

**Goldman Sachs**

**“Biopharma opportunities and macro challenges: A check-up on the industry”**

**Date of recording: June 12, 2024**

CHRIS SHIBUTANI:

What the industry went through with COVID and the period post that was almost a little bit of an awakening to be ambitious and to think about solving very big problems.

ASAD HAIDER:

Chris, Salveen, we're here at our 45<sup>th</sup> annual Global Healthcare Conference in rainy Miami. We've been fortunate to host about 300 companies over the last three days. We have a number of investors. What are some of the

main takeaways that you're picking up?

CHRIS SHIBUTANI:

Top of mind as a pharmaceutical analyst is clearly the obesity therapeutic landscape. GLP-1s are at the centerpiece of that. A lot of players, a lot of discussions. So many different angles to think about this.

ASAD HAIDER:

One of the things that really stood out to me is that when we surveyed the investors as this conference, and we asked them, you know, which themes and names are going to continue to work in the healthcare sector, a resounding majority of them pointed to GLP-

1s. And that's, obviously, been the mega theme across the sector.

CHRIS SHIBUTANI:

Well, I think if you're going to be a mega theme at this event, you had to have earned that. And this has been a journey that's not just this season or this flavor. It's been well over a decade. So, it's been a journey here. And certainly, the magnitude of that opportunity, the TAM as we say, total available market, is unprecedented.

SALVEEN RICHTER:

Chris, you actually sized this opportunity recently. And I think you have a differentiated

view in how to think about that

CHRIS SHIBUTANI:

Right. And there are so many components that go into this equation. We published last fall \$100 billion estimate. The building blocks are always the number of people and the dollars that are involved here.

And we've raised that to 130 billion recently. Which we didn't get that much pushback on. I think if you think about all the progress points and the adjacencies, the additional ways that these medicines are helping to address very relevant, sizable, and costly problems, such as heart disease, enable you

to legitimately have these conversations and think of the scope of this market opportunity going north of \$100 billion.

ASAD HAIDER:

You know, one of the things that struck me is that while there's so much focus, when you think about innovation in healthcare, just because of the dominance of the obesity theme, there's so much focus on that segment particularly. But there's a lot of other innovation going on across the sector, right?

SALVEEN RICHTER:

You can see science getting better. And you

can see companies trying to go after huge, unmet needs. So, clearly cardiometabolic, we're seeing this big effort in obesity. But there are other big markets. One being cardiology, right? Which is the biggest cause of mortality in the United States. And so, you're seeing a stronger effort towards an adjacent market.

But you're also seeing a lot of work in neurology. We have one Alzheimer's drug, well, a key drug that's entered the market, and potentially a second one coming after. And I think they're generation one. They're kind of building this dynamic in terms of really creating infrastructure and the

reimbursement processes around them and helping physicians to understand, you know, how to treat these patients.

And then after that, I think you will start to see more and more effort to try to determine how to improve upon that, how to combine, and how to really kind of unlock this big neurology opportunity that really has been under-addressed for many years.

CHRIS SHIBUTANI:

Right, we've called it the decade of the brain thinking about that. And it seemed somewhat daunting, almost like a science project. And I kind of subconsciously think that what the

industry went through with Covid and the period post that was almost a little bit of an awakening to be ambitious and to think about solving very big problems, which the industry was able to do.

When you think about some of the really daunting, vexing, significant problems that everybody is touched by - central nervous system, neurologic disease - these are big problems. And I think it's a window to look through now to think about some of those solutions. And so, that's an excellent point about the core innovative drivers for the industry.



ASAD HAIDER:

There's obviously a lot of focus on capital allocation and these large pharma companies are facing these big patent cliffs that are coming up and are looking to acquire some of the smaller biotech companies.

So, you know, what stood out to you from this conference in terms of just appetite for deal activity? What are the types of targets that you think would be interesting for pharma?

CHRIS SHIBUTANI:

Yeah, immediately the backdrop to my answer is one where I have tremendous

respect for the task that these management teams have to face. We're talking about fundamental capital allocation, strategic decisions. But it's against a backdrop where some of the most prominent assets eventually come to a time period where they need to be replaced.

So, with that as a backdrop, I think innovation is where it all starts. And clearly, when we spoke to some of the CEOs, many of whom attended here, and therefore it was a great opportunity to get the view from the top. And they talked about how the innovation opportunity is not necessarily solely in-house.

The innovation is coming from strategic activity. And we're seeing that in different structures, right? You can see that in licensings of technology in very early stages. You can see that in partnerships. And then acquisitions, which is always the most satisfying part for many of our investor clients.

But it is building that portfolio. And a cadence. You have to have kind of your NBA player. But then you also need to have that roster that's in the NCAA. Investors pay attention to that. Who's coming up next? What is the product that's going to really sing

and grab those headlines, give investors confidence in the growth profile? It's in these categories that we're talking about where the activity is.

I almost felt an obligatory sense to make sure I asked every company what their interest was, potentially, in some of the mega-TAM opportunities. And naturally as we said, starts with metabolic disease and obesity. But also in oncology, immunology. I think if we did a grid across the leading players, they know that this is where they need to be. But not everything comes from their own kitchens. It's about collaboration. It's doing deals.

