

Global biotech industry continues to sizzle, market capitalization surpasses \$1 trillion

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The global biotechnology industry reached new heights in 2014, setting records on virtually every major financial metric, including revenues, profitability and capital raised. These positive performance indicators, combined with several high-profile product successes and a strong year for new drug approvals, drove the industry's total market capitalization above the \$1 trillion threshold for the first time in its history. These and other findings were released in *Beyond borders: Reaching new heights*, Ernst & Young's 29th annual biotechnology industry report.

According to Mr Glen Giovannetti, EY's Global Life Sciences Leader, "The global biotechnology industry's outstanding performance and maturation are driving optimism that a new age of biotech innovation will create long-term value for companies, their investors, and patients. Investors are bullish on the future, investing historic amounts in the smaller players that will drive future breakthroughs."

But success can engender its own challenges. "Unprecedented product approvals have also brought unprecedented pricing pressures," added Mr Giovannetti. "Companies will need to continually demonstrate how their products deliver value and contribute to the overall sustainability of health care systems."

Key results highlighted in the report include:

• **Revenue jumps:** Companies in the industry's established biotech centers (the US, Europe, Canada and Australia) generated revenues of \$123 billion, a 24 percent increase from 2013, and a new high. Excluding the unprecedented growth of one industry leader, Gilead Sciences, revenues in 2014 would have increased a healthy 12 percent.

• Profitability for all the right reasons: Net income reached a historic high of \$14.9 billion, a 231 percent increase from the prior year. While much of this increase was attributable to the strong performance of Gilead Sciences, overall net income still doubled even after adjusting for that company's performance. In contrast to 2009-2012, when biotechnology companies achieved profitability via cost cutting, the increase in aggregate net income in 2014 was driven by solid sales of newly launched products.

• Research and development (R&D) spending grows: R&D spending, a key indicator of the health of the sector, increased by 20 percent. This was the second year in a row that R&D spending outpaced the sector's revenue growth (adjusted for the skewing factors mentioned above), and smaller companies in both the US and Europe drove the uptick.

• Fundraising sets records: Biotech companies in the US and Europe raised \$54.3 billion in 2014, a whopping 72 percent increase from the strong funding results achieved in 2013. Companies raised a record \$28.3 billion in non-debt financing, driven by the booming market for IPOs and follow-on offerings. "Innovation capital" - defined as the amount of equity capital raised by companies with less than \$500 million in revenues and a key metric of the sustainability of earlier stage biotechnology companies - hit an all-time high of \$27.6 billion. That amount represents a 120 percent increase from the annual average achieved from 2009-2012.

• Venture financing reaches near-record: The US and European companies raised US\$7.6 billion in venture capital, a 28 percent increase from the prior year and just shy of the all-time record of \$7.9b raised in 2007. In a positive sign for innovation, companies raising early-stage rounds captured \$1.8b, the greatest amount in at least the last decade.

• A wide-open IPO window: A record-breaking 94 US and European biotech companies went public in 2014, shattering the previous record of 79 IPOs in 2000. The \$6.8 billion raised from these IPOs is the second-highest total in the industry's history, surpassed only by the \$7.8 billion raised during the genomic bubble of 2000. The IPO window, which began in 2013, remained strong for eight consecutive quarters, another new record.

• Drug approvals surge: Efforts by the US Food and Drug Administration to get differentiated medicines to market contributed to 41 product approvals in 2014, up from the 27 approvals in 2013. More than three-quarters of these 2014 approvals were on first filings.

• M&A skyrocket: M&A activity in 2014 reached a 10-year high in deal volume as pharmaceutical companies increased their buying activity. There were 68 biotechnology M&A deals with a total value of \$49 billion in 2014. 2014 was also the most lucrative time in at least the last eight years for biotechs to enter alliances. As a percentage of total deal value, up-front payments reached 11 percent, while the total dollars paid up front soared 96 percent to \$5.1 billion.

For all its successes, the sector has some significant challenges ahead. "A number of mature biotech companies may face additional headwinds," said Mr Jeffrey Greene, EY's Global Life Sciences Transactions Advisory Services Leader. "As firms deal with pricing pressures and increased competition, including from biosimilars, they will need new sources of growth. Achieving such growth through deals and acquisitions will likely be more costly and challenging. Today's M&A landscape is clearly a seller's market. Assets that could tangibly affect a buyer's financial performance are scarce, and they will command premium prices."