Pharmaceutical and Life Sciences Deals Insights Quarterly

Q1 2014

May 2014

A publication from PwC's Deals practice

At a glance

With strong M&A activity overall, particularly in the pharmaceutical and medical device sectors, 2014 began where 2013 left off. Heightened deals activity should continue in coming quarters, based on current trends.

While India is home to an established pharmaceutical and life sciences industry, including global players in generics and vaccines, it is on the threshold of becoming a major market in the coming years.

We invite you to explore some of the findings of PwC's 17th Global CEO Survey. CEOs in the pharmaceutical and life sciences industry are becoming more optimistic and are gradually shifting from survival mode to a greater emphasis on company growth.

pwc

Welcome to PwC's Pharmaceutical and Life Sciences Deals Insights Quarterly

This issue of Pharmaceutical and Life Sciences Deals Insights Quarterly brings you PwC's perspective on deal activity in the industry. Each quarterly publication features three sections:

1. ***Market update:*** A summary of M&A deals and trends for the previous quarter. This issue covers Q1 2014.
2. ***Market spotlight:*** An update on the deal environment in selected geographies. This issue focuses on India, home to an established domestic pharmaceutical and life sciences industry. Demographic and economic trends point to India as being among the countries most poised for growth in the PLS industry over the next decade and beyond.
3. ***Strategy corner:*** A feature offering tips and insights on various aspects of deal making. PwC recently released the results of our 17th Global CEO Survey. This issue explores the responses to the survey from CEOs in the PLS industry, with a focus on the topics most relevant to deal makers.

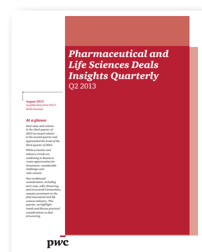
Refer also to our previous publications for insights into executing deals in other geographic markets, and explorations of various aspects of successful transactions. Our quarterly deals publications are available at www.pwc.com/us/pharmadeals.

Q4:2013
Africa: Opportunities for investment and growth

Tax planning to mitigate transaction risk

Q3:2013
Russia: poised for continued economic change but challenges remain

Using non-traditional consideration to close the M&A value gap



Q2:2013
Brazil: High growth potential but challenges to deal making

Foreign Corrupt Practices Act

Q1:2013
Southeast Asia comes of age

Refining the price-value equation

Q4:2012
Doing deals in China

Driving divestiture success—

Five critical components

Market update

A 50 percent increase in deal volume in the first quarter of 2014 demonstrates continued M&A momentum from the fourth quarter of 2013.

Deal value and volume in the pharmaceutical and life sciences industry (PLS) increased 20.9 percent and 53.1 percent, respectively, in the first quarter of 2014 compared with the fourth quarter of 2013. Compared with the first quarter of 2013, deal volume increased 40 percent, while deal value increased 122.6 percent, excluding the initial public offering (IPO) of AbbVie by Abbott Laboratories. Excluding all mega deals (deal values greater than $10 billion), deal value in the first quarter increased by 2.8 percent, compared with the fourth quarter of 2013, and by more than 300 percent compared with the first quarter of 2013.

The PLS industry should expect robust M&A activity in 2014, as several key industry trends continue to create opportunities for deal makers.

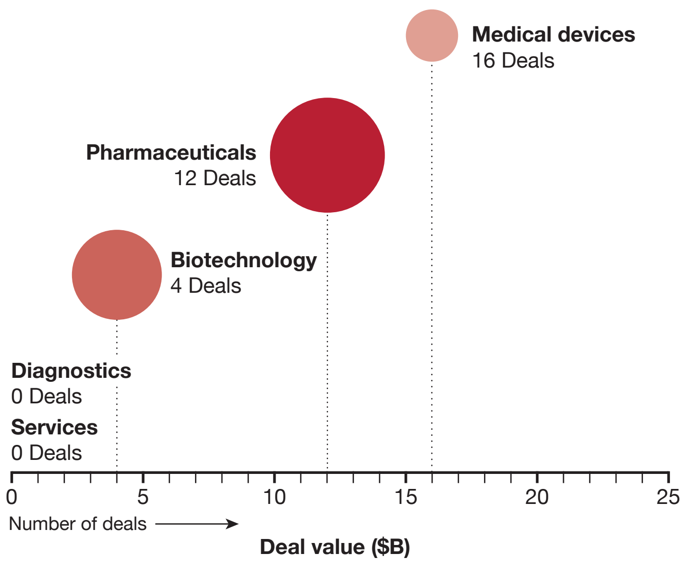
- Pharmaceutical companies continue to evaluate their businesses and assets, seeking opportunities to unlock shareholder value through divestitures while gaining strength in their core businesses. Large pharmaceutical companies are likely to remain active in the market as both buyers and sellers as they seek to adapt to shifting regulatory and economic climates in key markets.
- Biotechnology companies have become significant rivals to pharmaceutical companies in M&A activities. Large biotechnology companies, bolstered by product approvals and commercial successes, seek to diversify their product portfolios and gain scale through M&A. These companies are likely to remain active acquirers in coming quarters and beyond.
- Medical device companies remain active in M&A as well. Acquirers in the medical device sector have largely sought out mid-size, tuck-in acquisitions to complement existing product portfolios, but they are also evaluating opportunities to make an even more dramatic impact on their businesses. Medical device companies are facing demands to adopt new technologies to improve patient experiences and outcomes. These trends may drive acquisitions designed to innovate and transform business models.
- As anticipated in our year-end report, diagnostics and services companies alike returned to the M&A market after a relatively slow last quarter of 2013. Trends within these sectors are likely to drive continued interest in M&A.
    - Continued focus on R&D effectiveness, advances in personalized medicine, and the emergence of new technologies in such areas as molecular diagnostics may lead to opportunities for acquisitions by larger diagnostics companies.
    - Contract research organizations and contract manufacturing organizations are likely to continue to attempt to gain the scale necessary to serve an increasingly global base of customers in the pharmaceutical and biotechnology industries.

