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EY Releases the 12th Edition of its M&A Firepower Report

(Source: An EY Press Release)

The global life sciences industry has pivoted from major dealmaking to smaller, smarter and more agile deals with mergers and acquisitions (M&A) investment totaling US$130 billion in 2024, a 41% decrease compared with US$222 billion in 2023, as the industry turned away from the big deals for de-risked assets that characterized 2023. Though deal value is down, volume is stable (with biopharma deals +17% vs. 2023), but average deal size dropped, as companies shifted focus to look for earlier-stage opportunities with lower price tags, according to the *12th Edition of EY's M&A Firepower Report*, which tracks global M&A investment in life sciences. Instead of investing multi-billions to acquire de-risked, market-ready assets, 51% of 2024 biopharma deals targeted earlier-stage (pre-Phase III) assets, trying to tap innovation at an earlier point in the development cycle. The slow pace of activity in 2024 may have resulted from the ongoing regulatory challenges from the pro-active Federal Trade Commission (FTC) and the ongoing implementation of the Inflation Reduction Act (IRA) in the US, and as a natural "reset" after the heightened activity of the previous year.

According to the EY Report, a surge in life sciences artificial intelligence (AI) partnerships highlights the opportunities the technology offers to life sciences companies, resulting in over US$55 billion in potential deal value, spread over more than 330 deals in the past five years. Recursion Pharmaceuticals completed the largest life sciences AI M&A deal to date in August 2024, acquiring Exscientia for US$712m and most leading life sciences companies have now established one or more AI partnerships. AI seems to offer gains across the value chain from operations to commercial strategy. However, the Report details three challenges the industry will face to successfully partner with these technology companies: finding the right data strategy, learning to use AI end-to-end, and getting education and integration

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In Brief...

- Leading healthcare solutions company, **Zuellig Pharma**, announced that it has completed the acquisition of **Propan**, a market leading brand in the multivitamin-appetite stimulant segment, from **ADP Pharma Corporation**. Propan is an established and trusted brand in the Philippines. It remains a reliable partner in promoting healthier lives across the nation. From prescription capsules to pediatric syrups, the brand offers a comprehensive range of products designed to cater to various age groups and health needs. Prior to the acquisition, Zuellig Pharma has been responsible for the commercialization and distribution of the brand in the Philippines since 2018.
- European wholesaler **Hefame Group** reached a turnover of nearly €1.8 billion (US$1.877 billion) in 2024, achieving a historical record for the company. The result is a product of positive evolution of its 2023-2025 strategic plan and its commitment to efficiency and continuous improvement.
- Australian company **LTR Pharma** announced a strategic partnership with wholesaler **Symbion** to facilitate the nationwide distribution of the novel nasal spray treatment for erectile dysfunction, *SPONTAN*. LTR said the non-exclusive agreement, which begins on 1 March 2025, means the company will work with Symbion to access its network of over 3,900 pharmacies nationwide. Symbion's network includes warehousing, inventory functions, and distribution services. Symbion will support LTR's inventory management systems and integration, quality control and TGA-compliant product handling protocols, storage facility setups and maintenance, and the development of pharmacist education.

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The Impact of Generative AI on Pharmaceutical Distribution

(Source: An article by Razi Miliani, CEO of COGEPHA)

Generative AI is redefining human capabilities by leveraging language, innovation, and decision-making. It promises significant transformations in pharmaceutical distribution, a sector facing structural challenges. This technology enables the creation of original content—texts, images, videos, voices, and code—using pre-trained models. It supports task automation, enhances efficiency, and offers unprecedented opportunities for innovation.

Amid rising distribution costs and frequent supply chain disruptions, generative AI emerges as a decisive solution. According to a McKinsey study, it could reduce costs by 15%, decrease inventory by 35%, and increase service capacity by 65%.

In practice, generative AI optimizes workflows and operations in the pharmaceutical supply chain. It analyzes

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EY Firepower *(cont'd.)*...

strategies in place across the firm.

As life sciences companies widen the search for new value drivers beyond the traditional fields of innovation, the EY M&A Firepower report reveals China is becoming an increasingly important research and development (R&D) target for companies seeking to license-in antibody-drug conjugates (ADCs) and other novel oncology treatments. The report also notes that approximately 85% of China out-licensing deals are focused on oncology. However, challenges to the growth of China's life sciences innovation economy include the US BIOSECURE Act, due to take effect in 2032 and the uncertainties of the China-US relationship under the incoming US administration.

