Syneos Health

# 2022 Dealmakers' Intentions Survey

12th report in the Annual Dealmakers' Intentions Series

# Contents

# INTRODUCTION: POWER DYNAMICS IN A PANDEMIC

Pandemic uncertainty sent biopharmaceutical dealmaking into a tailspin in 2020 and the drop-off continued through 2021. But it would be a mistake to assume that COVID-19 has forever changed the dynamics of dealmaking. While months of lockdowns, work disruptions and economic uncertainty have had an impact, important trends that began before COVID-19 will contribute to the backdrop for buying and selling in 2022. In particular, small companies will continue taking advantage of hot venture financing and IPO markets, which hit all-time highs in 2020 and 2021. With high market caps and access to cash, these players also will continue to drive dealmaking momentum more than large pharmaceutical companies, the traditional deal initiators. Favorable financing will encourage small players to hold risk longer and potentially go it alone for commercialization.

In doing so, many smaller companies will draw on new resourcing models and support from fully integrated outsourcing partners with the agility and expertise to accelerate asset development across the product lifecycle. Overall, deal flow sentiment for 2022 suggests an increase over 2021—though not reaching levels we saw for mergers and acquisitions and licensing deals in 2019 and 2020. Where will the money go? Buyers and sellers are likely to focus on therapeutic areas that have been high priorities throughout the pandemic, including antiviral medicines and respiratory/pulmonary treatments, as well as vaccines.

To learn more about what lies in store, Syneos Health Consulting, Inc. (Syneos Health Consulting) surveyed dealmakers across the industry to assess their intentions for the next 12 months and put these findings into context. We surveyed members of the biopharmaceutical community who participate on either or both sides of deals, and who are predominantly executive-level influencers on decision-making. This report, the 12th in our series, captures their expectations for deal activity, supply and demand for specific assets and different development stages, pitfalls leading to failure and other factors affecting dealmaking.

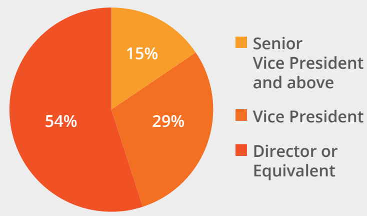
## Big picture: 2021 and beyond

The deal flow in 2021 dropped significantly due to uncertainties in the post-COVID-19 landscape, relatively high valuations for startups across biopharmaceuticals, and the absence of high-value M&A deals like those that lifted the sector in 2020's second half, led by AstraZeneca's $39 billion acquisition of Alexion Pharmaceuticals. Market "froth" may also be a factor. In 2021, small companies with short pipelines and billion-dollar valuations—often with no commercial sales—probably seemed less attractive as targets. And while sentiment today suggests dealmaking will increase over the next 12 months, it's unlikely to achieve the peaks seen in 2019 or 2020 unless there is a return to large acquisitions driven by further, unanticipated shifts in market conditions.

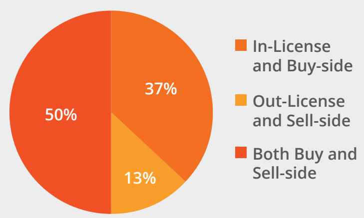
**Survey methodology and scope (n=92)**

To get a measure of dealmaking sentiment over the next 12 months, Syneos Health Consulting surveyed close to 100 dealmakers at companies ranging in size from $5 billion in revenues up to $15 billion. Of the respondents, nearly one third (29%) were vice presidents and 15 percent had the title senior vice president or above. Roughly two-thirds of respondents were located in the United States. Some 37% identified their role specifically as in-licensing and buy-side.

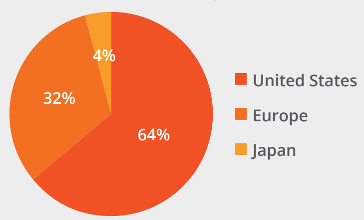
### Corporate Level



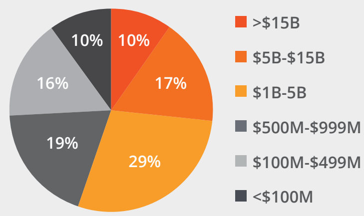

### Role




### Company HQ




### Size of Company



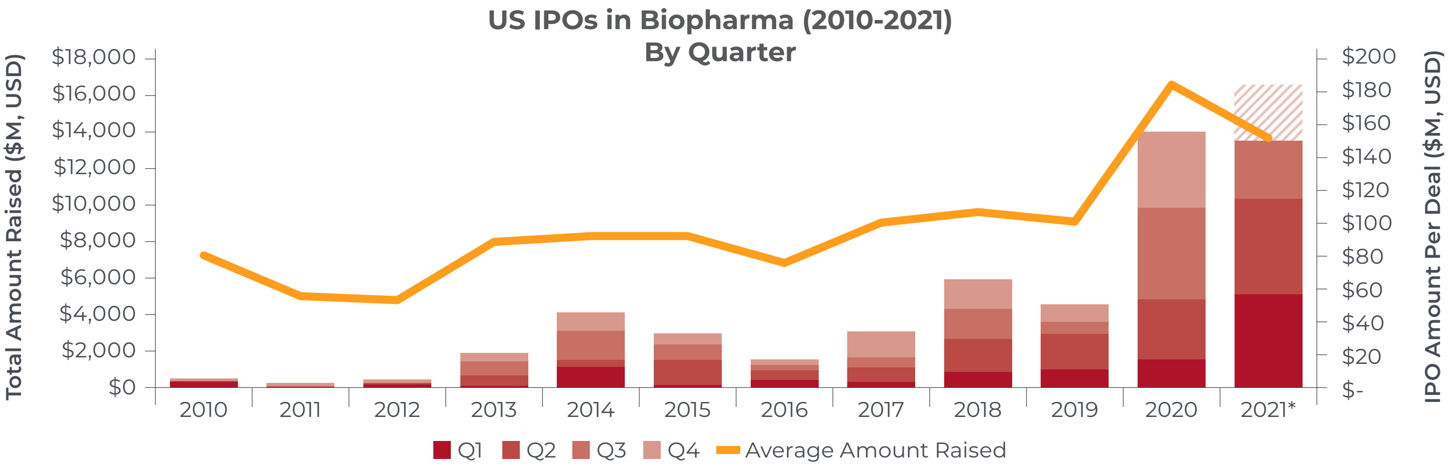

Source: Syneos Health Consulting, Inc. Dealmakers Intentions 2022.

