THE AVANT VIEW

2024 Life Sciences Industry Outlook:

Therapeutic Enabling Technologies and Services, Healthtech and TechBio

AVANT BIO

2023 Recap

The life sciences market experienced a cooling in the venture and growth funding ecosystem in 2023 with a trend towards bridge rounds and smaller acquisitions. Large deals which did occur were opportunities for industry leaders to fill or pursue a strategic path, such Thermo Fisher Scientific's acquisition of proteomics player, Olink for $3.1B, and Water Corporation's acquisition of Wyatt Technology for ~$1.4B to accelerate its growth in the bioanalytical characterization sector

We saw several corporate strategics lower revenue forecasts throughout 2023 citing reduced biotech funding, falling COVID related sales, and normalization of growth projections to pre-pandemic levels. However, recent corporate reporting from nearly all leading strategics indicates significant cash reserves and the potential for increased M&A activities into the second half of 2024 and beyond. Thermo Fisher announced plans to spend up to $50B on "disciplined" M&A in the coming years. Such activity is part of Thermo Fisher's longer term plan to continue high single-digit growth by taking advantage of what CEO Marc Casper has described as a "highly fragmented market."

Life Sciences startups continued to experience investors seeking extensions, flat rounds, and/or decreased valuations, which were also reflected in the broader investment ecosystem. According to Cooley, a leading law firm specializing in venture financing, the percentage of down rounds reached their highest levels since 2014. It was a challenging fundraising environment for startups as expectations for even early-stage companies shifted, with a greater focus on profitability vs. growth.

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These lasting market and fundraising trends align with the advice our team has always given to innovators – 1) implement strategies to extend runway, 2) focus resources on long-term growth and profitability, and 3) prepare for future fundraising far in advance; don't wait for market improvements.

2024 Outlook

A rebound in life sciences stocks has been anticipated, with the Federal Reserve's rate cuts potentially fostering a 5 - 20% valuation increase throughout 2024. Companies with robust pipelines or demonstrated market / product success may benefit the most from this resurgence. Therapeutic enabling technologies are projected to have a strong 2024 with some analysts speculating that this segment will outperform the broader healthcare sector. One Goldman Sachs analyst said, "the key question in our mind is not the ultimate level of growth, but instead what is the right multiple to pay for this growth."

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Green Shoots:

There are strong signs that larger strategics and funds are ready to strike when the opportunity presents itself as seen in the recent Novo Holdings $16.5B Catalent acquisition announcement, MilliporeSigma (Merck) planned purchase of Mirus Bio for $600M, and Genmab's $1.8B ProfoundBio acquisition adding to the Antibody-Drug Conjugate (ADC) dealmaking flurry.

Influencing Factors

While promising trends have materialized, 2024 still has many uncertainties impacting the industry including the macro-environment. Pending legal and regulatory changes, geopolitical tensions, inflation, and supply chain vulnerabilities all continue to create uncertainty in the market.

Macroeconomic factors include the Inflation Reduction Act of 2022 (IRA) which marks a significant shift in drug pricing and compels negotiations between the U.S. government and makers of high-cost Medicare Part B and Part D drugs. While resulting in obvious consequences for large pharmaceutical companies, biotechs also face uncertainty and indirect effects.

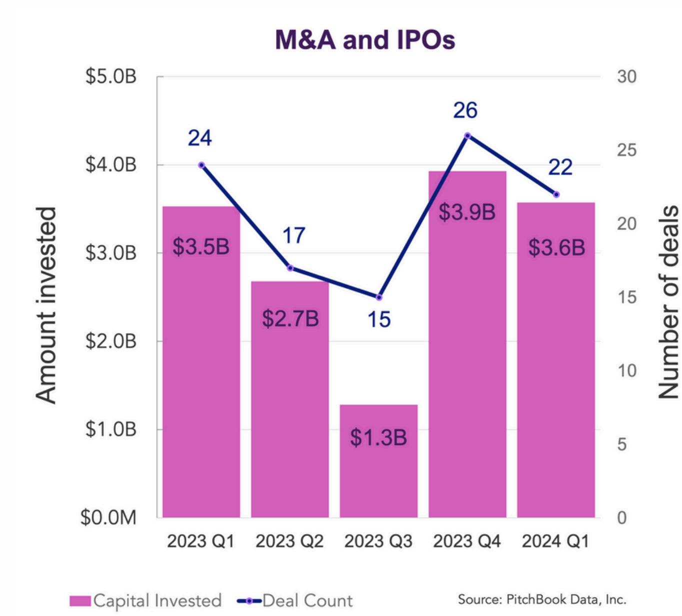
On May 14th , the Biosecure Act, which may prohibit contracting with certain biotechnology providers with ties to China, was advanced to the Senate for approval. While timing and impact is uncertain, there has already been some fallout. WuXi Biologics withdrew from the 2024 BIO convention after the BIO organization cut ties with the CDMO. The proposed Act could have far-reaching impacts with speculation in the CDMO space of site expansions, consolidations, and collaborations.

