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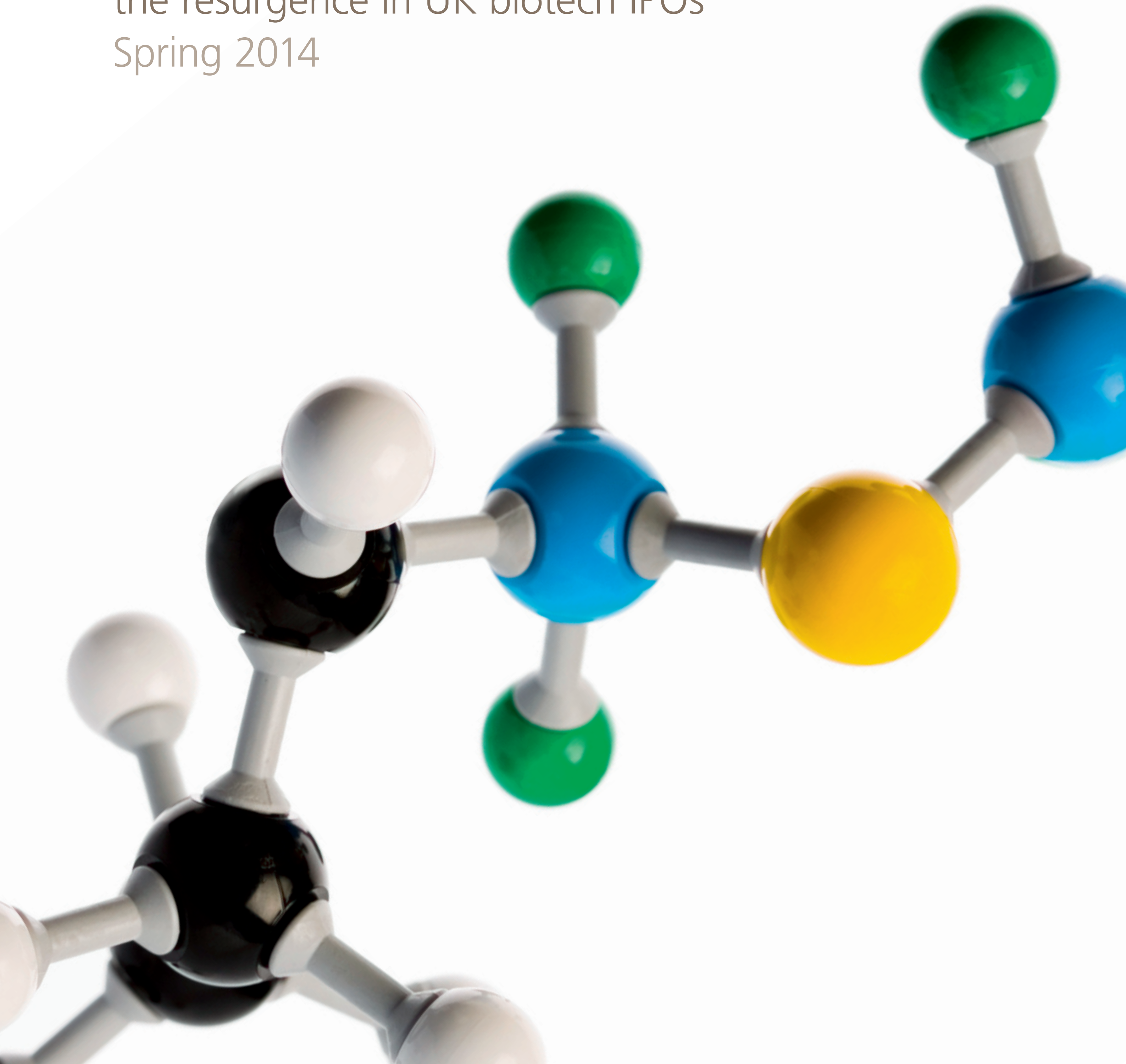
The Antidote

Taking a look at "pharmerging"markets and the resurgence in UK biotech IPOs

Spring 2014



M&A activity

Welcome to the second edition of The Antidote

Welcome to the second edition of The Antidote which focuses on the increasing growth and opportunities in Asia, and what could be the resurgence of the UK biotech IPO.

