



# Life Sciences: Is a blockbuster wave of M&A coming?

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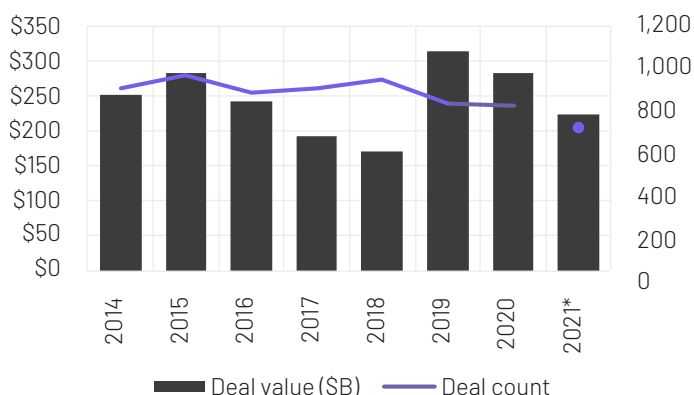
# Introduction

As change accelerated across all sectors during the COVID-19 pandemic, Life Sciences may have been the most transformed. Digitization has ramped up significantly and regulatory timelines and approaches have been forced to adapt, leading to renewed considerations as to whether these changes should be permanent. Segments such as Telehealth have seen explosions in demand, and supply chains, labs and manufacturers have had to grapple with unexpected complexities.

Dealmaking in Life Sciences has been remarkably robust as a result. Although deal value is still down from the levels observed in 2019 and 2020, global mergers and acquisitions (M&A) volume has remained strong at 699 completed transactions for an aggregate of USD 224 billion. Large mergers between massive incumbents helped push 2019 to

record levels, which will make 2021 deal-value tallies even more striking. In addition, despite the additional logistical and operational hurdles introduced by the COVID-19 pandemic, dealmaking volume has remained steady, even amid geopolitical uncertainty. Corporate development teams and investment funds have been quick to identify the needs for their businesses underlined by the effects of the pandemic, thereby strengthening the case for absorption of other smaller businesses to build scale; for acquisition of additional product lines, intellectual property and talent; or for expansion into new markets. As likely expected in the context of the pandemic, executives have been aggressively expanding investments in digital transformation and customer engagement to generate prospects for longer-term growth and value creation, especially as many saw profitability decline due to COVID-19.

**M&A activity in Life Sciences**



Source: PitchBook | \*As of November 1, 2021



**Joe Lubelczyk**  
Senior Account Executive  
SS&C Intralinks

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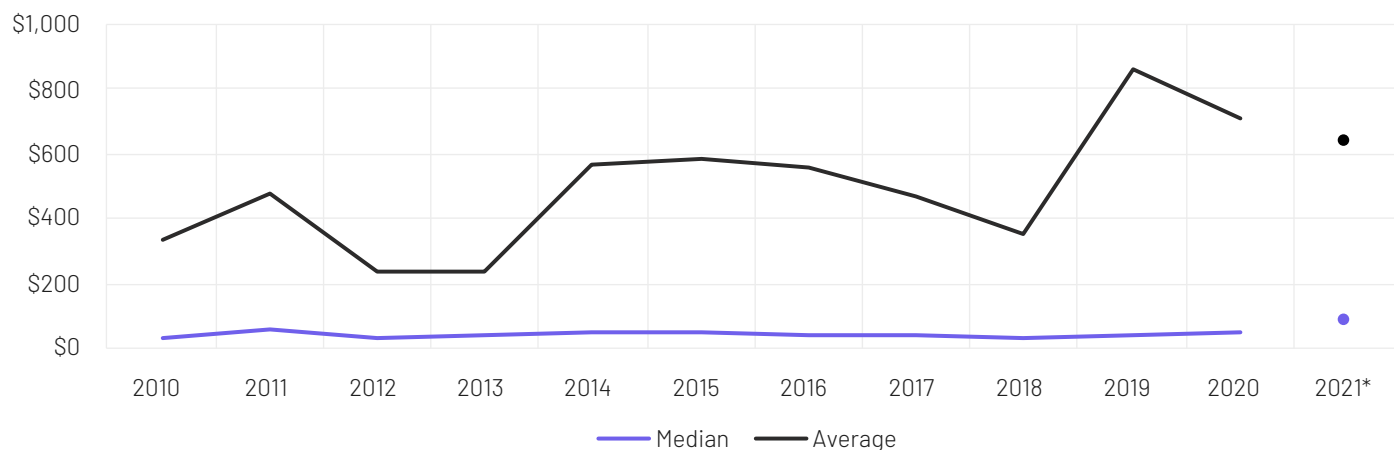
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## The current M&A market