Quarter in review

The volume of PLS deals closed in the first quarter of 2014 increased 53.1 percent to 49 deals, compared with 32 in the fourth quarter of 2013, and increased 40 percent from 35 deals in the first quarter of 2013. The value of PLS deals closed during the first quarter of 2014 increased 20.9 percent to $44.9 billion, relative to the approximately $37.2 billion in the fourth quarter of 2013, and increased 122.6 percent relative to the first quarter of 2014, excluding the IPO of AbbVie.

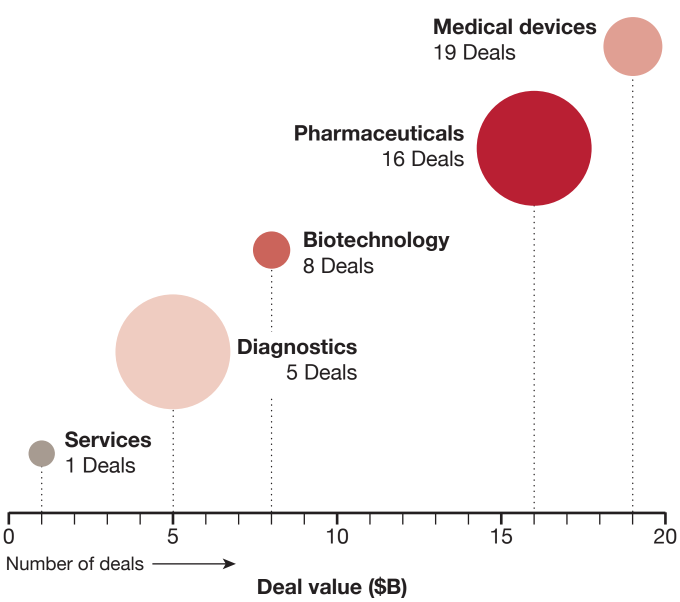
M&A activity in the pharmaceutical sector remained strong, particularly in light of 2013, during which time the sector saw nearly $133.7 billion of total M&A activity and a strong fourth quarter. Sixteen deals closed in the first quarter, 33.3 percent more than in the fourth quarter of 2014 and consistent with the first quarter of 2013. While total deal value declined 17.1 percent from the fourth quarter and 74.1 percent compared with the first quarter of 2013, these periods were favorably affected by several large transactions. Recent trends in deal volumes point to increased M&A activity in the coming quarters.

Figure 2: Total deal value and deal volume by industry segment (2013 Q4)



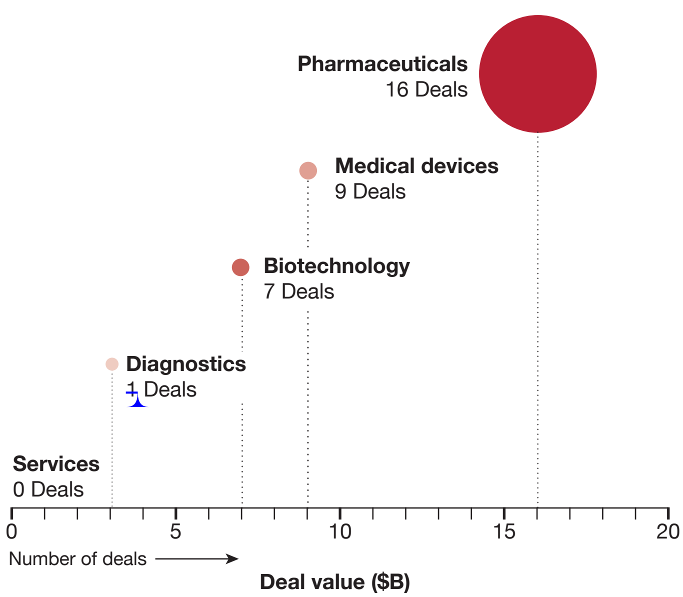
Source: Thomson Reuters

Figure 1: Total deal value and deal volume by industry segment (2014 Q1)



Source: Thomson Reuters

Figure 3: Total deal value and deal volume by industry segment (2013 Q1)



Source: Thomson Reuters

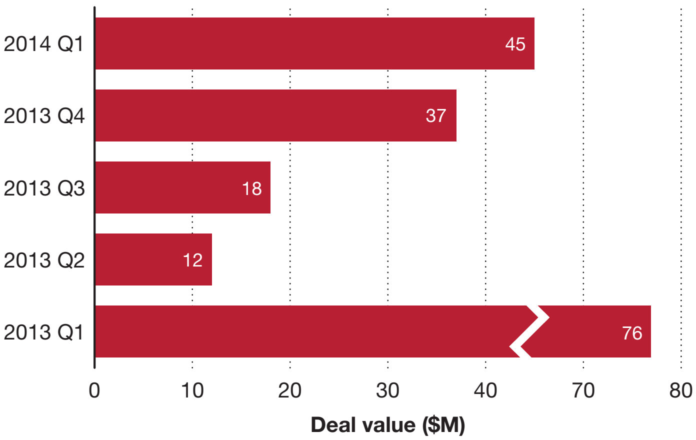
Eight deals closed in the biotechnology sector, double the number of deals that were closed in the fourth quarter of 2013 and one more than the first quarter of 2013. Deal values, however, were 82.7 percent lower than the prior quarter and only 6 percent higher than the same period in 2013.

The medical device sector remained a source of significant M&A activity in the first quarter, with total deal value down only slightly from the fourth quarter of 2013 and nearly 200 percent higher than the first quarter of 2013. Deal volumes also demonstrated robust activity with 19 deals, 18.8 percent higher than the fourth quarter of 2013 and 111.1 percent higher than the first quarter of 2013.

