

**Baker  
McKenzie.**

**Life Sciences Business  
Evolution Series**  
Funding Growth and the  
Future of Life Sciences

**TRANSACTIONAL  
POWERHOUSE**

Leading and closing complex deals – every day

# Foreword

## Intertwined Value Chains Are Reshaping Life Sciences Business Models

Traditionally, the life sciences industry has grown through innovation, acquisition and geographical expansion. A survey conducted by Baker McKenzie in collaboration with Informa Pharma Intelligence looked at how pharmaceutical, biotech, medical device and medtech businesses plan to leverage new and existing sources of growth over the next 10 years.

In this second installment of our three-part series, we explore the trajectory of life sciences transactions that companies seek to fuel growth in response to the competitive landscape, shifting demand, increased R&D and cost pressures and the need to alter go-to-market strategies.

Key findings include:

- The enduring robust appetite for M&A, carve-outs, divestitures, partnerships, licensing and collaboration agreements
- A rising focus on sustainability goals aligned with pursuing deals linked to corporate power purchase agreements (PPAs) and green financing
- Continued VC investment and increasing appetite from private equity sponsors in pre-revenue stages
- Regional divergences and subsector trends

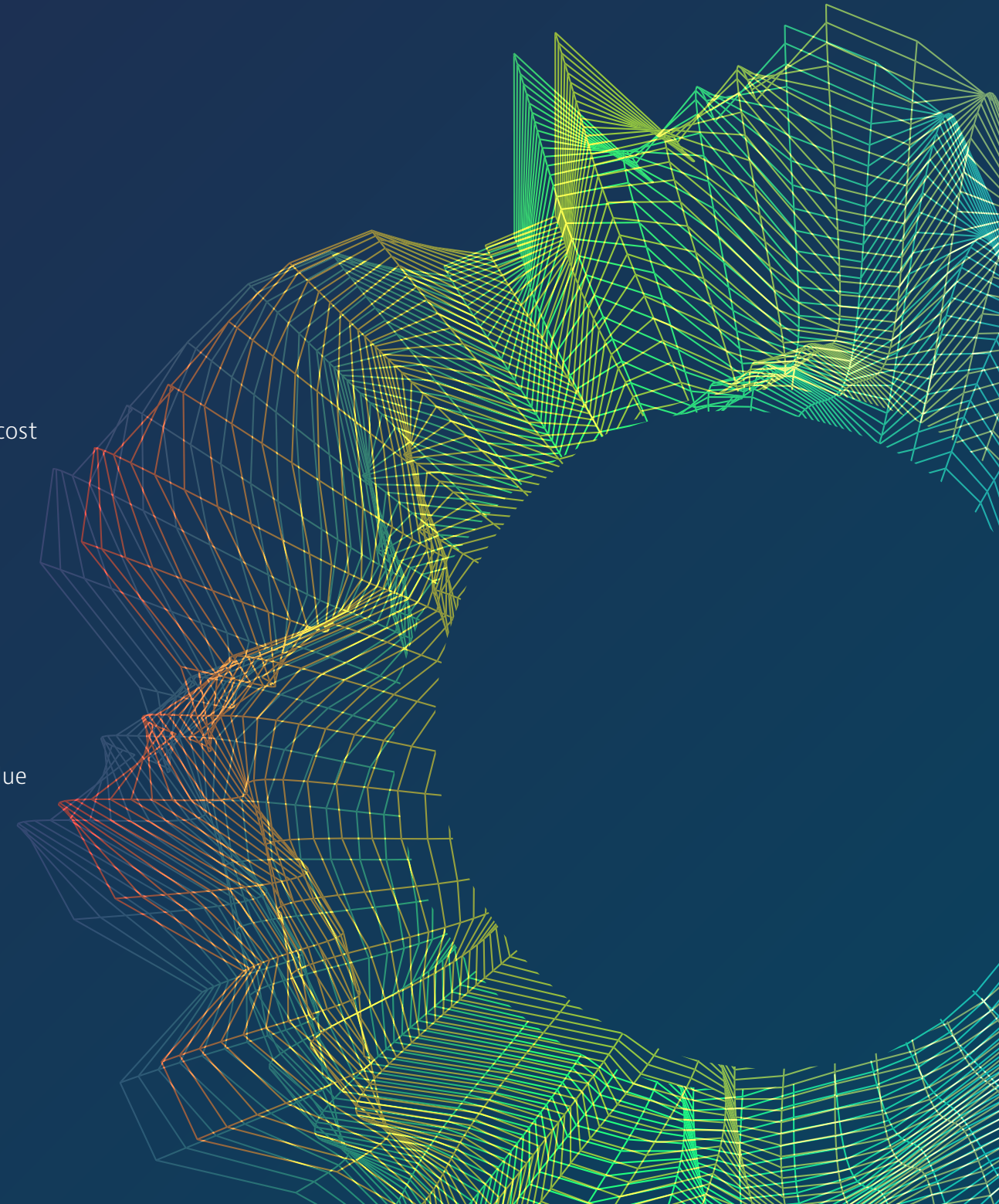
With these findings come key considerations for life sciences companies as they look to reduce risk and gain value even as they seek funding to expand, alter and renew their business models.



