



**Deloitte M&A Views podcast:
A future of promise: M&A in life sciences & health care**

Transcript

Greg: Welcome to Deloitte M&A Views, a Deloitte podcast series exploring the latest trends and topics in mergers and acquisitions (M&A). I'm Greg Jarrett, and today we discuss the current M&A climate in the life sciences and health care industry. We are joined by Phil Pfrang, partner with Deloitte & Touche LLP, and Susan Dettmar, principal with Deloitte Consulting LLP.

Phil, the sectors have seen a lot of activity this past year, do you see this activity increasing or decreasing in the current political climate—the climate in the US and worldwide?

Phil: I think the question that people are asking is whether or not all of the disruption—political change—that you're referring to is likely to decrease the level of M&A activity. Typically, uncertainty is something that tends to cool down M&A activity, for all the obvious reasons. When you think about what we're hearing and what we're seeing, you have to break it into two pieces. One is domestic M&A activity. The second is cross-border M&A activity. With respect to domestic M&A activity, we really don't see anything. I think this is the consensus view that would indicate that M&A activity's going to slow down. In fact, we believe that it will continue to be relatively robust, if not increase.

Greg: Susan, we're moving forward at light speeds (some people say) as far as our advancement in technology and the internet within the health care system. They're converging; they're getting together. How is this going to affect M&A? Are some of the old line companies that do things a rather stodgy way going to absorb some of the younger companies, not only so that they can move forward more quickly and absorb some of that management stuff, but also because they need that technology? What's it going to do?

Susan: It's a great question and I've actually seen a lot more of that collaborative thinking from the tech companies driving that discussion with traditional pharmaceutical and medical device companies. I do think, based on what I've seen here this week at J.P. Morgan, that our executive teams and business development groups in life sciences are thinking much more now about collaborations from their perspective.

And so, there's a lot of questions in M&A around what value do both sides bring to the table.

It's actually using medical things and figuring out how to combine that with digital and analytics in useful ways for patients, for payers, and for customers. So, we are seeing a lot of that—I think a lot is nascent. There are companies that have setup venture funds and incubators and I think those are really trying to break into a lot of different things at once. I think there's a lot of promise and I see a lot of our clients—Deloitte's clients—really thinking about this. But most of our clients are large pharmaceutical, very successful medical device companies. And for them, they don't want to make a lot of little plays and they don't want to make a thousand plays.

It's how do I pick the right things at the right time? And where I'm seeing them spend the most time these days is more alliances and joint ventures and collaborations than actually outright buying a technology. Because I don't think in many cases there's a definitive agreement on which technology platform is going to be the winner. So, I see them sort of hedging their bets and thinking about, "Okay, well how does, my specific set of strategic priorities, therapy areas, technology platforms, physician groups—how does that line up with what I'm seeing in the marketplace? And how much am I willing to pay for that?" I think that's a big question.

Greg: So I can paint a better picture for myself of what you're saying—I just read two different studies today. One of them says that by 2018, thirty percent of our interaction with the internet is going to be not on the keyboard, but by voice. And by 2020, fifty percent. So it's going to just grow exponentially. We're going to do away with the keyboard like we did away with cursive writing. Are you talking about taking a company that has a voice activated connect with the internet and tying it up with a health service company—maybe a company that has 50,000 employees—so one of the employees can speak into the device and say, "I have a fever of 103," and the device comes back and says, "Have you recently been to Nigeria? Go to the emergency room right now."

Susan: Right.

Greg: Is this the sort of thing we're talking about?

Susan: It's one area. Actually, I think video is going to be even more compelling. I'm very surprised how long it's taking for physicians to be able to conduct differential diagnoses and screening via Skype. And I know that that's happening more in the psychology realm, but it could happen much more so in the rest of the care areas where—wound care for example, is a perfect opportunity for patients and physicians to get together virtually. And I know there's a lot of investment that's already been made by the military to get care delivered as close to the front as possible, but have the doctors be as far away from the front as possible. That's been going on for years and years now. I've been really surprised and disappointed that sort of groundbreaking innovation hasn't made it to the regular patients in the US yet. And I do think that there's going to be a tipping point. Maybe it's enough companies investing in voice and video. And I think really having a push in the regulatory compliance field that allows that to happen and allows for reimbursement.

Greg: We've already seen the major Silicon Valley giants absorbing smaller companies that do these kinds of things. Do you see more of this sort of—well, if not a joint venture, then just a full on absorption of the different company—takeover of a company taking place? Do you see a lot more of this as we move forward? The companies with money.

Susan: I don't think the big life sciences companies are going to make big bets in high tech in that way. I don't think they're going to acquire ... I don't think they need to. I think what the pharma and medical devices companies that I work with are in danger of is getting leap frogged over. And I see major technology companies—the frightful five, the ones that you usually think about—coming up with really genius ideas that are really taking their technology into health care and using the consumer to get them there. And I don't see the life sciences and MedTech companies trying to encroach in the technology space nearly as aggressively. I do think that they could do that by licensing and partnering. And some of them already have.

There are some really interesting combinations that are already happening, but if you look at even older sectors like automotive, I think they're doing more to get the car to be a health care opportunity. There's this whole world that you live in when you're sitting in your car, and you've got a display panel, you've got it all wired. You're on the internet in your car, you've got personalized settings for how you're driving, and you've got monitors and cameras. And so, the auto industry is thinking about how they pull technology more and more into that automotive experience. And they're also thinking about health care. I'm not sure a health care company has any business buying into the other sectors, but I do think they need to be much more aware of how many other sectors are really creatively considering health care as their next adjacent growth opportunity.

Greg: There have been some discussions about opportunities within pharma. Big pharma and the absorption of those tech/pharmaceutical biologics companies and so on and so forth. Do you see a continuing opportunity there in a new environment?

Phil: I'll say two things. One, we are living in an incredibly exciting time in terms of science. I've heard from some of our leading scientists, who I think understand the science behind pharmaceuticals and biologics extremely well. You'll see things like a cure for cancer, or at least certain types of cancer, is within our grasp. It's likely to occur within our lifetimes. Some of the advances that are being made are around diagnostics, genetic diagnostics where we really didn't know whether medicines would work. In fact, there are instances where medicines only work fifty percent of the time depending on what your genetic makeup is.

Prior to breakthroughs in genetic technology and diagnostics, we had no way of figuring out whether you were one of the two people that was going to respond. But we wrote you the prescription for that drug and then took a 50/50 shot. That's really an interesting way to practice, or to treat people. So there are just tremendously exciting breakthroughs that are occurring and that is giving rise to all kinds of new and emerging business models. And some of those companies that are able to do those diagnostic things and improve the effectiveness with which we treat our population are really going to do extremely well and add value and get compensated for it. The broader pharmaceutical industry and the less innovative side of the industry is likely in for some headwinds.

We're the only country in the world that doesn't really have highly regulated drug pricing. We subsidize the research and development for the rest of the world through the higher prices that we pay for our drugs in this country. I think that may be coming to a close. I certainly think you're going to see some form of pricing reform, which I think is going to be a headwind for pharmaceuticals.

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