That level of aggressive investment has doubtlessly helped fuel the rise of the median M&A size to an all-time high, as deal teams grew more competitive throughout 2021. At USD 77 million, the median M&A size in Life Sciences YTD has never been higher and, moreover, is a remarkable 54 percent increase over the tally in 2020. However, the average deal size has declined, in a testament to a dearth of blockbuster transactions. Although the sample size is small, the median EV/EBITDA multiple surged to an eye-popping 21.5x in 2021. Interestingly, as debt usage plummeted, these deals were not necessarily heavily leveraged, despite their size. Instead, approximately 30 percent of M&A value in 2021 has been with stock; in fact, that payment form has been steadily growing in usage since the second half of the 2010s. This upswing is likely due to steady rises in public equities performance and size throughout that period. As a result, combined payments resurged in popularity in 2021 to an all-time high, driven by strategics tapping both resources to close transactions.

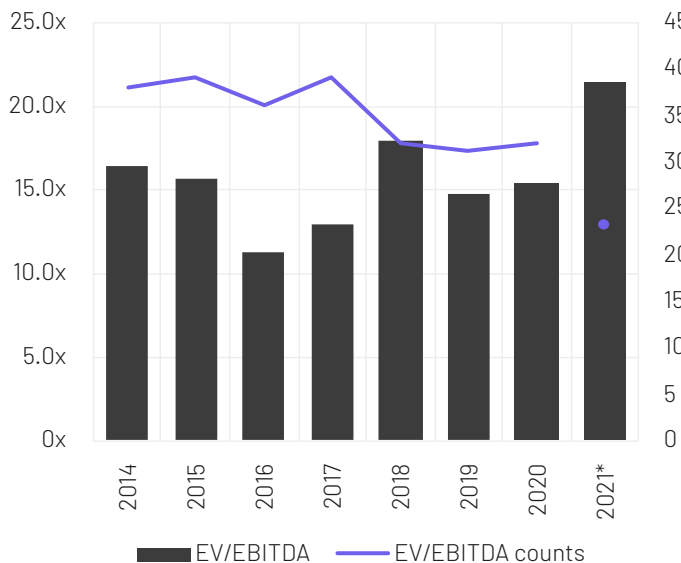
Consequently, deals sized under USD 100 million saw their proportion of overall M&A volume decline to the lowest level in years, while those sized between USD 100 million and USD 500 million accounted for the largest proportion of volume ever recorded. Interestingly, the past few years have seen a decline in transactions exceeding USD five billion, which had been contributing significantly to aggregate deal values in previous years, signaling that there has been concentration and consolidation in middle-market ranges. Even though private equity (PE) dealmakers have remained active in 2020 and 2021, notching close to 200 completed buyouts in each of those years, strategic M&A volume has declined year over year. PE firms are also on pace to invest one of the higher annual tallies in some time in Life Sciences, having already closed USD 36.8 billion worth of transactions. Given the elevated level of PE dry powder — as well as the attractive opportunities in Life Sciences in the past two years due to disruptions in the market and alluring growth potential — such increase in PE fund managers paying up for targets is understandable.