In the diagnostics sector, five acquisitions closed in the first quarter of 2014, only one shy of the six deals closed in all of 2013. Similarly, deal value in the diagnostic sector totaled $18.6 billion, led by the acquisition of Life Technologies for approximately $15.5 billion by Thermo Fisher Scientific. Thermo Fisher Scientific is a manufacturer of analytical instruments, equipment, diagnostics, and consumables.

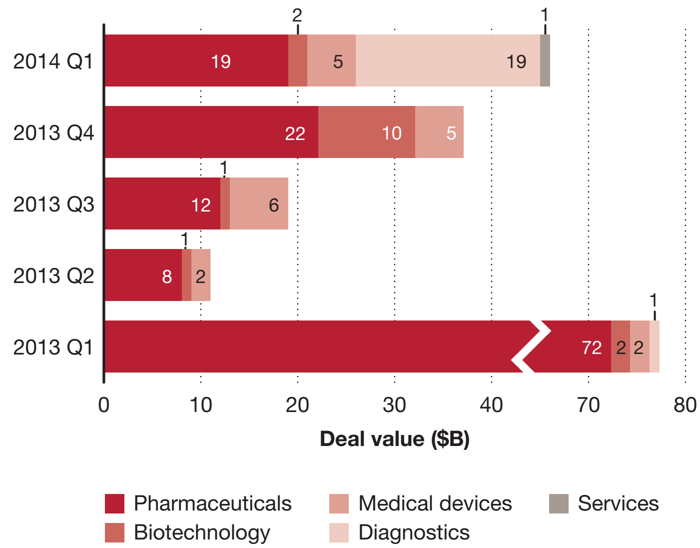
One transaction for $1.4 billion also closed in the services sector in the first quarter of 2014, after no M&A activity in the first or fourth quarter of 2013. Contract manufacturers and contract research organizations may continue to seek opportunities to gain scale and diversify geographically in order to serve their increasingly global customer base.

Figure 4: Total deal value (2013 Q1–2014 Q1)



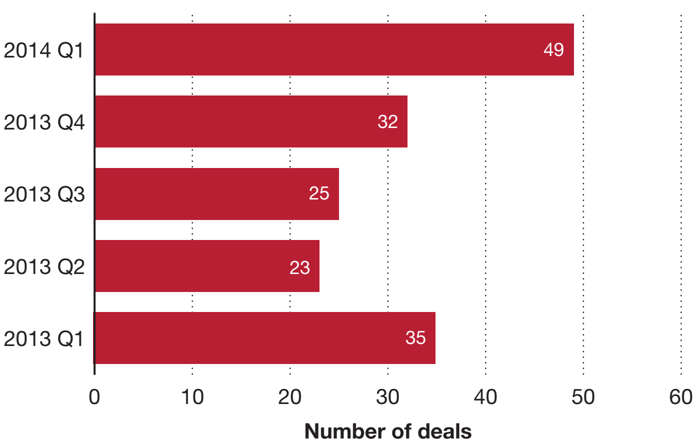
Source: Thomson Reuters

Figure 6: Total deal value by industry segment (2013 Q1–2014 Q1)



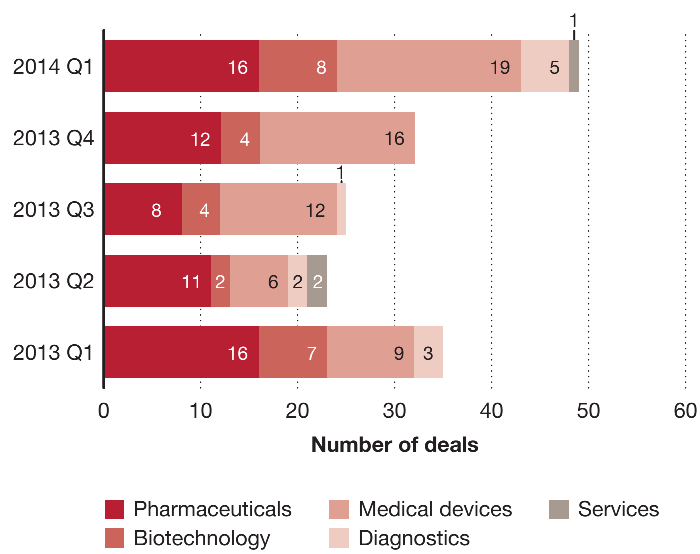
Source: Thomson Reuters

Figure 5: Total deal volume (2013 Q1–2014 Q1)



Source: Thomson Reuters

Figure 7: Total deal volume by industry segment (2013 Q1–2014 Q1)