**Vanina Caniza**  
Global Head of Healthcare  
& Life Sciences  
Buenos Aires



**Randall Sunberg**  
North America Head of Healthcare  
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## Methodology

All findings across three flagship reports in the Life Sciences Business Evolution Series are gleaned from a custom survey conducted by Baker McKenzie in collaboration with Pharma Intelligence in late 2021.

Over 250 life sciences respondents from North America, Latin America, Europe and Asia Pacific were consulted on their thoughts relating to the changing market conditions, challenges and opportunities affecting life sciences business models, growth patterns, funding and shifting operational dynamics.

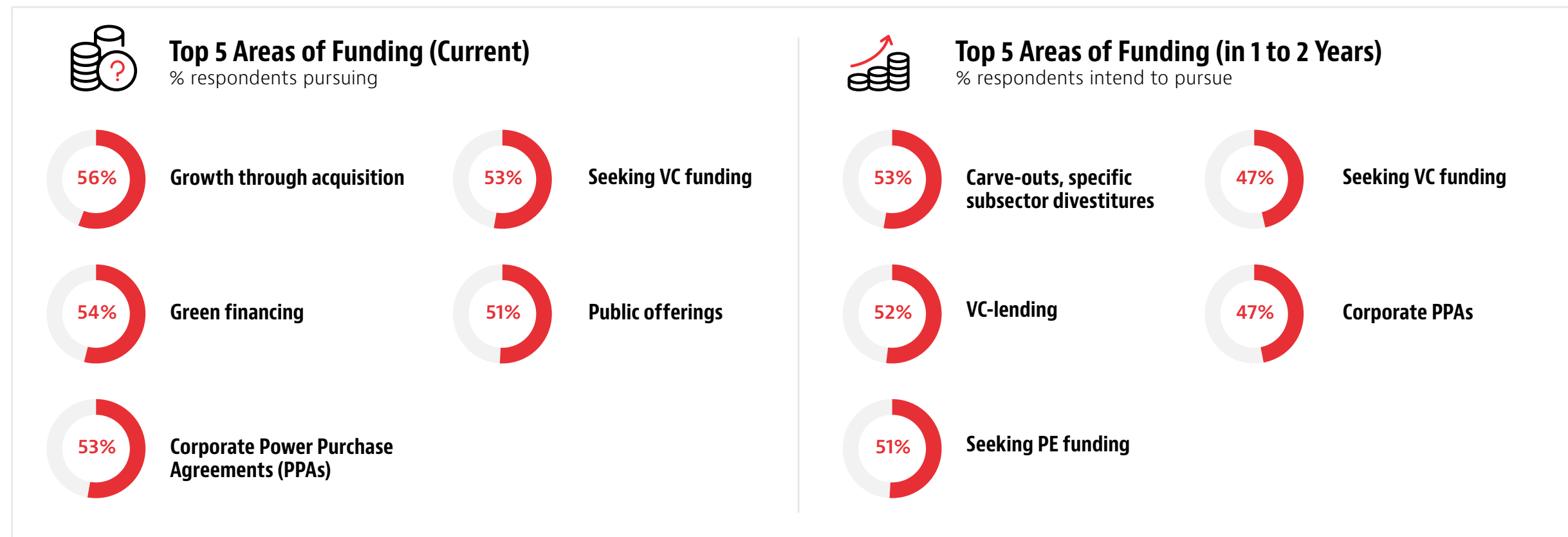
Respondents include executives in C-Suite, EVP/SVP, Head of, Director, Manager, General Counsel, Assistant General Counsel in various business functions including clinical operations, business development, IT, clinical research, strategic operations, quality, R&D, regulatory, commercialization, digital transformation, market access, medical affairs, operations, sustainability and legal.





# 1 Mapping the Trajectory of Life Sciences Transactions

Research indicates that growth via acquisition is the most popular route currently and that traditional modes of inorganic growth, including M&A, will continue to be fundamental to life sciences companies' business evolution strategy\*. Unsurprisingly, the life sciences sector remains an attractive industry for investment from both strategic players and financial investors. According to S&P Global, M&A in the sector rose to over USD 340 billion across 3,180 announced deals in 2021.



\*As explored in our upcoming third report of this series, one facet of robust M&A activity stems from companies embarking on transformative deals to reinvigorate their supply chains.



# 1.1



“We will continue to see divestment of non-core assets across the life sciences spectrum, allowing further investment by private equity but where we may continue to see caution is across the biotech sector. Acquisitions are subject to higher scrutiny by antitrust regulators around the world (led by the US, UK, Australia, Germany, and to some extent the EU) on the back of recent publications asserting that for sectors characterized by high research intensity, M&A impacts the merged entity’s innovation efforts, as well as reducing innovation among non-merging competitors. Combined with a growing number of foreign investment regimes, deal certainty is harder to achieve than ever.”