## Investment landscape: complex emotions

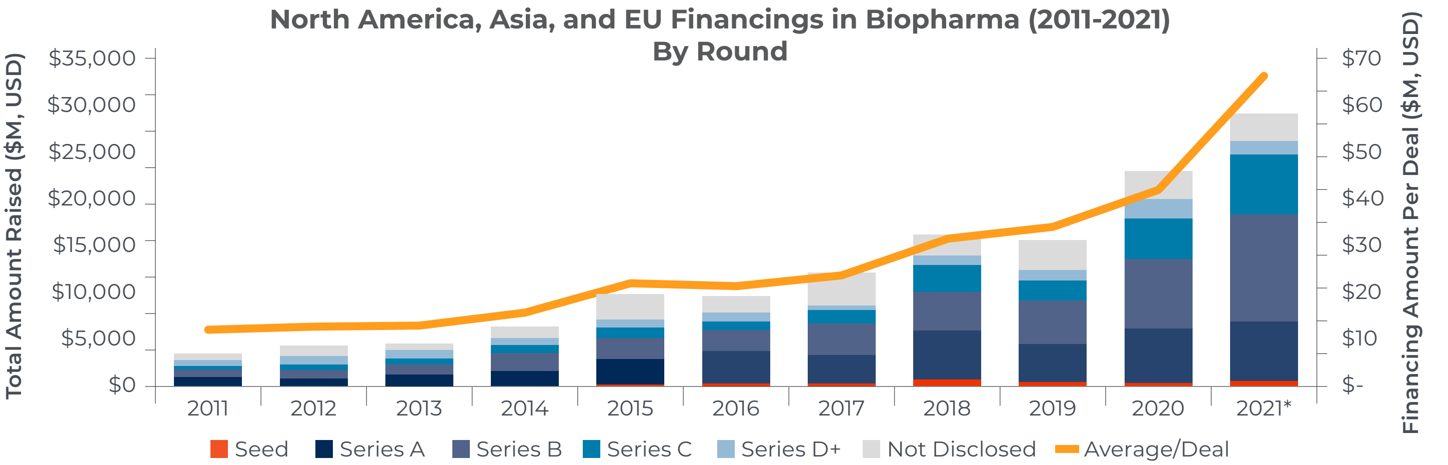
Despite stunning technological achievements in the past two years—the rapid launch of COVID-19 vaccines and therapeutics, breakthroughs in gene and cell therapies, and more—biotechnology share prices continued to sag in 2021. At the start of this year, the SPDR S&P Biotech ETF (XBI) was down about 26% compared with the first week of January 2021. In the same 12 months, the broader S&P 500 index was up 26%. The confidence gap reflects legislative pressure on drug pricing and other factors. What does this trend mean for dealmaking? Perhaps less than meets the eye. Even with biotech companies appearing more affordable, market sentiment suggests only modest deal growth as financial engagement—IPOs and VC funding—replace enthusiasm for M&A.

To put that statement in perspective, consider the record growth in both the number and value of biopharmaceutical IPOs in 2020 and 2021 (Fig. 1). Both are signs of a "risk-on" environment that has benefited biotech historically. It's fueled, in part, by technology breakthroughs ranging from next-generation vaccines to treatments for heart disease and cancer that illuminate biotech's transformational power. Venture financings soared in 2021, with the average financing round pushing toward $70 million. This level was unheard of just five years ago, making 2021 a record year. Even as biotech stock prices sagged through the summer and fall, VC investors maintained strong interest in the space, anticipating that drug development activity will continue and, in the best case, bring the pandemic under control. The trend may very well showcase innovators and entrepreneurs skipping the deal and bringing their own assets to market.

**Figure 1. Dealmaking trends—IPOs and venture financings**




Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022.
*Data for Q4 2021 shown only as of 11/17/2021 and extrapolated to full year.



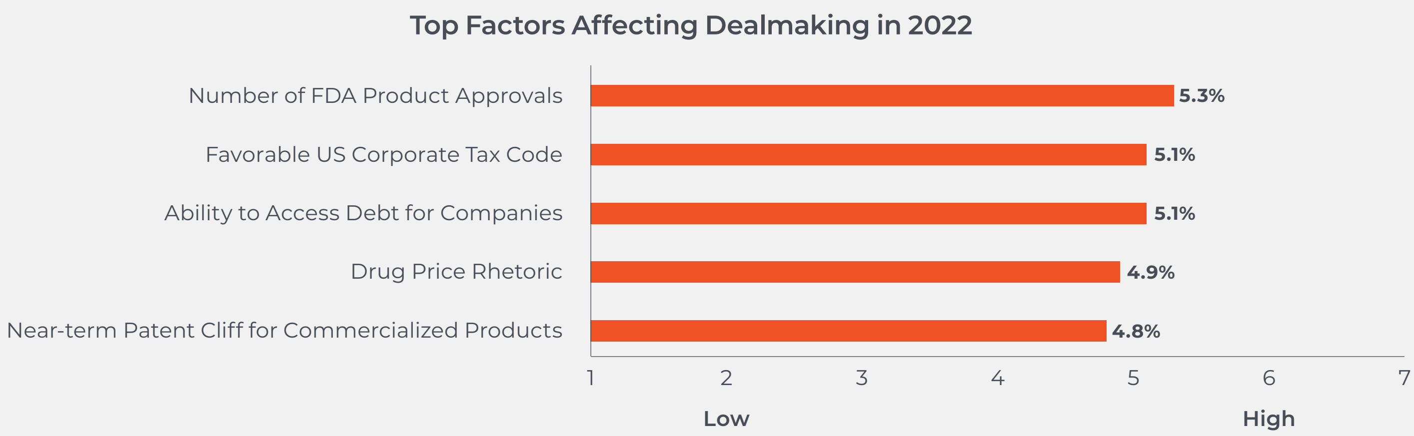

Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022.
*Data for Q4 2021 shown only as of 11/17/2021 and extrapolated to full year.