**Median & average M&A size (\$M) in Life Sciences**



Source: PitchBook | \*As of November 1, 2021

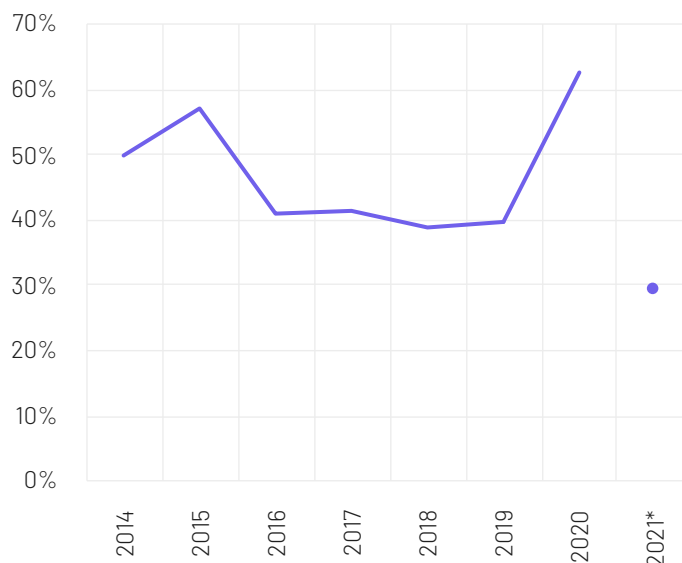
### Median EV/EBITDA multiples in Life Sciences



Source: PitchBook | \*As of November 1, 2021

Note: The 2021 data point is based on a sample size of n = 23.

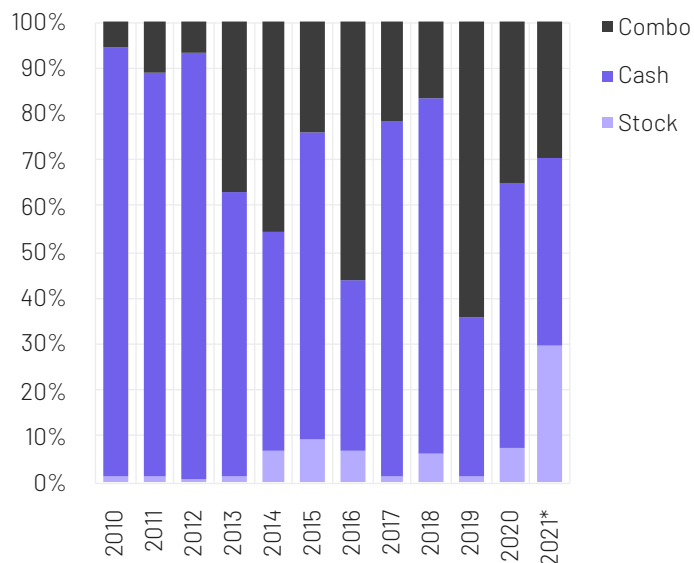
### Median debt percentage of M&A activity in Life Sciences



Source: PitchBook | \*As of November 1, 2021

Note: The 2021 data point is based on a sample size of n = 23.

### M&A value by payment type in Life Sciences



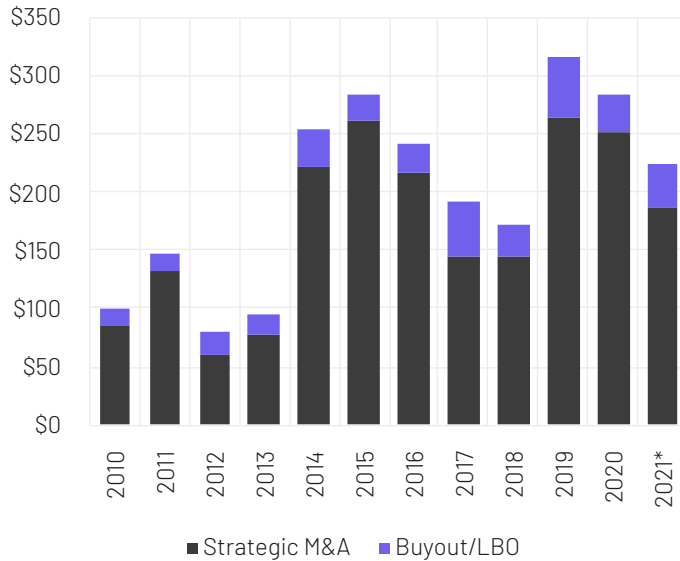
Source: PitchBook | \*As of November 1, 2021