**Jane Hobson**  
Corporate/M&A Partner, London

## 1.1 Carve-outs and Divestitures

In the next 1 to 2 years, more than half of our respondents indicate that they intend to pursue carve-outs and specific subsector divestitures (53%). Such disposals allow life sciences companies to accomplish a number of strategic business model goals such as:

- divesting manufacturing sites to gain greater control of their supply chain operations
- divesting non-core assets to channel funds into improving patient outcomes through increased local market responsiveness
- divesting non-core assets in response to shareholder and stakeholder pressures vis-à-vis sustainability goals or streamlining product portfolios
- divesting non-core assets to pursue digital technologies acquisition/development or offset rising R&D costs



“Carve-out transactions are more complex than entire company divestitures. Upfront planning is key to success — to get to closing as quickly as possible with minimal business disruption or integration delays. For life sciences carve-outs, one key element is the regulatory overlay and the related interdependencies for supply chain continuity. Although complex, they are a lot of fun.”

**Olivia Tyrrell**  
Corporate/M&A Partner, Chicago





# 1.2

## 1.2 Licensing and Collaboration Agreements

In the last 12 months, more than half (58%) of respondents expect to seek legal advice on collaboration and licensing deals. The importance of licensing and collaborations in the life sciences industry is undeniable. With more complex therapies and product areas coming to market including biosimilars, cell and gene therapies, vaccines, hybrid medical devices, gamification therapeutics and other mobile health (mHealth) solutions, collaboration and licensing agreements are becoming more complex.

In this increasingly fluid deal-making environment, considerations for licensing and collaboration structures extend beyond the development of the therapeutic product into other considerations such as IP, tax, regulatory and more.



“Licensing and collaboration deals have become increasingly complex as life sciences companies explore creative ways to develop and commercialize products utilizing new technologies. For example, cell and gene therapies require thoughtful attention to the actual product composition and manufacturing arrangements, and cost sharing and profit split structures require correspondingly creative approaches to governance, decision-making, and intellectual property ownership. The exciting challenge is to adapt these deal structures and agreements to reflect the evolving science and achieve the parties’ goals.”

**Randall Sunberg**  
North America Head of Healthcare & Life Sciences, New York/Princeton

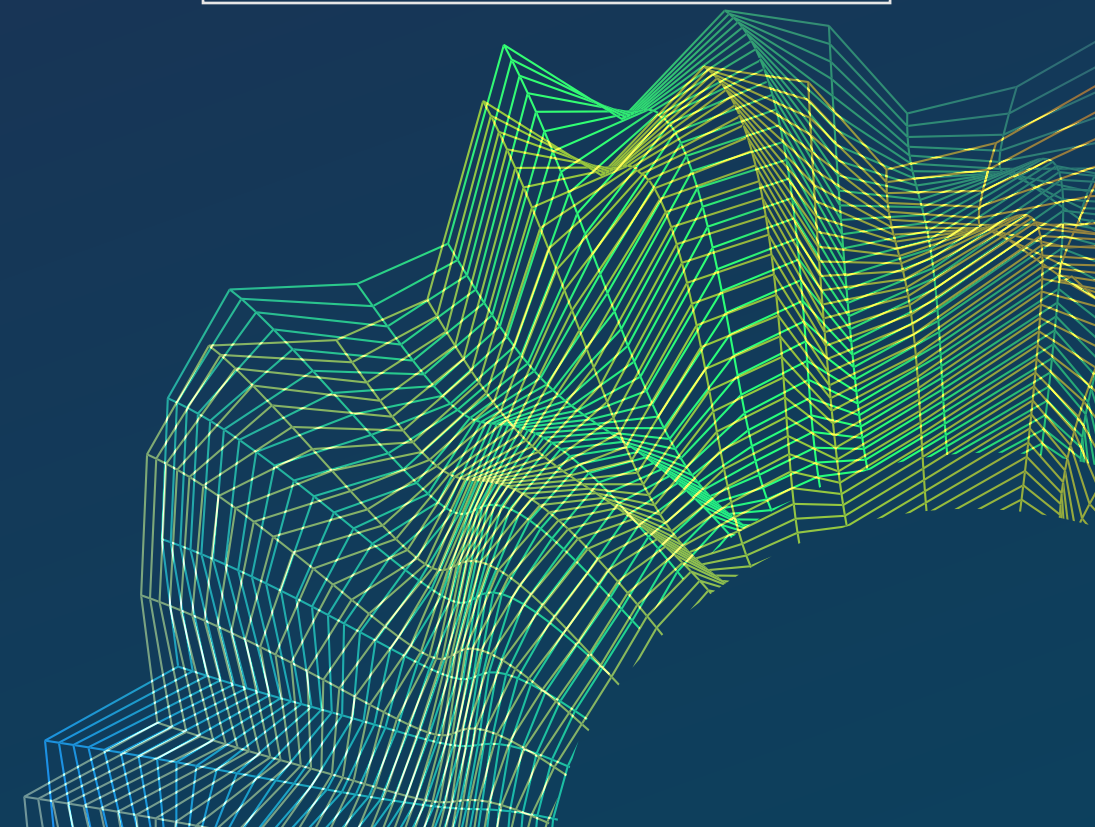


### More on Licensing and Collaborations

Licensing and collaboration deal negotiations can be a gateway to future M&A discussions, due diligence activities should be tailored to the particular deal structure being sought.

