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GUEST NOTEBOOK

Future is bright for biotech/pharma

BY GREGORY C. SARIAN

This year was marked with several highlights in the Greater Philadelphia biotech/pharmaceutical industry.

Vitae Pharmaceuticals in Fort Washington was acquired in a $640 million deal by Allergan, while CD Diagnostics, a medical device company in Delaware, was acquired by Zimmer. While these are noteworthy acquisitions, there are reasons to be optimistic.

Here are several reasons why 2017 is setting up a bright forecast for Philadelphia life sciences companies:

A more supportive backdrop

With interest rates still hovering above historic lows and a new administration in Washington, the environment for takeovers is strong. The new transition team has made clear its desire to repeal the Dodd-Frank Act, citing the sluggish recovery and below-average growth the economy has experienced since 2010. With the government in the hands of the historically regulation-averse Republican Party, it is very likely that deregulation will become the new normal. A less stringent regulatory environment in the financial sector should support credit facilities, lending structures, and loan requirements, all of which are necessary factors when large companies make purchases. The incoming administration has also proposed a corporate tax rate of 15 percent, a drastic decrease from the current 35 percent corporate rate, which should ultimately make American companies more competitive with their foreign peers, and put more capital in the hands of large pharmaceutical, biotech, and device companies looking for deals.

A focus on repatriating assets

With an eye on bringing industry back to the United States, the incoming administration has proposed a one-time 10 percent repatriation rate on overseas assets. A repatriation "holiday" of overseas assets by bigger American pharmaceuticals could set the stage for a very healthy M&A environment, as this could result in companies sitting on large domestic cash reserves in the near future.

A Goldman Sachs study suggested that the top five pharma/medical device companies could be keeping more than $50 billion in cash abroad. Some reports suggest that Pfizer, which has recently been M&A hungry, has around $80 billion in overseas assets alone. If this proposal is enacted, many of those overseas funds could return to American shores and provide additional capital to fuel M&A activity, invest in plant and human capital, and support research and development.

Friendlier regulatory context

The new administration is proposing fewer regulatory price controls, and a greater emphasis on innovation for biotech companies. With the White House and Congress aligned, pro-growth initiatives should support efforts like the 21st Century Cures Act. This would provide a faster pathway to drug development. Additional investments in the NIH Transaction Fund would be a key driver for new products and technology. A friendlier regulatory climate can already be seen in effect as life sciences stock prices have risen.

Executives, entrepreneurs, and founders of biotech, pharma, and device companies should be planning for stronger growth amd avoiding the mistake of solely focusing on the company's outcome. Taking time to think about enhancing your personal outcome in your entity, reducing the income tax burden, and understanding how various outcomes could affect your personal circumstances, are critical first steps to maximizing your personal outcome in a transaction.

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