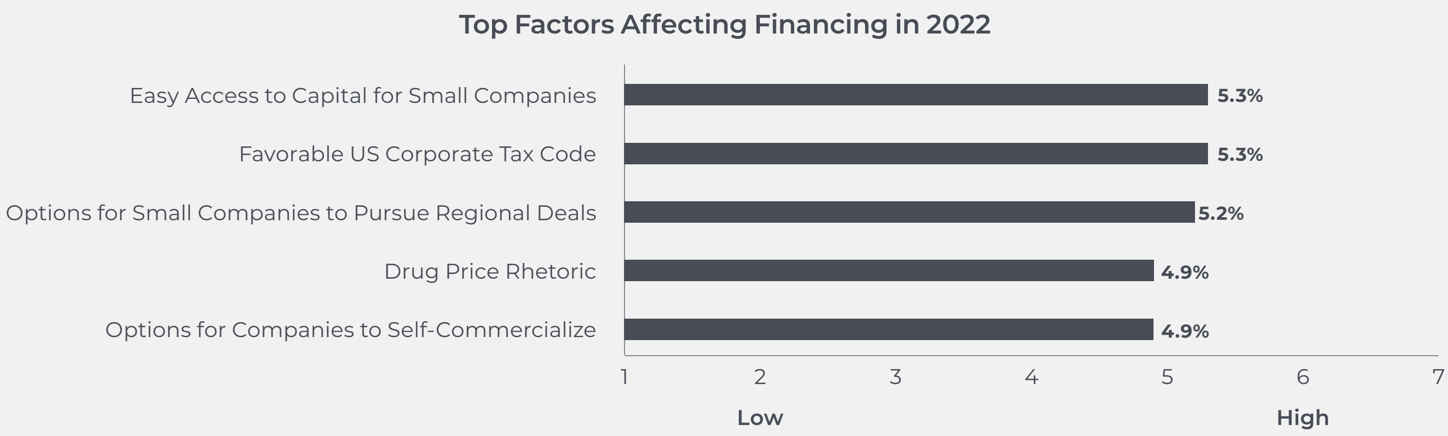
# DEALMAKERS' SENTIMENT 2022

## Scoping the horizon for 2022

Many factors that propelled dealmaking and financing in 2021 will persist in the coming year. These include an anticipated high number of FDA approvals, a favorable US tax code and companies' ability to access debt (Fig. 2). For financing, the top three factors are easy access to capital, a favorable US tax code and options for small companies to pursue regional deals.

**Figure 2. Factors affecting dealmaking**




Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022. N=66 for Buyers and N=26 for Sellers. Respondents ranked the effect of each factor on a scale of 1-7.

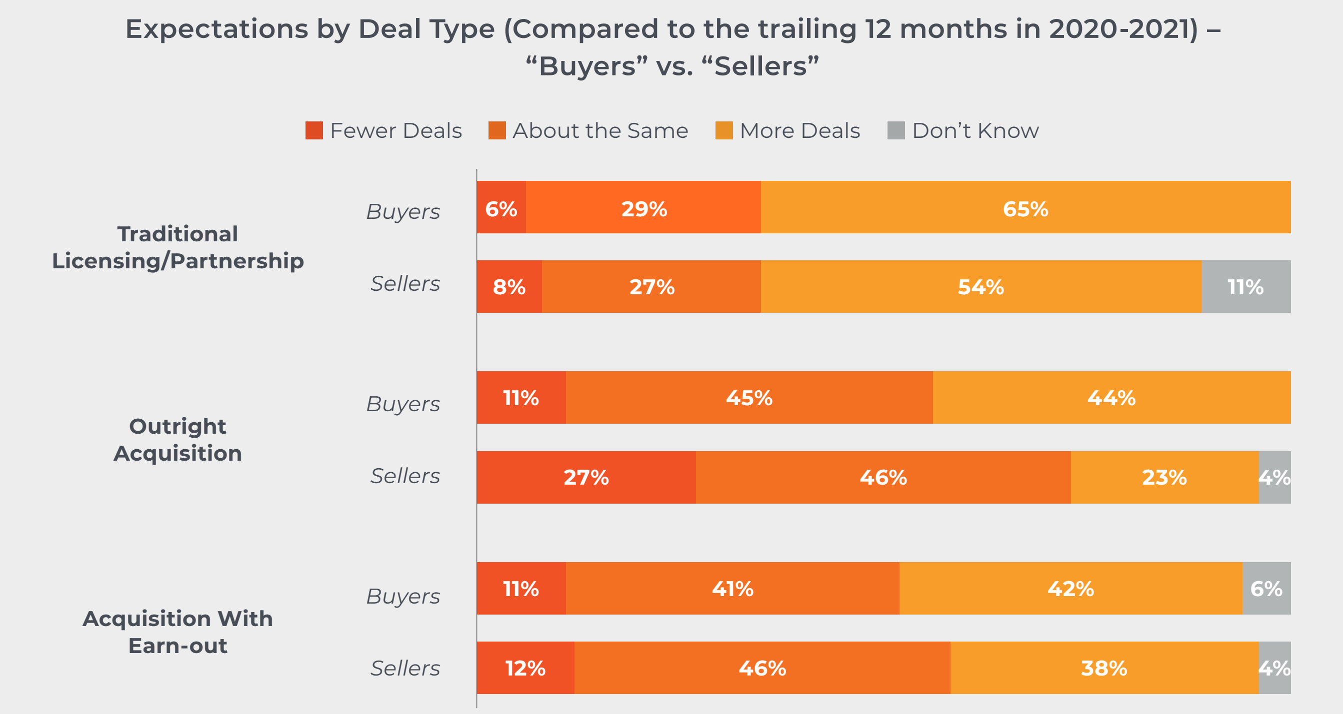
## Fresh expectations: partnerships and earn-outs

Buyers and sellers alike generally expect a higher deal flow in 2022. But the sentiment is less bullish than in past years, especially with respect to outright acquisitions (Fig. 3). Some 65% of buyers said they see growth in licensing and partnership deals, versus 44% who see an increase in outright acquisitions. Nearly as many buyers (42%) see growth in acquisitions with milestone-based payments or other "earn-outs." This suggests buyers are looking to offset some risks through deal structure or partnerships, while sellers seek to retain rights in hopes of longer-term upside.

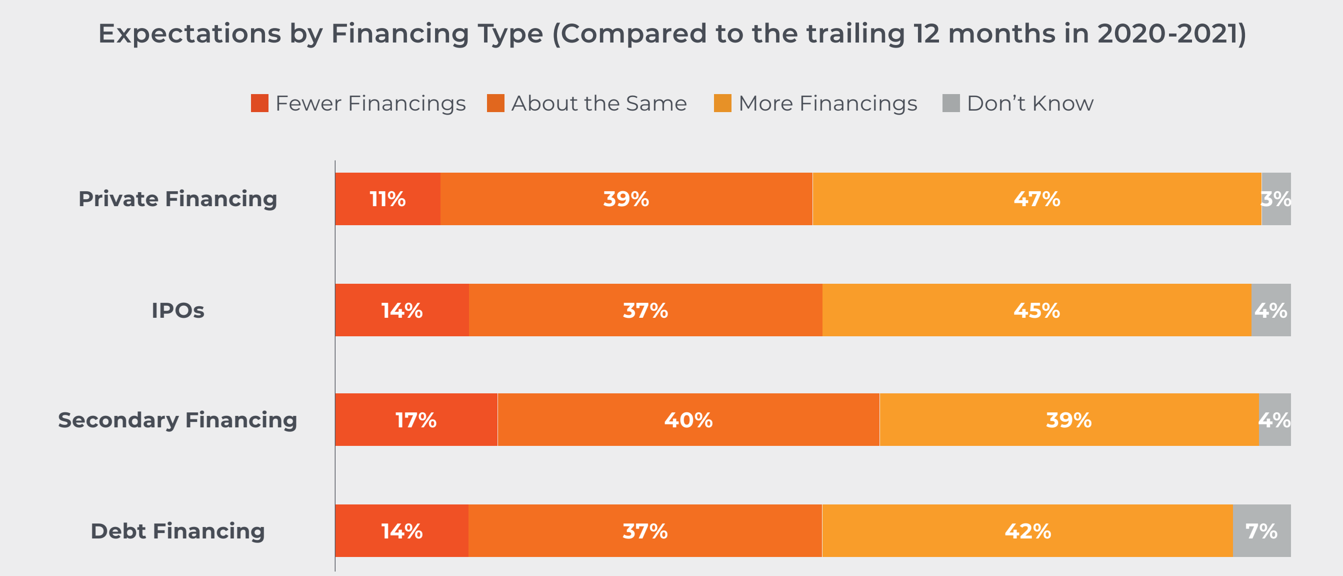
As for financing, markets anticipate a stronger environment in 2022. This is an extremely bullish stance given the records broken in 2020-2021. The flush of capital and roaring IPO markets help companies visualize the whole product development lifecycle. It lets them hold onto potentially risky assets longer, extract more value in later-stage development and chart a commercial path either on their own or with support from outsourcing partners. VCs and other investors also are looking for bigger returns that may come from holding onto assets longer. Again, the implication may be diminished energy around traditionally structured M&A deals.