It would seem Spring is in the air and that the sector is bursting with M&A activity. Despite predicting mega mergers may be less likely in 2014 (but not ruled out) we have seen a number of high-end deals, most notably: Valeant (with activist investor William Ackman) make a bid for Allergan; speculation of a potential bid by Pfizer for AstraZeneca; Meda reject a bid from Mylan; Merck in discussions to sell its consumer health business; and speculation that both Shire and Smith & Nephew may be the subject of possible bids. Whether or not all of these deals materialise, some of these companies will remain the subject of deal speculation and do something else, even if more defensive in nature. We did, however, correctly put the spotlight on Novartis, who have been busy entering into deals with both GSK and Lilly.

But what is the reason for this? Are big pharma deals back in fashion or, as some critics would say, are big pharma in retreat and needing to reshape, or risk being left behind by their more nimble footed competitors? It is fair to say that the mega merger does not necessarily generate high levels of shareholder value and perhaps we are actually seeing a new approach to M&A where deals are becoming more innovative, and big pharma are resizing and becoming more specialised which may enable them, going forward, to generate shareholder value.

What is clear is that Q1 for 2014 was one of the busiest in M&A activity in the sector for several years and Q2 looks to have got off to an exciting start - could 2014 be the year to reshape big pharma after all?

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I've worked in emerging markets in some form or other for nearly a couple of decades now, from regulatory, to legal and currently in compliance and still enjoy the constant change and many opportunities to learn about the markets and myself. I would say the key strengths of emerging markets are the rapidly changing environment, while many demands are made on you to define an appropriate standard or risk profile for each market - no matter what discipline you are in. As a result you have to remain open minded and flexible while building trust and fostering understanding across a broad range of cultural and institutional mindsets. Basically the key strength is the opportunity to shape what will hopefully ultimately prove to be a robust and enduring market appropriate standard - while not losing the ability to question on a regular basis. As for the challenges, I have often been reminded that no matter how open minded you are we can all suffer from making misplaced assumptions as to "how things work". Whether it be a business model, regulatory or government enforcement or just how employees behave within organizations. Sometimes asking the most obvious or basic of questions can make you realize this weakness in yourself when you get an unexpected answer.

Lorna Cairney, Ethics and Compliance Officer, China and India at Abbott Laboratories

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Investment continues into China

The opportunities for Western lifescience companies investing in China are huge. A 2013 report from China's Social Science Academic Press estimates that total Chinese pharmaceutical sales will exceed $350 billion by 2020. China is already the third largest pharmaceutical market behind the United States and Japan and is expected to surpass its Asian neighbour and secure second position by 2015. To capitalise on opportunities, international companies are expanding their footprint in China by making acquisitions, establishing manufacturing and R&D facilities, and by entering into alliances with local Chinese partners. Increasingly, Chinese companies are also looking to the West for partnering and investment opportunities.

Despite the reports of a general cooling of the Chinese economy across some sectors, the fundamentals for continued growth in the Chinese lifesciences sector remain strong, fuelled in part by demographics. Due to the historic one-child policy China's population is ageing rapidly, and coupled with the remarkable strides in the economy, this has created a burgeoning middle class with healthcare needs and demands and the finances to pay for it. The importance of China's market is also becoming more pronounced given further looming patent expiries in the West.

Opportunities of course present challenges; none more so than in navigating China's complicated regulatory and intellectual property (IP) regimes. However, regulatory authorities have made recent moves to simplify provisions and procedures, including application review timelines, and there have been positive moves as the government promotes the protection and enforcement of IP rights. The government is also taking the issue of anti-counterfeiting more seriously.

The Chinese government is also embarking on a major healthcare reform program to extend insurance provision to rural areas and so the demand for good quality healthcare and pharmaceuticals is likely to rise further. However, to curb costs the authorities are requiring cheaper price points for inclusion on official reimbursement price lists. Although this may hurt price margins, the economies of scale are just too significant to ignore. The future looks bright for the Chinese lifesciences sector!

