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Pharma and Life Sciences

Survey report

Now, for tomorrow

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Introduction

The pharmaceutical/life sciences and MedTech sector is one of the most successful and productive sectors in both the UK and EU.

The importance of this sector was taken into account during the Brexit negotiations which resulted in the Trade and Cooperation Agreement (TCA) being reached between the UK and EU, with at least the foundations put it place to allow the parties to work towards a permanent Mutual Recognition Agreement on regulatory matters.

Following UK's departure from the EU, we wanted to know what businesses and decision makers were thinking of. We are pleased to report on the results of our survey where over 75 companies in the Pharma/Life Sciences/MedTech sector participated. Our questions were specific to funding, regulations, research & development (R&D) and investment and the impact of Covid-19 on these decisions.

The responses indicate R&D spending is being maintained and is set to rise this year. This is good news for the government's objective of making the UK a world class destination for investment, talent and innovation.

According to the results, the majority of companies surveyed have either maintained their level of R&D spending since the start of the Covid-19 pandemic in March 2020 (40%) or increased it (21%) with only 17% reporting a decrease. In addition, when asked to make a prediction for their R&D spend across the course of 2021, 38% thought R&D spending would increase while a similar percentage (35%) thought it would remain the same and only 9.5% projected a decrease.

> The survey provides some early indication that the recent trend of increasing R&D spending will not have been broken by the Covid-19 pandemic and associated economic downturn. According to the Office for National Statistics (ONS), R&D spending in the UK has been following an upward trend in recent years, with a 3.3% increase in 2019 (the last year for which data is available) for 2018. In 2019 total R&D spending across the country came to £25.9bn, of which the pharmaceutical industry contributed 6.9%, the largest single proportion (Source ONS statistics).

The broadly positive picture was also reflected in the percentage of respondents saying funding opportunities have either increased or remained constant since March 2020 (59% on aggregate), despite the pandemic and Brexit. Indeed, 38% of businesses surveyed reported funding being more available since the start of the Covid-19 pandemic, with almost all of these attributing the new opportunities to an increased demand for medical products and research in response to Covid-19. However, over 27% were unsure whether the level of funding would increase or decrease. Of those companies who had seen funding opportunities decrease (15%), only 20% attributed this to Brexit, with 50% saying the lack of funding was not related to Brexit.

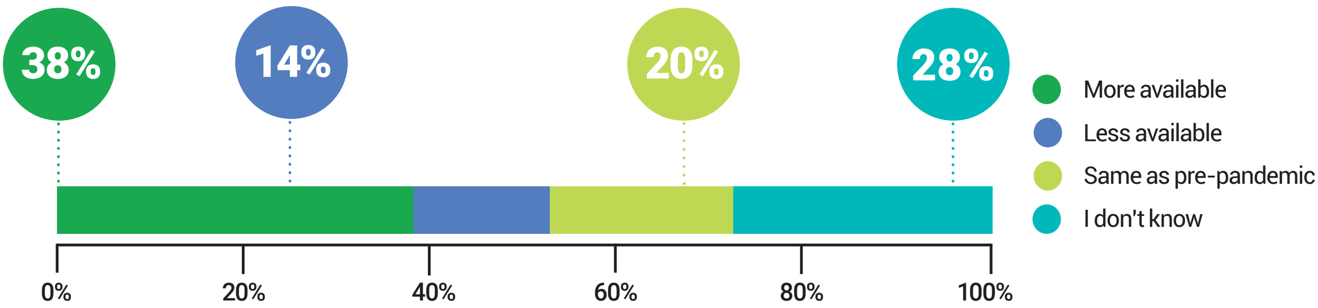
However, almost 50% of respondents thought Brexit makes foreign investment in UK pharmaceutical, life sciences and MedTech companies less likely and of these, an overwhelming 93% said this would be a long-term issue with effects felt for a decade or more. On the other hand, 39% of respondents commented Brexit would either make no difference to foreign investment or make it more available. Overall neither Brexit nor Covid-19 have significantly damaged the sector and a substantial minority of firms have seen a pandemic boost to their funding prospects. In addition, our survey suggests the trend of increasing R&D spending, reported by the ONS, is continuing unabated. Some credit for this should go to the UK's system of R&D tax relief which is relatively well constructed. It is a much more flexible system than other nations, such as France or the USA use, and encourages risk and providing scope for a project to change over the course of development.