> **"The flush of capital and the roaring IPO markets are helping companies visualize the whole product development lifecycle. It lets them hold onto potentially risky assets longer, extract more value in later-stage development and chart a commercial path either on their own or with support from integrated outsourcing partners."**

**Figure 3. Expectation by deal and financing type**




Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022. N=66 for Buyers and N=26 for Sellers.

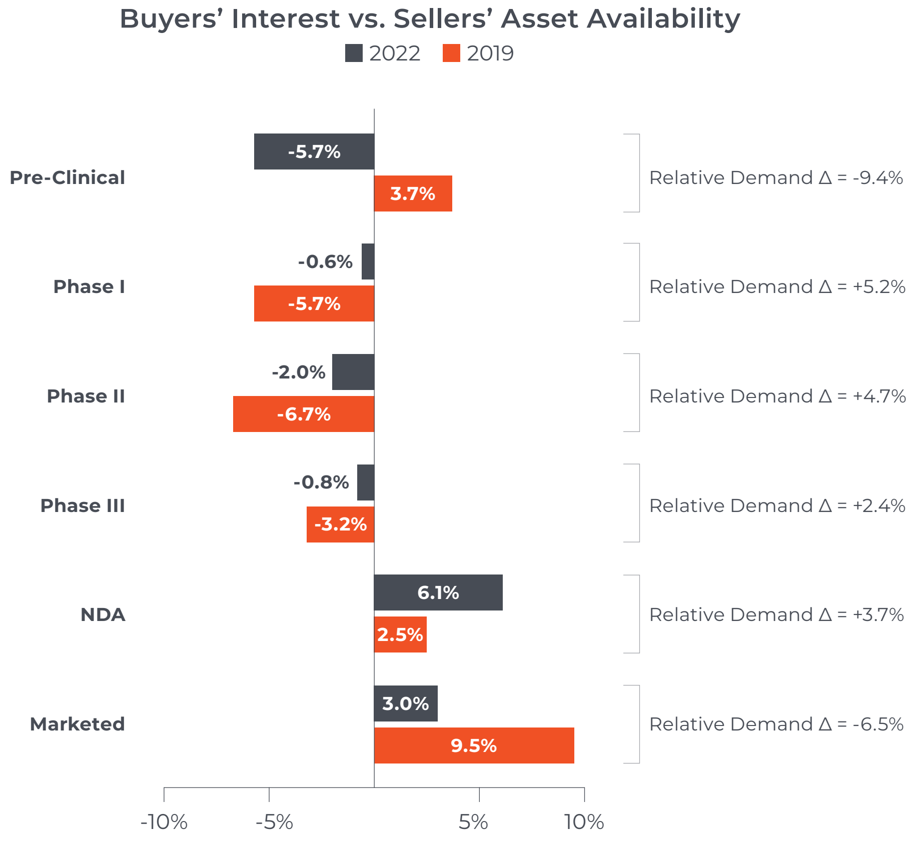



Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022. N=66 for Buyers and N=26 for Sellers.


## Asset appeal—from pre-clinical to NDA-ready

Compared with pre-COVID-19 market sentiment, demand has shifted from pre-clinical assets to clinical stage (Phase I-III) and NDA-ready assets (Fig. 4). Relative demand decreased by 9% for the former and climbed by 2% to 5% for the latter. The implication: many buyers anticipate accelerated clinical development activity in 2022, which had slowed down during the pandemic due to recruitment challenges.

**Figure 4. Assets across different stages of development**




Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022.
N=66 for Buyers and N=26 for Sellers.

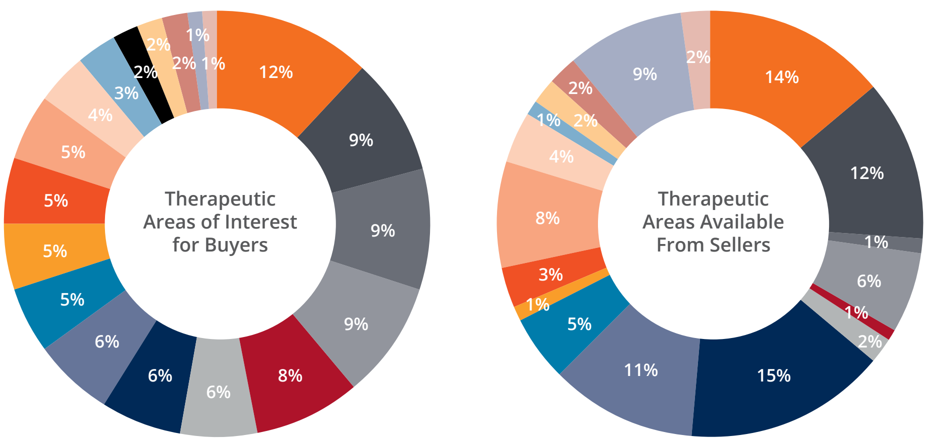
> **"The implication: many buyers anticipate accelerated clinical development activity in 2022, which had slowed down during the pandemic due to recruitment challenges."**

# TREATMENT AND TECHNOLOGY DIFFERENTIATORS

## Deal expectations by therapeutic area

Buyers and sellers share a strong interest in antivirals and respiratory/pulmonary treatments (Fig. 5). COVID-19 focused attention on these areas and the trend is likely to continue as development has accelerated and governments, including the US, continue to purchase the products directly. Buyers have also shown excitement for vaccines, antibiotics and central nervous system (CNS) and pain targets, while sellers have a high number of assets available in CNS-neurology and oncology. Contrasting buyers' and sellers' markets (Fig. 6), a supply surplus is expected in CNS (excluding pain) and oncology in 2022, while the demand surplus will be in vaccines, antibiotics, dermatology and cardiovascular treatments.

