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Expert Opinion - Vishal Gandhi

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INVESTMENTS

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M&A activity on the rise

The last three years saw 15 biotech mergers and aquisitions. The pace of deals will intensify further.

Within the life sciences industry, biotechnology has been identified as a key area of growth with the global biotechnology market predicted to surpass $320 billion by 2015. The global biotech industry is led by the US, followed by advanced European countries. Developing countries such as India and China are soon emerging as major biotechnology nations. Indian biotech market has, in fact, tripled over the past five years and is projected to grow at a CAGR of over 20 percent to achieve a market size of $8 billion by 2015. Historically, there has been a large gap between the funding available for this sector and the funding required by the players to achieve their full potential. Biotechnology sector by its nature is high-risk/high-reward and requires long-term risk funding, especially for the start-up companies. The most suitable financing model for these companies is via venture capital (VC) and private equity (PE) investments.

In the past decade, most of the equity investments have been in the established segments of pharmaceutical manufacturers, contract research organizations (CROs) and hospitals. However, Yes Bank believes that going forward the PE investments will be more diversified and will increase in upcoming industry segments such as biosimilars, vaccines, medical devices and diagnostics.

On the basis of investments over the past five years, the average value of investments have been highest for diagnostic centers, followed by the pharmaceutical segment, which received more than 50 percent of the total PE investments in the life science industry over the last five years. The average amount invested in biotech and medical device companies has been comparatively much lower as these segments are still in the nascent stage and investors are not very aware of their operations and growth potential. Further, the biotech industry is considered high-risk, especially those companies which are developing innovative niche products.

The last three years has seen significant traction in the biotech arena with close to 15 mergers and acquisitions (M&A) deals. The early indicators suggest that the M&A activity is bound to head north with a lot of big pharma and biotech companies looking at emerging markets to consolidate their global footprint.

Sanofi-Aventis' acquisition of Shantha Biotech is a quintessential example of the surge in biotech M&A. With this acquisition, Sanofi has been able to enter the growing low-cost affordable vaccine market. Another recent deal has been Metahelix, a research driven agri-biotech company which has been acquired by Rallis, a TATA enterprise.

In 2011, PE exits in India by value and volume which have both declined significantly. This is mainly due to the negative economic environment which is resulting in weak response to IPOs and lower valuations of companies by the investors. The situation is likely to continue to 2012 till the market stabilizes again. However, the biotech sector has been able to garner tremendous support from the government. Department of Biotechnology is pretty aggressive on funding innovative ideas.

- Vishal Gandhi, senior vice president, Life Science Knowledge Banking , Yes Bank