

Life sciences industry: Top issues for 2024

Transcript

NARRATOR: Welcome to The Industries Podcast series, where Grant Thornton shares information through an industry-specific lens about the most important business issues of the day.

ZARA MURADALI: In the life sciences industry, 2024 is projected to be a year of change – from potential regulatory changes to the impacts of AI, the interest rate environment and more. I'm Zara Muradali, Life Sciences industry leader for Grant Thornton, and here are the topics that should be top of mind among leaders in the industry in 2024.

Our first topic revolves around the impact of high-interest rates on mergers and acquisitions within the life sciences sector. As we know, M&A activities will play an important role in shaping the landscape of this industry, allowing companies to expand their portfolios, access new technologies, and drive innovation. However, rising interest rates can introduce challenges and considerations that need to be carefully evaluated.

High-interest rates can affect the cost of borrowing, making it more expensive for companies to finance acquisitions. This, in turn, can impact deal valuations, as companies may become more cautious when assessing the financial feasibility of potential M&A transactions.

We've seen how interest rates can have a ripple effect on deal structures and valuation, ultimately influencing the decision-making process for both acquiring and targeting companies. It's crucial for industry players to closely monitor interest rate trends and adapt their strategies accordingly.

Moving on to our next topic, let's explore the challenges faced by pre-revenue companies within the life sciences sector. These companies often rely heavily on funding to support their research and development efforts. However, securing adequate capital before generating revenue can be a daunting task.

Pre-revenue companies indeed face unique challenges when it comes to attracting investment. Investors are typically risk-averse and seek compelling evidence of a company's potential for success. For pre-revenue life sciences companies, this can mean effectively communicating the value of their scientific research, intellectual property, and future market opportunities.

It's clear that pre-revenue companies need to be effectively conveying their value proposition and potential to investors in order to secure the necessary funding for their R&D efforts.

Now, let's delve into research and development capitalization rules. The capitalization rules play a pivotal role in driving innovation, breakthrough discoveries and advancements in medical treatments. Capitalizing R&D expenses allows companies to spread the costs of their research activities over time, which can positively impact financial statements. This approach

recognizes that R&D investments contribute to future value creation and can help attract investors and support the overall growth of the company. However, the Section 174 rules can prematurely make an early-stage company become a taxpayer—an unintended consequence of the R&D capitalization tax rules.

Lastly, let's explore the rapidly evolving landscape of ARPA-H funding, investment and M&A. ARPA-H, which stands for Advanced Research Projects Agency for Health. It's an exciting initiative aimed at accelerating biomedical innovation and revolutionizing the healthcare industry.

ARPA-H has the potential to significantly transform the life sciences industry by providing substantial funding for high-risk, high-reward research projects. This level of investment can attract talented researchers, foster collaborations, and fast-track breakthrough innovations, ultimately benefiting patients and society as a whole. The impact of ARPA-H funding and its associated investments in M&A activities cannot be understated. It is an exciting development that holds immense potential for advancing life sciences and healthcare.

Finally, that I want to discuss the very hyped-up topic around AI use cases in life sciences. AI is going to impact every job. I think it will impact every business process. In life sciences, to be able to get insights through large data sets is incredible—what was predicted by machine learning models worked in animals. This was a big wake-up call for the industry.

Development of systems that can get data from Open AI but without the data going back into those systems—this will help speed up the drug discovery process by scientists. Also, the interaction with regulators should see improvements, as AI can be used to speed up the responses by companies to questions that come in from regulators. And right now, adoption of AI across the industry will need governance. The safety of data is going to start feeling a lot like a bottleneck in the next couple of years and we'll need to deal with it.

I think, when we talk about responsible AI, we need to talk about the broader ecosystem always. It is not just the AI tools and it's not just the environment in which it exists—it is both. We need to think about AI governance and strategy. The ethical use in patient data collection will be important as we navigate the FDA and the regulation around the drug approval process.

And so, what we need to do is build an ecosystem around these tools that help us mitigate the threats that are inherent in the advancement of these technologies. We need to build cybersecurity, but for biology. We need to build biosecurity.

That's how the life sciences industry is shaping up for 2024, with plenty of opportunities to make real business progress.

NARRATOR: Thanks for listening. Find out how Grant Thornton goes beyond expectations at gt.com.



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