

Healthcare Outlook: Positive Prognosis? Biotech to Remain in Focus in 2022

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2021 was a volatile year for the Life Science and Biotech sector. Are there reasons for optimism heading into 2022?

While there has been an incredible amount of capital going into life sciences and biotech over the past three years, the sector is well off its February 2021 highs and overall public deal making activity slowed significantly in the fourth quarter. Nevertheless, there are several positive catalysts for which investor enthusiasm is not being reflected. For example, current laboratory vacancy rates in Boston are extremely low, around 1.7%, and commercial real estate is increasingly being converted to labs to satisfy strong demand. Furthermore, healthcare spending in the U.S. is currently around 18.5% of total GDP, which is up slightly over the last decade and 1.5 times greater than countries such as the U.K., France, and Germany. These trends, coupled with enhanced efficiency in the FDA drug approval process, are good indicators of the underlining strength of the sector and why conditions are ripe for a more favorable environment in 2022.



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What trends in the healthcare space do you believe will define 2022?

Potentially higher interest rates will have an impact on valuations, as will overall economic activity. Regardless of macro trends, we expect increased interest in the healthcare services and tech enabled services sub-sectors. There is no question digital health is surging and will continue to surge. Whether it's remote access to doctors, or the delivery of pharmaceuticals by drones, these capabilities will become more of a fundamental part of how healthcare will operate moving forward. The COVID-19 pandemic has dramatically sped up the implementation of technology, specifically in med-tech and diagnostics. Companies in this space are utilizing big data and cutting-edge technology, like AI, for tasks including the development of drugs and clinical trial management. While these capabilities aren't profit drivers now, they certainly will be 10 to 15 years from now.

What are the biggest factors that will influence the IPO market?

The biggest driver for capital raising in healthcare has been from life science and biotech IPOs and follow-on offerings. Much of the activity has been driven by cross-over investors in pre-IPO financing rounds. Those companies will need to go public at some point. That's one big reason why we expect a continued robust IPO market in 2022. IPO investing is a momentum play and while returns have been more negative recently, it will not take much to change that, especially as we turn the page to a new year in 2022. The fundamentals of the life science ecosystem are very strong. There continue to be impressive advances in science, a constructive regulatory environment with FDA approvals running at a robust pace, and entrepreneurial biotech companies continue to attract talented people.

How much of an impact will policy changes by the Biden Administration, including a proposed drug pricing plan and tougher antitrust enforcement, have on the healthcare industry next year?

Drug price regulation has largely been priced into investment models. As such, it won't have the dramatic impact that it has in the past. While there is a decent chance that these measures will be enacted through Medicaid and Medicare, the likelihood of major changes to the private pay/insurance model is unlikely. Antitrust and CFIUS concerns though, are a headwind that could impact M&A activity, especially for transactions in which there is a planned transfer of technologies offshore, specifically in China. It's important to note though, that this regulatory stance will likely have a bigger impact on transactions that occur in other industries beyond healthcare. Tax reform could dampen enthusiasm for equity investments both on a capital gains and carry perspective impacting both public and private capital investment. As has been the case, the stalemate in Washington makes it likely any changes in policy will be incremental rather than transformational.

To learn more about Healthcare Investment Banking, contact ibinfo@stifel.com.

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