On the other hand, a substantial proportion of firms in our survey believe overseas investors are liable to be put off from investing in the UK because of Brexit. There is likely to be some truth in this. If a foreign investor wants to invest in an early-stage business in the UK, they will be worried about the challenges they may face if they wish to expand into the EU at a later date. Meanwhile, mature businesses which have made the UK their headquarters may be reconsidering their investment decision. We have seen this ourselves first hand, with some businesses headquartered in the UK now looking to invest directly into the EU by setting up subsidiaries and warehousing for ease of movement and selling of products.

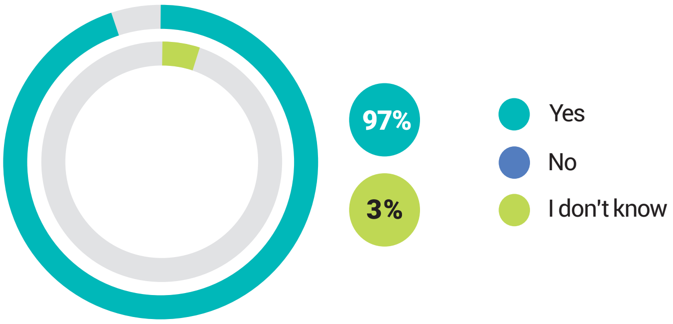
MHA Pharma & Life Sciences sector team

Funding

In the current environment compared to the pre-pandemic period (i.e.before March 2020) do you think funding for pharma and life science businesses is?



If you said funding was 'more available' in the current environment do you think this is a result of greater demand for/interest in medical products because of Covid-19?



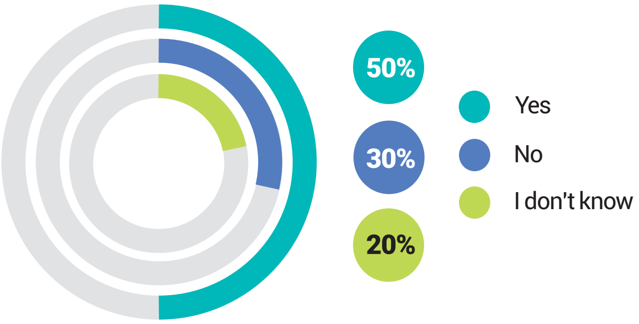
If you said funding was 'less available' in the current environment doyou think this is a result of Brexit?

The pharmaceutical sector is the third largest industry in the UK and for the pharma industry, like many others, the reality of a post-Brexit world is a daunting one. This has meant European funding being diminished and UK funding increasing, particularly from R&D funding.

