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Investment *Market 2024*

Trends and expectations in the capital markets, and reflections on how this may impact on life sciences in the year ahead

Geoff Dobson
Non-Executive Advisor

Following a subdued 18 months leaving global private equity sitting on a record £2.59 trillion of “dry powder”, with increasing pressure for it to be deployed in 2024, Compass Carter Osborne sat down with Non-Executive Advisor, Geoff Dobson, to reflect upon trends and expectations in the capital markets, and how this may impact on life sciences and healthcare in the year ahead.

You have attended several conferences and taken part in several discussion panels with investors and industry leaders in recent months. Is it fair to say there are mixed signals about prospects for the year ahead?

There was a sense that the mood at Jefferies in November was somewhat pessimistic, but people were much more upbeat about the year ahead at the JP Morgan Conference in January. This could partly be explained by the passage of time, or partly by a greater sense of optimism amongst Americans compared with Europeans, or a real upturn with markets moving in the USA. This contrast was discussed at a recent LSX panel recently, were there was a moderate sense of signs of the beginnings of an upturn.

What is the evidence for an upturn?

While it will probably take several months before the whole market is showing signs of movement, there is hard evidence that things are developing in the USA.

In the life science capital markets, follow-on investments in January alone totalled $4bn. The numbers of life science firms with negative enterprise values is dropping quickly as the NASDAQ rises. While there were only 50 or so life science start-ups in Q4, these still attracted a total of approximately $50m investment.

The dynamics of pharmaceuticals and biotechnology investment differ from medical technologies, medical devices, heath tech and digital health.

In healthcare, there is less focus on VC funding for research, and more PE investment and on a bigger scale. Estimates vary, but there is a general sense that there is a lot of “dry powder”, a lot of capital being held back while investors think carefully and target the desired investments.

What deals can we expect to see?

In life sciences, big pharma companies still face a patent cliff; therefore, many have war chests for acquisitions including some outright purchases of biotech companies, other funds for in licencing deals. Mid-cap companies are also likely to be seeking acquisition and licencing deals.

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companies are also likely to be seeking acquisition and licencing deals.

Development stage biotechnology companies most likely to attract deals will be those with late-stage clinical data. The investors I have spoken with predict that there may be fewer deals in 2024 than in previous upturns, but the value of the deals will be higher. Big pharma is looking to acquire or licence with firms who are in late-stage trials, for drugs and devices with major patient benefits (curative or major advances in treatment).

There seems to be some optimism that the IPO market will come back in the second half of the year. 2021 was a life science IPO boom with <80 IPOs. 2022 and 2023 was poor, with the number of IPOs barely in double figures. As part of the Inv€$tival conference last year I took part in a “bootcamp” event with companies, investors, and professional advisors about IPO preparation. Several life science companies I met with are preparing for 20 to 30 IPOs in the later part of this year. A “dual track” of more private investment is likely to sit alongside a rise in the public markets.

Several pharmaceutical companies are researching and targeting acquisitions and licencing deals that focus on their current expertise. The CEOs, Chief Commercial Officers, and others I have spoken to said they want deals where they know that their company could add value to the science and/or add their market knowledge and insight to create leverage.

Are there any other expected big patterns in investor behaviour?

I think we will see some of the normal patterns reemerging. PE investors will most likely seek mature investments with predictable and improvable revenue streams. VCs will invest in earlier stage companies.

The consensus view from all the events I have been involved in, and the one-to-one meetings is that in 2024/25 we will probably see fewer deals in total when compared to other positive years, but possibly some deals of much higher value. Some PEs are dipping toes into early-stage company investments directly. Other PEs are spreading their risk by taking a position within a VC fund or acquiring the fund. There is a lot of funds for investment that has been held back from last year and 2022, but the pace of innovation and research has maintained reasonable progress. Investors are believed to be allocating funds investment for later this year. There is also a broad consensus that the first forms of major movement in the capital markets will be M&A type deals.