Find out more by exploring the following resources:

- **Life Sciences Collaborations: Key Considerations**
- **Masterclass: Partnering & Licensing (Webinar)**

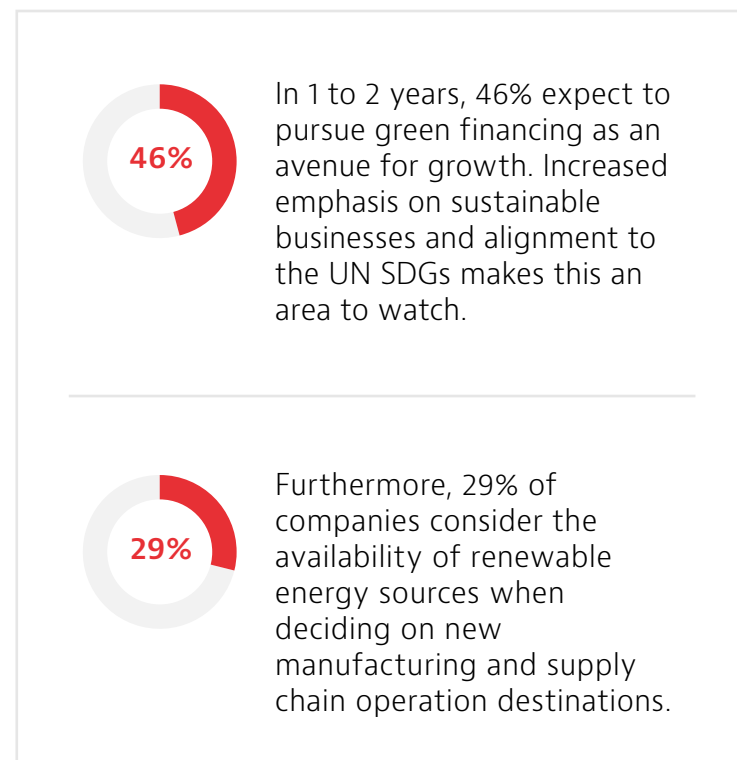




# 1.3

## 1.3 Rising Focus on Sustainability Goals

The top five avenues being pursued by life sciences companies are only split by a 5% difference in respondents. This suggests that in addition to traditional growth vehicles, there will also be a surge of other types of transactions such as corporate power purchase agreements (PPAs) and green financing, which are linked to a rising interest and imperative for sustainability-focused goals. Our research shows that over half of respondents are pursuing green financing and corporate PPAs as part of their funding and ESG, Sustainability or Net Zero strategy.



Companies are diligently working to achieve Net Zero in a few years across their value chain to reduce their carbon footprint, and because it also brings about significant overall operational savings. As such, **corporate and virtual (synthetic) PPAs** have become a popular mechanism to directly source renewable energy for the business and/or offset emissions via renewable energy certificates to facilitate the addition of renewable generation capacity to the grid.

A new initiative called **Energize** is a collaboration among 10 global pharmaceutical companies to engage hundreds of suppliers in bold climate action and decarbonization of the pharmaceutical value chain. It is a first-of-its-kind effort to leverage the scale of a single industry's global supply chain to drive system level change and was recently launched to increase access to renewable energy for the pharmaceutical industry.

While most corporate PPAs have emerged from Europe and the Americas (predominantly the US), renewable energy transition is piquing interest in Asia Pacific. 57% of respondents from Asia are choosing corporate PPAs, tied to decarbonization efforts and strong reforms in countries such as Australia, Taiwan and Vietnam, among others. This trend will only increase going forward in addition to companies installing clean energy technology in their own facilities and utilizing other waste recycling methods to generate their own energy.

While it is early days for green financing in the healthcare and life sciences industry, there is a marked increase in activity across all areas of ESG financing. The arrival and impact of COVID-19 thrust the healthcare and life sciences industry into the spotlight, and coupled with the increased global focus on sustainability and climate change, highlighted some of the operational inefficiencies of entities within the industry. For example, there have been a number of sustainable financing transactions recently from the hospital sector, aimed at reducing carbon dioxide emissions and reducing energy consumption.



# 1.3



“Decarbonizing requires businesses to assess and measure their environmental impact and establish decarbonization strategies and targets that satisfy both legal requirements and various stakeholders, while also remaining achievable. Board level engagement and sponsorship are critical. Our life sciences clients have become increasingly active in driving efficiencies in energy and water use; reducing direct emissions and electrifying operations; installing renewable generation on-site and behind-the-meter; executing significant corporate (including virtual) power purchase agreements; and investing in carbon removal or reduction projects and offsetting mechanisms. We are providing advice to these companies to help them achieve their decarbonization objectives in the most robust and efficient way as possible.”

**Graham Richmond**  
Energy Senior Associate, London

## Key Resources

Decarbonizing a global organization presents a myriad of challenges and opportunities for increased efficiency in the value chain. Investing in understanding the issue, measuring and assessing its environmental impact and setting appropriate goals and targets are key.