ASAD HAIDER:

What about the capital markets side, Salveen? I mean, the biotech IPO window was shut for a very long time, and we are now finally starting to see glimmers of hope.

I think we've had nine biotech IPOs on the year. Just the mood at this conference seems to be a little bit more optimistic towards that, you know, that IPO activity potentially continuing.

SALVEEN RICHTER:

Sure. Clearly, there have been these deals, and the early deals, very few of them traded

up off their IPO price. And I think it put a halt for a little bit to IPOs.

But what we're seeing in the recent IPOs now is they're much more clinical stage, meaning that they have drugs in the clinic versus, you know, preclinical, meaning they're studying the drugs still in animals. And so, not only do they have that, but they have these forward catalysts, meaning event paths that are going to play out so people can have inflection points off which to generate alpha with these names in market.

So, overall, the way we're looking at this is we want to see positive momentum, right? We

want to see these stocks trade well. And I think if they do, you're going to see more and more the, you know, IPOs following. And I think, clearly, there is also that dynamic of interest rates, right?

And so, as we get a directional understanding of interest rates, then that opens up the financing window in a bigger way for these companies.

ASAD HAIDER:

Yeah. There's a tremendous amount of frustration that biotech has effectively become an inverse rates proxy. And it's very much hinged to the Fed call and the direction

of interest rates because these are long duration assets that require financing in the future. So, like a lot of their smaller cap brethren, these stocks have also been struggling to really find firm footing

I was also struck by how many companies are talking about AI—

CHRIS SHIBUTANI:

Yes.

ASAD HAIDER:

— and their artificial intelligence efforts, which has obviously captured the market's imagination. Yet in healthcare it's been a



little bit more challenging. But these companies are all talking about those efforts. What did you guys pick up on that front?

CHRIS SHIBUTANI:

Yeah. I think when you talk innovation, you're talking about a meeting of the minds, the gathering, the collection of things that maybe had not been contemplated before.

But how do we get smarter? So, having a lot of information is great. Figuring out how to analyze, prosecute, manufacture the idea of taking this into a product, translating this to an enterprise, and thinking about real growth opportunities that could, at the end of the

day, transform people's lives, addressing common diseases, rare diseases, and whatnot.

The opportunity is there to generate efficiencies and insight that, as powerful as the human mind is, the ability to invoke artificial intelligence, machine learning, is simply on everybody's business plan. And I think that is becoming one of the core ingredients of thinking about how we're going to propel innovation forward, certainly in the next decade. It is here to stay. If you're not in the game, then you better catch up.

SALVEEN RICHTER:

And I would add to that that there's really been integration with AI in healthcare across every vertical. And when you look at biopharma, it's always been there in generation one under the term computational biology. And now we're seeing them bring in these tools to help them better design drugs, to help them better design trials, to go after unmet needs.

And the reason why I think there, you know, is this question about how this is going to play out in the industry is because it's going to take time, right? In some cases, you're seeing some early examples where you're seeing better designed drugs. For others, it

might just take a few years before we start to see the emergence of these novel targets and novel drugs. But it appears to be very important to the future of these companies.

ASAD HAIDER:

I think part of the problem is that healthcare investors, by definition, are conditioned to look for a catalyst. And with AI you just don't have a catalyst where you're going to say, okay, that's the catalyst that's going to make me realize the economic value—

SALVEEN RICHTER:

Agreed.

ASAD HAIDER:

—of artificial intelligence.

SALVEEN RICHTER:

There's really going to need to be an outcome or a product. And in the case of drug companies, a drug to really determine that that technology is working. And that takes time.

CHRIS SHIBUTANI:

It's a little bit intimidating, too, when you think about it. It almost seems as if it's a whole, broad tool, an awareness, a solar system that we know is kind of there, but we can't quite figure out. So, watching it materialize in ways that you've described in terms of drug discovery and design, but how

is it actually going to thread into coming up not just with better, quicker, cheaper aspects of the early drug discovery process, but selecting patients for clinical trials, aligning patients with therapies, I think, is also going to be part of the toolkit to help address some of these cost pressures within healthcare. It's inevitable that this is a tool that will come to play.

ASAD HAIDER:

Chris, Salveen, thank you so much for sitting down. Fascinating discussion.

CHRIS SHIBUTANI:

Always plenty to discuss. I really look

forward to our next one.

**SALVEEN RICHTER:**

Thanks, I really enjoyed it.

*This transcript should not be copied, distributed, published, or reproduced, in whole or in part, or disclosed by any recipient to any other person. The information contained in this transcript does not constitute a recommendation from any Goldman Sachs entity to the recipient. Neither Goldman Sachs nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this transcript and any liability therefor (including in respect of direct, indirect, or consequential loss or damage) are expressly disclaimed. The views expressed in this transcript are not necessarily those of Goldman Sachs, and Goldman Sachs is not providing any financial, economic, legal, accounting, or tax advice or*

*recommendations in this transcript. In addition, the receipt of this transcript by any recipient is not to be taken as constituting the giving of investment advice by Goldman Sachs to that recipient, nor to constitute such person a client of any Goldman Sachs entity. This transcript is provided in conjunction with the associated video/audio content for convenience. The content of this transcript may differ from the associated video/audio, please consult the original content as the definitive source. Goldman Sachs is not responsible for any errors in the transcript.*