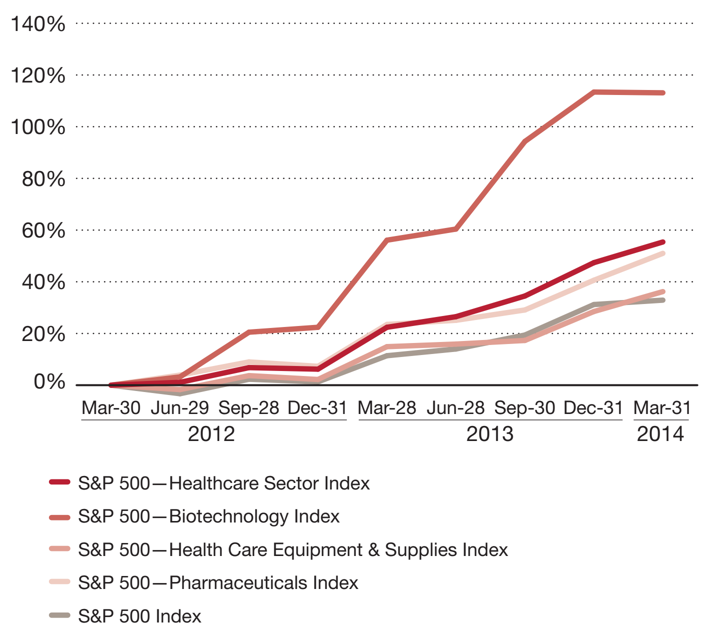


Source: Thomson Reuters

Trends and insights

- The first quarter of 2014 signaled a continuation of trends observed in late 2013 and suggests continued robust M&A activity in 2014. As discussed in this edition's Strategy Corner, CEOs in the PLS industry are increasingly optimistic about their companies' prospects and are seeking opportunities to grow their businesses. These objectives, combined with strong equity markets, overall economic stability, and trends in each of the sectors within the industry, are creating an environment ripe for continued M&A activity.
- Deal activity in the first quarter revealed a continuing trend of companies reassessing and realigning their portfolios in light of evolving industry dynamics. Thirteen divestitures were completed in the first quarter of 2014 with a total value of $10.1 billion. This trend may accelerate in the coming quarters as multinationals continue to seek opportunities to unlock shareholder value and develop new business models.
- PLS stocks, overall, continued to outperform the S&P 500 in the first quarter. The S&P healthcare sector index rose by 5.4 percent, compared with a 1.3 percent increase for the S&P 500 overall. Among subsectors, the S&P 500 biotechnology index slowed for the first time in recent quarters, with a 0.2 percent decline in the first quarter, compared with 6 percent growth for the healthcare equipment and supplies index and a 7.3 percent increase for the pharmaceutical index.

Figure 8: Equity Index Returns



Source: S&P Capital IQ

- The robust market for initial public offerings (IPOs) continued in the first quarter of 2014, especially for the biotechnology and biopharmaceutical sectors, according to PwC's IPO Watch, a quarterly survey of IPOs listed on US stock exchanges.[1] These sectors dominated the IPO market in the quarter with 35 IPOs, representing close to half of first-quarter 2014 IPO volume. Proceeds from these offerings, however, totaled only $2.2 billion, or 20 percent of total IPO proceeds; these IPOs typically raise smaller levels of investment due to the often developmental stage of biotechnology and biopharmaceutical IPOs. This momentum is expected to continue into the second quarter.

- According to the Money Tree Report by PwC and the National Venture Capital Association (NVCA), biotechnology companies raised $1.1 billion in 112 deals in the first quarter of 2014. This represents a decline of 23 percent in dollars and 21 percent in deals from the fourth quarter of 2013. The medical devices and equipment industry also experienced a decline in volume, dropping 37 percent to 61 deals in the first quarter of 2014, while dollars invested increased 28 percent to $588 million. Overall, investments in Q1 in the life sciences sector (biotechnology and medical devices) fell 10 percent in dollars and 28 percent in deals when compared with the fourth quarter of 2013.[2]

Figure 9: Value and volume of US IPOs in the healthcare industry

	Value (USD millions)	Volume
2014 Q1	2,222	35
2013 Q4	1,103	13
2013 Q3	2,973	18
2013 Q2	2,054	17
2013 Q1	2,538	6

Source: PwC IPO Watch

1 http://www.pwc.com/us/en/press-releases/2014/q1-2014-ipo-watch-press-release.jhtml

2 http://www.pwc.com/us/en/press-releases/2014/1q2014-moneytree.jhtml

Key closed transactions

- On January 2, Salix Pharmaceuticals acquired the shares of Santarus, a biopharmaceutical company with a focus on gastroenterology, for $32 per share or total consideration of approximately $2.7 billion.
- On January 9, Grifols SA, a Spain-based biopharmaceutical company, acquired the blood transfusion diagnostic unit of Novartis AG for $1.7 billion.
- On January 24, Shire completed its acquisition of the shares of ViroPharma, a manufacturer and developer of therapeutics for the treatment of rare diseases, for $50 per share or total consideration of $4.2 billion.
- On February 1, AstraZeneca acquired the diabetes business of Bristol-Myers Squibb for total consideration of up to $4.3 billion, with $2.9 billion in cash and up to $1.4 billion in potential contingent payments.
- On February 3, Thermo Fisher Scientific completed its acquisition of Life Technologies for approximately $15.5 billion in cash and assumed debt. Life Technologies is a global life sciences company that provides a range of products and services for research and commercial applications, including systems, instruments, reagents, and software.
- On February 3, Forest Laboratories acquired Aptalis, a specialty pharmaceutical company focused on gastrointestinal disorders and cystic fibrosis, from TPG for $2.9 billion.
- On February 24, Jazz Pharmaceuticals acquired the shares of Gentium SpA, an Italian manufacturer and developer of therapeutics for the treatment of rare diseases, for $57 per share or total value of $879 million.
- On February 28, Endo Health Solutions acquired the shares of Paladin Labs, a Canada-based biopharmaceutical company focused on acquiring and in-licensing pharmaceutical products for the Canadian and world markets, in a stock swap transaction valued at $1.6 billion.
- On March 11, DSM Pharmaceutical Products, a unit of Royal DSM NV, acquired the shares of Patheon, a manufacturer of pharmaceutical products, from JLL Partners Inc. for $9.32 per share or a total value of $1.4 billion.
- On March 19, Mallinckrodt acquired the shares of Cadence Pharmaceuticals, a specialty pharmaceutical company, for $14 per share or a total value of $1.3 billion.
- On March 24, GE Healthcare, a unit of General Electric, acquired the cell culture, gene modulation, and magnetic beads businesses of Thermo Fisher Scientific for consideration of $1.1 billion.
- On March 31, PHC Holdings Co Ltd, a subsidiary of Kohlberg Kravis Roberts & Co., agreed to acquire Panasonic Healthcare Co., Ltd., (PHC) a Tokyo-based manufacturer of medical equipment, for approximately $1.7 billion in cash. Panasonic Corporation retained a 20% interest in PHC.