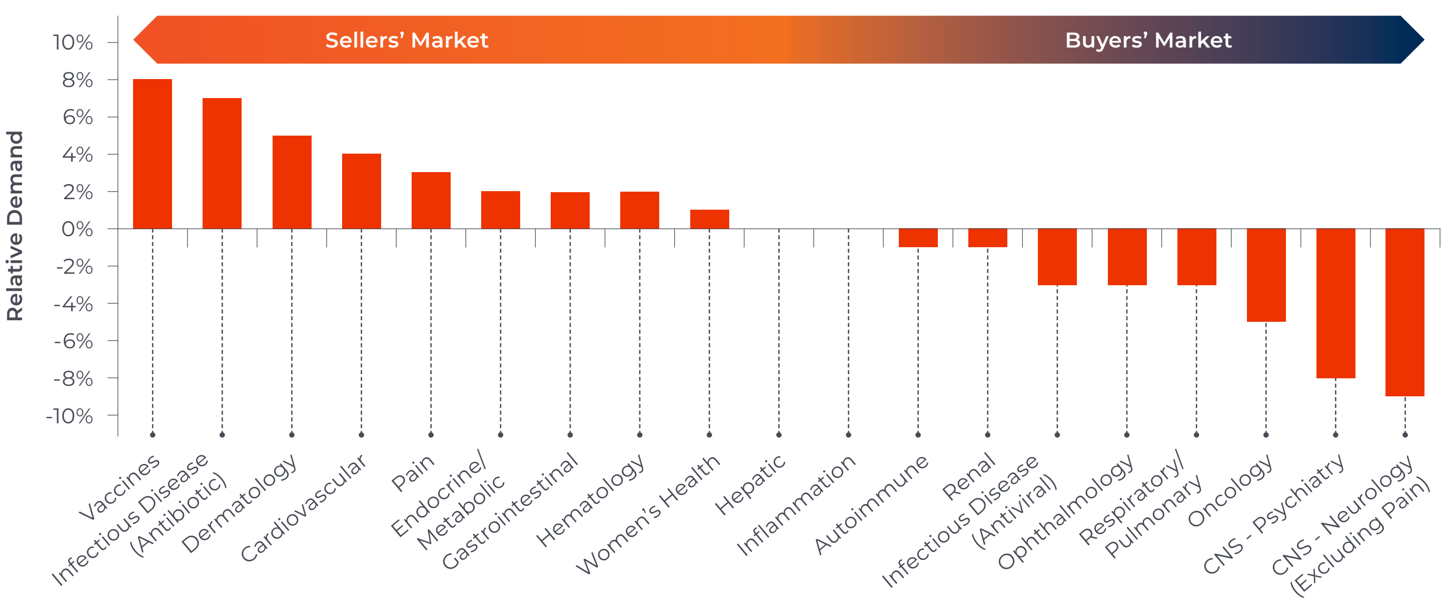
**Figure 5. Expectations for deals by therapeutic area**





Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022. N=66 for Buyers and N=26 for Sellers.

**Figure 6. Sellers' and buyers' markets by therapeutic area**

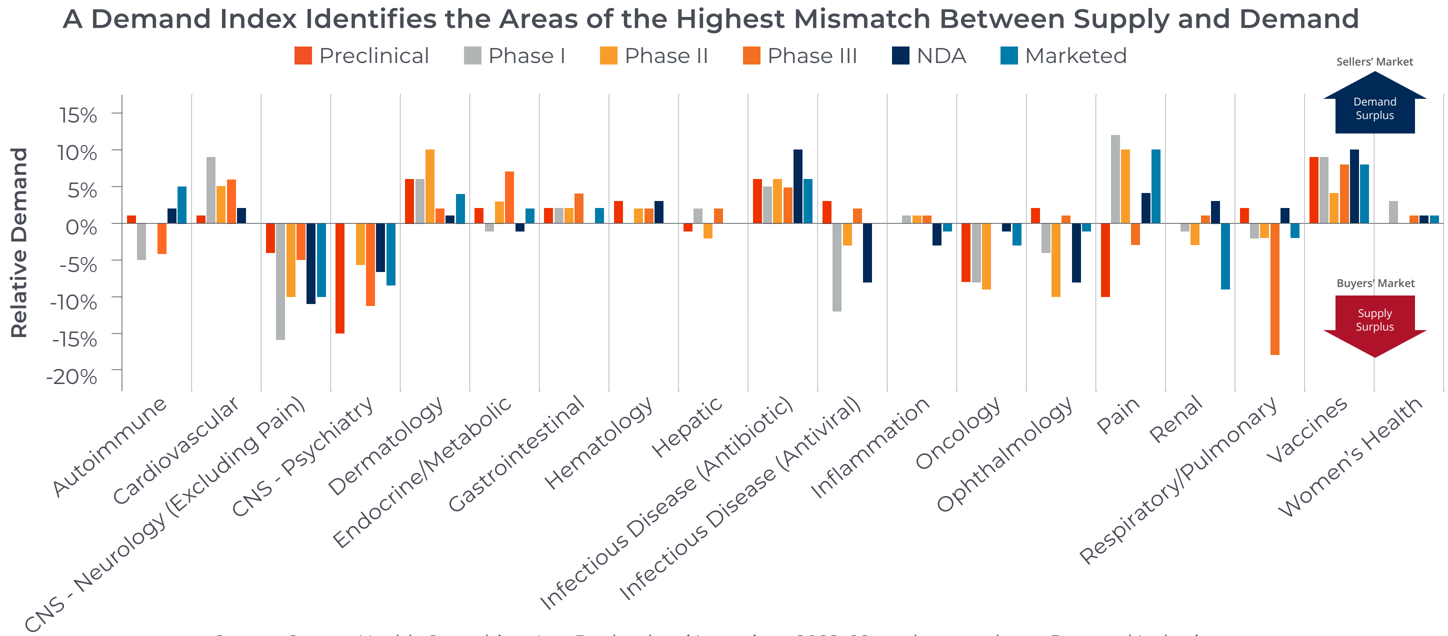



Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022. 92 total respondents. Demand Index is calculated by subtracting the share of respondents with at least one asset to out-license from the share respondents likely or very likely to in-license for at least one therapeutic area for at least one stage of development.

