



Global M&A: Outlook for Pharmaceuticals

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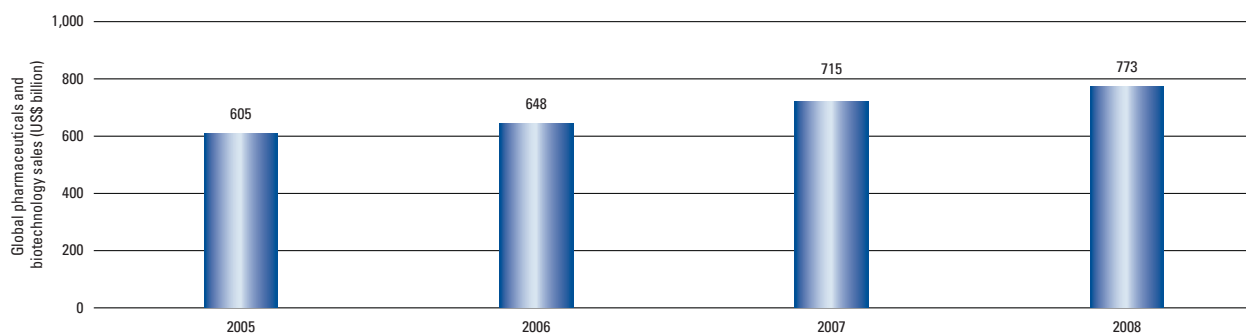
M&A in the global pharmaceuticals and biotechnology sectors

The pharmaceuticals and biotechnology sectors are currently battling with declining pipelines, patent expirations and a clampdown on healthcare spending. As their troubles grow, the sectors are being forced to increasingly engage in mergers and acquisitions (M&A) activity. While the increased M&A activity in the sectors is not expected to cool down any time soon, what remains to be seen is whether the sectors will continue along the path of the recent large-scale M&As or will focus on smaller and more strategic deals.

Global M&A review: The return of megamergers

In 2008, global pharmaceuticals and biotechnology prescription drug sales grew 4.8 percent, the lowest rate since 2001.¹ Sales growth is expected to be even lower in 2009, at 2.5 – 3.5 percent.² Along with this slowdown, the pharmaceuticals sector is faced with an increasingly challenging environment resulting from increasing patent expirations, growing generic sales, reducing new drug pipelines and stricter regulations. The biotechnology sector also faces increased regulatory challenges as well as shortage of credit.

Figure 1: Global pharmaceuticals and biotechnology sectors sales, 2005 – 08



Source: Global Pharmaceutical Sales 2001 – 2008, IMS Health, March 2009



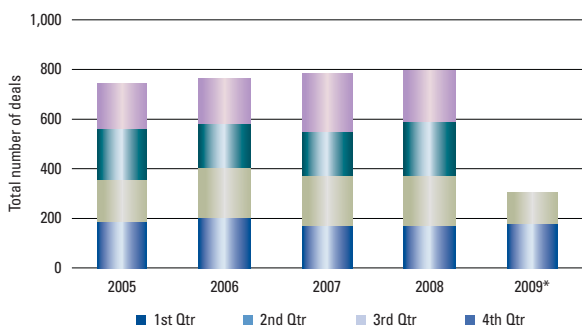
“In 2008, the global pharmaceuticals and biotechnology prescription drug sales grew 4.8%, the lowest rate since 2001.”

The 2009 megamergers of Pfizer and Wyeth, Merck & Co. and Schering Plough, and Roche and Genentech are clear examples of how the sectors are looking to M&A activity to overcome the current challenges. M&A activity can provide access to new products, invigorated research pipelines, markets and cost savings if synergies are achieved.

In the period from June 08 to May 09 (the current review period), the pharmaceuticals and biotechnology sectors witnessed increased M&A activity, including some big-ticket acquisitions, compared with the period from June 07 to May 08 (the previous review period). This has been possible largely because the sectors have the necessary internal resources and credit lines to finance such deals. Megamergers, which had been absent from the sectors since 2004, made a dramatic comeback in 2009. Pharmaceutical companies are looking to acquire more biotechnology products and companies as pharmaceutical drug sales slow. Pharmaceutical firms were also seen acquiring generic pharmaceuticals.