At the same time, the broader industry faces significant patent cliffs through 2030. As large pharma faces the challenge of replenishing significant revenues, we expect M&A to pick up for both later-stage, near term revenue-generating assets, as well as earlier-stage assets to replenish pipelines. Additionally, increased revenues and healthy demand contribute to strong stock prices further opening markets.

All of these factors are creating opportunities for companies in the healthtech and techbio sectors, as well as companies with innovative therapeutic-enabling technologies given that producers are looking to increase capacity and/or drive down costs.

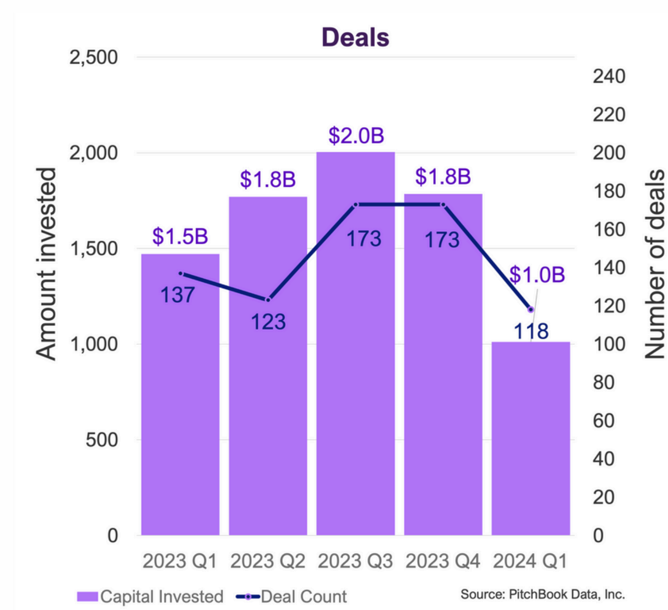
M&A Landscape

Going into 2024, Q1 M&A activity remains consistent with 2023 quarterlies, which were approximately half of quarterly deals in 2022. The same holds true for M&A activity as well with a few standouts highlights above.



VC Landscape:

Q1 2024 saw investment activity start off slow in both value and deal count coming off the flat round/extension trend from 2023. Seed and early-stage funding made up a larger share of the investments getting done.



Pulling back and looking to longer term trends highlight the rollercoaster ride the industry has been in the last 6 years. While the sector was active before 2020, investment and deal count soared during the pandemic as many new investors entered the space. As the biotech industry suffered and tourist investors left the sector deal count and value came down. A few years post pandemic, it feels as we have come back closer to normal activity at investment levels above what was seen pre-pandemic.

Important Indicators

As investors, we keep a close eye on cash reserves, M&A activity and partnerships aimed at filling portfolio gaps to gauge market confidence and the extent to which strategics are looking for opportunities. We also look for longer term investments in sectors like, AI drug discovery tools, genomics and molecular biology where innovation is high and driving market growth.

In terms of primary industry research, we heard positive early signs of renewed investor optimism at key conferences like JPMorgan, Advanced Therapies Week, ISCT and BIO.

Our Predictions

Jessica Davis
Principal

As we venture deeper into 2024, there's a palpable sense of optimism within the life science tools sector, a sentiment that forecasts this year as a pivotal turnaround from the tumultuous prior months.

This resurgence is primarily driven by the uptick in activity from both technology and pharmaceutical sectors.

