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2024's potential biopharma boom: Reshaping healthcare amid investment and legislative shifts

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The Buzz This Week

The biopharmaceutical (biopharma) sector has seen significant activity since the start of 2024. Following a challenging year in 2023 (as evidenced by a 57% increase in layoffs compared to 2022), the early days of 2024 have been marked by an increase in initial public offerings (IPOs), a surge in venture capital investment, and legislative developments that support U.S. biopharma growth.

Since the start of 2024, 4 biopharma companies have held IPOs, and another 3 have filed for their public debuts. This marks a stark contrast to 2023 when only 4 companies held IPOs in Q1. In addition, out of the 18 biopharma IPOs in 2023, 55% were less than \$100 million in proceeds. All 4 IPOs in 2024 have exceeded that amount. The current increase in IPO activity suggests a potential sector recovery and signals growing investor interest.

Alongside this IPO activity, the biopharma sector is seeing a notable increase in merger and acquisition (M&A) activity, specifically pharmaceutical companies acquiring biopharma entities, highlighting the renewed interest in these companies and their research and development (R&D) projects. The top 10 M&A deals in 2023 amounted to \$116 billion. This is a significant increase from previous years, with the top 10 M&A deals totaling \$65 billion in 2022, \$53 billion in 2021, and \$97 billion in 2020.

The increase in M&A is being driven by several dynamics. First, there are looming exclusivity expirations for several major pharmaceutical products, such as Merck's Keytruda and Johnson & Johnson's Stelara. As a result, pharmaceutical companies will face biosimilar competition—likely at reduced pricing—and will undoubtedly see a revenue decrease for those drugs and market share erosion. Pharmaceutical companies will need to bolster their R&D pipelines, and biopharma innovations are one solution to that.

Second, pharmaceutical companies are sitting on an estimated \$700 billion in cash, which they can deploy for such R&D acquisitions and/or for the purchase of immediate prospects that they can market and sell in the near-term. Finally, the Inflation Reduction Act's impact on drug pricing will limit the ability to increase pharmaceutical prices at the same rate as in the past, furthering the need to grow their product portfolios' sources of revenue.

Early stage biopharma companies collectively raised more than \$1.1 billion in January 2024 through 15 venture fundraising rounds, each exceeding \$50 million. This robust activity, compared to January 2023's \$650 million total from 8 rounds, indicates that private funds see value in biopharma and anticipate growth in the next 3 to 7 years.

Legislative influences are also playing a significant role in U.S. biopharma growth. The industry is being recognized as a critical component of national security and economic strategy. Recent bills introduced in Congress aim to restrict foreign biopharma firms from operating freely in the U.S. market, particularly those with perceived ties to adversarial countries or governments, giving an added lift to U.S.-based companies.

Why It Matters

The success of the biopharma sector is pivotal for the healthcare industry, as continued investment and innovation accelerate the development of breakthrough technologies. These advancements hold immense potential to transform care delivery and strategy, fundamentally reshaping how healthcare providers approach diagnostics, treatment, and patient management.

One aspect of biopharma's transformative potential lies in the impact of advancements on health equity. For instance, the recent FDA approval of a cell-based gene therapy for sickle cell disease highlights how biopharma can address diseases that disproportionately affect communities of color. Sickle cell disease has a higher prevalence among Black and Hispanic individuals, with approximately 8% of Black Americans estimated to carry the sickle cell trait compared to just 0.3% of white Americans.

Additionally, leading health systems are increasingly acknowledging the importance of nurturing biopharma innovations. They recognize that collaborations with and investment in biopharma companies can lead to groundbreaking advancements in medical treatments and healthcare technologies, and, if commercialized, help these organizations diversify their revenue streams. Examples include Allegheny Health Network's transformation of a hospital into a biopharma hub, Houston Methodist's medical tech innovation space, Mass General Brigham's Gene and Cell Therapy Institute, and Mayo Clinic's Discovery Oasis hub in North Phoenix. These hubs aim to merge clinical expertise with biopharma innovation, fostering environments in which revolutionary healthcare advancements can flourish.

The legislative landscape surrounding biopharma also presents new challenges and opportunities for healthcare organizations. Bills like the Biosecure Act, which limits federally funded providers from using foreign biopharma firms, introduce new treatment and compliance complexities. Healthcare organizations should be attentive to these changes as they explore collaboration opportunities with biopharma firms.

Additionally, the high costs associated with innovative biopharma treatments (exemplified by gene and cell therapies costing millions per patient) raise concerns about affordability and accessibility. As healthcare organizations navigate the shifting legislative terrain and their patients grapple with affordability issues, their ability to adapt and innovate will be crucial for successfully leveraging biopharma advancements to improve patient care.

As the biopharma sector progresses, it will continue to impact treatments and the ways in which healthcare is delivered. Healthcare organizations that remain steadfast through industry challenges and proactively embrace biopharma advancements position themselves at the forefront of healthcare transformation. The biopharma sector's recent activity is an opportunity for other healthcare organizations to take note and potentially play a role in the sector, best positioning themselves to harness future groundbreaking solutions that enhance patient care.

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