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Rise in IPOs revive investments for the global pharma- biotech industry

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The heightened private equity and venture capital (PEVC) deal activity in the global healthcare industry during the recession years, 2008-2010, witnessed a decline post-2010. However, the fall in deals was not uniform among constituent sectors, with the pharmaceutical, biotechnology and healthcare equipment sectors experiencing a much sharper decline in investor interest than the healthcare technology and provider segments. Investors started to bet on providers based on the conviction that they can provide quicker and safer returns than the pharmaceutical and biotechnology space, which is ridden with regulatory challenges and patent expires.

New analysis from Frost and Sullivan's Private Equity and Venture Capital Investment in the Global Pharmaceutical and Biotechnology Industry reveals that the total number of PEVC deals in the pharmaceutical and biotechnology industry decreased from 1063 in 2010 to 480 in 2013. Though the returns from the pharmaceutical and biotechnology industry have been dwindling, they are better compared to the performance of other industries.

"PE deals in the pharmaceutical sector have been relatively stable over the post-recession period whereas activity in the biotechnology segment began to decrease after reaching its peak in 2010, due to the uncertainty caused by healthcare reform in the US, long incubation periods, and delayed approvals," said a Frost and Sullivan Analyst. "VC deals across both these sectors also started to plummet from 2011 due to risks associated with regulatory uncertainty, long gestation periods, and increased cost of production."

However, the strong comeback of initial public offerings (IPOs) in 2013 signals a positive outlook for investment in the pharmaceutical and biotechnology industry. The number of IPOs in the global biotechnology sector surged by 100 percent between 2012 and 2013, primarily on account of the 26 IPOs that took place in the US. IPOs in the pharmaceutical industry also rose with 11 deals in 2013, after the volume of IPOs declined to almost one-sixth of the sector's value between 2011 and 2012.

As a result of the rise in IPOs, exit opportunities are expected to increase for investors. The trend will be further fuelled by the anticipated growth of corporate investor-backed IPOs.

"PEVC investors in the global pharmaceutical and biotechnology industry have demonstrated maximum interest in oncology drugs, followed by anti-infective drugs and pharmaceutical contract laboratories," stated the analyst. "They have also concluded the maximum pharmaceutical and biotechnology-related PEVC deals in the US. and are expected to continue to do so in the forthcoming years. Industry players most aligned with these trends will be well positioned to obtain financial support from PEVC investors."

Private Equity and Venture Capital Investment in the Global Pharmaceutical and Biotechnology Industry is part of the Financial Benchmarking in the Healthcare Industry subscription, which also includes research services in the following markets: Private Equity and Venture Capital Investments in Global Healthcare Industry, Analysis of Mergers and Acquisitions Trends in the US Healthcare Provider Industry, and Merger and Acquisition (M&A) Trends in the Global Pharmaceutical and Biotechnology Industry. All research services included in subscriptions provide detailed market opportunities and industry trends that have been evaluated following extensive interviews with market participants.

Frost and Sullivan's Business and Financial Services group serves clients around the world in all aspects of financial analysis, market research and monitoring, due diligence, idea generation, opportunity analysis, investment valuation, and other proprietary research.