The EY M&A Firepower report reveals there are strong structural reasons to expect a return to dealmaking; the industry is holding US$1.3 trillion in dealmaking Firepower, meaning the resources are there to make bigger deals – though the Firepower is unevenly distributed, with Novo Nordisk and Eli Lilly dominating. The industry also faces upcoming revenue challenges, with patent expiries set to wipe out US$300 billion in revenues by 2028, and growth gaps of US$240 billion looming by 2030. Additionally, the new administration in the US may offer significant tailwinds to the industry in the form of corporate tax rate cuts and a potential roll-back of the IRA's drug pricing provisions and the FTC's interventionist stance, as part of a general deregulatory shift. However, despite these drivers, the Report found potential restraints to the 2025 market; the reduced number of high-quality de-risked assets, the ongoing margin pressure on life sciences companies reducing appetite for big spending and the fact that the most prized targets are still commanding high premiums in the market (a median of 75% in 2024, well above historical norms).

Subin Baral, EY Global Life Sciences Deals Leader, stated, "For large pharmaceutical companies, 2024 may have been a 'digestion year,' as they integrate the acquisitions made the previous year. At the same time, the appetite for M&A remains strong, with biopharma companies signing more deals in 2024 than the previous year."

"Companies have focused on smart, bolt-on moves, looking for value in less obvious places. That strategic mindset will continue into 2025, though there is also growing optimism around the business environment in the coming year, which could see the industry unleash more of its US$1.3 trillion Firepower. With nearly two-thirds of all major pharma company revenues set to come from dealmaking in the next five years, deals will remain at the center of life sciences strategy."

The full EY report is available at https://www.ey.com/en_gl/firepower-report.

Impact of AI *(cont'd.)*...

vast amounts of data to generate recommendations and can be combined with predictive AI to provide accurate inventory forecasts, reducing surpluses and preventing stock shortages. Autonomous agents - generative AI-powered bots designed to understand objectives - plan and execute tasks, learn from their actions, and automate repetitive tasks. This frees employees for high-value activities, reduces costs, and improves overall efficiency. Additionally, it analyzes photos and videos from warehouses, assesses them against best practices for drug distribution, and offers continuous improvement suggestions.

In terms of customer support, generative AI enables the creation of advanced chatbots—computer programs that simulate human conversations. These chatbots can interact via voice or text in multiple languages, providing rapid, personalized responses for enhanced customer experiences. The digitalization of internal processes, made possible by developing tailored applications without requiring complex coding, is another major advancement.

However, these opportunities come with risks. Generative AI could increase cyberattacks by facilitating the creation of sophisticated computer viruses. Errors or biases stemming from flawed data or poorly formulated queries can lead to inappropriate decisions. Additionally, employee or partner resistance to change may hinder its adoption. Lastly, excessive reliance on this technology might weaken essential human skills.

To maximize benefits while mitigating risks, starting with pilot projects to validate applications on a small scale is crucial. Rigorous data management is essential to ensure accurate and reliable results. Training teams to master these tools is indispensable, especially as IBM estimates that 40% of workers will need to retool their skill set within the next three years to remain competitive.

Fostering creativity helps identify innovative use cases, while critical thinking is vital for detecting and correcting errors or hallucinations generated by generative AI. Finally, partnerships with experts or startups, combined with constant technological monitoring, allow strategies to be adjusted to capitalize on the latest advancements.

In Brief (cont.)

- Global sales of cell and gene therapies are forecasted to reach US$20-$24 billion by 2028, a sharp growth from US$6 billion in 2023, according to data published by **IQVIA**. Global biotech drug spending overall, including cell and gene therapies, is projected to grow 77% in 2028 compared to 2023. As of the end of 2023, 76 cell and gene therapies have been launched globally, more than double the number introduced in 2013.
- With the looming *BIOSECURE Act* in play, **Merck & Co.** has purchased **WuXi Biologic's** vaccine plant in Ireland for €500 million (US$521 million). The companies expect to complete the transaction in the first half of 2025. This will be Merck's eighth installation in Ireland, including five manufacturing sites.
- **Cardinal Health** reported Q2 2025 revenues of US$55.3 billion, a decrease of 4% year-over-year. Q2 quarter revenue increased 16% excluding the impact of the previously communicated large customer contract expiration. Q2 GAAP operating earnings increased 9% to US$549 million and Q2 non-GAAP operating earnings increased 9% to $635 million, driven by the Pharmaceutical and Specialty Solutions segment. Separately, Cardinal Health announced the launch of *Advanced Therapy Connect,* a first-to-market unified ordering portal for cell and gene therapies, through its Advanced Therapy Solutions business. This solution will simplify the ordering process for customers by enabling providers at treatment sites to order all available in-network cell and gene products within a single platform, reducing the administrative burden for healthcare providers.

(Sources: Company Press Releases, Drug Store News, FiercePharma, PharmaVoice and Reuters)