### M&A count by payment type in Life Sciences



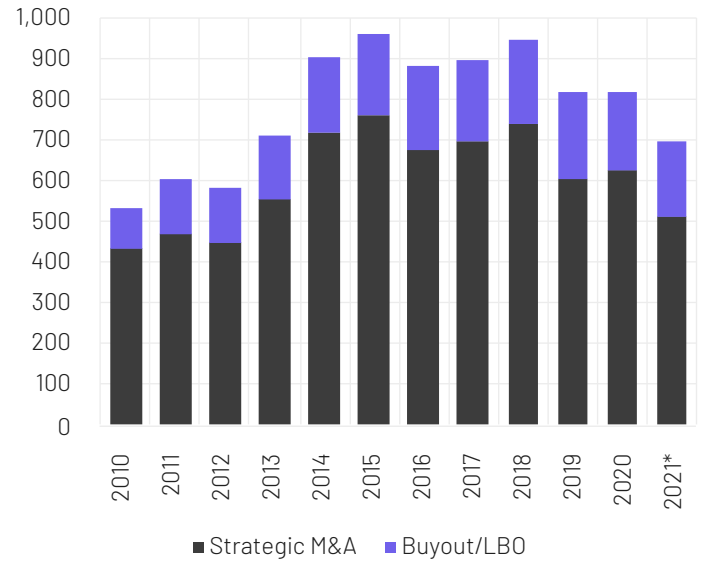
Source: PitchBook | \*As of November 1, 2021

**M&A value (\$B) by type in Life Sciences**



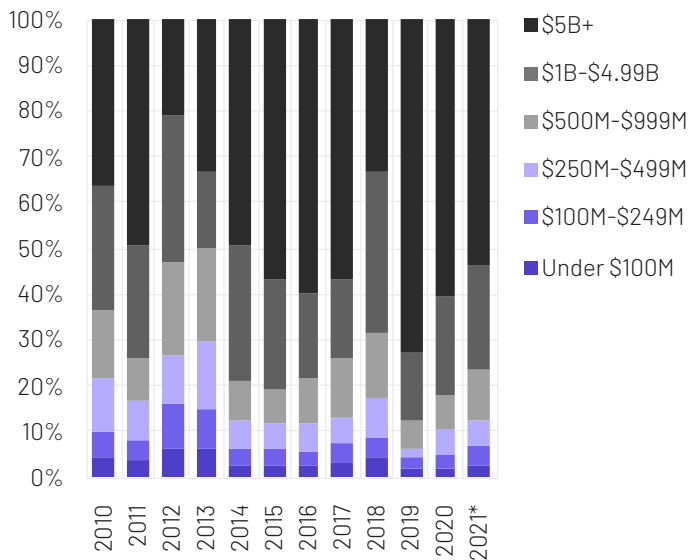
Source: PitchBook | \*As of November 1, 2021

**M&A count by type in Life Sciences**



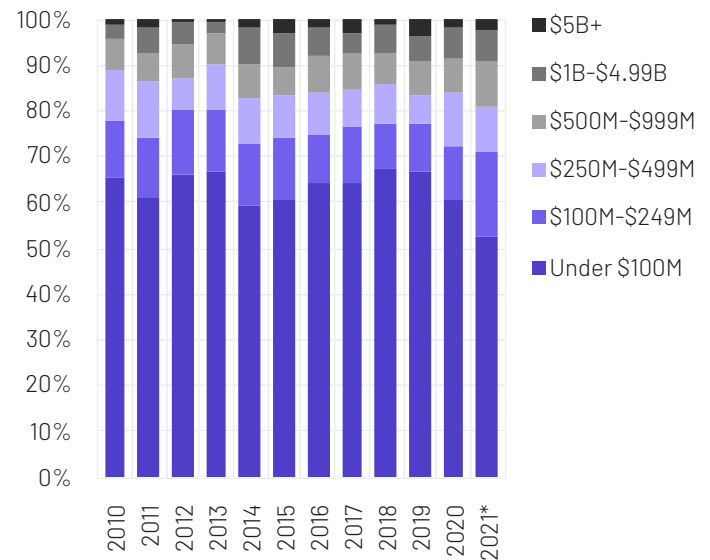
Source: PitchBook | \*As of November 1, 2021