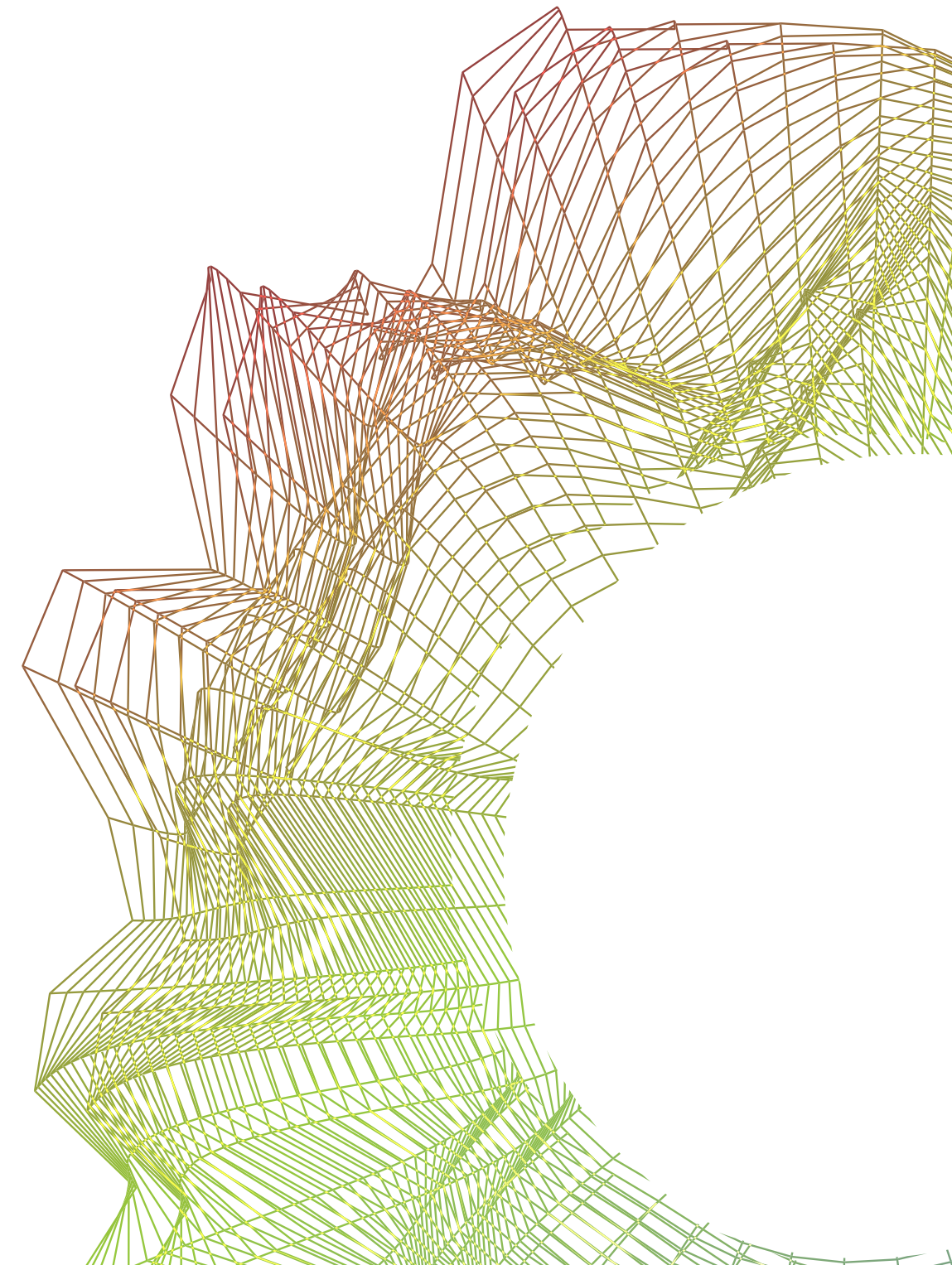
Sustainable Finance Hub



Corporate PPA Hub



ESG Debt and Equity Podcasts







# 1.4

## 1.4.1 The Role of PE and VC Funding

Our survey indicated that 52% of respondents expect to turn to VC lending and 51% expect to seek PE funding. 2021 saw a **record amount of VC capital** raised, with high attention on the life sciences industry in the US, Mainland China and the UK in particular. In Q4 2021, several large PE firms made acquisitions or entered partnerships with life sciences companies in order to integrate capabilities related to R&D, manufacturing, digital technologies and more.



“While VC has been a more classic source of investment into many healthcare assets, particularly life sciences such as pre-revenue biotech, PE sponsors are increasingly competing in this space as well. Early stage healthcare companies are under growing pressure to be ready to quickly manufacture and market a drug aggressively on the heels of a positive phase 2b or phase 3 clinical trial. PE firms, not shying away from complexity and pre-revenue stages, can offer an attractive source of capital and operational experience to meet those needs at the point of a drug being ready for approval by the FDA or EMA.

Similarly, the opportunity to use an IPO as an early exit path can help offset some risk and balance the traditional PE emphasis on investing in revenue generating businesses, with one recent example being the majority private equity sponsor stake in Centogene pre-IPO on NASDAQ. We are also seeing more examples of VC and PE joining forces, formally or informally, to pursue these opportunities together. One recent example of that was EQT’s acquisition of the VC firm LSP Life Science Partners and its team of 34 professionals to bolster healthcare investment capabilities.”