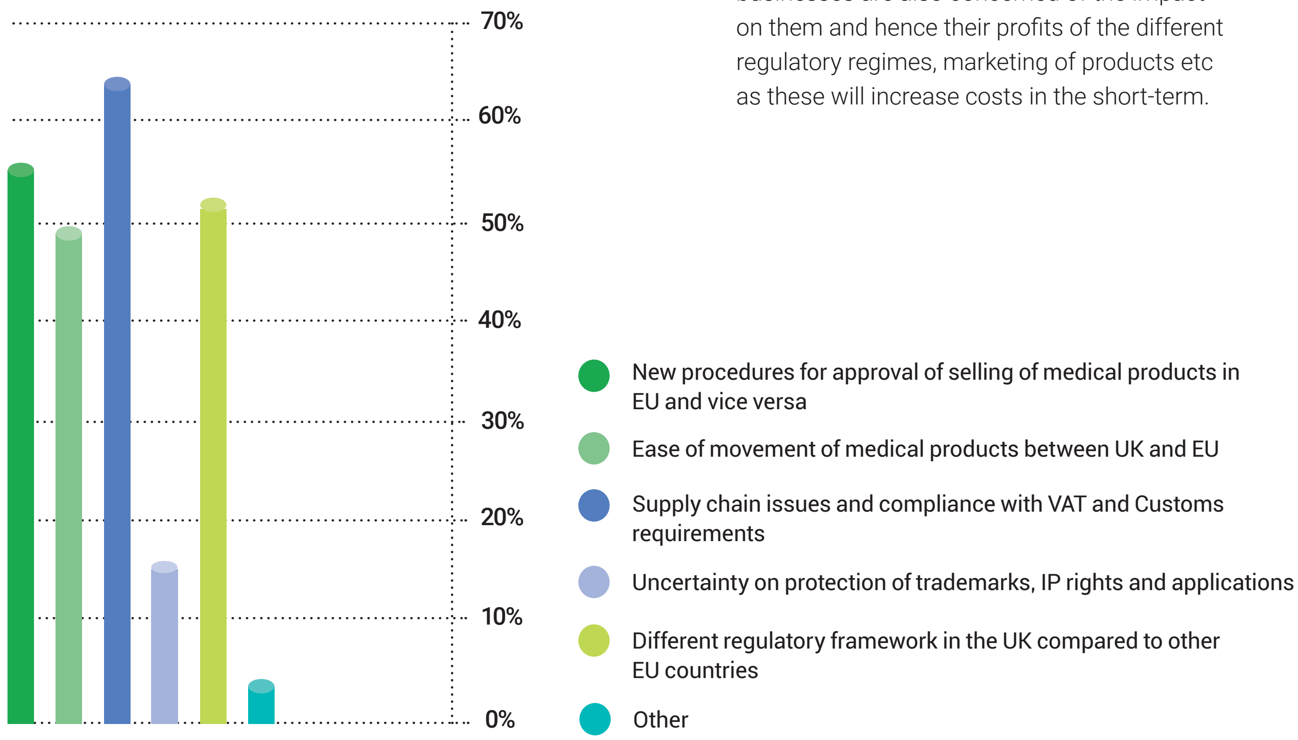
We have noticed, in early-stage life science and bio-tech businesses as well as large pharma, an increase in corporate M&A activity, with businesses either looking to strengthen their UK footprint or enter the UK market to ensure they have a presence.

Regulations

Will the need to adapt to new regulations (or 'red tape') caused by Brexit significantly affect the way you do business or how you structure your operations?



If the answer is 'Yes' what do you see as the biggest Brexit regulatory hurdle affecting the way you do business or structure your organisation?

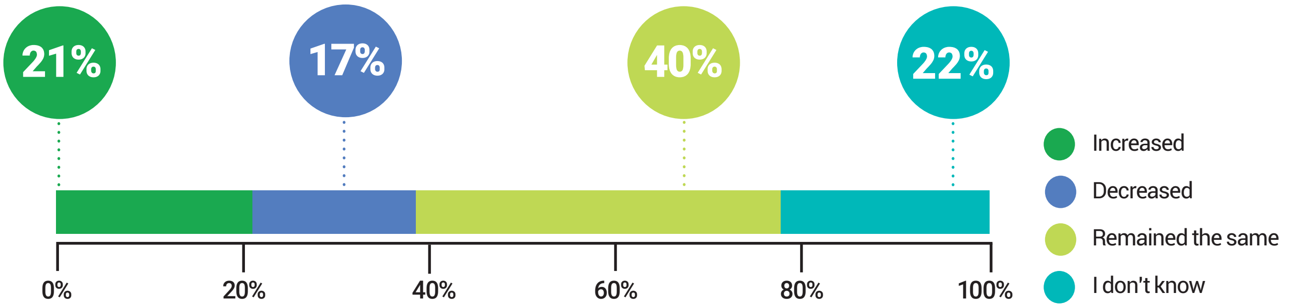


Businesses have commented that Brexit will lead to an impact on their business and there has already been significant press coverage on this of companies suffering from red tape - from filing declarations etc. This is not surprising as the productivity and success of this sector was underpinned by heavy integration across markets, complex regional supply chains, and robust regulatory processes.

