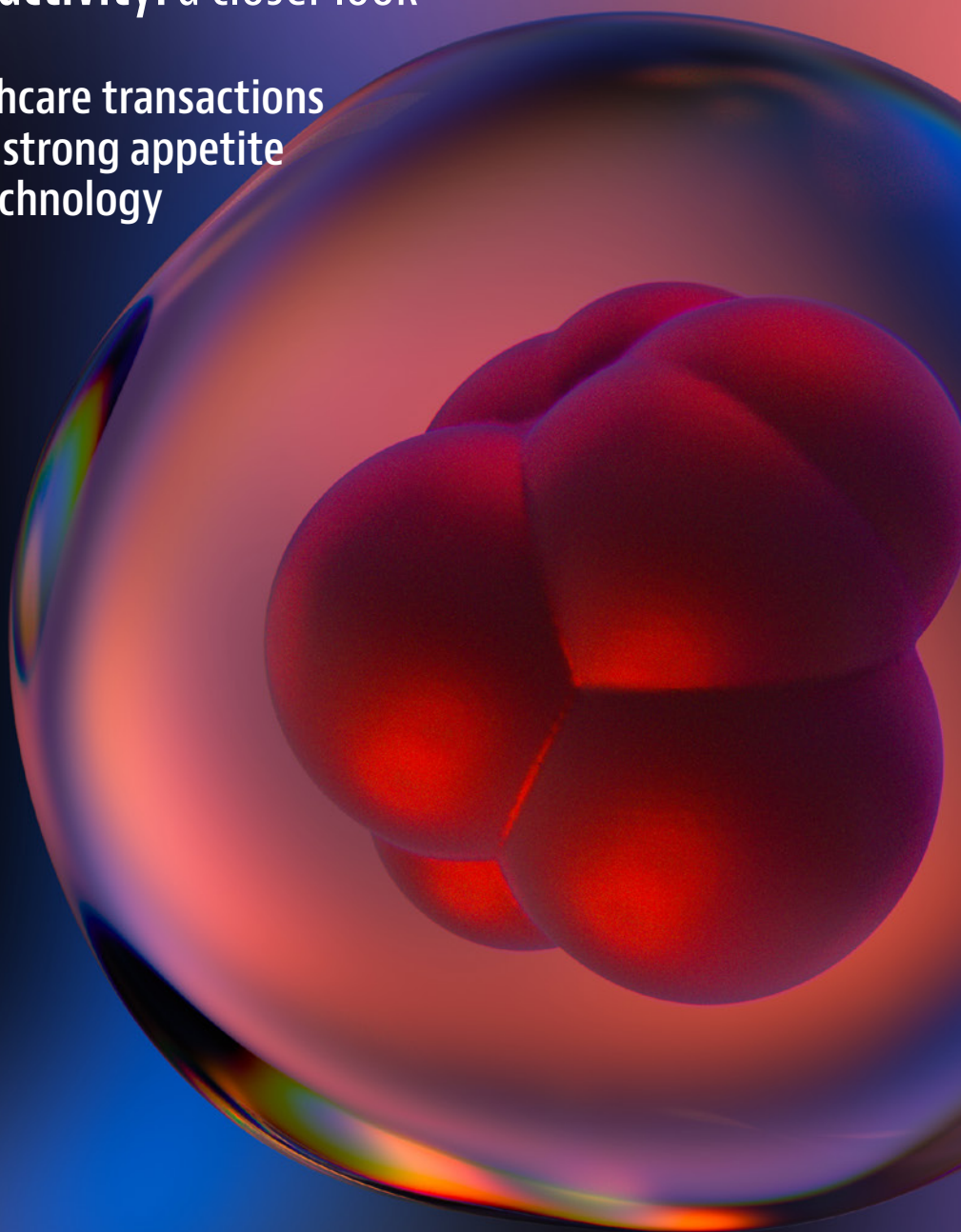
In the long term, M&A activity will likely remain stable in relation to the current trend, as most companies take a long term view of their investments. Although global conditions should strengthen as the disruption fades, it will take time for the loss in activity to be fully recovered.

