Mirimus lab scientists preparing to test Covid-19 samples from recovered patients on April 8, 2020 in Brooklyn, New York City.
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Bloomberg Law

Life Sciences Product Development Needs More Creative Fundraising

Latham & Watkins' Judith Hasko says current fundraising conditions are pushing life sciences companies to diversify their funding options during product development.

The life sciences industry depended historically on public offerings for fundraising to support costs of developing therapeutic pharmaceutical and biologic products. The average cost of discovering and developing these products has risen to over $3 billion.

Twelve percent of therapeutic product candidates entering clinical development are eventually approved after 10-15 years in development. These challenges prompt pharmaceutical and biologic product developers to navigate changeable fundraising environments with flexible fundraising strategies.

Given the current softness of global public markets and significant M&A headwinds for life sciences, biotechnology and pharmaceutical companies are looking to diversify their funding sources.

This fundraising environment motivates such companies to consider collaboration and licensing transactions at an earlier development stage to provide the critical funding necessary to navigate turbulent markets.

While investors in life sciences companies may realize an exit from their investments via public offerings, M&A transactions have over the years provided an attractive alternative to achieve investor returns.

From 2019 to 2021, initial public offerings for life sciences companies raised between $6 billion and $16 billion annually, providing significant capital for product development. More recently, a marked chill in capital markets allowed only $4 billion to be raised in initial public offerings in 2022, and just under $1 billion in the first half of 2023.

Furthermore, the life sciences M&A market is trending downward in the last 12 months in terms of volume and deal size, making these normally attractive alternative transactions particularly challenging to execute for high value.

Diversification

In today's markets, pharmaceutical companies are considering debt financings and royalty stream sales or synthetic royalty transactions, but those approaches are often limited in size or not suitable for earlier-stage products.

These companies increasingly consider collaborations and licensing transactions with other life sciences companies to obtain funding for discovery, development, and commercialization of new therapeutic products.

For reference, life sciences companies signed alliance deals with a potential value of $132.1 billion in 2022—the third-highest total in the past decade. These transactions range from a simple out-license of a product that's no longer within the company's primary focus area, to complex co-development and profit-sharing deals where product developers can access complementary capabilities of the licensee or collaborator, and diversify risks across product development efforts in any given business area.

These transactions are a regular part of the life sciences company playbook, particularly for emerging and smaller companies that don't typically have the ability to fund later-stage clinical trials costing tens or hundreds of millions of dollars, or specific capabilities that another life sciences company can contribute.

However, the specific scope and nature of licensing and collaboration transactions varies to reflect market trends in the public offering and M&A markets.

Collaborations
Life sciences companies that have early-stage technologies applicable to discovering or delivering therapeutics seek collaborations to explore particular applications of these technologies, feeding a growing need by larger life sciences companies to enhance their product pipelines.

In a better public offering and M&A environment, such as between 2019 and 2021, life sciences companies with early-stage technologies would apply capital raised in public offerings to progress their product development efforts further, before out-licensing or otherwise sharing development and commercialization rights with other companies.

Today, since products are licensed out or co-developed at an earlier stage, often before the initial product developer creates significant value, these transactions are likely to return less value at execution than would otherwise have been realized, had the original product developer progressed development farther by itself.

Tight public markets also cause established life sciences companies to review, prioritize, and streamline their own product development pipelines. As a result, they may sell or out-license rights to certain products or to monetize income streams from marketed products to fund development.

In this turbulent market, life sciences companies may identify opportunities to obtain product rights that may not otherwise be available in a steadier capital markets environment.

Outlook
Life sciences companies are constantly challenged to identify funding sources for their very ambitious, high-risk, and life-changing (or saving) product development efforts. Remaining nimble and flexible, and using all available funding sources in any given market, is critical to the success of these companies.

Out-licensing or selling rights to life sciences therapeutic products, and collaborating with other life sciences companies, are crucial tools for navigating tough funding and M&A environments.

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