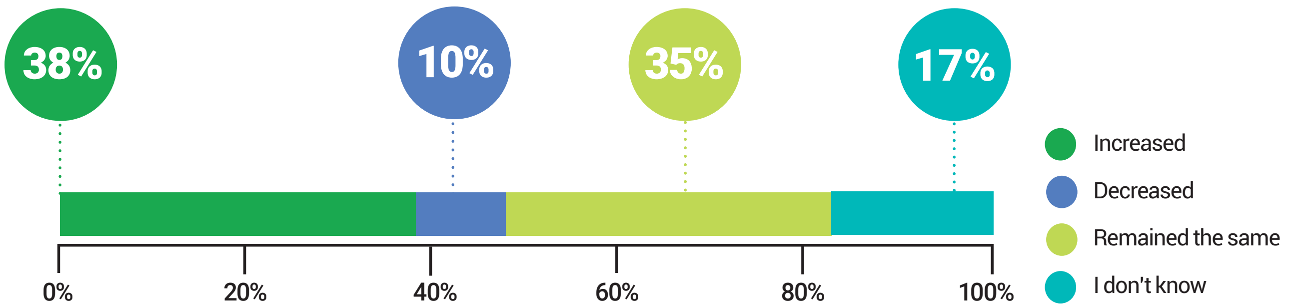
To ease some of the issues, the TCA (Trade and Cooperation Agreement) does allow for duty free movement of goods between the UK and EU and vice versa, which mitigates the duty costs that would otherwise arise. However, customs declarations are still required, adding significant additional administrative compliance and also cost. Apart from supply chain issues, businesses are also concerned of the impact on them and hence their profits of the different regulatory regimes, marketing of products etc as these will increase costs in the short-term.

Research & development

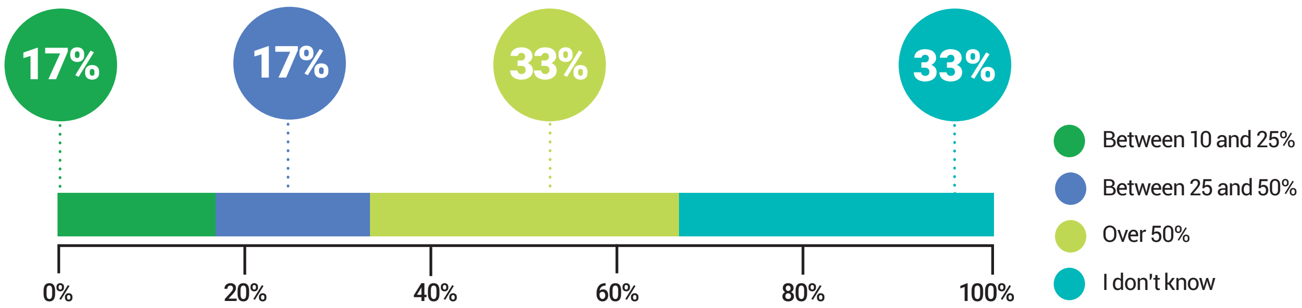
Have your levels of R&D spend increased, decreased or stayed the same since the start of the pandemic?



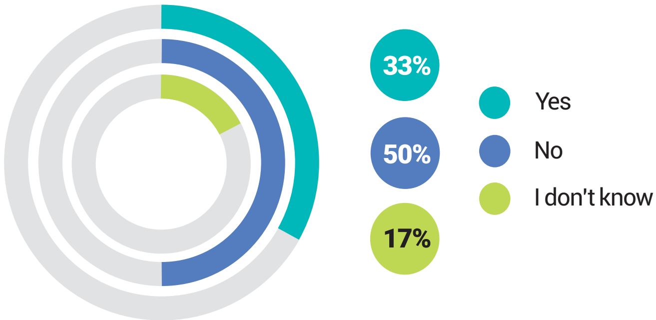
Do you anticipate your level of R&D spend will increase, decrease or stay the same over this year (2021)?



If you answered that you expected your R&D funding to decrease, how much do you think this will be by?



If you answered that you expected your R&D funding to decrease do you think a major reason for this is Brexit-related, for example a lack of access to the EU'sflagship R&D funding scheme the horizon fund.



The underlying attitude and commitment towards investment in technology and innovation appears to remain positive with the majority of respondents indicating that R&D spend has either been maintained or increased during the pandemic and anticipate this will be the case going forward. The ONS has not yet published data for 2020 but the 2019 data indicated a continuing growth trend on R&D expenditure which totalled £25.9bn (3.3% up on prior year) with Pharmaceuticals industry contributing the largest proportion (6.9%) of this spend. **See here.**

The government published a policy paper/roadmap in November 2020 (updated January 2021) in which it underlined its commitment to support UK investment in R&D reaching 2.4% of GDP by 2027 as well as increasing public spending on R&D to £22bn per year by 2024. **See here.**

The survey results would appear to indicate that the growth in R&D spend may be maintained, notwithstanding the impact of the Covid pandemic and the reality of Brexit finally happening, which is key factor in support of the Governments objectives in making the UK a world class destination for investment, talent and as a partner of choice in innovation and research.

