

Section: Editorial

Still Waiting for the Turning Point in Deal Making

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Following the mega-mergers at the start of the year there was excitement as we were entering a new era in deal making. But deal numbers have been down so far this year and still no sign of an upturn.

Data from the PharmaDeals v2 Agreements database suggest that in the first six months of this year there were 30% fewer deals overall as compared to the same period last year. From March onwards there was a gradual decline in M&A deals reaching a low point so far this year in August. Licensing deals also declined from January to April, showing a slight increase in June before heading downwards again in July and August. The large pharma companies with strong bank balances continued to make acquisitions. With a wide choice of products, technologies and biotech companies on offer – many at bargain basement valuations - they are being more selective in what they acquire. Biotech companies are still reeling from the shock of the credit crunch.

Then there was the expectation that deal making will increase in the second half of the year. Deals during the summer months tend to slow down but in the three months of June to August they were nearly 60% down compared to the same period last year. In September things began to look up with a flurry of M&A activity and numbers heading back to those seen before the slide in April. Is this likely to continue for the rest of the year?

Also, there was a glimmer of light from the IPO window, which was firmly shut since the credit freeze. Cumberland Pharmaceuticals broke the ice in August followed by Omeros Corporation and Talecris Biotherapeutics. It was second time lucky for Talecris' investors possibly providing hope to other biotechs that the markets are thawing. Also investor confidence may be returning with more companies announcing that they have successfully raised finance.

We still have the busy months of October to December to see through, which could bring the numbers back up. If there is no significant upturn in deal making till the end of the year, the total number of deals could be at least 50% down compared to last year. Even if there is an upturn in deal making in the final months of the year, it is unlikely to reach anywhere near the heights of two years ago – there is still a very long way to go.