## Supply/demand mismatch

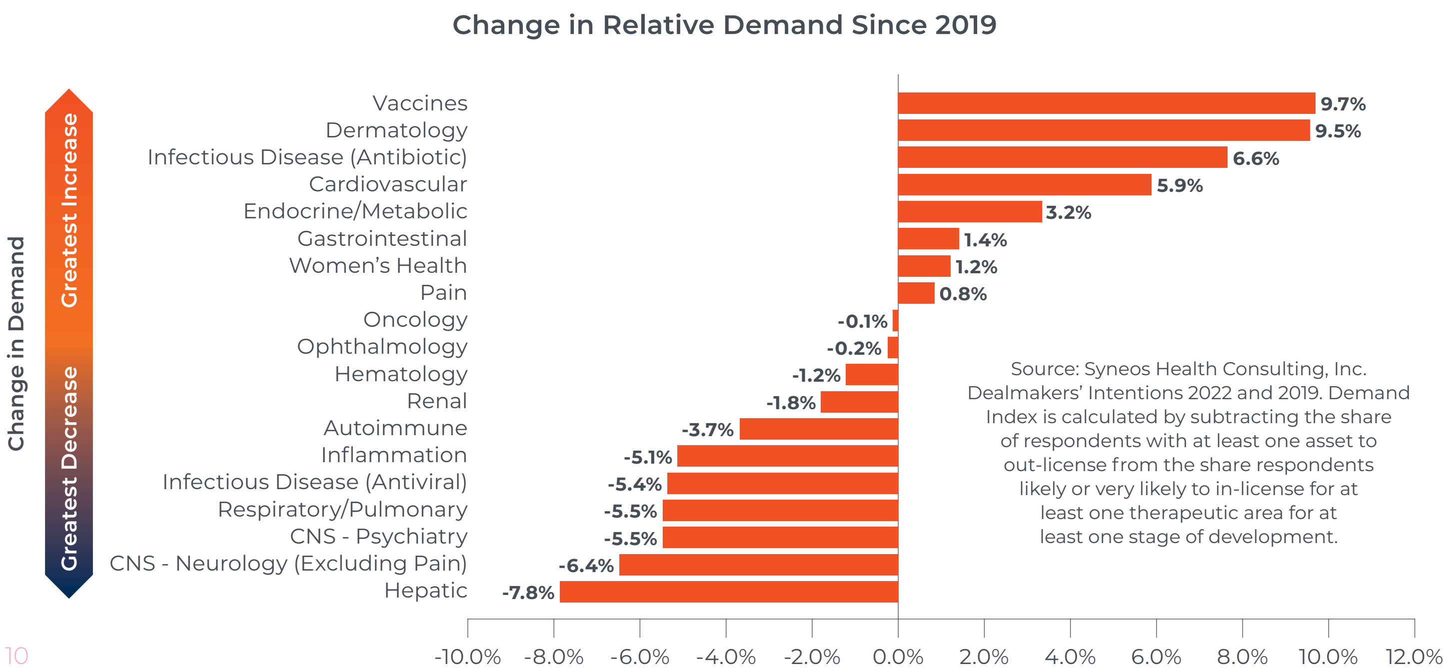
We also observed interesting variation by development stage (Fig. 7). For example, looking specifically at Phase III assets in pulmonary/respiratory treatments, we see a buyer's market with a 20% spread between those looking to acquire assets and those seeking to offload them. CNS and oncology also are areas where buyers may find attractive targets due to a relative surplus. As for the supply/demand mismatch in vaccines and infectious disease therapies, it's unusual to observe such high relative demand in this category—a logical consequence of the COVID-19 pandemic. Charting the shift in relative demand since 2019 further highlights the impacts of the pandemic (Fig. 8).

### Figure 7. Biopharma asset demand index




Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022. 92 total respondents. Demand Index is calculated by subtracting the share of respondents with at least one asset to out-license from the share respondents likely or very likely to in-license for at least one therapeutic area for at least one stage of development.

### Figure 8. Change in relative demand since the pandemic (2019-2021)

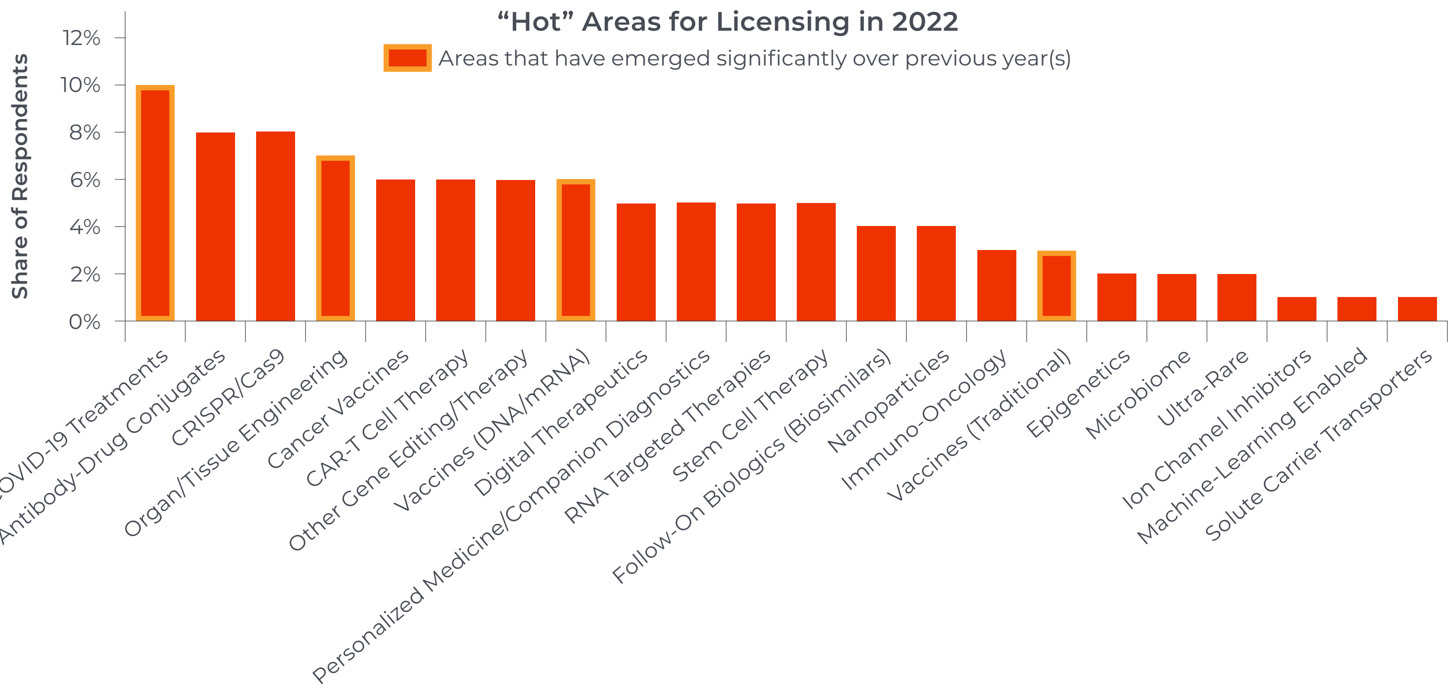



Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022 and 2019. Demand Index is calculated by subtracting the share of respondents with at least one asset to out-license from the share respondents likely or very likely to in-license for at least one therapeutic area for at least one stage of development.