The UK is a Life-Sciences and Pharma Hub. Relative to other OECD countries, the UK is a world leader in the this industry, and this has in turn built up dedicated research teams based in UK universities through mechanisms such as Centres of Excellence, and so on. This has ensured that undergraduates and postgraduate degrees have their thesis based in real-world LS problems, and these qualified professionals go on to become employees of firms in this space. In addition, like the Tech sector, the UK has seen a boom in start-ups within the LS + Pharma space, as many of these qualified professionals break-away from the traditional career route to seek bringing disruptive technologies to market.

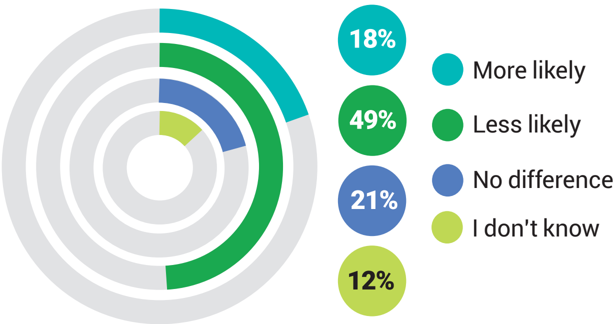
The deployment of advanced software tools such as Artificial Intelligence, Machine Learning, and Computational Simulation, and so on, are becoming ubiquitous in this industry – this has increased the scalability of drug delivery evaluation, and decreased the complexity involved in the number of experimental trials required for evaluation.

The UK R&D Tax Relief Scheme allows for Reactive Research. Other countries with similar schemes, such as France, USA, Canada & Australia generally require companies to plan and foresee their R&D activity.

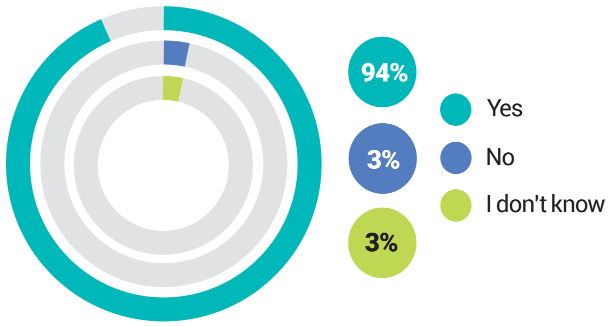
In the UK schemes, although the projects must be defined and planned, there is room for the project to change scope or emerge unexpectedly. This has ensured companies in UK spending monies on R&D activity are more confident with riskier forms of work where the payoff is almost always higher.

Investment

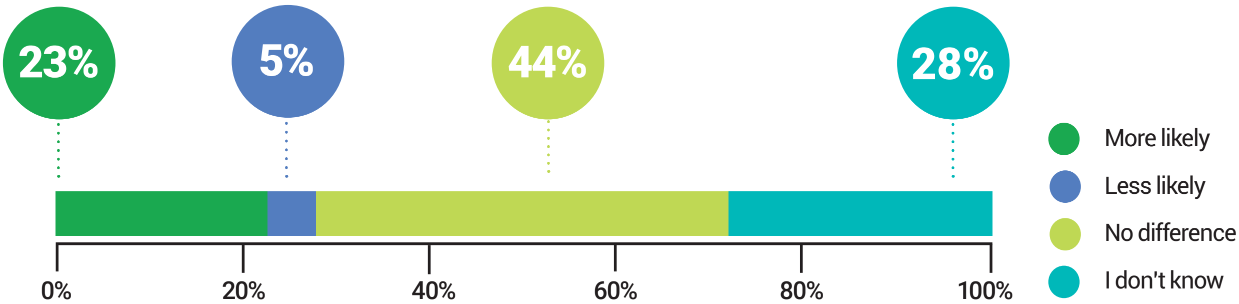
Do you think non-UK investors in Pharma and Life Sciences are more likely or less likely to invest in the UK now that Brexit has been implemented?



If your answer was 'less likely' do you think that Brexit is likely to have significantly damaged the prospects for foreign investment in UK Pharma and Life Science sector for the long term (i.e. in the next 5 to 10 years or so)?