Figure 10: Total deal value and deal volume by deal size and quarter

	2014 Q1		2013 Q4		2013 Q1	
	Number of deals	Deal value ($M)	Number of deals	Deal value ($M)	Number of deals	Deal value ($M)
$15M to $50M	11	323	4	98	5	125
$50M to $100M	7	529	3	193	7	575
$100M to $250M	11	1,971	8	1,144	10	1,552
$250M to $500M	7	2,280	8	2,822	9	3,202
$500M to $1,000B	2	1,475	4	2,662	2	1,721
> $1,000B	11	38,326	5	30,230	2	68,513
Total	**49**	**44,905**	**32**	**37,150**	**35**	**75,688**

Key announced transactions

- On January 16, the Carlyle Group submitted a binding offer to acquire Ortho-Clinical Diagnostics Inc., a manufacturer of clinical laboratory equipment and diagnostic products, from Johnson & Johnson for $4.15 billion in cash. The offer was accepted by Johnson & Johnson on March 31, 2014.
- On February 3, Smith & Nephew agreed to acquire the share capital of ArthroCare, a manufacturer and wholesaler of surgical and medical products, for $48.25 per share or total consideration of $1.75 billion.
- On February 24, Cinven Ltd. acquired a majority interest in Medpace, a provider of clinical research services for the pharmaceutical and biotechnology industries, from CCMP Capital Advisors LLC for $915 million in cash. The transaction closed on April 3.
- On February 28, Actavis agreed to acquire the entire share capital of Forest Laboratories, a New York-based specialty pharmaceutical company, in a stock swap transaction valued at $25.1 billion or approximately $89.48 per share, consisting of $26.04 in cash and 0.3306 ordinary shares of Actavis for every Forest share.

Previously announced transactions which had not closed as of the end of the first quarter included:

- On July 29, France-based Essilor International agreed to acquire the remaining 51% interest, which it did not already own, in Transitions Optical Inc, a manufacturer of photochromic lenses, from PPG Industries for approximately $1.7 billion in cash and up to $125 million in profit-related payments. The transaction also included Intercast, an Italian supplier of sun lenses. The transaction closed on April 1

Market wrap-up

The pharmaceutical and life sciences industry can expect a heightened level of M&A activity in 2014. Economic conditions and industry trends and objectives together are driving opportunities for PLS companies to create shareholder value through both gaining strength in core markets and divestitures.

About the data

We define M&A activity as mergers and acquisitions in which targets are US-based companies acquired by either US or foreign buyers or foreign targets acquired by US pharmaceutical and life science companies. We define divestitures as the sale of a portion of a company (not a whole entity) by a US-based seller.

We have based our findings on data provided by industry-recognized sources. Specifically, values and volumes used throughout this report are based on completion-date data for transactions with a disclosed deal value greater than $15 million, as provided by Thomson Reuters as of March 31, 2014, and supplemented by additional independent research. Information related to previous periods is updated periodically based on new data collected by Thomson Reuters for deals closed during previous periods but not reflected in previous data sets.

Deal information was sourced from Thomson Reuters and includes deals for which buyers or targets fall into one of the industry sectors: biotechnology, medical devices, medical diagnostics, pharmaceuticals, or services (i.e., contract research organizations). Certain adjustments have been made to the information to exclude transactions that are not specific to the PLS industry. Capital market and equity return information is sourced from Capital IQ.

Source: Thomson Reuters

Market spotlight
India

The Indian healthcare market has enormous potential, and pharmaceutical and life science (PLS) companies are ramping up their investments in the country accordingly. However, the PLS market in India is facing significant regulatory changes affecting sales and marketing practices and having an impact on both how clinical trials are conducted and how products are priced in the marketplace. These changes contributed, in part, to slowing growth in 2013. However, India has an established domestic PLS industry, and demographic and economic trends suggest that India is among the countries most poised for growth in the industry throughout the next decade and beyond.

Strong economic and demographic trends

After recovering from the global economic downturn, the Indian economy grew to an estimated $1.9 trillion in 2012, making it the world's 10th largest, with expectations for greater growth ahead. Real gross domestic product (GDP) growth, while fluctuating in recent years, was projected to reach 5.7 percent in 2014, up from estimated growth of 4.8 percent in ~~13~~, according to the World Bank.[3] Forecasters have also suggested that India will be the only emerging economy to maintain highly accelerated GDP growth over the longer term. Further, India's population, at more than 1.2 billion, is projected to increase to 1.6 billion by 2050, making it the most populous country in the world, outpacing even China.

The Indian middle class concurrently has made impressive economic gains, benefiting from increased access to Western medicines and spending a greater portion of disposable income on healthcare. By 2025, 46 percent of India's population is expected to have an income of up to $30,000, an increase from 6 percent in 2009.[4] Additionally, the Indian government is promoting public healthcare by creating the National Rural Health Mission and other initiatives designed to make healthcare more affordable and accessible for all, particularly in non-urban areas. Rural areas of India are home to nearly 70 percent of the country's population, but these markets represent less than 20 percent of the country's sales of pharmaceutical products. These initiatives are intended to increase public expenditures on healthcare as a percentage of GDP to 2 to 3 percent, up from the current 1 percent.

Figure 11: Growth in the Indian PLS Market is expected to be driven by the following factors:[5]

Changing disease profile and favorable demographics	Socioeconomic changes and urbanization, along with a sedentary lifestyle, are leading to increased incidences of lifestyle-related ailments such as obesity, heart disease, stroke, cancer, and diabetes. The number of Indian people suffering from these diseases is expected to double by 2020.
Active participation by foreign PLS companies	Multinational PLS companies are continuing to establish a local presence in the Indian market through acquisitions and new product launches.
Exports to regulated and semi-regulated markets	Indian PLS companies have begun to establish a presence in both developed and emerging markets for exports. This trend has occurred in light of patent expirations and healthcare reforms in the United States, and relatively high out-of-pocket expenditures and relaxed regulatory pathways in emerging markets.
Growing alliances in emerging markets	Indian PLS companies have also been partnering with multinational corporations to combine local strength in manufacturing and distribution with robust product portfolios.