## "Hot" areas—from COVID-19 treatments to cell/gene therapies

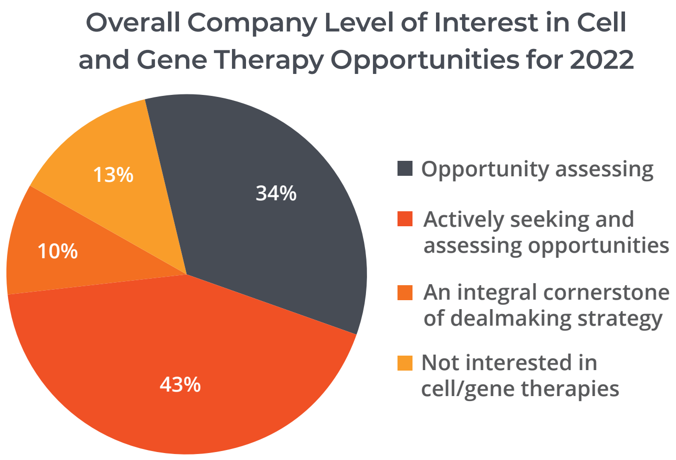
COVID-19 treatments, vaccines and organ/tissue engineering technologies gained prominence heading into 2022. But antibody drug conjugates, CRISPR/Cas9 and CAR-T cell therapies will still be among the "hottest" areas for another year running (Fig. 9). Greater than 40% of dealmakers actively assess cell/gene therapy assets as part of their strategy, with gene replacement and mRNA-mediated therapies of particular interest to buyers (Fig. 10). Overall, these strategies are driven by a focus on regulatory advantage, competitor M&A strategies, pricing potential, patient needs and the chance to receive extended market exclusivity.

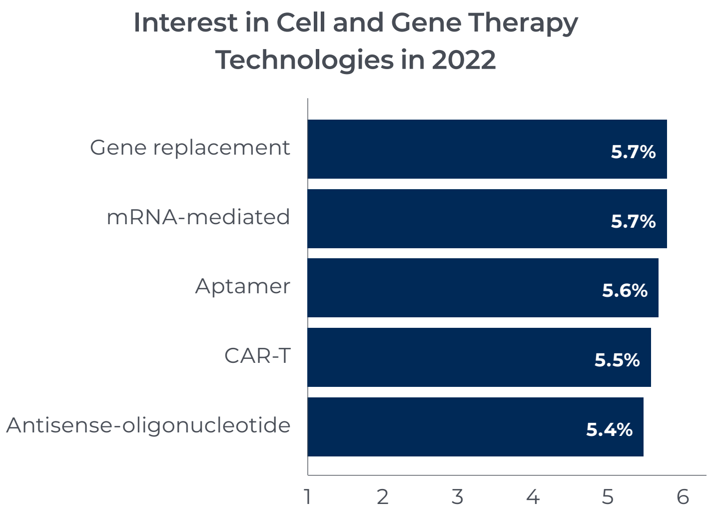
### Figure 9. Licensing indicators




Digital Therapeutics is defined as treatments that deliver evidence–based therapeutic interventions to patients driven by high quality software.
Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022. Includes answers from 92 respondents. Respondents could select multiple areas.

### Figure 10. Spotlight on cell and gene therapies



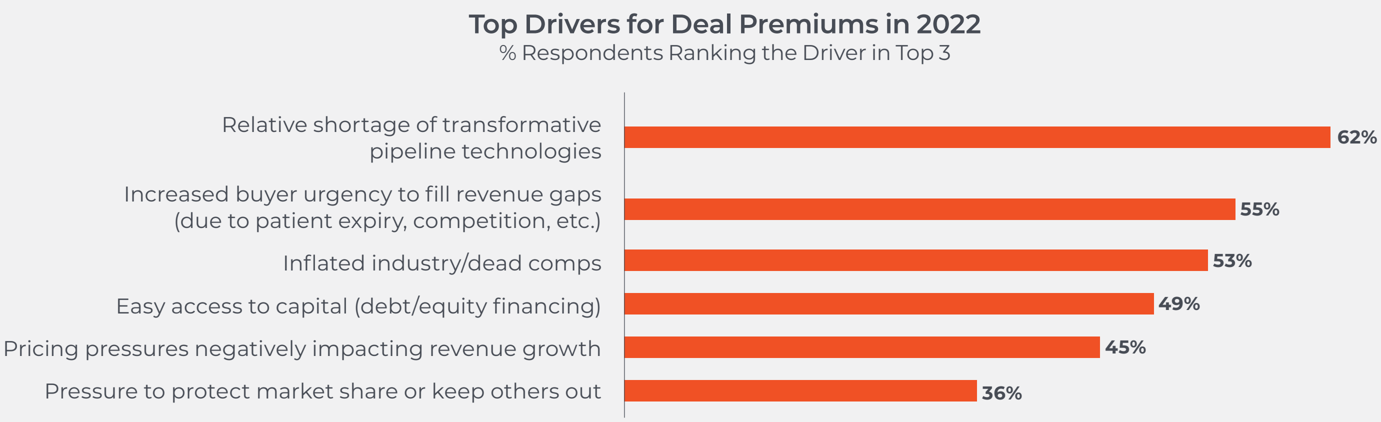

Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022. 92 total respondents. Demand Index is calculated by subtracting the share of respondents with at least one asset to out-license from the share respondents likely or very likely to in-license for at least one therapeutic area for at least one stage of development. N=80 respondents with any interest in cell and gene therapies.

# KEY CONSIDERATIONS FOR DEAL SUCCESS

## What's behind high premiums

As in our surveys prior to the pandemic, the shortage of transformative pipeline technologies and urgency to fill revenue gaps are the two most important drivers for deal premiums (Fig. 11). For many years running, dealmakers have been concerned about the balance between products coming off-patent and assets under development.

**Figure 11. Factors of importance for deal premiums**




Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022. N=66 for Buyers and N=26 for Sellers. Respondents were asked to choose the top 3 drivers for deal premiums.