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Deal activity: a closer look

Healthcare transactions
show strong appetite
for technology



Top factors driving transactions for healthcare and life sciences

1 Digital health is driving tech acquisition activity, which has skyrocketed in value over the past decade.

3 Ongoing geo-political, regulatory and economic uncertainties are driving companies to act more cautiously and to think more strategically about potential M&A activity.

5 Demand for healthcare services and innovative technologies and drugs is high and rising in emerging markets, which will influence M&A in a positive way in the future.



2 Change is afoot — disruptive models in the industry and high costs of operations, including research, are driving ongoing industry consolidation to increase efficiency.

4 Stringent regulatory requirements and competition laws may hinder the completion of M&A activity.

The 2019 healthcare and life sciences story

Total M&A value in the healthcare and life sciences sector increased by 7% compared to 2018.

In total, the sector raised USD 391 billion across 2,744 deals in 2019.

Figure 3.
Global Healthcare and
Life Sciences M&A

Source: Refinitiv

FY 2019	Total M&A	Cross-Border M&A	Cross-Border as % of Total M&A
Volume	2,744	747	27%
Value (USD Billion)	391	156	40%

FY 2018	Total M&A	Cross-Border M&A	Cross-Border as % of Total M&A
Volume	3,074	866	28%
Value (USD Billion)	366	95	26%

Healthcare companies tended to be strategic in their approach to dealmaking last year, regardless of whether they were focused on domestic or cross-border acquisitions.

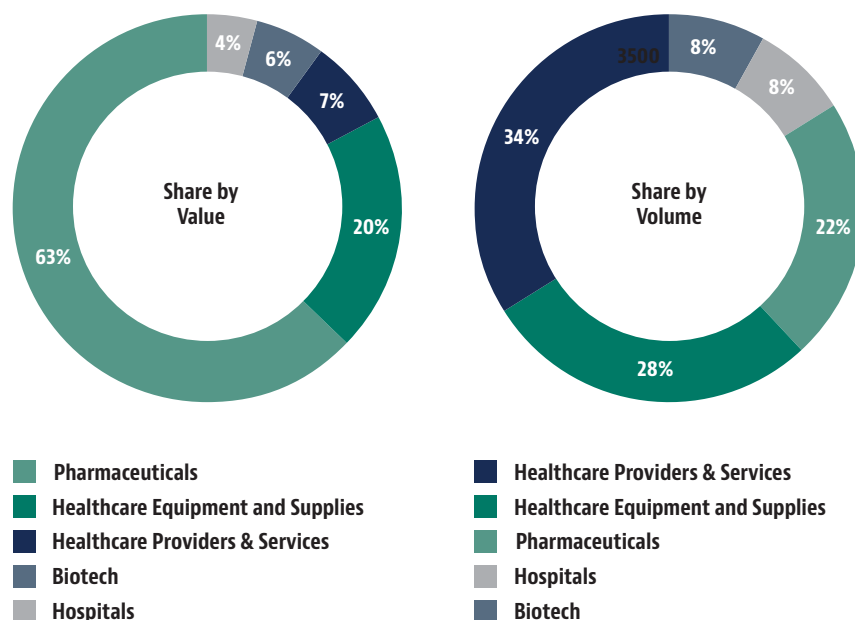
As deal volume decreased, 2019 saw fewer cross-border deals compared with previous years — yet those undertaken were of a higher value. In this context, global cross-border deal value increased significantly (by 60% from 2018), with 12 of the top 25 deals by deal value were cross-border.

In 2019, cross-border M&As raised USD 156 billion and accounted for slightly less than 30% of the total volume of M&A activity in the sector.

Figure 4.
Healthcare and Life
Sciences Share (2019)

Source: Refinitiv

A CLOSER LOOK AT HEALTHCARE AND LIFE SCIENCES SUBSECTORS



Among the healthcare and life sciences subsectors considered in Figure 4, pharmaceuticals led by value, accounting for 63% of the total value of healthcare M&A with deals totaling USD 278 billion.

This was due, however, to two megadeal outliers, with the remaining 613 pharmaceutical deals accounting for just a quarter of the total value of deals in 2019.