Singapore is the APAC hub

Singapore is fast becoming the lifesciences hub of Asia, with 8 of the top 10 pharmaceutical and all of the top 10 medical technology companies presently having their regional or international headquarters in Singapore. Some global leaders with headquarters, manufacturing or research facilities in Singapore include GlaxoSmithKline, Novartis and Baxter International.

Ranked first in Asia and second in the world for its IP protection by the World Economic Forum,[1] Singapore's strong IP regime is one of the key reasons for pharmaceutical companies setting up in Singapore. Further, the Singapore Government remains a committed partner in the development of the lifesciences industry in Singapore, contributing S$16.1 billion between 2011 and 2015 for research, innovation and enterprise activities.[2] Lifesciences companies that set up their headquarters or research facilities in Singapore may also benefit from substantial tax incentives under the Economic Development Board's International/Regional Headquarters Award or Research Incentive Scheme for Companies.[3]

Singapore's integrated research ecosystem of research and development facilities, expertise in clinical trial management activities in Asia, and world-class manufacturing infrastructure, facilitate the translation of research into tangible outcomes for pharmaceutical and medical technology companies. Public sector research institutes and corporate labs are co-located at Biopolis, a state-of-the-art infrastructure dedicated to providing space for biomedical research and promoting peer review and collaboration among the public and private scientific community. Singapore is also reputed for its clinical trials management activities, which attracted global pharmaceutical companies such as Sanofi and MSD to set up their regional clinical trial centres in Singapore. Singapore's strategic location, excellent connectivity with target markets and skilled biomedical workforce have also made it ideal for pharmaceutical companies to move their manufacturing base to Singapore. It is estimated that the lifesciences industry in Singapore manufactures about S$23 billion of medicines, nutritional products and medical devices for the global market annually.[4]

UK biotech IPOs – what's over the horizon?

On 27 March 2014, Cambridge-based personalised medicines specialist Horizon Discovery announced that it had raised £68.6 million in a heavily oversubscribed AIM IPO. Horizon's announcement came just a few weeks after pet allergy company Circassia raised £200 million in its high profile IPO on London's main market. With this and other London listed companies raising further funds by way of secondary equity issues, and with widespread speculation that a number of European biotech businesses may be looking to IPO on the UK markets, the London Stock Exchange (LSE) and other European equity markets may once again be open to biotech businesses.

The well documented failure of British Biotech in the 1990s and more recently failed clinical trials and the subsequent collapse in the share prices of companies such as Ark Therapeutics, has led to UK investors being generally wary of investing in quoted biotechs. US markets and, in particular NASDAQ, have been the chief beneficiary, as a tolerance for greater risk and legislative changes aimed at encouraging the development of innovative medicines have led to a boom in US based equity issues by European issuers. Recent prominent examples include GW Pharmaceuticals, which successfully raised US$87.9 million in January 2014 and Oxford Immunotec, which raised US$64 million in November 2013. Both companies are UK based businesses.

Investor considerations aside, the LSE's main market and the more lightly regulated AIM market should, however, not be discounted. The eligibility requirements of the main market recognise the realities of public fundraising by early-stage biotech businesses. Whilst the usual requirement for a minimum "free-float" of 25% will apply at admission, the need for a three year track record is dis-applied for 'scientific research based companies' (SRBCs). The usual requirements around demonstrating control over assets will also not apply, although SRBCs must have a pre-marketing capitalisation of £20 million and intend to raise at least £10 million on IPO. On AIM, no specific track record requirements apply to any company seeking admission and there is no requirement for a minimum fundraising or market capitalisation. Instead, the company's Nominated Adviser (or 'Nomad') undertakes principal responsibility for confirming the company's suitability for AIM.

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1. World Economic Forum, The Global Competitiveness Report 2013 – 2014 http://reports.weforum.org/the-global-competitiveness-report-2013-2014/
2. http://www.edb.gov.sg/content/edb/en/industries/industries/pharma-biotech.html
3. http://www.edb.gov.sg/content/edb/en/why-singapore/ready-to-invest/incentives-for-businesses.html
4. Singapore Biotech Guide 2012/2013, "Overview of Singapore's Pharmaceutical and Biotechnology Industry" http://www.pharmacy.nus.edu.sg/programmes/BScPharm/Singapores%20Pharma%20&%20Biotech%20Industry%202012-13.pdf

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