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**Global biotech industry continues to sizzle as market capitalization surpasses US$1 trillion**

* **Net income jumps 231% in 2014 to historic high of US$14.9b**
* **R&D spending surged 20% as companies in the US and Europe invested in their pipelines**
* **Firms in the US and Europe raise a record US$54.3b in capital in 2014**
* **A record 94 new US and European companies go public in red hot IPO market**

*PHILADELPHIA, MOSCOW, 1 JULY 2015.* The global biotechnology industry reached new heights in 2014, setting records on virtually every major financial metric, including revenues, profitability and capital raised. These positive performance indicators, combined with several high-profile product successes and a strong year for new drug approvals, drove the industry’s total market capitalization above the US$1t threshold for the first time in its history. These and other findings were released today in *Beyond borders: Reaching new heights*, EY’s 29th annual biotechnology industry report.

Glen Giovannetti, EY’s Global Life Sciences Leader, says: “The global biotechnology industry’s outstanding performance and maturation are driving optimism that a new age of biotech innovation will create long-term value for companies, their investors and patients. Investors are bullish on the future, investing historic amounts in the smaller players that will drive future breakthroughs.”

But success can engender its own challenges. “Unprecedented product approvals have also brought unprecedented pricing pressures,” says Giovannetti. “Companies will need to continually demonstrate how their products deliver value and contribute to the overall sustainability of health care systems.”

Key results highlighted in the report include:

* **Revenue jumps:** Companies in the industry’s established biotech centers (the US, Europe, Canada and Australia) generated revenues of US$123b, a 24% increase from 2013, and a new high. Excluding the unprecedented growth of one industry leader, Gilead Sciences, revenues in 2014 would have increased a healthy 12%.
* **Profitability for all the right reasons:** Net income reached a historic high of US$14.9b, a 231% increase from the prior year. While much of this increase was attributable to the strong performance of Gilead Sciences, overall net income still doubled even after adjusting for that company’s performance. In contrast to 2009-2012, when biotechnology companies achieved profitability via cost cutting, the increase in aggregate net income in 2014 was driven by solid sales of newly launched products.
* **Research and development** (**R&D) spending grows:** R&D spending, a key indicator of the health of the sector, increased by 20%. This was the second year in a row that R&D spending outpaced the sector’s revenue growth (adjusted for the skewing factors mentioned above), and smaller companies in both the US and Europe drove the uptick.
* **Fundraising sets records:** Biotech companies in the US and Europe raised US$54.3b in 2014, a whopping 72% increase from the strong funding results achieved in 2013. Companies raised a record US$28.3b in non-debt financing, driven by the booming market for IPOs and follow-on offerings. “Innovation capital” — defined as the amount of equity capital raised by companies with less than US$500m in revenues and a key metric of the sustainability of earlier stage biotechnology companies — hit an all-time high of US$27.6b. That amount represents a 120% increase from the annual average achieved from 2009-2012.
* **Venture financing reaches near-record:** US and European companies raised US$7.6b in venture capital, a 28% increase from the prior year and just shy of the all-time record of US$7.9b raised in 2007. In a positive sign for innovation, companies raising early-stage rounds captured US$1.8b, the greatest amount in at least the last decade.
* **A wide-open IPO window:** A record-breaking 94 US and European biotech companies went public in 2014, shattering the previous record of 79 IPOs in 2000. The US$6.8b raised from these IPOs is the second-highest total in the industry’s history, surpassed only by the US$7.8b raised during the genomic bubble of 2000. The IPO window, which began in 2013, remained strong for eight consecutive quarters, another new record.
* **Drug approvals surge:** Efforts by the U.S. Food and Drug Administration (FDA) to get differentiated medicines to market contributed to 41 product approvals in 2014, up from the 27 approvals in 2013. More than three-quarters of these 2014 approvals were on first filings.
* **Mergers and acquisitions (M&A)** **skyrocket:** M&A activity in 2014 reached a 10-year high in deal volume as pharmaceutical companies increased their buying activity. There were 68 biotechnology M&A deals with a total value of US$49b in 2014. 2014 was also the most lucrative time in at least the last eight years for biotechs to enter alliances. As a percentage of total deal value, up-front payments reached 11%, while the total dollars paid up front soared 96% to US$5.1b.