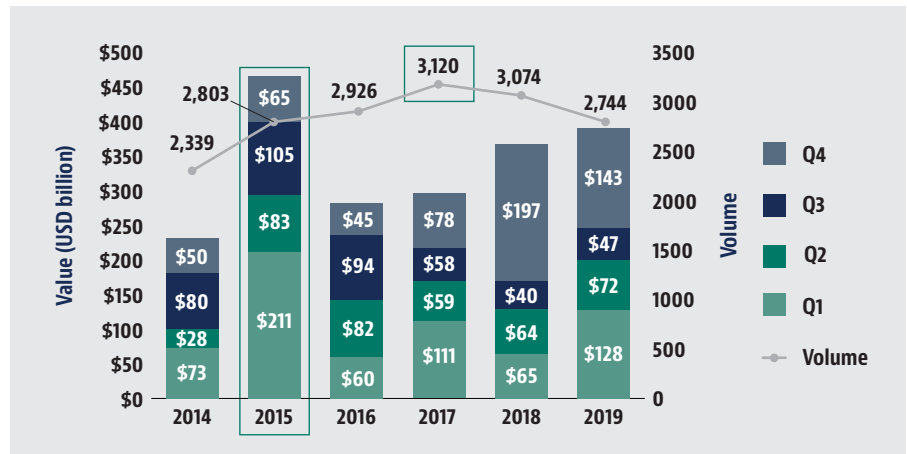
At the beginning of 2019, the star pharmaceutical deal of the year was Bristol-Myers Squibb's acquisition of Celgene, which was valued at USD 93 billion, accounting for 24% of the total deal value of the healthcare industry.

The second headline-grabbing pharmaceutical megadeal of the year was Takeda's acquisition of Shire, valued at USD 77 billion, accounting for 20% of the total deal value for the sector.

Figure 5.
Global Healthcare and
Life Sciences M&A
(2014 to 2019)

Source: Refinitiv
YTD 2019 = 27 Dec 2019

MAPPING A FIVE-YEAR TREND



Around 3,000 healthcare M&A deals have been reported annually since 2015. Overall, the levels of transactional activity were determined by the presence or absence of megadeals. 2019 recorded the second highest level of deal value in the past five years.

Figure 5 shows that deal value for healthcare and life sciences peaked in 2015 at USD 464 billion, while deal volume peaked in 2017 with more than 3,100 deals.

2016 exhibited a slowdown off the back of 2015, when many mega healthcare transactions were tax inversions by US companies seeking to locate their incorporation base outside the US. In 2016, the Obama administration closed this tax inversion loophole, which led to many healthcare deals being pulled.

In 2017, rising demand for medical services worldwide incentivized healthcare private equity activity, according to a Bain & Company report. Yet, as peak years, 2015, 2018 and 2019 were remarkable due to their respective megadeals, which were fueled by big pharma's strategic desires; seeking large acquisitions in response to increased competition from generic manufacturers and rising drug development costs which, in turn, help to achieve cost savings, regain market share and deliver growth. Debt financing has also been an important factor with borrowing rates relatively cheap, enabling many of these transactions.

REPRESENTATIVE MEGADEALS

Year	Deal	Value
2015	Allergan - Actavis	USD 68 billion
	Covidien - Medtronic	USD 43 billion
	Pharmacyclics - AbbVie	USD 21 billion
2018	Express Scripts - Cigna	USD 70 billion
	Aetna - CVC Health Corp.	USD 68 billion
2019	Celgene - Bristol-Myers Squibb Co.	USD 93 billion
	Takeda - Shire	USD 77 billion

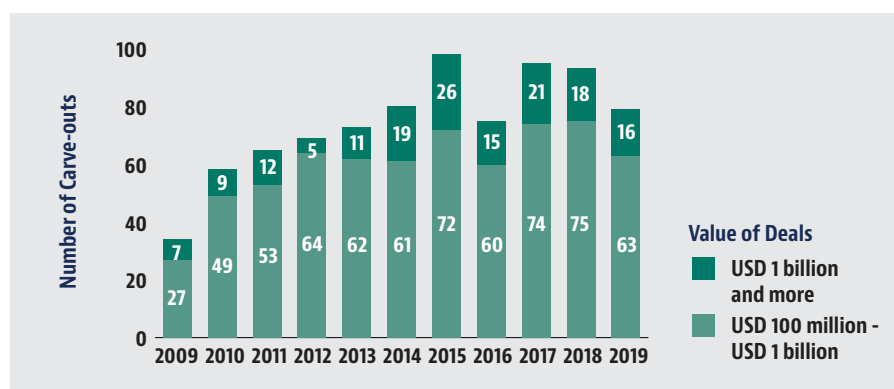
Deep dive into healthcare and life sciences trends

Carve-outs and technology acquisitions are two main areas to look out for in healthcare and life sciences, as proven by flat activity over the past four years.