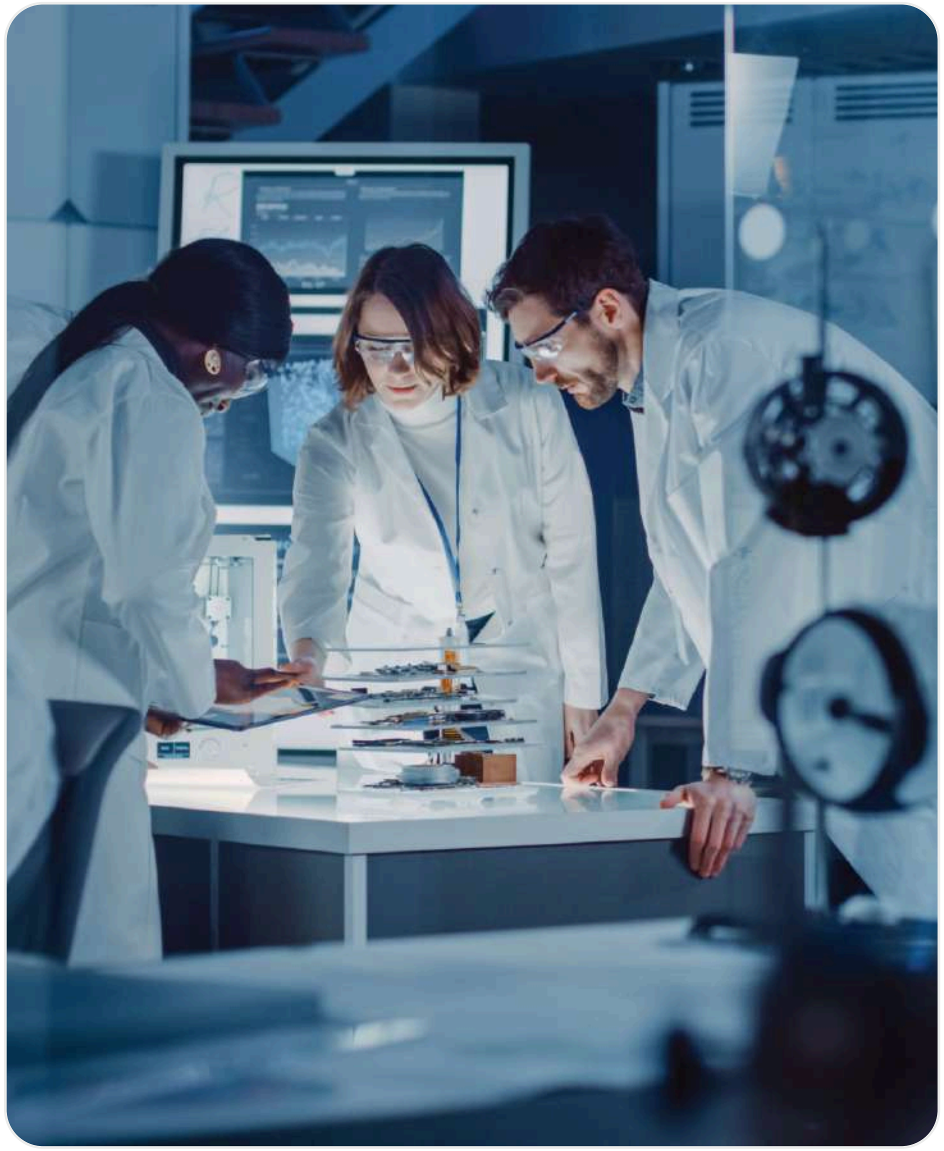
Investment into early-stage businesses is expected later in the year. I expect that there will be some interest in truly innovative science. Curative therapies and devices for life threatening diseases are going to be of interest for investment.

One surprise for me has been how hard it has been for good businesses with good development programmes to raise Series B and C rounds, even where clinical data is robust. I hope for the benefit of the entire industry that we see a return to investment where clinical trials are progressing well.

Can we predict any “hot” investment areas in terms of science?

I think the decline in interest in immune oncology is massively overstated. Oncology will remain a focus for investment. The amount of research and the life-threatening nature of the disease will keep oncology towards the top of investment opportunities.

Obesity and neurology are expected to be increasing popular areas for investment. The success of obesity medication has enabled funds to be built by the relevant big pharma companies, and they have indicated that their investments are likely to look at cardio-vascular conditions related to obesity, other metabolic diseases, and blood disorders.