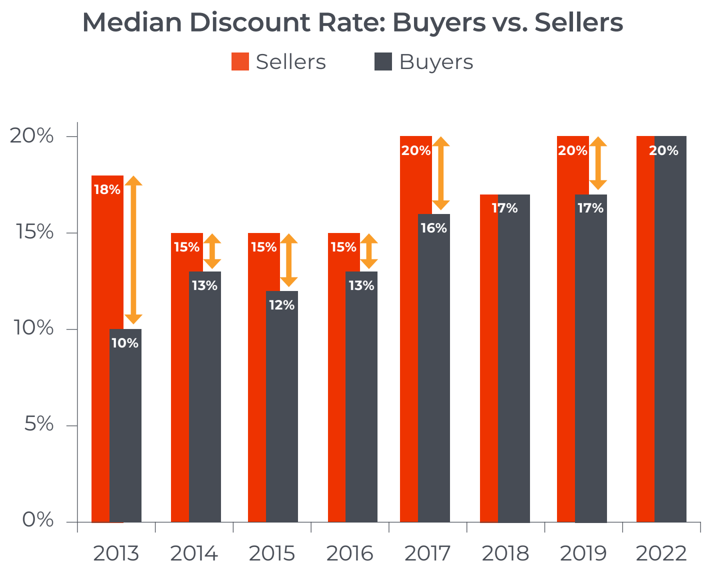
## Narrowing discount rate gap

The discount rate gap is expected to narrow in 2022, driven by an increased discount rate for buyers that may imply risk-averse behaviors while evaluating assets (Fig. 12).

For buyers, discount rates seem to have risen over the years. This likely is driven by the increasing heterogeneity of buyers, which now include smaller companies that have successfully launched their first products and are looking to fill the pipeline.

The continuing, strong financing environment could be a key factor in the decreased discount rate spread between buyers and sellers. As part of a broader trend, smaller companies will continue to compete on deals in 2022, capturing a greater share of overall deal volume. However, we can infer that they are not able to extract as much value in the deal due to their higher discount rates.

**Figure 12. Discount rate**



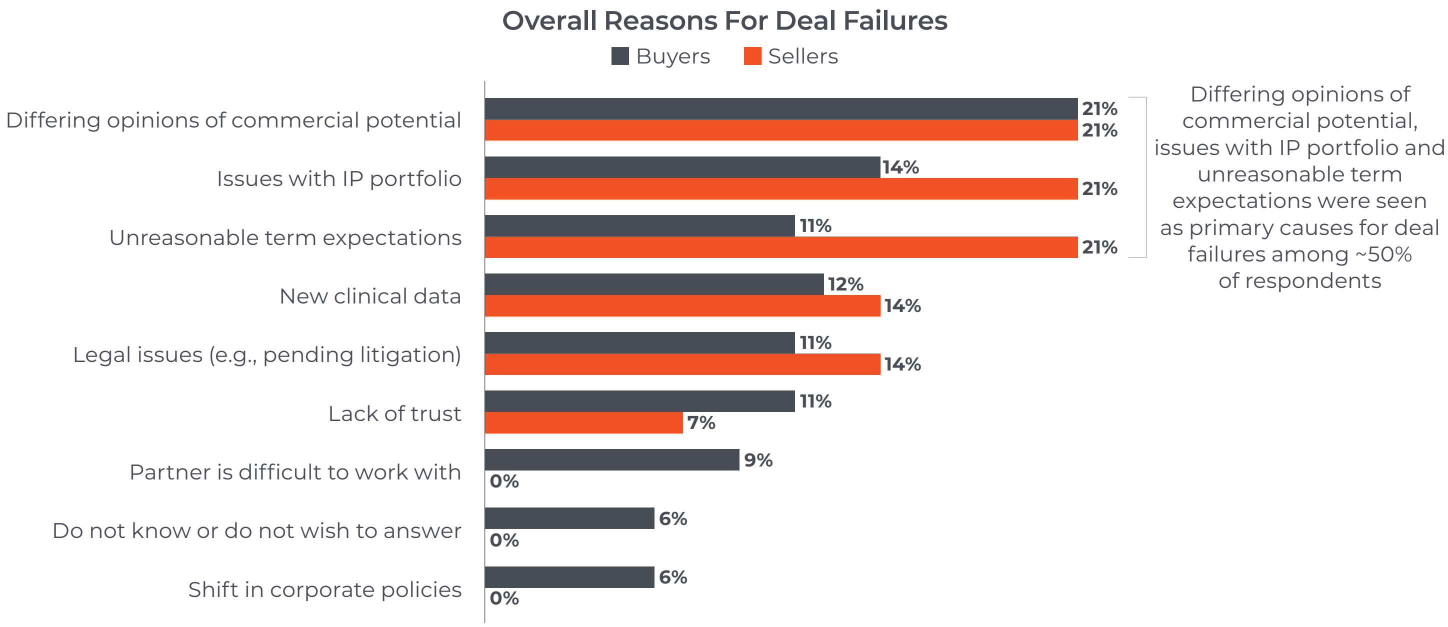

Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2013-2022. 2022 includes 39 respondents for Buyers and 16 respondents for Sellers.

## Anatomy of deal failures and conversion rates

Buyers and sellers generally report similar pitfalls leading to deal failure (Fig. 13). Major factors include differing opinions of an asset's commercial potential, issues with IP portfolio and unreasonable term expectations. Roughly 50% of respondents identified these three factors.

The overall deal conversion rate for 2020-2021 increased to 10.1% from 3.6% in 2018, along with a significant rise in conversion rates across deal stages. Concurrently, the average number of deals evaluated dropped to about 80% of the amount in 2018. This may mean there was a greater motivation to close deals that are in progress due to the lack of options available in the marketplace.

**Figure 13. Why deals fail**




Source: Syneos Health Consulting, Inc. Dealmakers' Intentions 2022. N=66 for Buyers and N=26 for Sellers.

# CONCLUSION

Syneos Health Consulting's annual Dealmakers' Intentions Survey comes at a unique juncture in our industry's history. It's hard to conjure a moment when biopharmaceutical companies have made greater pledges on behalf of public health or delivered more swiftly on those promises. As medical advances continue to stream from the labs of biotechnology startups, the ongoing shift in dealmaking dynamics will reward the innovators. Flush with capital and supported by fully integrated outsourcing partners, many will sidestep M&A opportunities and resolve to steward their own pipeline assets all the way to market.

While the pandemic slowed clinical development activity in some areas, mainly due to recruitment issues, our latest survey indicates acceleration in 2022. Not surprisingly, much activity will focus on vaccines and treatments for infectious diseases. And while the supply surplus in areas such as CNS and oncology may signal more deals in this space over the next 12 months, from a price perspective, each target's appeal may last only until the next, robust pivotal study readout.

Paraphrasing physicist Niels Bohr, prediction is difficult, especially when it's about the future. But the shift in power dynamics that favors small companies with promising technology is a durable reminder that scientific advances reflect value. In one form or another, the competition to identify and secure access to important molecules will define dealmaking in the coming months.

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### About Syneos Health

Syneos Health® (Nasdaq:SYNH) is the only fully integrated biopharmaceutical solutions organization purpose-built to accelerate customer success. We lead with a product development mindset, strategically blending clinical development, medical affairs and commercial capabilities to address modern market realities.

Together we share insights, use the latest technologies and apply advanced business practices to speed our customers' delivery of important therapies to patients. We support a diverse, equitable and inclusive culture.

To learn more about how we are Shortening the distance from lab to life®, visit syneoshealth.com or subscribe to our podcast.

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