GLOBAL NUMBER OF CARVE-OUTS IN THE HEALTHCARE AND LIFE SCIENCES INDUSTRY

Figure 6.
Healthcare and Life Sciences carve-outs

Source: Refinitiv



Carve-out activity shows responsiveness to market conditions. Carve-outs remain a popular option for companies looking to refocus their energies on core business elements, with some healthcare companies seeking divestitures in the form of carve-outs in 2019.

Over the past decade, there has been marginal fluctuation in the total volume of carve-outs.

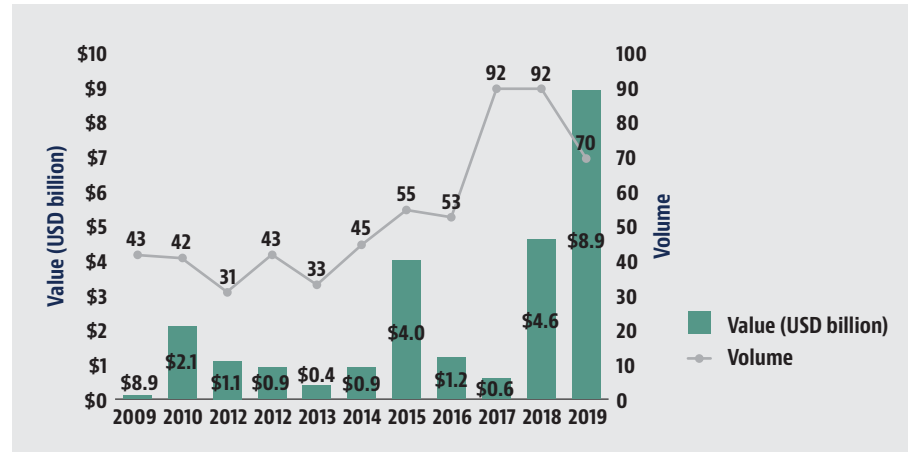
According to Bain, this flatness in activity is due to the fact that investors have shown a steady interest in carved-out deals, as they are attracted to the high profit margins in the digital health sector. The sector has also proven resilient in the face of recession.

Generally, the majority of carve-outs are valued below USD 1 billion, but the share of carve-out deals worth over USD 1 billion has been relatively flat since 2017 (Figure 6).

Figure 7.
Tech acquisitions in Healthcare
and Life Sciences sector

Source: Refinitiv

TECH ACQUISITIONS ARE DRIVEN BY GLOBAL INTEREST IN DIGITAL HEALTH



Appetite for tech acquisitions has grown exponentially during the past two years, and this trend is likely set to continue, given the interest in using innovation as competitive differentiation.

While volume decreased by almost 25% in 2019, the total value of tech acquisitions in the healthcare and life sciences industry nearly doubled from 2018 (Figure 7).

TECHNOLOGY ACQUISITION EXAMPLES IN THE HEALTHCARE AND LIFE SCIENCES SECTOR

Type of company	Acquirer Name	Target Name	Value	Reason for Acquisition
Pharma	Merck & Co Inc. (USA)	Antelliq Holdings (France)	USD 3.7 billion	Access to market-leading digital products, extending the range of solutions the healthcare company can provide to its customers.
Medical instrumentation	II-VI Inc. (USA)	Finisar Corp. (USA)	USD 3 billion	Integration of core technologies that will complement and enhance each other to expand tech innovation and broaden range of products offered.
Healthcare systems & medical devices	3M Co. (USA)	MModal IP LLC (USA)	USD 1 billion	Access to data processing and hosting services to invest in their health information systems.