3 http://www.worldbank.org/content/dam/Worldbank/document/SAR/wb-south-asia-economic-focus-spring-2014.pdf

4 PwC, "From vision to decision: Pharma 2020"

5 PwC, "India Pharma Inc. – Gearing up for the next level of growth"

An established domestic market

While existing economic and demographic factors create a promising environment for growth, India already has a strong local PLS industry.

- India's pharmaceutical companies include global players in generics and vaccines, and the country is a major producer of active pharmaceutical ingredients. Some of the top Indian pharmaceutical companies are already generating more than half of their sales outside of India and are now partly foreign-owned. Indian pharmaceutical companies are major contract research and manufacturing partners of global pharmaceutical companies. India also has the world's second-largest pool of English speakers and a strong education system, positioning the country as a source of potential talent.

- The biotechnology industry is becoming more robust in India. That may be an advantage as the race begins for developing biosimilars, the equivalent of generics, for a number of blockbuster biologics scheduled to go off patent over the next five years. Indian companies are seeking their share of this market.

- The medical technology sector is growing in India, and there are significant opportunities for innovation-led growth. Today, 80 percent of the medical technology market is driven by imports; however, there has recently been an increase in the domestic manufacture of medical equipment, with impetus from the government.

Emerging challenges

To compete effectively in the Indian market, PLS companies will face a variety of regulatory changes.[5]

- The Indian market is subject to relatively strict price controls and consumer organizations continue to advocate for expansion of the Drug Price Control Order. Industry participants contend that competition in the market is sufficient and that price caps inhibit the development of R&D in the country. Companies with well-informed approaches to the market may be able to mitigate the effects of these controls on growth over the longer term.

- In 2011, the Department of Pharmaceuticals (DoP) released a code of marketing practices, discouraging exaggerated claims; the provision of samples, gifts, and hospitality; and sponsorships by pharmaceutical companies. While the code was voluntary, the industry has continued to evaluate ways to govern marketing practices and the DoP may ultimately implement a statutory code.

- Under India's Patents Act, the government may grant compulsory licenses in some circumstances, other than national emergencies and public health crises. This provision was first implemented in March 2012, related to Bayer's kidney cancer drug, Nexavar. These policies continue to evoke mixed responses from the industry and other stakeholders as PLS companies evaluate their impact on commercial strategies.

6 PwC, "India Pharma Inc.—Changing landscape of the Indian pharma industry"

Strategy corner

Insights from PwC's 17th Global CEO Survey: Increased optimism—but big changes ahead

While global economic recovery remains fragile, immediate economic pressures are easing. CEOs are becoming more optimistic and are gradually shifting from survival mode to a greater emphasis on company growth.

That's a primary conclusion of PwC's 17th annual Global CEO Survey. CEOs are making changes within their organizations that are more about preparing for the future than about sheltering their organizations from economic headwinds, according to the survey.

Across all industries, confidence has improved, the survey shows. More CEOs in the United States are shifting into growth mode, with 62 percent expecting to hire in 2014. And CEOs are anticipating a change in the global economic momentum: only 4 percent believe that the global economy is likely to decline in 2014, while 40 percent expect it to improve, which is up from 15 percent last year. Businesses in the United States are adapting to changing market demands, and more than one-third of US CEOs (36 percent) say innovations in products and services now present the greatest opportunity for growth for their companies in 2014.

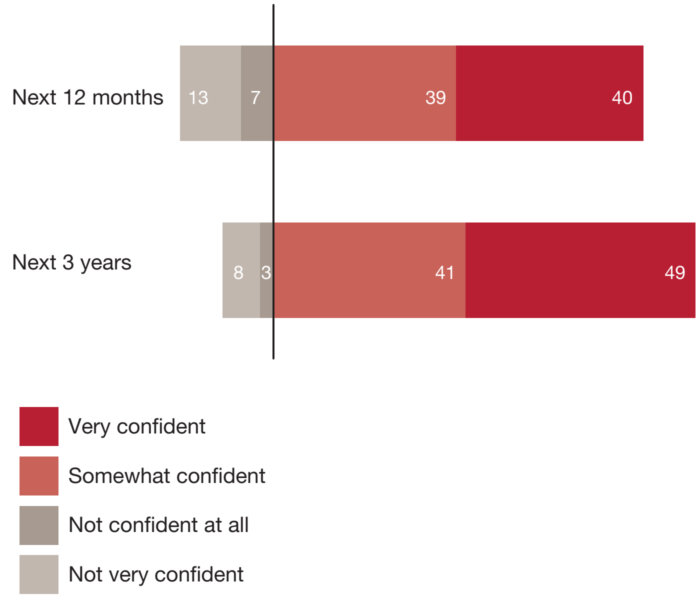
Within the pharmaceutical and life sciences (PLS) industry, CEOs believe that technology is transforming the sector, and these leaders are seeking to capitalize on their organization's ability to innovate. PLS CEOs are also focused on key regulation and integrity issues affecting their businesses. Facing the talent challenge is also a key priority, particularly with the sector being radically reshaped by demographic changes and shifts in wealth.

Prospects for growth

As shown in Figure 12, far more PLS CEOs—49 percent—are very confident about their company's growth over the next three years. However, just 29 percent of PLS CEOs say they are very confident about their industry's prospects for revenue growth over the next three years.