**M&A value by size in Life Sciences**



Source: PitchBook | \*As of November 1, 2021

**M&A count by size in Life Sciences**

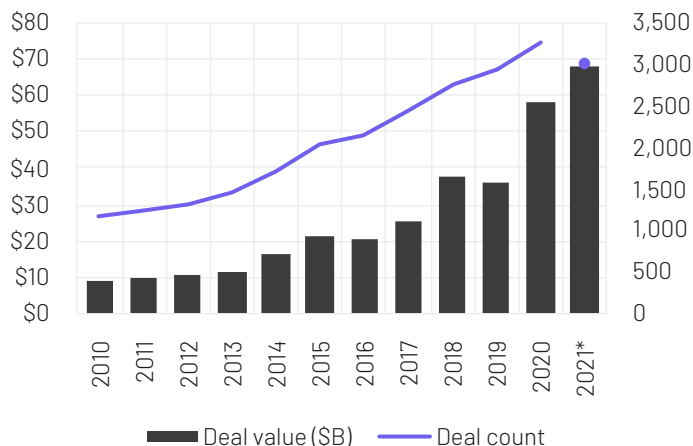


Source: PitchBook | \*As of November 1, 2021

# Spotlight

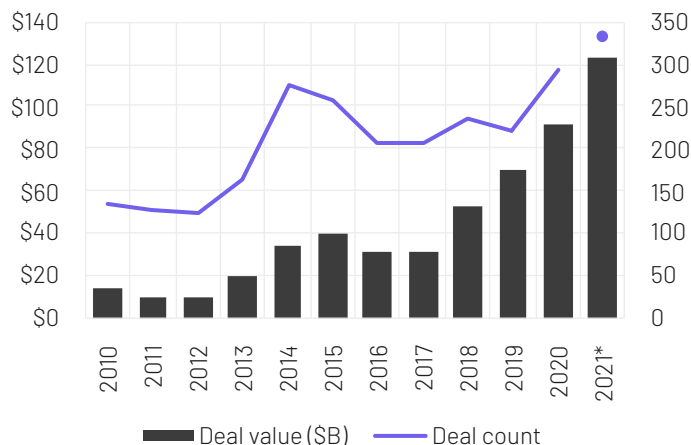
The COVID-19 pandemic has forced adoption of Digital Health, which has seen a surge in investment and innovation. Analyzing venture financing trends and the acquisitions of innovative startups in Life Sciences can lend insight into whether such M&A rates will rise in the future. Venture investment in Life Sciences has grown steadily over the 2010s, with 2021 seeing a jaw-dropping USD 67.9 billion invested worldwide across nearly 3,000 transactions. Such a profusion of capital has enabled significant growth on the part of many Life Sciences startups, to the extent that their expansion and success has drawn the attention of many prospective acquirers. As these targets grew more mature, corporate development teams have grown more active in getting through deals, leading to a near-linear increase in annual deal values in the second half of the 2010s. 2021 has already seen a record volume of corporate acquirers snapping up venture-backed portfolio companies, with a total of 330 acquisitions, paying out no less than USD 122.6 billion in total. Given the rates of VC funding within Life Sciences, such strategic acquisitions seem likely to continue at a rapid rate.