Key business and legal challenges for 2020

Navigating repercussions due to pricing pressure



Pricing pressure may push some companies toward divestitures, creating opportunities for dealmaking in this sector. The need for healthcare companies to raise prices to cover growing product development costs is diametrically opposed to governments' drive to minimize expenditure.

Regulatory authorities' acceptance of big data or real world evidence reflects their efforts to help reduce production costs and thereby lower prices. Pricing pressure has triggered governments across the globe to actively promote generics and biosimilars as substitutes for high-cost drugs.

Innovative pricing arrangements, such as the value-based healthcare model where pricing is influenced by longer-term health outcomes, are replacing the fixed, price-per-product model.

Reference pricing schemes enabled by inter-country collaboration eliminate over-priced jurisdictions as a reference in an effort to reduce prices.

Accounting for global uncertainty in politics and the economy



All companies will continue to be affected by the uncertainty of protectionist trade policies and geopolitical unrest. Healthcare businesses can therefore expect ongoing supply chain disruption and tariff changes, which may affect their profitability. Planning ahead and incorporating risk mitigation in business planning and M&A activities is therefore advisable.

Dealing with uneven and changing regulatory framework for data



Acquisitions may include additional legal considerations. For example:

- a) The underlying purpose, structure, value proposition, and due diligence of technology acquisitions may be different;
- b) Healthcare companies may face, and have to plan for, issues they are not accustomed to factoring into their ownership of the acquired business, such as enhanced compliance with data privacy or cybersecurity regulation; and
- c) If acquiring a company to recruit its employees ("acqui hiring"), legal questions include software ownership, open source software, employee status, employee mobility, employee retention, trade secrets, data and brands.

Anticipating the lag of regulation behind fast-paced innovation



Innovation is driving many acquisitions in the healthcare and life sciences industry, whether for technology or new drug patents, or even for an efficient supply chain.

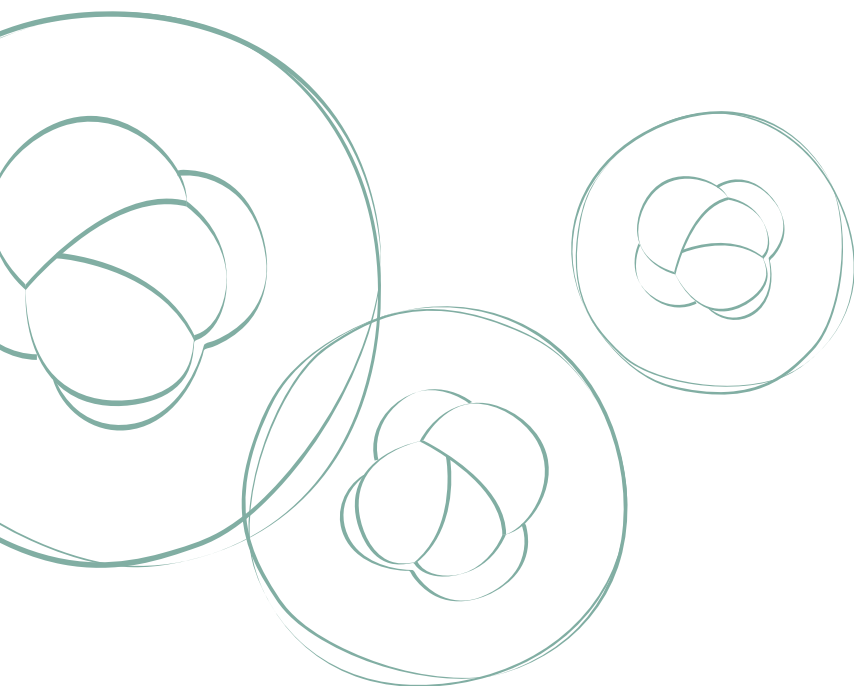
Yet, while businesses are hungry for acquisitions relating to innovation, healthcare legislation and regulation is not adapting as quickly. This buying “ahead of the curve” requires acquirers to seek creative, forward-thinking and prudent advice on how to safely navigate an arguably unclear legal and regulatory environment.

Some areas where this issue is particularly apparent include innovation in precision medicine, biomarkers, omics, gene and cell therapies head innovation, followed by drug-device combinations, nanotechnology, novel manufacturing methods and novel clinical trial designs.

