Interview: Aidan Meagher – Tax Partner & Irish Life Sciences Lead, EY Ireland



"Ireland is one of the highest performing economies within the EU, something which is a significant draw for life sciences companies seeking to tap into our strong talent pool, competitive tax rates and established footprint in the sector"

06.02.2017

Tags: Ireland, EY, Consultancy, Investment, FDI, Life Sciences, Pharma

Aidan Meagher, Tax Partner & Irish Life Sciences Lead for EY Ireland, discusses EY's extensive consulting work, including their efforts to promote entrepreneurship in Ireland, the changing landscape facing the medtech industry in the country as well as how Ireland can work to make itself an even more attractive destination for start-ups.

As an introduction for our readers, could you provide a brief overview of your professional background?

Prior to joining EY I was with Diageo, which is obviously a very different sector. I spent many years in senior leadership roles within their global tax function, both here in Dublin and in London, where I gained vast commercial experience prior to joining EY in January 2012. Upon joining I was asked to lead the life sciences sector – a sector that is important for EY both locally and globally – which was an exciting opportunity for me, in particular to apply that commercial experience to a different sector.

What drew you to join EY Ireland?

One of the key reasons that I joined EY is that it is truly a global firm; I experienced the benefits of this as a previous client. We are almost borderless in terms of how we operate, and I see that as being one of our biggest advantages. We operate in very integrated teams, which is really important for global and international clients. We have one global life science sector, led out of Cambridge, Massachusetts, where we have a team of sector experts supporting us globally with

the latest trends, analyses and thought leadership. There is an equivalent life sciences sector lead in each territory that EY operates in, which means it is very easy for us to obtain the required support for international clients, coupled with direct life sciences expertise. By the very nature of our global firm, we are encouraged to act in a more collaborative manner for the benefit of our clients.

What makes Ireland such a unique market, especially for EY?

The Irish market here has been built through initial foreign direct investment (FDI) that began in the late 1960s and early 1970s and was spurred on with a special tax rate tied to manufacturing. The industry has really evolved from them, which you can see by the great presence that we now have. A large portion of this investment comes from the United States. EY's presence in the US life sciences sector has presented us with an excellent opportunity to build a relationship with those companies with a presence in Ireland.

Ireland is also one of the highest performing economies within the EU, something which is a significant draw for life sciences companies seeking to tap into our strong talent pool, competitive tax rates and established footprint in the sector, as well as the fact that we will soon become the only English speaking country within the EU.

Ireland has a strong, yet modest, indigenous pharmaceutical and life science sector. What were the drivers behind the success of Ireland's domestic market?

One really interesting thing for me when I took on the role was actually what is happening in the domestic sector as a consequence of FDI into Ireland. What has developed is a burgeoning indigenous sector, with particular depth in medical devices. There is a lot of collaboration and innovation that goes on in Ireland, and it is very impressive, with a big focus in some of the regions as well, particularly Galway in the west of Ireland which is the fourth largest incubation hub for the medical devices sector globally. There are also many incubation programs which are very impressive such as BioInnovate at the National University of Ireland in Galway (NUIG). BioInnovate is the only recognized Stanford affiliated medical device incubation program outside of the US.

EY has worked to position itself as a partner for the Irish entrepreneur. Could you expand further on these efforts?

The great thing about EY is that we are focused on entrepreneurship, as evidenced through our EY Entrepreneur of the Year (EOY) program, which is a pillar of our brand. We're proud to say that not only is the program currently in its 20th year in Ireland but that it is also the flagship program globally for EY.

[Featured_in]

At EY we focus on investing in relationships for the longer term rather than the short term. Our EOY initiative also provides the perfect forum to introduce entrepreneurs into the EY global network.

The executive learning and networking that you get through that program, as well as access to EY subject matter experts, is how we invest in people for the future.

We have had some really great, interesting clients in the life sciences sector that have joined us through that program. Some of the finalists in the sector last year were 3D4Medical, Beats Medical and Oneview Healthcare.

The biotech industry is very strong here in Ireland, but still facing challenges such as uncertain capital markets and cost pressures. How have companies worked to mitigate these challenges?

We are seeing new commercial models evolve in the sector, which is increasingly leading to collaborative relationships between the smaller biotech companies and big pharma. Smaller biotechs are not necessarily wanting to build the infrastructure that big pharma has, but they are willing to work together to leverage that commercial infrastructure. These collaboration agreements are also a useful way for biotech companies to de-risk their R&D pipeline whilst strengthening the R&D pipeline for larger pharma companies.