**Karen Guch, Global Head of Private Equity, London & Berthold A. Hummel, Co-Head of Corporate/M&A for Germany, Munich**

## 1.4.2 SPAC Activity for Life Sciences

“We see biotech companies seeking to streamline cash infusions at a faster pace than traditional financing routes, which often depend on clinical development milestones. Companies looking for SPAC funding should consider how they intend to manage complexities such as managing regulatory issues, emerging listing regimes as well as the short two-year window for target acquisition and the prospect of de-SPAC transactions.”

**Derek Liu, Corporate/M&A Partner, San Francisco**

## 1.4.3 Merger Control and Competition Enforcement

“Antitrust regulators in many parts of the world are signaling that they will take a tougher approach to pharmaceutical mergers. On both sides of the Atlantic, regulators are flagging concerns about “nascent” or “killer acquisitions” that lead to the discontinuation of overlapping R&D projects. The European Commission is conducting a major research project into the prevalence of the phenomenon that will go beyond pure M&A and look into the extent to which companies might be seeking to avoid regulatory scrutiny by employing other structures such as joint ventures, IP acquisitions, option rights, and licensing and collaboration deals.

There is no compelling evidence suggesting that current laws and analytical tools are not up to the task of preserving competition and innovation. Nonetheless, for the foreseeable future, companies — large and small — must be ready to articulate the factors driving their investment, development and acquisition decisions and plan carefully upfront for the potential of increased deal uncertainty.”

**Fiona Carlin, Antitrust and Competition Partner, Brussels**



# 2

## Regional Spotlights

Regional nuances in terms of how companies seek to grow and optimize life sciences businesses show a diverse landscape of transaction avenues for the industry as a whole.



### Americas

Currently, 62% of respondents are pursuing growth by acquisitions. Over the next 1 to 2 years, 56% intend to pursue carve-outs and specific subsector divestitures (56%) and public offerings (50%).



“We’ve seen some very high profile spinoffs this past year (e.g., from Merck and Johnson & Johnson) as companies are trying to focus on more targeted business strategies. At the same time, acquisitions of products, whether by license or M&A, have continued. The incredibly diverse efforts at research institutions and biotechs have made acquisitions a necessity to fill product pipelines.”

**Oren Livne**  
 Corporate/M&A Partner  
 New York/Princeton



### Asia Pacific

Within the next 1 to 2 years, the emphasis in the region is set to shift towards VC lending (62%), public offerings (58%) and PE funding (58%).



“There is a lot of dry powder in the market — from pharmaceutical companies with strong balance sheets to PE and VC funds — their strong interests in the biotech and medtech sectors will continue to drive deals. Growth in the sector is also fuelled by capital markets, with Hong Kong leading the charge. Since the reform in 2018 allowing pre-revenue biotech companies to be listed on the Hong Kong Stock Exchange (HKEX), Hong Kong is now the largest biotech fundraising hub in Asia, and is competing with NASDAQ to be the largest fundraising hub for biotech companies in the world.”

**Tracy Wut**  
 Head of M&A for Hong Kong and Mainland China  
 Hong Kong



### Europe

Currently, 59% of respondents are pursuing public offerings to fund inorganic growth plans and 54% are seeking growth via acquisition.



“Life sciences companies in Europe are tapping into positive market sentiment and extending their cash runway via private placements or initial and follow-on public offerings. This is particularly true for companies who are not generating revenue yet, where equity is often the only viable financing route. We also see life sciences companies in Europe carrying out public offerings or secondary listings in the US, looking for more liquidity and a broader investor base. The recent increase in successful fund raisings and listings by SPACs provide companies with an additional route to seek business combination with a SPAC. While this is an attractive alternative to a classic IPO, companies should be aware of additional structuring complexities and increased scrutiny by regulators.”

**Roel Meers**  
 EMEA Head of Healthcare & Life Sciences  
 Brussels



## 3 Key Subsector Trends

### Pharma and Biotech

Currently, VC funding (61%) and acquisitions (56%) are the top two sources of financing for pharma/biotech companies, while more innovative strategies linked to sustainability, such as corporate PPAs (52%) and green financing (50%), are making headway alongside carve-outs and PE funding (both 51%).

Over the next 1 to 2 years, pharma/biotech are more interested in public offerings (55%) and VC lending (51%), although green financing (50%) remains on the radar.

### Medical Devices and Medtech

Growth via acquisition (58%) remains a key platform for non-organic growth, although again sustainability concerns are strongly felt in preferences for green financing (57%) and corporate PPAs (55%).

Looking ahead 1 to 2 years, as medtech companies continue to evolve business models to offer product-service hybrids, they are looking to target VC funding and lending (59% and 57%, respectively), as well as carve-outs (55%), as particular growth vehicles.