Adjusting to the digitization of healthcare services



Emerging markets in particular present valuable M&A opportunities for telemedicine, online pharmacies and other forms for the digital delivery of healthcare. Yet, these opportunities are also limited by regulation that differs globally across areas such as the permissibility of online services; the establishment and licensing requirements and procedures; cross-border health service regulations; or data management and ownership, distance selling, consumer protection and advertising rules.



Top 10 deals in healthcare and life sciences sector completed in 2019

Date Announced	Target Name	Target Nation	Acquirer Name	Acquirer Nation	Ranking Value inc. Net Debt of Target
3 January 2019	Celgene Corp	United States	Bristol-Myers Squibb Co	United States	USD 93 billion
28 March 2018	Shire PLC	Ireland-Rep	Takeda Pharmaceutical Co Ltd	Japan	USD 77 billion
29 June 2018	Alcon Inc	Switzerland	Shareholders	Switzerland	USD 30 billion
17 June 2019	Array Biopharma Inc	United States	Pfizer Inc	United States	USD 11 billion
16 May 2019	Nestle Skin Health SA	Switzerland	Investor Group	Sweden	USD 10 billion
24 November 2019	The Medicines Co	United States	Novartis AG	Switzerland	USD 8 billion
6 February 2019	Eli Lilly & Co*	United States	Eli Lilly & Co	United States	USD 8 billion
7 January 2019	Loxo Oncology Inc	United States	Eli Lilly & Co	United States	USD 7 billion
2 May 2019	Acelity Inc	United States	3M Co	United States	USD 7 billion
13 February 2019	Auris Health Inc	United States	Ethicon Inc	United States	USD 6 billion

* US - Eli Lilly & Co (Eli) completed an exchange offer for which it was to split its 80.2% interest, or 293,290 mil common shares of Elanco Animal Health Inc
<https://investor.lilly.com/news-releases/news-release-details/lilly-will-initiate-divestiture-its-remaining-interest-elanco>

For more information please contact:



JANE HOBSON

Partner, M&A
London
+44 20 7919 1907

jane.hobson@bakermckenzie.com



ASHOK LALWANI

Head of the International Capital Markets
Practice in Asia Pacific
Singapore
+65 6434 2684

ashok.lalwani@bakermckenzie.com



BEN MCLAUGHLIN

Partner, Chair of the Global Healthcare &
Life Sciences Group
Sydney
+61 2 8922 5342

ben.mclaughlin@bakermckenzie.com



RANDALL SUNBERG

Partner, Head of Baker McKenzie's North
America Healthcare & Life Sciences Group
New York/Princeton
+1 212 626 4525