Have the current economic conditions, i.e. considering economic disruption from Covid-19 and Brexit, made you more likely to consider entering into an M&A transaction in the next 12 months?



It is not surprising to note that the majority view is that Brexit has had an impact on international businesses investing in the UK across many sectors. UK had always been seen as an entry point into Europe and with that option being removed, decision makers will consider investing directly into Europe. However, with UK being a leader in sectors such as life sciences and the Government giving encouraging signs for investment in this space, it is encouraging that some of the respondents do see an increase in investment.

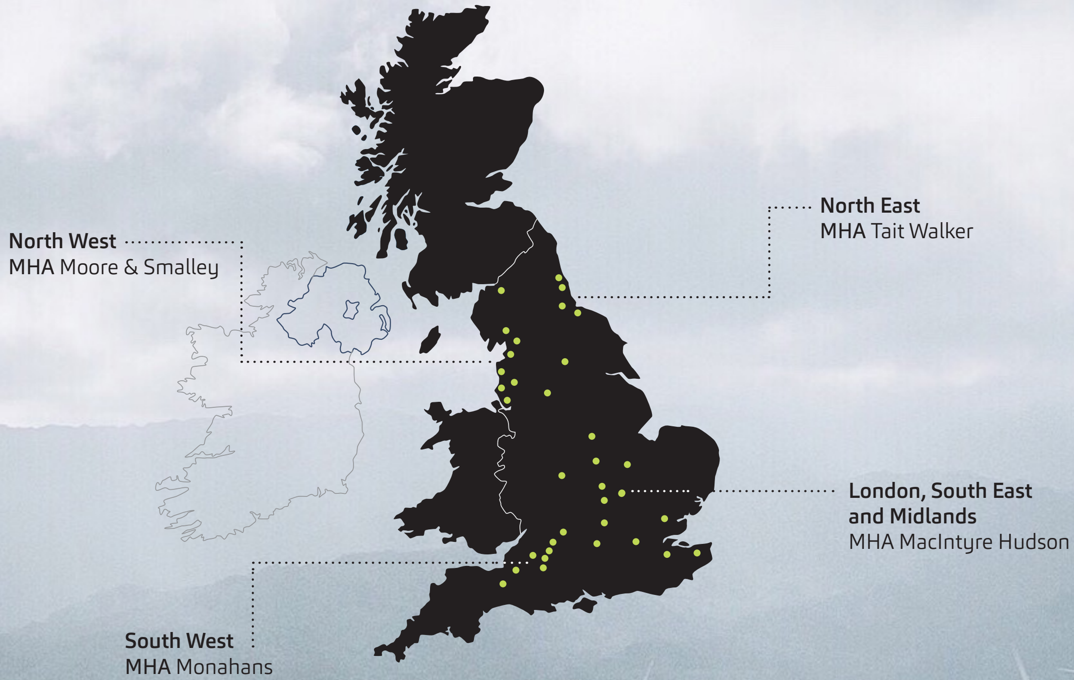
About MHA

MHA is an network of progressive and respected accountancy and business advisory firms with members across the UK.

Our member firms provide both national expertise and local insight to their clients. As an independent member of Baker Tilly International, a top 10 global advisory network, MHA offers clients unparalleled access to a broad range of in-country international specialists where overseas projects are on the horizon.

Our Sector Approach

MHA allows clients to benefit from in depth sector knowledge in addition to specialist accountancy services and expert business advice. Our industry experts understand the challenges and opportunities within the sector. With MHA's sector experience, and local, national and international knowledge, our team is well placed to provide leading advice.



National Reach

136
Partners

1,375
Staff

£121.9m
Combined turnover

4
Independent accountancy firms

33
Offices nationwide

International Reach

148
Territories

US$4.04bn
Combined member firm revenues

An independent member of bakertilly INTERNATIONAL

37,000
Partners & Staff

Pharma and Life Sciences Contacts

London, South East and Midlands

Yogan Patel
Partner

E: Yogan.A.Patel@mhllp.co.uk

South West

Laura Green
Partner

E: laura.green@monahans.co.uk

North West

Alex Kelly
Partner

E: alex.kelly@mooreandsmalley.co.uk

North East

Mark Brunton
Partner

E: mark.brunton@taitwalker.co.uk

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