We saw this pattern in the overall sample as well. CEOs clearly have confidence in their ability to grow their own businesses, even if they foresee challenges for their industries.

Figure 12: How confident are you about your company's prospects for revenue growth over the next 12 months and three years?



Source: PwC 17th Annual Global CEO Survey 2014

US tops the list of growth markets, followed closely by China

Thirty-nine percent of PLS CEOs outside the US expect the US market to be their major non-domestic growth driver. China (37 percent) is next on the list of countries that CEOs expect to drive growth over the next 12 months. Germany, Brazil, and Russia round out the top five. With Mexico, India, and Indonesia also on the CEOs' growth list, there are six emerging economies in the ten non-domestic markets CEOs expect to drive growth.

Similarly, the mature markets in North America and Western Europe are expected to attract a majority of the M&A activity over the next year.

While M&A activity is expected to remain robust, strategic alliances and joint ventures remain the primary vehicles for collaboration in the sector.

Figure 13: Please rank the three countries, excluding the country in which you are based, that you consider the most important for overall growth in the next 12 months.

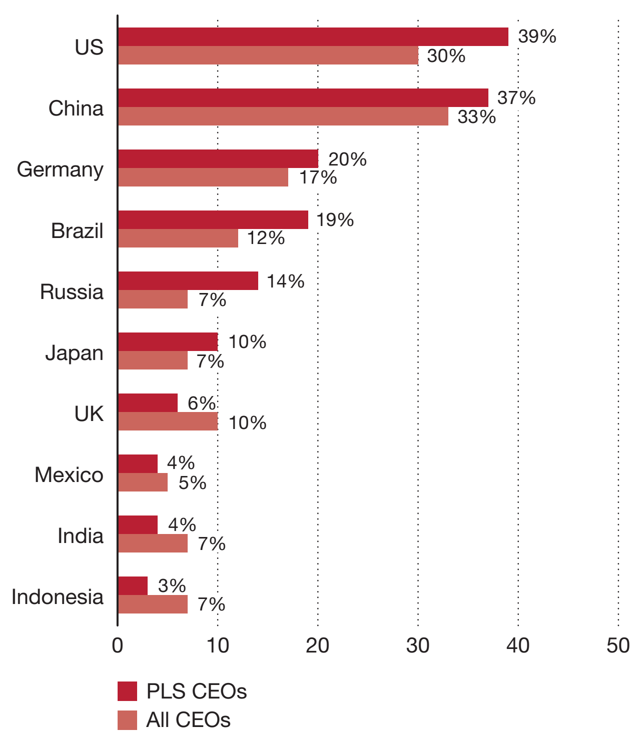


Figure 14: In which regions are CEOs planning to carry out an M&A, joint venture or strategic alliance?

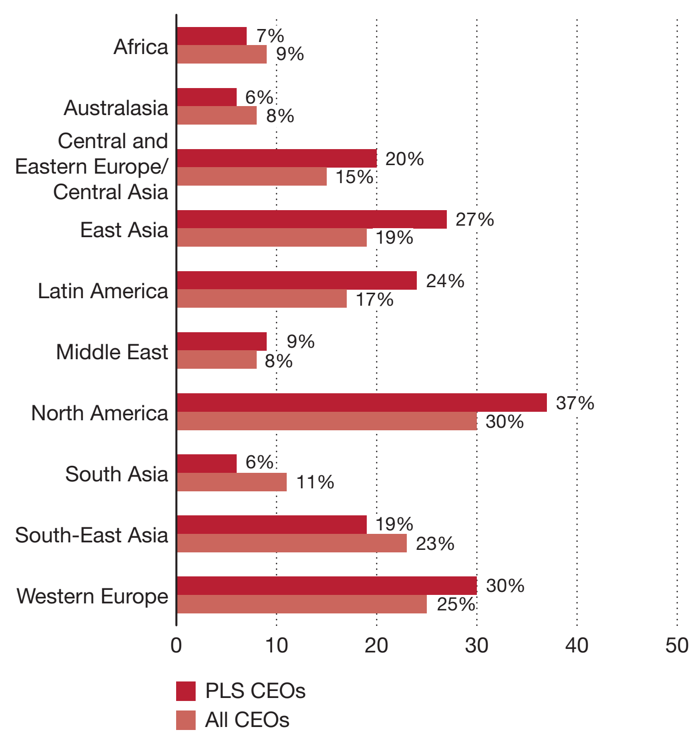
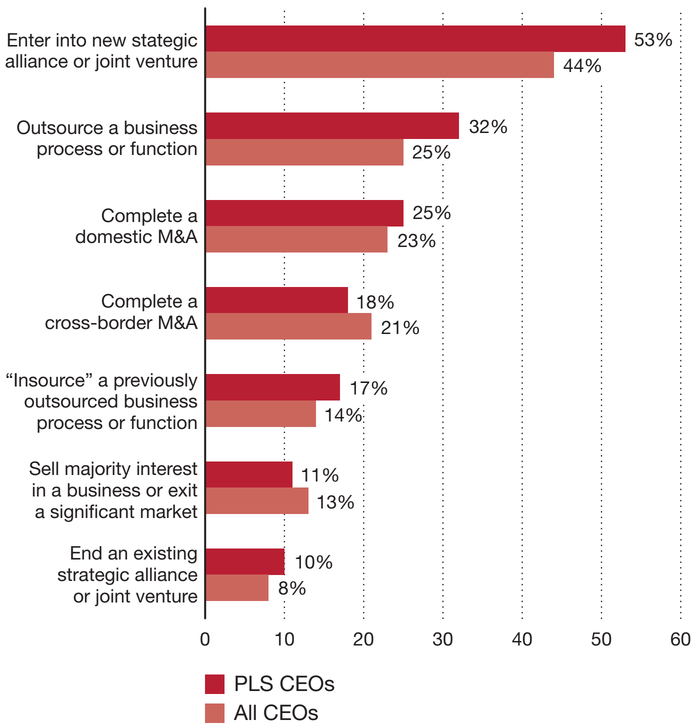


Figure 15: Which, if any, of the following restructuring activities do you plan to initiate in the coming twelve months? (cost reduction not listed)



Technology, demographics, and shifts in wealth are transforming the sector

PLS CEOs are even more convinced than their peers that technological advances will transform their businesses in the next five years. And they are aware—more than CEOs in other sectors are—of the significant role that demographics will play: 72 percent view it as a transformative trend, compared with 60 percent across the sample. More also expect that global shifts in economic power will have a major impact on their businesses.