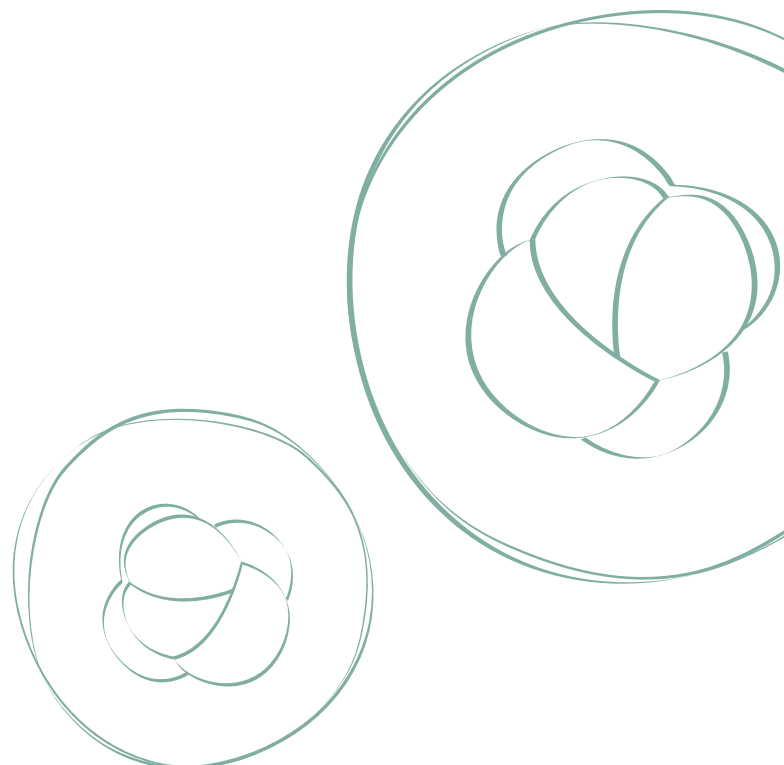
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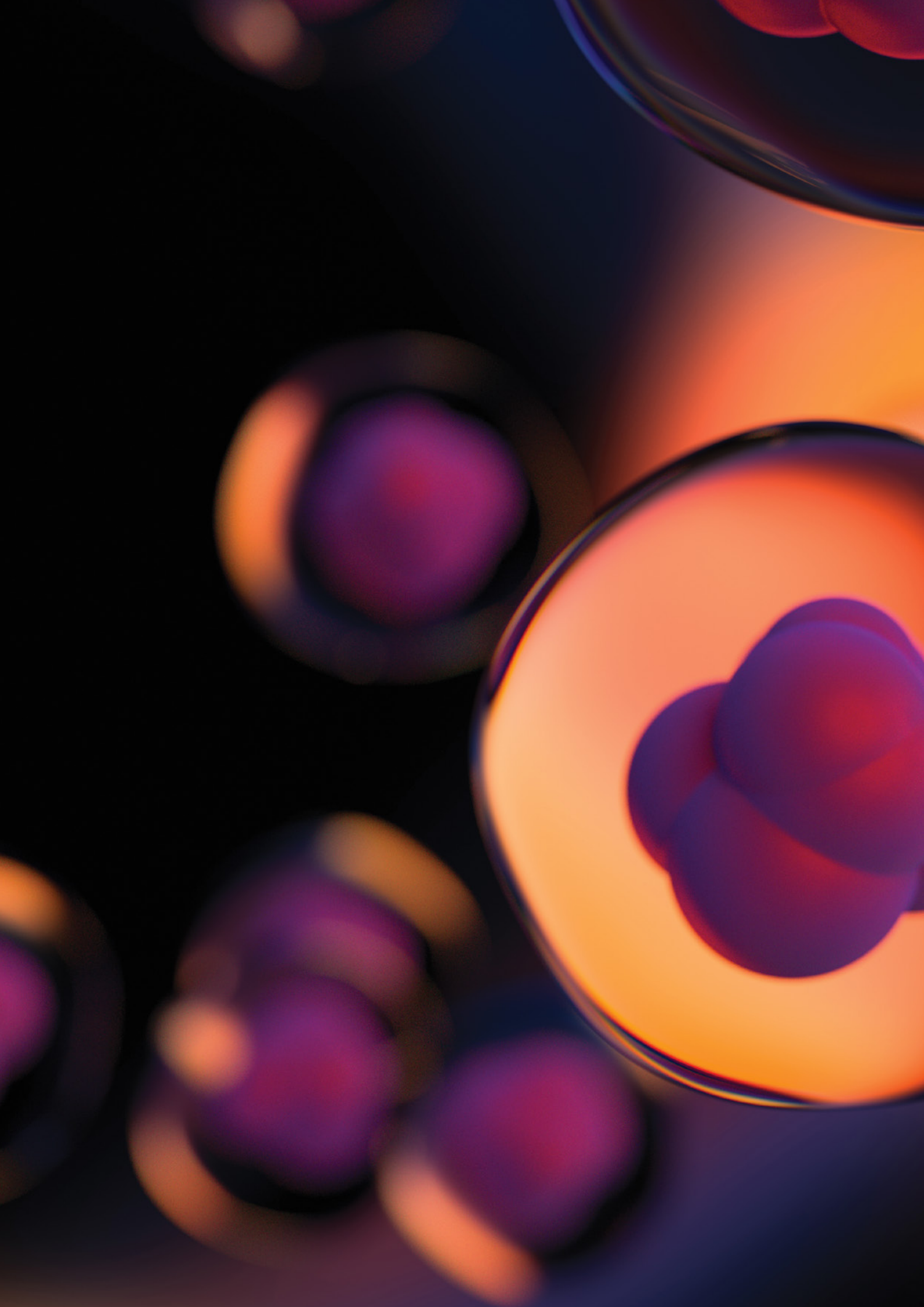


