

SECA Yearbook 2017



SECA

Swiss Private Equity & Corporate Finance Association
Schweizerische Vereinigung für Unternehmensfinanzierung
Association Suisse des Investisseurs en Capital et de Financement

An overview of the healthcare sector

The biggest problem for any investor is choosing the ideal asset allocation. Today only equities or some alternative investments can return honest performance, but equities and alternatives come with high risk and volatility. Currently, healthcare and information technology are the most rewarding and growing sectors in our knowledge-based economy.

A revolution is taking place in healthcare, opening up new applications, as well as new scientific discoveries. Novel applications, such as gene testing (the use of genetic tests to determine genetic conditions or the chances of developing or passing on a disorder) and regenerative medicine (the combination of scaffolds, cells and biologically active molecules into functional tissues or organs) will profoundly impact our life by providing “spare parts” for damaged tissues and organs, but most importantly it will provide the foundation for new therapies.

The world’s population is living longer and requires innovative healthcare approaches to address their needs. There are still no known cures for half of the diseases, and present treatments such as antibiotics are becoming less effective due to bacterial resistance. Healthcare, and biotechnology in particular, are shifting disease management towards both personalized and preventive medicine, targeted screening, diagnosis and innovative drug treatments. Pharmacogenomics, which applies information technology to the human genome, is helping drug design, discovery and development and will further support this radical change.

Cancer immunotherapies, gene therapies and treatments for rare diseases have gained the greatest investor interest. The healthcare market grew steadily in the last 20 years (+2.1% y/y in 2016¹) with thousands of companies and hundreds of new ventures entering this arena every year, making it a very complex environment. Moreover, the financial crisis and the government pressure on healthcare costs contributed to the volatility of the market.

The United States and Europe have always been amongst the leading players in healthcare. However, the profile of the healthcare sector in these two regions differs as a result of distinctive regulatory systems and public attitudes. The majority of European companies are located in Germany, UK, France, Benelux, Switzerland and the Scandinavian countries. In the US, healthcare and biotechnology have grown vigorously and have found an enthusiastic uptake. Over the past few years we have noticed emerging countries, such as China, India and Singapore, investing heavily in healthcare and quickly closing the gap.

The lower level of government investment in basic research and grants, the different social security systems, a complex and fragmented regulatory environment together with high investor risk aversion, and the lack of risk capital have caused the healthcare sector in Europe to lag behind the US.

¹ D TTL Life Sciences 2017 Global life sciences outlook

Much of this can be explained by the fact that it is easier for US companies to raise money from financial markets, especially in the form of venture capital, equity and debt financing.

The European healthcare sector is also inhibited by increasing governmental interference and an ever-changing regulatory framework. By contrast, in the US there has been a steady growth in domestic demand, which the industry has been able to exploit. US companies have also been much better than their European counterparts at marketing their products internationally.

After a challenging 2016 where the healthcare sector underperformed, in 2017 selected opportunities will outperform the market. Major pharmaceutical and biotech companies, with focused pipeline opportunities and new product launches will drive potential long-term upside. Although pricing challenges remain critical, companies with innovative new product launches offer attractive margin opportunities.

Healthcare and Biotech companies are in the middle of a new product cycle where several multi-billion dollar pipeline products have successfully launched or are in late stage of development. Over the next 24 months several advancements involving disruptive therapies will be increasingly frequent (e.g. immuno-oncology) although omnipresent pricing concerns and broader political uncertainty (e.g. new US government and European elections) are likely to remain critical. Roughly 25%² of 2020 industry revenues will come from these new products, which will sustain a period of higher margin or balancing the loss of revenues from generics. Biosimilars will have a modest but increasing market penetration translating to a significant commercial opportunity for some companies (over \$100bn in biologic revenue will face patent expiration by 2020³).

Solid fundamentals and new product launches will support strong long-term growth and offset the recent underperformance. In addition, large deals and M&A are foreseen in this industry. This includes both smaller acquisitions and large M&A as the sector has plenty of balance sheet capacity to pursue and execute these deals.

Summary 2017 and beyond:

Negative market considerations:

- Global uncertainty and high volatility that scares investors
- Science driven decision only partially balanced by fundamentals
- Long development cycle of over 12 years and high investment for R&D
- A new US government, tax reform and European elections
- High pressure on pricing / reimbursement

² Statista GmbH, Bloomberg DRG, 2017 and Onelife internal data

³ IMS Health, Delivering on the Potential of Biosimilar Medicines, March 2016

Positive market considerations:

- Innovation is high meaning IP protection, higher prices and less competition
- Over 400⁴ scientific catalyst events in 2017 and possibly 50⁵ approvals of new drugs
- Market is experiencing steady growth.
- Attractive company valuations
- M&A opportunities on the top for exceptional performance

Picking the right investment needs great expertise that only specialists can guarantee. Evaluating healthcare companies, especially in early stage, requires sector and scientific knowledge to correctly factor-in clinical study data, standard-of-care practices and disease incidence that can make traditional financial indicators deceptive. This is why investors without in-depth knowledge of the industry should be careful in investing or use professionals to drive their decisions.

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Enrico Braglia, M.A. (Economics), ONELIFE SA founder and CEO, is a serial entrepreneur with over 25 years of top management experience in the healthcare and finance industry. ONELIFE advises several Investment Funds, Family Offices and Financial Institutions. Enrico is involved in many professional and non-profit international organizations and serves on the board of several innovative companies.

⁴ Cowen and Company, 2017 therapeutic outlook, September 2016 and JPM Healthcare conference 2017

⁵ Onelife Sa internal data based on FDA's Office of New Drugs data base, January 2017