For tools players, the horizon suggests a stable, if not vigorous growth as the year progresses—with the latter half of the year promising more visibility. In the pharmaceutical realm, we are witnessing a more dynamic scene already in motion.

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Contract Development and Manufacturing Organizations (CDMOs) are currently lagging behind this upward trend. Biotech firms should accelerate their engagements before CDMOs can truly ride the wave of recovery.

Startups in the space have recalibrated their growth trajectories, adopting more realistic expectations after a challenging 2023. Many have successfully navigated the storm by streamlining operations, focusing their efforts, and realigning with the more grounded market realities, though they approach the present with wariness given looming cash constraints.

Investors from venture capital through late stage and growth are intrigued by an array of promising deals, especially at the early growth stages, which suggest a fertile ground for investment.

In the mergers and acquisitions arena, we anticipate a spike in activity, with the potential for a small IPO window to open in the coming months of this year. Energized activity within biotech is expected to create a ripple effect, encouraging a similar uptick in the tools market. While mega-mergers among industry titans remain unlikely, we foresee a steady flow of smaller-scale transactions within the sector.

Deal flow remains robust, and the selection process is stringent. In light of the current drug development trends—take GLP-1 for example—there is a question of which technologies will gain prominence. With the exit of so-called 'tourist' investors, and as some syndicates retract their direct involvement in tools, a significant opportunity for leading investors has emerged in the sector.

Valuations, at present, are working in our favor, and as strategists, we must deliberate whether to capitalize on market conditions before the anticipated value surge in the second half of the year.

One particularly interesting aspect is the looming loss of patent protections. This opens doors for technologies capable of extending or redefining patent lifelines through novel delivery mechanisms.

In summary, the life science tools market in 2024 is shaping up to be a landscape of calculated optimism, strategic investment, and thoughtful consolidation, with plenty of room for innovation-driven growth.

Sebastien Latapie
Principal

At the midway point in 2024, the general sentiment among life science tools professionals is that this year marks the start of recovery from the previous years' stagnation. From JPM to ISCT and BIO, the overall sentiment is positive.

One area where we expect a slower rebound is for Contract Development and Manufacturing Organizations (CDMOs). The combination of previous overcapacity and a more conservative funding environment for biotech firms has had a negative impact on CDMOs. A resurgence in funding and an influx of projects entering clinical stages will be necessary catalysts for the revival of the CDMO sector.

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Startups are navigating the slower environment with a both a renewed focus, as well as a lingering anxiety. The challenging climate of the last 18 months has led entrepreneurs to reassess their business models, refine their value propositions, and adapt to the shifting valuation landscape. That said, the re-emerging engagement from pharma and biotech firms offers a beacon of hope. There is an optimism that these collaborations could reignite growth and extend operational runways for startups.

From the investor front, it finally feels like the tide is shifting from an internal focus to new deployments. Investments that were previously deemed costly are now being reassessed as more reasonable. There continues to be incredible innovations addressing key unmet needs, from discovery all the way through commercialization. Whether in proteomics, bioprocessing, delivery, automation, or digitization, founders are pursuing ambitious visions with more pragmatic approaches to risk, an attractive combination for investors.

We can expect the second half of 2024 to continue the trend of cautious recovery for the life science tools market. The increase in strategic partnerships, sharpened business focuses, and a market ripe for investment keeps us optimistic for what is to come.

The general sentiment among professionals in the life science tools market indicates that 2024 is expected to mark the beginning of recovery from the previous years' stagnation. The outlook is predominantly positive, surpassing the cautious optimism observed last year, signaling a collective readiness to ascend from the trough of the last 18-24 months.

In the first half of the year, the biotech and pharmaceutical sectors are expected to see increased activity. Pharma companies and strategic investors are exhibiting a greater willingness to forge partnerships and engage with startups. Tools players, which saw stable yet flat performance in H1, are anticipating an upswing in H2, without fear of a further decline.

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The exit strategy landscape is still tinged with uncertainty, as multiples, particularly within the CDMO sector, remain subdued, with some exceptions. While there was minimal variance between public and M&A deal multiples in 2023, there groups are now ready to engage in mergers and acquisitions and capitalize on potential opportunities as market conditions evolve.