For all its successes, the sector has some significant challenges ahead. “A number of mature biotech companies may face additional headwinds,” says Jeffrey Greene, EY’s Global Life Sciences Transactions Advisory Services Leader. “As firms deal with pricing pressures and increased competition, including from biosimilars, they will need new sources of growth. Achieving such growth through deals and acquisitions will likely be more costly and challenging. Today’s M&A landscape is clearly a seller’s market. Assets that could tangibly affect a buyer’s financial performance are scarce, and they will command premium prices.”

Dmitry Khalilov, Partner, Tax, Life Sciences Leader, Russia & the CIS, says: “Biotechnology has been a historically strong field where Russian researchers have been able to compete with international companies. The policy of import substitution and public funding establishes a good foundation for its further development in Russia.”

**Key regional findings:**

**United States**

* Revenues of publicly traded biotechs were US$93.1b in 2014, a 29% increase from the prior year.
* R&D spending increased by 22% in 2014 to US$28.8b.
* Net income increased by 293% in 2014 to US$10.6b.
* Market capitalization increased a healthy 34% in 2014, with 58% of companies seeing a year-over-year increase in valuation.
* Total US funding reached an all-time record of US$45.1b in 2014. Records were also set for the amount of funds raised through IPOs (US$4.9b) and debt financing (US$23.3b). Innovation capital, a key metric of amounts raised by earlier stage companies, also set a record of $21.1b.
* Venture financing totaled US$5.6b, a 27% jump from the previous 10-year average of $US4.4b.
* Total M&A value rose 50% over 2013, to US$42.9b, the third highest annual deal total since 2007. The number of deals jumped from 42 to 51, the highest total in eight years.

**Europe**

* Revenues of European public biotechs grew by 15% in 2014, to US$23.9b.
* R&D expense increased by 14% in 2014, to US$5.6b.
* Net income of public companies jumped 199% to US$3.2b.
* Market capitalization increased 41%, with 59% of companies achieving an increase in their market cap.
* Total European funding reached US$9.2b, a 53% increase over 2013 and 97% more than the previous 10-year average. IPOs raised US$1.9b, more than the previous seven years combined.
* Venture financing totaled US$2b, US$30m shy of the record achieved in 2006.
* Europe enjoyed a second strong year for M&A. The total value of the 27 European M&A deals in 2014 was US$6.9b. Excluding megadeals, this was the second highest total since 2007.

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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**Background on report findings**

The key findings of this report are based on an EY analysis of companies whose main business purpose is the commercialization of modern biotechnology as applied to health care and we focus on biotech companies in the “established” biotech centers (North America, Europe and Australia). Modern biotechnology uses genetic technologies and other molecular biology methods for the production of innovative drugs and diagnostics. Our primary research is based on publicly available information (company reports, websites, etc.) and is supplemented as needed with data published by third-party databases, as well as regional information resources. Specific sources can be found in the report in the source notes for each chart.

**How EY’s Global Life Sciences Sector can help your business**

Life sciences companies — from emerging startups to multinational enterprises — face new challenges in a rapidly changing health care ecosystem. Payers and regulators are increasing scrutiny and accelerating the transition to value and outcomes. Big data and patient-empowering technologies are driving new approaches and enabling transparency and consumerism. Players from other sectors are entering health care, making collaborations increasingly complex.

These trends challenge every aspect of the life sciences business model, from R&D to marketing. Our Global Life Sciences Center brings together a worldwide network — more than 7,000 sector-focused assurance, tax, transaction and advisory professionals — to anticipate trends, identify implications and develop points of view on responding to critical issues. We can help you navigate your way forward and achieve success in the new ecosystem.

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