Dealmaking Dormant No More

Unleashed demand over the past year characterizes the M&A picture in pharma.

By Mike Hollan

While the COVID-19 pandemic may seem like a distant memory, it's still having impacts on the world today, notably in the pharmaceutical industry. The pandemic caused a number of investors to pay attention to pharma and put a lot of money into the industry. As the pandemic faded, so did a lot of those funds. The result was a significant slowdown in M&A activity in 2023. Then, in 2024, things started to change and M&A made a comeback. Due to the slowdown, there was a boom.

Cheryl Reicin

Pharmaceutical Executive spoke with Cheryl Reicin, partner and international chair of life sciences at Mintz, about what trends she saw in M&A and dealmaking in 2024 and what she expects to see in 2025.

During this year, says Reicin, "Deal activity has picked up, and a number of factors are working to drive this. First, [Eli] Lilly and Novo Nordisk have large heaps of cash from the success of the GLP-1 drugs, but they are smart enough to know this won't last forever, and they are using these funds to strengthen their pipeline. Also, the public markets are still not robust, and there is substantial pent-up demand. [Venture capitalists] are looking for exits, and valuations have had some downward pressure resulting in opportunities of good buys for acquirers."

Reicin, not surprisingly, cites the various patent cliffs to top-selling flagship products, such as AbbVie's Humira's (patent expired in 2023) and Merck's Keytruda (expires in 2028), as a key driver as well to M&A activity.

"Pharmaceutical companies need to replenish their pipelines," she says. "Many of these acquisitions are with early-stage companies, including preclinical. Also, in looking at M&A trends, don't neglect the licensing deals, as these often have high upfront payments and are merely preludes to a full-blown acquisition."

When asked what she expects to see in 2025, Reicin notes that there is a lot of pent-up demand for IPOs out of the biotech sector. She says that if the public markets open up, this could increase the competitive pressure for higher biotech valuations for M&A, since many companies pursue a dual-track strategy for exits. However, in 2025, Reicin still sees a strong need among large pharma organizations to acquire new companies.

She adds that many pharma manufacturers were waiting for the results of the presidential election, as Donald Trump's victory will likely have an impact on drug pricing and other key factors. However, according to Reicin, while these drivers will influence specific decisions in M&A, the industry was still going to show increasing demand for acquisitions by Big Pharma and biotechs regardless of which candidate had won.

When discussing the current state of M&A compared to the pre-pandemic situation, Reicin believes, "It's bounced back, but in a more thoughtful and less-frenzied way. Licensing deals, as a prelude to and stepped approach to M&A, have always been popular in this industry, but we are seeing this more, as it reduces the risk for big pharma."

There are two major considerations that companies will weigh when making M&A decisions: what potential acquirees do they think will be profitable and what assets should they look to divest in order to raise cash to make a deal.

"Anything related to GLP-1 and obesity is hot right now—particularly improved modes of delivery of GLP-1 drugs and substitutes that prevent muscle loss," explains Reicin. "Cell and gene therapy, radiopharmaceuticals, and antibody-drug conjugates are also having their day in the sun. The CNS world has always been very risky, and there is a graveyard of failures, but with the oldest baby boomers now approaching 80 years old [and the youngest having arrived at 60], there is a huge unmet current market need leading companies to invest in CNS."

Investment and licensing arrangements around artificial intelligence (AI)-driven drug development technology is another active area in life sciences dealmaking, Reicin adds.

"While they are still uncertain about the promise of AI, pharma companies can't afford to sit on the sidelines and need to develop drugs faster," she says. "Given that companies haven't spent the last 30 years building out in-house AI drug development, most of this talent needs to be acquired, including through 'acqui-hires,' or licensed in."

Ultimately, one of the biggest factors impacting M&A is how much capital that large pharma companies have access to.

"Big pharmaceutical companies have always had access to funds," says Reicin. "With the patent cliffs coming upon us and the increased industry competition, pharma companies have no choice but to make investments, regardless of the rise [and more recent modest falls] in interest rates. As mentioned, for example, Lilly and Novo Nordisk are actively using their GLP-1 bonanza to try to secure their futures as industry leaders." PE