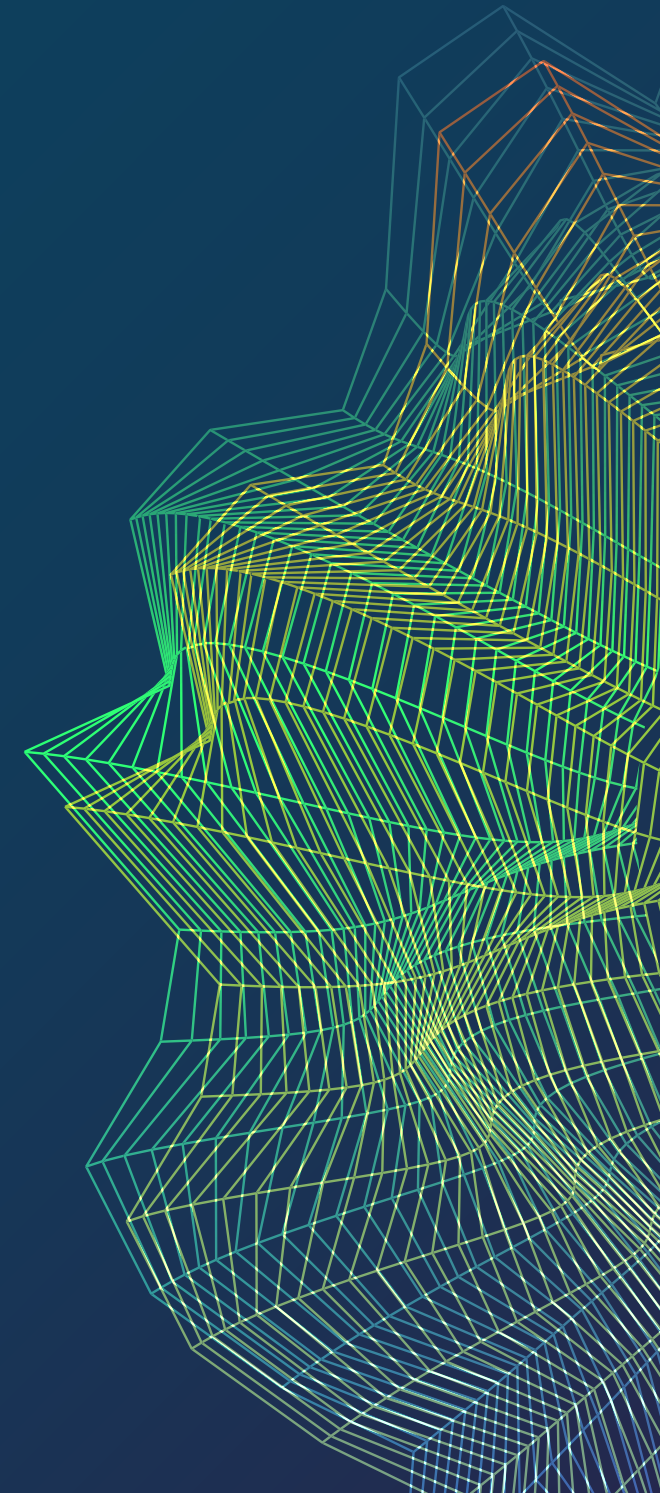
#### More on Asia Pacific Deal Trends

Find out more about how healthcare and life sciences businesses are redefining corporate strategy in Asia Pacific, with new opportunities arising from disruption in our upcoming report in the **Asia Pacific DealSCAPE series**.



“Many life sciences companies and private equity funds have robust balance sheets to support major acquisitions and partnerships in the life sciences and healthcare industries. The outlook for pharma and biotech will continue to be focused on innovative therapy offerings and R&D, which will also account for heavy VC investment. Medical device and health tech companies had a busy 2021 of deal making, especially for diagnostics, which should continue into 2022. Other active M&A sectors will include pathology and clinical trials/ Contract Research Organizations (CROs).”

**Ben McLaughlin**  
Corporate/M&A Partner, Sydney





# 4

## Fueling Inorganic Growth through Complex, High Value Deals



Advised ICU Medical on its USD 2.7B acquisition of Smiths Group plc's Medical Division (2021).



Advised Bayer AG on the USD 4B acquisition of Asklepios BioPharmaceutical (2020) and its subsequent acquisition of Vividion Therapeutics for USD 2B (2021).



Advised Walgreens Boots Alliance on the USD 6.5B carve-out and disposal of its Alliance Healthcare business to AmerisourceBergen Corporation (2021).



Advised Trillium Therapeutics, a clinical stage immuno-oncology company, on its USD 2.3B takeover by Pfizer (2021).



Advising Johnson & Johnson on its recently announced spin-off of the company's consumer products business (2021).



Advised AbbVie on its USD 63B acquisition of Botox® maker, Allergan (2019).



Advised Merck on the spin-off of its women's health, legacy brands and biosimilars businesses into Organon & Co (2021).



Advised the syndicate of 10 underwriters on Teva Pharmaceutical's multi-tranche USD 5B debut sustainability-linked high yield bond offering, the largest-ever offering of Sustainability-Linked Notes and the first-ever issued by a generic medicine company (2021).



Advised CureVac on a EUR 150M collaboration with GSK to jointly develop next generation mRNA vaccines for COVID-19 with the potential for a multivalent approach to address multiple emerging variants in one vaccine (2021).



