Features

Navigating the pharma and medtech industries: Key investment and operational drivers

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Over the last several decades, investment in the healthcare sector focused heavily on healthcare service models.

However, with economic factors such as wage inflation, high interest rates and stagnant reimbursement rates, investors' interest has dampened.

In contrast, the pharmaceutical services and associated medical technology (MedTech) industries are more insulated against reimbursement risk and heavy dependence on clinical staff.

The pharma and medtech services sector is also currently more fragmented, and has benefited from technological innovations that can drive real efficiencies and value into the pharmaceutical and medical device sectors.

As a result, services that support these efforts are emerging as focused targets of investment.

THE HIGH COST OF INNOVATION

Developing a new drug is an arduous, time-consuming and expensive process.

From research and development to regulatory submissions, manufacturing and marketing, each stage of the drug development process involves significant investment.

Clinical trials, which are necessary to ensure patient safety and efficacy, can cost tens or hundreds of millions of dollars per trial depending on the stage of testing.

The typical cumulative investment required to bring a drug to market is upward of $5 billion (£4.1 billion) and takes up to 10 years.

Despite remarkable scientific advancements, challenges persist in drug development.

Unforeseen complications during clinical trials can lead to delays and increased costs.

Another contributor to the high cost of pharmaceutical development is the fact that most drug candidates fail at some point in the development pipeline, never making it to market.

Compounding the already high cost of development, in late 2022 the funding environment particularly for biotech companies began experiencing a downturn.

OUTSOURCING AND AGILITY

In response to these challenges, pharmaceutical and MedTech companies have since looked to leverage specialised service providers and technology to promote efficiency and speed.

By outsourcing functions, pharmaceutical companies streamline their operations.

These service providers are also attracting investors, as the barrier to entry in investment is lower than investment in a pharmaceutical or med device company itself.

Further, because these service providers often have a niche area of focus, investors may be able to leverage existing expertise.

For instance, pharmaceutical companies are increasingly engaging medical communications companies, supply chain software providers and companies that offer clinical development support services.

Pharmaceutical companies are also outsourcing to companies that are innovating in the manufacturing sector, with an increased focus on large molecules, as well as protein-based, cell, and viral vector therapies.

Demand for top talent, expertise and the expensive equipment necessary to drive innovation in the manufacturing sector far outstrips supply.

By strategically outsourcing certain functions, pharmaceutical companies can stay competitive and convert their traditionally heavy fixed costs to a more variable cost model.

This flexibility enables swift adaptation to changing market dynamics.

Investors are increasingly drawn to companies that offer outsourcing services, seeing an opportunity to apply knowledge learned from other healthcare sectors and build experience in the expanding pharma and MedTech services industries.

Service-based companies, like those providing site management, seem prime targets for roll-up activity.

Technology-based workflow solutions are still developing disparately, and investors may have to work harder to find the synergy values from different products.

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DATA-DRIVEN TARGETING

Data analytics is a key value driver that reduces costs in some of the most expensive areas of drug development: drug discovery and research subject recruitment.

It will likely take some time before MedTech companies fully adopt artificial intelligence (AI) solutions, but there is industry-wide enthusiasm and interest in its further development.

A key area of innovation in the MedTech industry is data analytics.

Data analytics optimises drug development and patient outcomes by predicting efficacy, safety profiles and market potential of future drugs and treatments.

For example, some pharmaceutical companies are integrating data analytics and generative AI to assess the viability of new drugs and treatments.

Additionally, data-driven insights can help pharmaceutical companies identify unsuccessful treatments faster, ultimately saving time and resources that can be reallocated to more promising ones.

Pharmaceutical companies are also looking at data-driven solutions to identify and connect patients with clinical trials.

Patient identification and recruitment serve as critical variables that impact both costs and drug development.

The costs associated with clinical trials can be streamlined by identifying the right study participants more quickly, excluding those who do not qualify and leveraging technology to minimise bias.

Some new software programs can also analyse anonymous lab results and pinpoint ideal candidates for trials.

Once identified, pharmaceutical companies can collaborate with healthcare providers to determine whether the patient is, in fact, an ideal candidate for a clinical trial.

AI is gaining momentum as an area of focus for companies developing data solutions for the pharmaceutical industry.

There is substantial interest in AI, but industry leaders generally agree that it is difficult to assess what impact AI will have at this early stage.

There is also a question as to the risks associated with adopting AI and integrating it as part of a core business model.

In the short term, AI will begin to be embedded into existing data solutions and used to build new software solutions at a lower cost, all aimed at speeding innovation for medium and long-term growth.

CONCLUSION: NAVIGATING THE NEXUS

The healthcare investment landscape in 2024 is undergoing a shift away from physician and healthcare service models and towards areas like pharmaceutical and MedTech services and their related specialised service providers.

High drug development costs and funding slowdowns have pushed pharmaceutical companies to outsource and streamline their drug development process with new data technology.

This shift is sparking investor interest and driving innovation across the pharmaceutical and MedTech industries as companies race to find better ways to address the most cost-intensive areas of pharmaceutical development and create a more efficient and cost-effective drug development pipeline.

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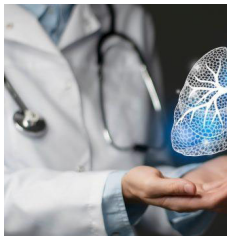
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