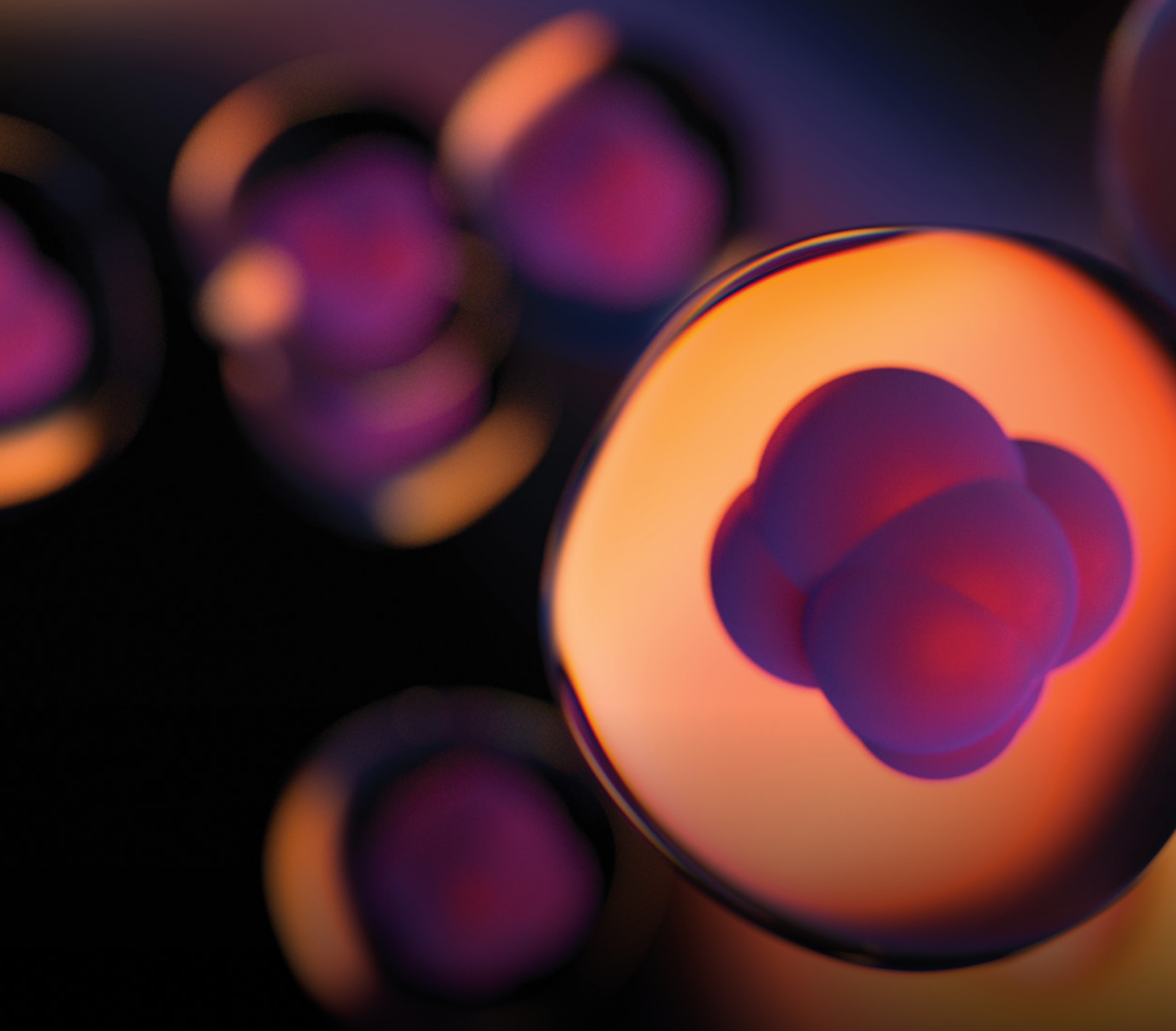
TRACY WUT

Partner, M&A
Hong Kong
+852 2846 1619

tracy.wut@bakermckenzie.com







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