

August 29, Hyderabad: Venture Intelligence organized "life sciences Connect", a one-day conference focused on the challenges and opportunities for private equity investing in life sciences, on August 29 in Hyderabad. The conference brought together a blend of diverse participants - ranging from private equity funds, leading service providers, life sciences companies that have raised / are planning to raise private equity capital - in an interactive panel discussion format.

Given that the \$736 million acquisition of private equity-backed Matrix Pharma Labs by US-based Mylan Labs – the largest such deal in the Indian life sciences sector - was all over the newspapers that morning, the conference could not have been better timed.

The conference was sponsored by eminent funds and investment banks like Evolve India, Atherstone, MAPE Advisory Group and Spark Capital.

The first panel on the importance (or otherwise) of scale in life sciences was kicked off by moderator Hari Buggana of Evolve India. Hari pointed out the various opportunities for Indian life sciences industry owing to the growing healthcare costs and ageing populations in developed markets as well as growing prevalence of chronic diseases. "These factors have led to a difficult to reverse – if not irreversible – shift towards prescription of generic drugs," he said. Currently, 50-55% of prescriptions filled are for generic drugs versus just 19-20% some 20 years ago.

With R&D productivity at an all-time low - \$5.5 bn of R&D spending last year yielding just 23 new product approvals (the lowest ever) - big pharma is keen to explore ways to lower R&D costs including through offshoring or global sourcing of new drug development. "We think this is just a few minutes before the Big Bang. The best is yet to come," Hari said.



(Seated L-R): Hari Buggana, Evolve India life sciences Fund; Nitin Deshmukh, Kotak private equity; Jacob Mathew, MAPE Advisory; Nikhil Shah, Dr. Reddy's

Nitin Deshmukh, Head of Kotak private equity and one of the most experienced life sciences investors in India, said it was premature to provide an answer to the scale question in the biotech space given the early stage of its development. While biotech had replaced pharmaceuticals as the source of healthcare innovation, the field posed several challenges for investors. The sector faced complex dynamics (including being regulations driven), long gestation periods, fairly high investment levels, negative cash flows for long periods, and high failure rate. Given the limited number of Venture Capital firms active in biotech, there is no assurance for companies that a first round investment from a VC fund would result in subsequent rounds of funding as well.

On whether scale was an important factor to investors in this sector, Nitin said the answer would depend on factors like the stage of investment, the business model of the company, the investment philosophy of the investor, the knowledge and prior experience of the investor in life sciences, and the ability of the investor to add value to the company.

Nitin then went on to discuss various aspects of scale from the perspective of multiple stakeholders – investors, founders, employees and potential acquirers. He showcased the various ways in which biotech companies could achieve scale including through partnerships, mergers & acquisitions and private equity support. In conclusion, he said Indian biotech companies will need to bring products to the market with limited resources, create alliances with global biotech and pharmaceuticals companies and move up the value chain through M&A. "The industry is poised for success despite the challenges," Nitin said.

Jacob Mathew of MAPE Advisory, an investment bank with significant experience in the life sciences space, presented a contrarian's view on the topic and said he would advise life sciences companies to focus on operational excellence. "Conventional wisdom says that it is all about scale. But conventional wisdom is often wrong," he said, providing examples of several companies – from medical devices to vitamin makers – who are enjoying very profitable growth while remaining small. "I tell clients that big things can wait and ask them to focus on operational excellence," Jacob added.

As part of his presentation, Jacob pointed how the market capitalization of Indian pharmaceutical companies has grown at a rapid pace over the last six years at a time when that of global Big Pharma has come under tremendous pressure. His presentation also showcased the meteoric rise of Matrix Labs, a company that has very effectively used M&A and private equity for its growth and eventual sale.

Nikhil Shah of Dr. Reddy's Labs highlighted in detail how global pharmaceuticals majors like Teva and Sandoz have used scale as their main differentiating parameter and as a result, moved to a completely different orbit in terms of revenues from the rest of the pack.

Nikhil then spoke about Dr. Reddy's own growth path – including via M&A – to achieve scale and accelerate its growth. He emphasized that the context of scale is different for different companies depending on the specific corporate aspiration/objective. Based on the corporate objective - whether it is leadership position in key markets, leadership position in pipeline creation, access to low-cost manufacturing locations, creating portfolio/technology differentiation, etc. - different strategies could be adopted for achieving scale.

All in all, it was a tremendous learning experience and brain storming session for decision makers and audience alike.