## VC activity in Life Sciences



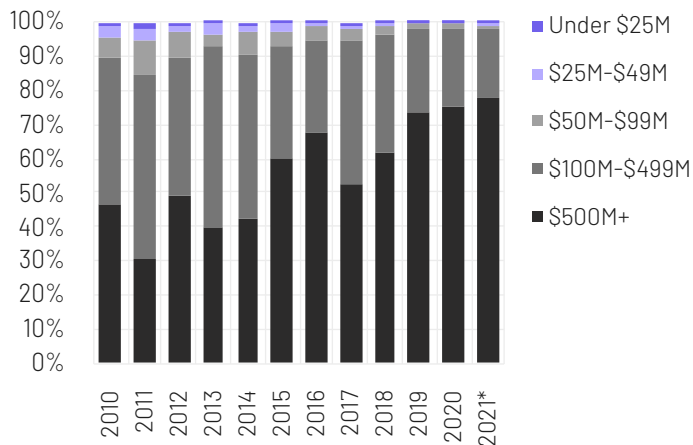
Source: PitchBook | \*As of November 1, 2021

## M&A activity of VC-backed companies in Life Sciences



Source: PitchBook | \*As of November 1, 2021

## M&A value of VC-backed companies by size in Life Sciences



Source: PitchBook | \*As of November 1, 2021

# Regional trends

## North America

Attracting the lion's share of deal value in 2021, North America saw the bulk of the surge in activity across Life Sciences as companies raced to expand their digitization efforts and product lines in anticipation of increased consumer and government demand. Although those drivers certainly took effect worldwide, the North American Life Sciences sector saw the vast majority of consolidation across the market, thanks in part to highly active tech ecosystems rapidly scaling up Digital Health offerings.

## Europe

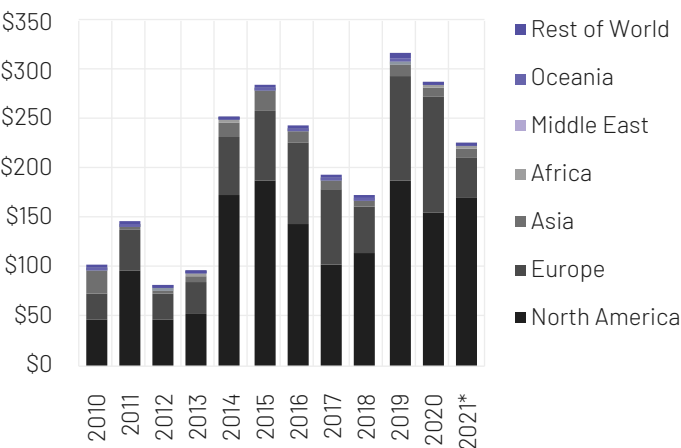
The European Life Sciences sector enjoys significant research and development (R&D) spending by well-known pharmaceutical giants and significant activity in fostering not only financial investment in Life Sciences startups but also strategic partnerships by corporate venture arms. M&A in Life Sciences has proceeded apace as a result, with well over 200 completed transactions in 2021 to date. Increases

in government R&D spending in this critical sector will certainly aid in the formation of additional Life Sciences spinouts of universities, which then could expand the population of companies that will be acquired by incumbent pharmaceutical and healthcare giants.

## Asia

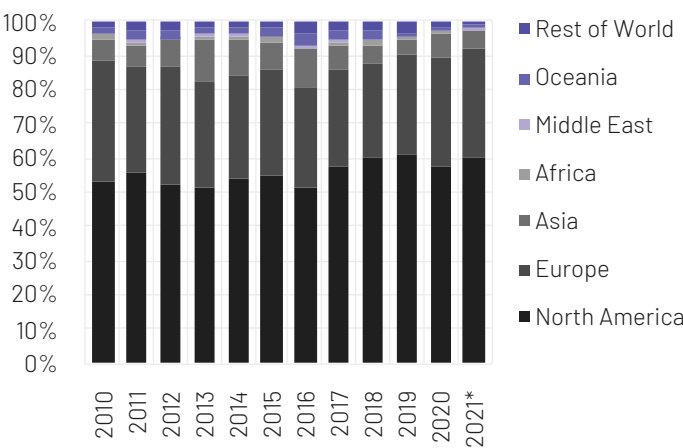
As the Asian market experiences an aging population and increasing incidence of chronic diseases, investment and innovation in Life Sciences has surged commensurately. In China, in particular, it is expected that there will be more robust ties among official government agencies, investment funds and sponsored corporations that will be directed to advance innovation in Life Sciences, especially those aimed at developing cheaper yet equally effective therapies. Significant advances in monitoring and diagnostic applications have already occurred, thanks to the urgencies of the COVID-19 pandemic, and this space will also continue to see spurred investment as consumer demand grows.