In summary, 2024 is forecasted as a year of cautious rejuvenation for the life science tools market, underpinned by strategic partnerships, sharpened business focuses, and a market ripe for investment and innovation.

Ole Henrik Bang-Andreasen
Investment analyst

Based in London, Ole brings a unique perspective of the UK and EU market coming from his engagement in the region

The life science tools market is navigating a challenging period, and the pathway through 2024 appears fraught with uncertainties. Conversations with industry professionals, including sales representatives and digesting Q1'24 public company filings, indicate that the sector is not poised for an immediate recovery. Instead, there's an undercurrent of optimism with more realistic expectations pointing towards a potential recovery in the European region in 2025.

Sales data and budget forecasts for 2024 are not promising. The industry is contending with a harsh environment where risk aversion is paramount—capital expenditures are on hold, and there's a tangible concern for job security.

In the medtech subsector, there are signs of activity as backlogs in imaging and procedural work are addressed, but it's challenging to delineate true organic growth due to the excess inventory and available service capacity across the industry.

Many companies are lagging behind their business plans, often having not secured sufficient funding during their last capital raise, which is now proving more difficult. This puts companies in a weak position, creating greater opportunities for investors. Still, a sense of urgency seems to be lacking as many founders remain hopeful for a brighter tomorrow rather than proactively adapting to the current economic climate.

The fundraising landscape is particularly stringent, with startups facing a tight capital environment. The industry needs a resurgence of IPOs and exit activities to inject liquidity and revitalize the market. A somewhat controversial view, by a number of market participants, is the need for a market correction through increased bankruptcies, which would serve to recalibrate the industry. The deal pipeline, particularly in the first half of the year, was tepid, and expectations for the second half of the year is only slightly better.

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From the founders' perspective, cash costs are soaring. With high base salaries incongruent with unmet targets, and corporate jobs with comparable pay becoming scarcer, founders face a dilemma. There is a call to action for founders to reassess their situations, embrace a proactive mindset, and step out of their comfort zones, as the prevailing sense of complacency and reliance on future optimism is risky in the current climate. For the next 12 months, companies that want to succeed need all-hands on deck. Founders starting a business in this environment will be hardened and battle tested as they seek growth capital and expertise from firms like AVANT BIO.

Wrap Up

Peter Lee
Partner

Despite a number of volatile years for the life sciences sector, the mid- to long-term opportunity remains very much intact. Healthcare is a massive market and is entering a period of rapid innovation and growth that we expect will accelerate in the years to come.

While the rise of new life science technologies has unlocked biological insights and improved our understanding of disease, the challenge of harnessing these novel insights and applying them effectively has introduced greater complexity than our industry has ever faced before. Emerging technologies will be the key to addressing these challenges and unlocking the next generation of therapies.

We remain optimistic about the opportunities ahead and the sense of renewed confidence in the sector. The remainder of 2024 will continue to be uncertain as various macro and sector-specific dynamics continue to play out, but performance has trended positively among key players in the space, and we expect to see continued momentum through the balance of the year and beyond.

<u>Investor Guidance:</u>
The current market provides for an opportune time for investors, with valuations coming down across the board, management teams re-focusing on the fundamentals (i.e. controlling spend, optimizing growth vs. profitability), and a market recovery in sight. In the enabling technologies space where opportunities are abundant, cutting-edge technologies are needed now more than ever given the rising complexity and cost of drug development. On the flip side, a burgeoning landscape also means increased competition and fragmented markets, which creates an advantage for investors that can bring more to the table than just capital but also the expertise and market knowledge to help unlock value.

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<u>Guidance for Founders and Leadership</u>
The recent market volatility has been a stark reminder for founders and management teams of the importance of the fundamentals and striking a balance between growth and profitability. Controlling spend and extending cash runways while also maximizing commercial opportunity is a challenge. Early state companies need to be mindful of capital allocation strategies and forge a clear path to profitability in the current market environment.

Leadership teams should be commercial-minded. Assuming technical proof of concept has been achieved, leadership teams should try to focus on markets and commercial strategy earlier in the company's life cycle. Having a strong understanding of market and customer segmentation and the commercial infrastructure required, and contextualizing that understanding within a clear go-to-market framework, will help to optimize early commercial execution.

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