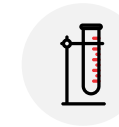
Advised Novartis on five virtual power purchase agreements expected to add more than 275MW of clean power (wind and solar), generated from six renewable energy projects being developed by three different providers — Acciona, EDP Renewables and Enel Green Power (2020).



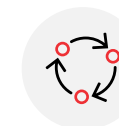
Advised Takeda on its collaboration with KSQ Therapeutics to identify optimal T cell and NK cell gene targets screened using KSQ's CRISPRomics technology and to develop and commercialize novel cell and non-cell immuno-oncology therapies (2021).



Advised H. Lundbeck on its collaboration with Rgenta Therapeutics to discover small molecules targeting RNA regulation and splicing of disease-causing genes (2021).



Advised GSK Consumer Healthcare's collaboration with Mammoth Biosciences to develop a rapid COVID-19 CRISPR-based test (2020).



Advised Galapagos NV on its USD 5.1B transformative R&D collaboration and commercialization and development agreement with Gilead Sciences with Jyseleca® (2019).



Advised Platinum Equity on its USD 2.1B acquisition of the diabetic devices business, LifeScan, from Johnson & Johnson (2018).



# 5 Conclusion

The evolution of life sciences business models is predicated on the need to address market saturation, more complex global regulatory regimes in terms of compliance, law lag due to new products entering the market, R&D cost inflation and pressure on healthcare expenditures. To manage these challenges, being able to access and deploy the right funding and growth strategy are crucial to business renewal.

## Key Takeaways

We expect **continued growth and activity in life sciences M&A** by both strategic players and financial investors.

**Carve-outs and divestitures** will be employed by life sciences companies to prune non-core assets and functions and will drive further investment in prioritized areas.

**A growing trend in pre-IPO financing** will be funding from PE investors in addition to more traditional sources, such as VC firms.

**Green financing and sustainability** will be increasingly important factors in business operations and growth strategies.

**Licensing and collaboration deals** will continue to achieve life sciences companies' goals of acquiring access to new technologies and product candidates.

**New technologies** in the life sciences industry will increasingly include a focus on digital transformation, artificial intelligence and the use and exploitation of data.

The upcoming third report from Baker McKenzie's Life Sciences Business Evolution Series will explore therapeutic growth areas for life sciences companies, including where they intend to channel funding and where supply and manufacturing shifts may be expected.



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## Additional Resources

- Life Sciences Business Evolution Series: How Digitalization and Data Are Shaping Business Models
- Hyper-Hybridity Report
- 2021 Cloud and DT Survey
- FT Big Deal Series
- Asia Pacific DealSCAPE



# 6

## Key Contacts



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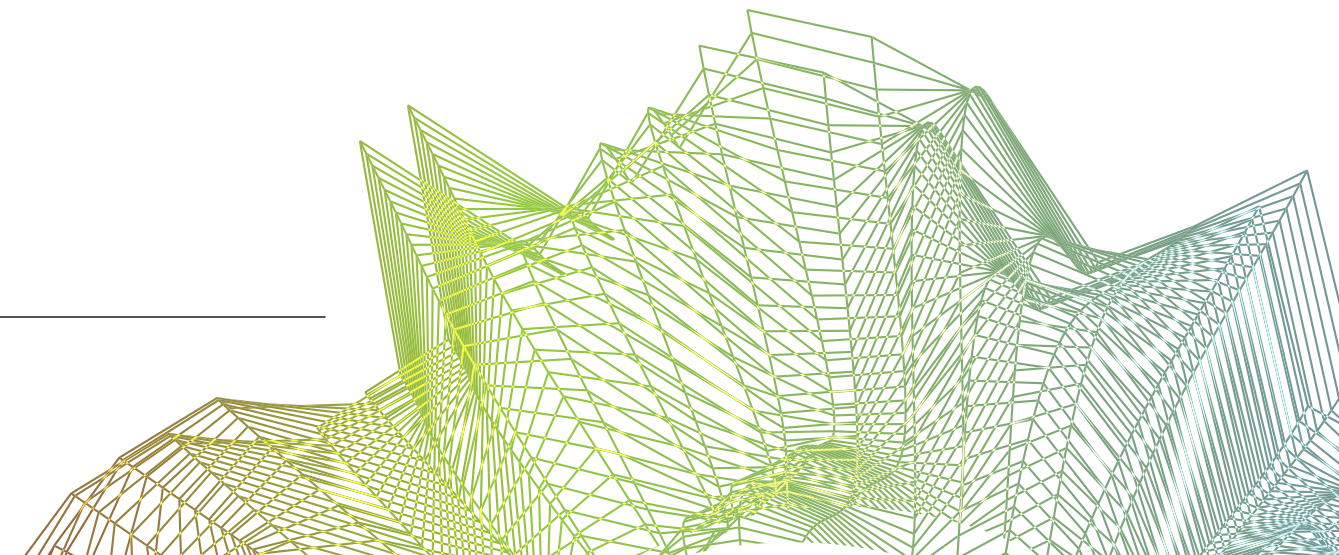


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\*Trench Rossi Watanabe and Baker McKenzie have executed a strategic cooperation agreement for consulting on foreign law.



## Leading and closing complex deals - every day

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