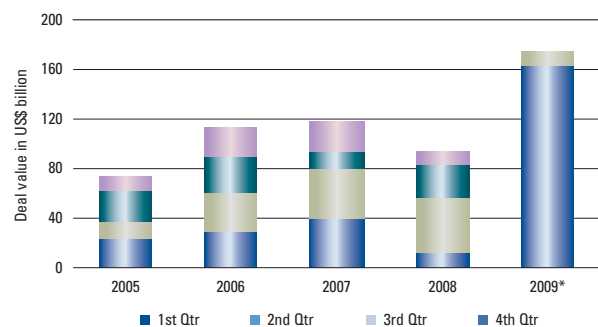
The global pharmaceuticals and biotechnology sectors saw only a 1.7 percent increase in the total number of deals in the current review period. However, the total disclosed value of deals increased by a staggering 185 percent, to US\$226.2 billion. Due to the three megamergers, valued at US\$155.9 billion, the average size of the deals increased from US\$164 million in the previous review period to US\$430 million in the current review period.

Figure 2: M&A in the global pharmaceuticals and biotechnology sectors – number of deals (2005 – 09*)



Source: Thomson One Banker
*January to May

Figure 3: M&A in the global pharmaceuticals and biotechnology sectors – value of deals (2005 – 09*)



Source: Thomson One Banker
*January to May

Americas dominate regional activity

The Americas accounted for 91.2 percent of the total deal value in the current review period. The volume of deals was the second highest ever, with 287 deals, with a 271.4 percent rise in deal value. While the three megamergers were largely responsible for this increase, the region also witnessed many smaller multi-billion dollar deals from both foreign and local players. Glaxo-SmithKline, Roche and Teva were among the key foreign players targeting companies in the region. Buoyed by the Pfizer and Wyeth, and Merck & Co. and Schering Plough megamergers, the value of acquisitions by companies in the region increased by 330 percent in the current review period. Total acquisitions by companies based in the Americas accounted for 60.3 percent of the total value of deals, unlike in the previous review period, when Europe/Middle East and the Americas had an almost equal share. Almost all the billion-dollar deals by companies in the Americas consisted of acquisitions of other local players.



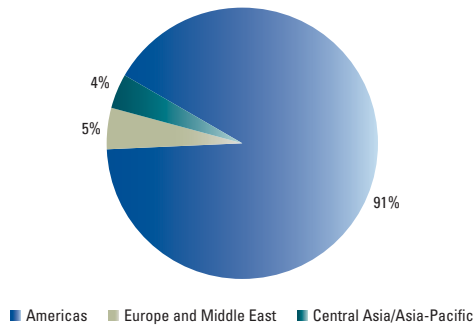
“The Americas accounted for 91.2% of the total deal value in the period from June 08 to May 09.”

M&A activity targeting pharmaceutical and biotechnology companies in **Europe and the Middle East** increased, in terms of deal value, by 36.6 percent in the current review period. Austria, the Czech Republic, Switzerland and the UK accounted for 54.5 percent of the total deal value in the region. Two deals of over a billion dollars were within the generic pharmaceuticals space, with Novartis acquiring the specialty generics business of the Austrian firm Ebewe Pharma and Sanofi-Aventis acquiring Czech firm Zentiva.

The value of acquisitions by pharmaceutical and biotechnology companies within the region increased by 158.2 percent to US\$80.7 billion. Roche's acquisition of Genentech was the primary driver for the increased activity. GlaxoSmithKline, Novartis and Sanofi-Aventis were among the most active acquirers in the region, with all three acquiring multiple targets.

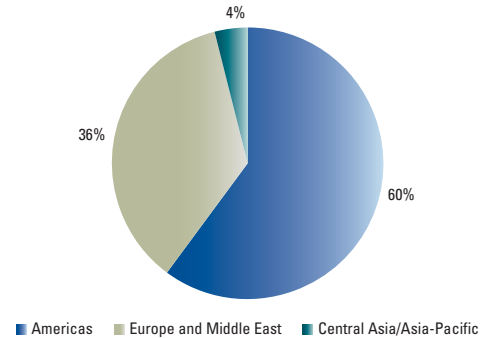
In the Middle East, Teva Pharmaceutical's US\$7.46 billion³ acquisition of Barr Pharmaceuticals increased the deal value of acquisitions originating from the region.