Cardiovascular investments where there is an immediate lifesaving treatment may be more attractive than general cardio health which is often clouded by other forms of co-morbidity and ill health. I have seen some impressive innovations in medical devices targeting heart failure, and life saving devices and medicines will always be welcome.

Another reason why I think obesity, neurology, metabolic conditions, and cardiovascular heath will attract more investment is that the disease states are interlinked.

These can also manifest themselves across patient populations as both diseases of poverty and diseases of affluence. I am also aware that there is significant research into how these diseases can vary by ethnicity and other demographic factors.

In terms of other areas, I think those conditions classified as “rare diseases” will probably stay level and need to show good clinical data to attract significant support. Digital health will grow, especially in terms of digital improvements in the development of new drugs. Digital biomarkers for diseases are of great interest, as they can unlock progress. Artificial intelligence for drug discovery and predictive biology are also on the horizon. Neurological and neurodegenerative diseases continue to attract research attention, but the big breakthroughs are still awaited. Longer-term, neurodegeneration will be an increasingly significant issue for patient populations, disease treatments and healthcare provision.

Is there a “third track” of any note, a third source of substantial investment where big pharma can form partnerships with biotech, or bigger medical device companies can partner with development-stage medical device, medical technology, and health tech companies?

Historically, certain bigger pharma and device businesses have used development partnerships as a pillar of their strategy. These are often multi-year, slow burn arrangements. Fewer are expected to invest to diversify and broaden their focus.

I think in the year ahead M&A transactions and classic licencing deals are more likely to be seen.

Development partnerships

are often seen as longer-term, lower key matters so not so newsworthy. However, development partnerships can be a safer home for a company that has a breakthrough platform technology, or a need for a long cycle of translational research.

Overall, is there enough evidence of an upturn, or are we just talking things up to boost our spirits?

Well, it would be naïve to overstate one's predictions about market trends. However, the amount of dry powder amongst investors, the continued productivity of the R&D pipelines, and the pent-up needs of the industry are such that we should see a return of capital investment this summer and later this year.

What might derail this optimism?

All markets are somewhat influenced by concern about political instability (pending elections in the UK, the USA and elsewhere) and military conflicts in other parts of the word. Market sentiment does have some effective on the general mood, and the willingness to consider investment.

However, the investors I speak to focus on the deals in front of them, so Boards, CEOs and leadership teams should focus on what they can control – their own pitch – rather than worry about wider issues beyond their influence. Investors will still want to find the right opportunities, it's their job.

What can Boards, CEOs and leadership teams do to improve the odds in their favour?

Focus on cash preservation has been so high on many CEO's agendas that its timely to think of how important it is to think about future success, and what will enable that success. I would suggest that businesses focus their investor engagement on the long term, strategic significance of their product pipeline. Now is the time to also ensure your commercial deal-making plans and capabilities are in place. Discovery is always newsworthy, but translational work and clinical development is essential. Again, I would say life science, med tech and health tech businesses should make certain that they have clinical development leaders able work with finance and business leaders to translate positive trial data into robust commercial propositions.

What are the implications for hiring?

It might seem strange to talk about the old cliché of "the war for talent" when we have had more news flow about layoffs in life science than we have done for many years. However, life sciences and health businesses are dependent on specialist expertise and the right leadership capabilities.

I expect to see demand picking up for impactful commercial and business leaders and deal makers, scientific leaders who excel in translation, and clinical leaders who can not only design robust clinical programmes but can harness clinical data to enable the attraction of investment.

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Investment Market Report

Enquiries

Geoff Dobson
Non-Executive Advisor

0208 036 3530
geoff@compasscarterosborne.com

Geoff Dobson is a Non-Executive Advisor to Compass who brings more than 30 years' life sciences experience including over a decade in executive search and leadership assessment. A former Director at Coulter Partners, he is Managing Partner of Newgrange Consultants – a leadership assessment and development business.

An expert in occupational psychology, Geoff's PhD research focused on leadership effectiveness. He is also a Charted Fellow of the CIPD. Geoff has built a strong track record of delivery in Board, C-suite and leadership appointments, Board evaluation, leadership team assessment an individual assessment.

London
Head Office

0208 036 3530

info@compasscarterosborne.com

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78 Pall Mall, St James’s
London SW1Y 5ES