M&A value by region in Life Sciences



Source: PitchBook | \*As of November 1, 2021

M&A count by region in Life Sciences



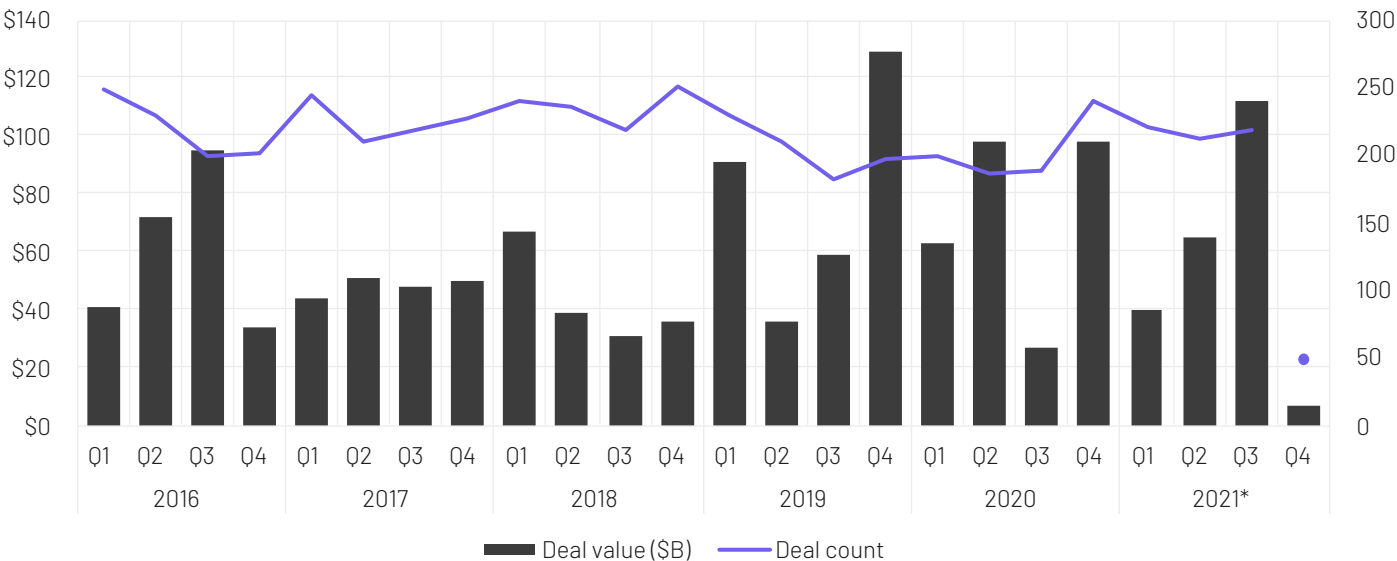
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# Looking forward

The future for dealmaking in Life Sciences remains bright. As the COVID-19 pandemic hopefully recedes into manageability given the emergence of new, efficacious and economical treatments, the spotlight shining on the urgent need for innovation and expansion of Life Sciences capabilities will not soon fade. With that said, the need to combat new variants of COVID-19 is all but certain, which could provide ongoing opportunities for Life

Sciences businesses to tackle any potential ramifications. Dealmakers at pharma companies and extant healthcare providers will continue to strike acquisitions across the Life Sciences sector. Booming equities and a return to profitability will ensure that the resources to close high value-deals will continue. And if economic growth rebounds further, Life Sciences dealmakers could even accelerate the clip of M&A in 2022.

M&A activity in Life Sciences by quarter



Source: PitchBook | \*As of November 1, 2021



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