Additionally, there are interesting funding models evolving now around US and UK venture capital funds as well. These models allow for earlier stage R&D assets, maybe not at the core of big pharma's pipeline, to be sold to VCs to be developed, managed and obtain regulatory approval, with a right of first refusal to repurchase the asset. This is focused on de-risking the balance sheets for big pharma, but also recognizing that some of the R&D departments may not have the budget or resources to pursue this pipeline.

The medtech industry is extremely strong here in Ireland, but is facing a changing landscape on many fronts. Could you share your insights on how this industry in changing at the moment?

Galway is the fourth largest globally in terms of being a leading innovation hub for medtech, and Ireland is the largest net-exporter of medical device products outside of Germany, and for such a small nation, that is a fantastic statistic. However, there are some interesting changes, both from a regulatory perspective and the M&A market that we are seeing.

Most domestic medical device companies are starting their operations with a view that they will be sold; they are not equipped to build the commercial infrastructure they need. Rather, they are looking to build a device, have it approved by the FDA and then ideally sell it. The current landscape is proving more challenging. First, the US market has changed, where there is a need for large clinical studies, meaning even with FDA approval, there could be bigger clinical studies to prove the validity and also, the need to demonstrate greater commercial appetite in the market. This means that companies are having to do things differently, and raise additional finance to get that successful exit, representing a longer investment horizon. A lot of companies used to obtain

the European CE mark on their device first, as a way to support their funding needs through commercialization in Europe, however, this will be potentially become more difficult come 2019 with the new EU medical device regulation which is likely to lead to increased funding for med device start-ups.

Companies are also now having to go down the route of raising bridge financing, or pursuing the IPO route. This presents a different challenge as many entrepreneurs are not set up to do that, and that is an area where we at EY can help guide them through that process.

What are going to be the main challenges a company will face in this new landscape?

The main challenge is raising investment; however, the venture capital community is very active here in Ireland, in addition to high net worth investors, syndicates such as the Halo Business Angel Network, and Enterprise Ireland which has to be recognized as playing a massive role in supporting these companies. They are the lifeblood of the seed money, and they have been very supportive for the industry. They provide great support to entrepreneurs which goes beyond financial investments, notably through their future leadership programs and trade missions to open up new markets.

[related_story]

Ireland is known for its strong start-up community, something you have touched on. How do you think this industry could be even further strengthened moving forward?

There was a specific entrepreneur relief introduced from 1 January 2016 reducing the capital gains tax rate to 20 percent on the first €1 million of gains. This rate was further reduced to ten percent from 1 January 2017. However, if an entrepreneur starts and goes through his whole life cycle to exit, he or she might have less than 15 percent of the company by the time they make a successful exit, so that can be challenging as to whether the personal commitment in both time and financial return is worth it for an entrepreneur. If you think about the after-tax return, and ask if it is actually worth it in the first place to do it, many would probably tell you no. There is some relief around reinvestment, however, I believe that we need to do more to ensure that as a country we are supporting serial entrepreneurship and the invaluable contribution that it makes to our economy Also, we need to foster an environment where failure is success. In the US, for example, there is no stigma attached to failure. It is harder here in Ireland to experience failure, and that can sometimes make raising investment more difficult. We need to have a change in mindset. We need more models to facilitate and structure innovation in a way that allows entrepreneurs to get to where they need to get to quicker and with the proper supports in place.

Looking more broadly to the region, how do you believe that Brexit will impact the Irish pharmaceutical and life sciences sector?

The implications of Brexit are in constant flux. There is undoubtedly opportunity, but there is also

risk attached to it. The most interesting opportunity has to do with where the EMA relocates, which would be an incredible opportunity for Ireland if it were to move here. What we need to do, as our next logical evolution of the sector in Ireland, is to attract more senior people from a regulatory and clinical perspective. To have that expertise at our door would be a huge force of attraction. We need now, particularly against the backdrop of the broader and changing global tax landscape, to attract more roles to Ireland to protect our existing activities and also to attract more. This is in line with the Irish Government's objective to attract higher end jobs.

Looking back over your career at EY, what are you proudest of?

One of our accomplishments has been establishing the EY brand in the domestic sector. We very quickly determined that it was good for the brand to be associated with sponsoring and supporting the sector. We have sponsored BioInnovate in NUIG Galway and have also opened a Galway office to reflect our investment in the region, as the Galway market is really loyal to local service providers, so it is important that we contribute to that local community. We also sponsor Health XL globally and the National Digital Research Centre's FutureHealth program as well as the Innovation Medtech conference which will take place in April.

What is your ambition for EY Ireland in the coming 3-5 years?

EY being recognized as the market leader in the life sciences sector for entrepreneurs. They are already seeking out EY, recognizing that we are here willing to support them throughout their journey, both to invest in them and make our global network available to them, but also to help them to grow their business as fast as they possibly can – so this is something we want to build on.

See more interviews