PLS CEOs believe technology will help their business more than hinder it

Only a third of sector CEOs worry that the speed of technological change may have a negative impact on their companies' growth, compared with nearly half of CEOs across the overall sample.

Innovation is a top priority—and protecting intellectual property a concern

Sector CEOs are already transforming their research and development (R&D) functions to cope with transformation: 38 percent say they have completed or have in place a program to change their R&D and innovation strategies, more than across the sample as a whole. And the same percentage believe that their R&D departments are well prepared for the challenge.

They are not as confident about their ability to benefit from their discoveries, however. Sixty-four percent of PLS CEOs are somewhat or extremely concerned that an inability to protect intellectual property will hamper their growth, far more than across the sample as a whole.

Too relaxed when it comes to cyber-security?

A surprising 57 percent of PLS CEOs are not concerned that cyber-threats, including insufficient data security, could threaten their growth. That's despite a boom in big data and data analytics: 79 percent agree there is a need to change cyber-security strategies in that regard, but only 23 percent have begun that process.

Regulation is not all bad

The PLS industry is highly regulated, and nearly half of CEOs (47 percent) are extremely concerned that over-regulation could hinder their growth. That said, a full 72 percent believe that their production and/or service delivery quality standards improved over the past 12 months as a result of regulation.

Integrity is a big issue

The industry is taking safety seriously: More PLS CEOs strongly agree that it is important to them to ensure the integrity of their supply chain (76 percent versus 58 percent overall). And 61 percent of sector CEOs believe that bribery and corruption could slow their companies' growth, compared with 52 percent of CEOs overall.

But sector CEOs are optimistic about their ability to face the talent challenge

This year, only half of PLS CEOs expressed concern about the availability of talent with key skills, far fewer than their peers in other sectors. Fewer are concerned about rising labor costs in high-growth markets, as well. That could be because many have already taken steps to revamp their talent strategy in order to capitalize on major trends: 43 percent say they have already begun or have completed such an initiative, compared with 32 percent overall.

About the 2014 US CEO Survey

PwC conducted 162 interviews with US-headquartered CEOs as part of our 17th annual PwC Global CEO Survey. In all, PwC conducted a total of 1,344 interviews with CEOs in 68 countries worldwide between September 9 and December 6, 2013. Of these respondents, 119 were CEOs in the PLS industry in 40 countries across the world.

All interviews were conducted on a confidential basis: 54 percent of the interviews were conducted by telephone, 38 percent were online, and 8 percent by post.

For more information about the results of the CEO Survey, please visit www.pwc.com/usceosurvey.

About PwC's Deals Practice

Our deals professionals help clients understand the risks in transactions so they can be confident they are making informed strategic decisions. From their deal negotiations to capturing synergies during integration, we help clients gain value and, ultimately, deliver this value to stakeholders. For companies in distressed situations, we advise on crisis avoidance, financial and operational restructuring, and bankruptcy.

PwC's Deals group can advise pharmaceutical and life science companies and PLS-focused private equity firms on M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, through developing strategies for capturing post-deal profits, to exiting a deal through a sale, carve-out, or IPO. With more than 9,800 deals professionals in 75 countries, we can deploy seasoned deals teams that combine deep pharmaceutical and life sciences industry skills with local market knowledge virtually anywhere and everywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services. In short, we offer integrated solutions tailored to your particular deal situation and designed to help you complete and extract peak value within your risk profile, whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divestiture process.

For more information about M&A and related services in the pharmaceutical and life sciences industry, please visit www.pwc.com/us/pharmadeals, www.pwc.com/us/pharma or www.pwc.com/us/medtech.

For views on the health industries sector, please visit www.pwc.com/us/healthindustries.

Acknowledgments

Authors

Dimitri Drone
Partner, Deals
Deals Pharmaceutical
& Life Sciences Leader
973 236 4977
dimitri.b.drone@us.pwc.com

James Woods
Director, Deals
617 530 4133
james.woods@us.pwc.com

Market spotlight—India:

Harry G. Broadman
Leader, Emerging Markets
Strategy Consulting,
and Chief Economist
202 312 0807
harry.g.broadman@us.pwc.com

For a deeper discussion on pharmaceutical and life sciences deal considerations, please contact one of our practice leaders or your local Deals partner:

Martyn Curragh
Principal, US Practice Leader, Deals
646 471 2622
martyn.curragh@us.pwc.com

Northeast

Tom Pickette
Partner, Deals
617 530 6343
thomas.r.pickette@us.pwc.com

New York Metro

Glenn Hunzinger
Partner, Deals
646 471 8764
glenn.hunzinger@us.pwc.com

Colin Wittmer
Partner, Deals
646 471 3542
colin.e.wittmer@us.pwc.com

Central

Manoj Mahenthiran
Partner, Deals
312 298 3162
manoj.c.mahenthiran@us.pwc.com

Pam Yanakopulos
Partner, Deals
312 298 3798
pamela.yanakopulos@us.pwc.com

West

Mattias Gunnarsson
Partner, Deals
213 356 6978
mattias.x.gunnarsson@us.pwc.com

www.pwc.com/us/pharmadeals