

Dechert Healthcare Deals Conference 2021

Panel Discussion: Private Equity and Pharma | The increasing allure of clinical-stage pharma opportunities

Dechert's Healthcare Deals Conference 2021 was recently held in-person at BMA House in London and streamed live across the globe via a virtual platform.

The one-day hybrid conference brought together senior pharma, biotech, PE and VC leaders across the life sciences and healthcare industry to network and share their outlook on trends and opportunities across the sector.

Robert Darwin, a Corporate partner based in Dechert's London office moderated the Private Equity and Pharma panel "The increasing allure of clinical-stage pharma opportunities" together with Genghis Lloyd-Harris (Managing Director, **Abingworth**), Dominic Schmidt (Partner, **Syncona**), Mary Sheahan (CFO, **Avillion**) and Ricky Sun (Managing Director, **Bain Capital Life Sciences**).

A summary of the key takeaways and panel discussion video can be accessed below:



Key Takeaways/Talking Points

The increasing interest of leverage buyout funds to invest in unapproved assets

- Venture capitalists historically only looked at earlier-stage ventures with PE funds staying out of that market, as they felt unable to take on any clinical risk. This line has now become more blurred on both sides. Later-stage pre-approval investing is attracting more new entrants. Often the key stage is proof of concept being established and many funds can be fluid about when they get involved after this point. Often this can mean taking products to the market and therefore maintaining meaningful involvement in the companies.
- Investing is much more about the asset itself rather than the geography and so the panel spoke about operating in multiple markets and conducting truly global trials.
- Only basing investment on sales in Europe can make it difficult to make the financials work. The US continues to be a huge part of the revenue structure within pharma, but Asia is a continuing growth opportunity.
- The panel discussed those opportunities as a clinical or regulatory prospect against those that are a commercial prospect.

Managing the investment process

- The panel spoke about the different ways to structure investments. Often, investments can be structured as an Special Purpose Vehicle ("SPV") which allows for non-dilutive equity for the investee. This could be combined with taking warrants as well, which are an instrument which will convert to equity at a certain value.

- Another option to approaching the sharing of risk can be a contingency model where the investor does not see returns unless the product is successful.
- It is also important to be able to understand gaps in expertise for an investment opportunity that need to be filled. It is not often only about the money and is about the wider expertise that the investor can provide.
- Investment timelines are also a key consideration. Getting a product to market earlier is extremely valuable.
- The panel further discussed the relationship between big pharma and biotechs, with big pharma being felt to be a constructive partner for investors.

The market

- Exit opportunities, particularly IPO market remain extremely high particularly on the NASDAQ market. There will eventually be a downturn such as following the financial crisis but the timeline for this is difficult to foresee.
- New antibiotics are now difficult to bring to the market due to the new rules around reimbursement in the US. Unless there is a legislative change to make this more favourable it is a challenging economic model to work within.
- The panel also discussed the importance of having a scientific background as a life sciences investor, noting that it is highly desirable but not essential.