Figure 4: Global M&As in the pharmaceuticals and biotechnology sectors by target region – June 08 to May 09 (by value)



Source: Thomson One Banker

Figure 5: Global M&As in the pharmaceuticals and biotechnology sectors by acquirer region – June 08 to May 09 (by value)



Source: Thomson One Banker

The total value of M&A deals targeting companies in **Central Asia/Asia-Pacific** decreased by 43.8 percent to US\$8.8 billion. This significant drop was due to decreased activity in Japan, where the value of acquisitions fell from US\$7.7 billion to a mere US\$87.1 million. However the global pharmaceuticals and biotechnology sectors' interest in China and India continued to grow. These countries accounted for 146 and 38 deals, respectively, out of the 305 deals within the region. India emerged as the top target country in terms of deal value, as a result of the Daiichi Sankyo's US\$4.6 billion acquisition of Indian generics firm Ranbaxy Laboratories.⁴

The deal value of acquisitions by companies in the region decreased by 44 percent to US\$9.1 billion. Japanese pharmaceutical and biotechnology companies continued to be active acquirers, though their activity was focused on countries outside Japan. This signaled the second consecutive period of increased outbound activity by Japanese companies, in which Daiichi Sankyo's acquisition of Ranbaxy Laboratories and Shionogi & Co.'s acquisition of Sciele Pharma were most notable.

Analysis by sector

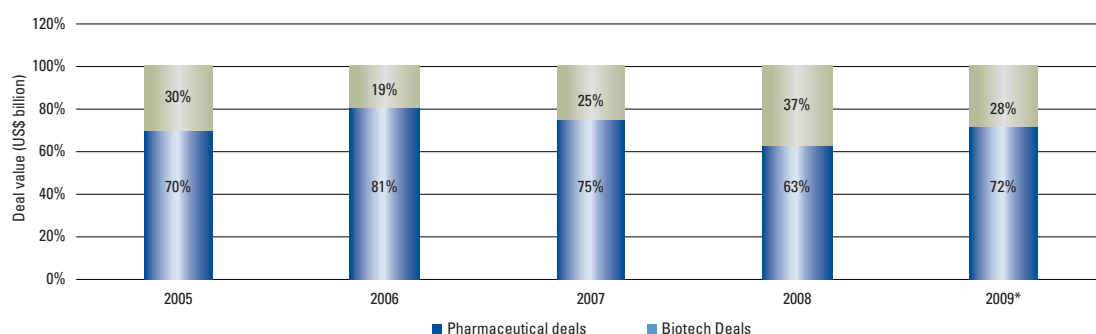
The total deal value in the **pharmaceuticals sector** increased by 181.2 percent to US\$160.5 billion. This increase was due to the two megamergers by Pfizer and Merck & Co., which accounted for 68 percent of the total deal value. The current review period was marked by significant activity in generic pharmaceuticals, with the acquisitions of Barr Pharmaceuticals, Ranbaxy Laboratories and Zentiva amounting to US\$14.66 billion,⁵ or 9.1 percent of the total disclosed deal value in the sector.

“Acquisitions of Barr Pharmaceuticals, Ranbaxy Laboratories and Zentiva in the generic pharmaceuticals space amounted to US\$14.66 billion.”

The number of deals in the **biotechnology sector** decreased by six percent, while the total value of these deals increased by 194.7 percent to

US\$65.7 billion. Lower valuations and decreased activity by private equity (PE) companies have made small and mid-size biotechnology companies more attractive, although this has not translated into increased deal activity. At the same time, large deals such as Roche's acquisition of Genentech and Invitrogen's acquisition of Applied Biosystems provided a significant boost to the total deal value. Eli Lilly's acquisition of ImClone and Roche's acquisition of Genentech highlighted pharmaceuticals' continued interest in biotechnology companies.

Figure 6: Breakdown of global M&A value by sector (2005 – 09*)



Source: Thomson One Banker – as accessed on 11 June 2009

* January to May

Analysis by acquirer type: Cash-rich pharma goes on a buying spree

With two large megamergers in the **pharmaceuticals sector**, pharmaceutical companies accounted for more than 91 percent of the total deal value in the current review period. The deal value of acquisitions by pharmaceutical companies increased by 410.9 percent. Impacted by the economic crisis, financial institutions witnessed a fall in their share of total deal value, from 20.8 percent to 2.3 percent. The value of acquisitions by financial investors fell by 69.6 percent.

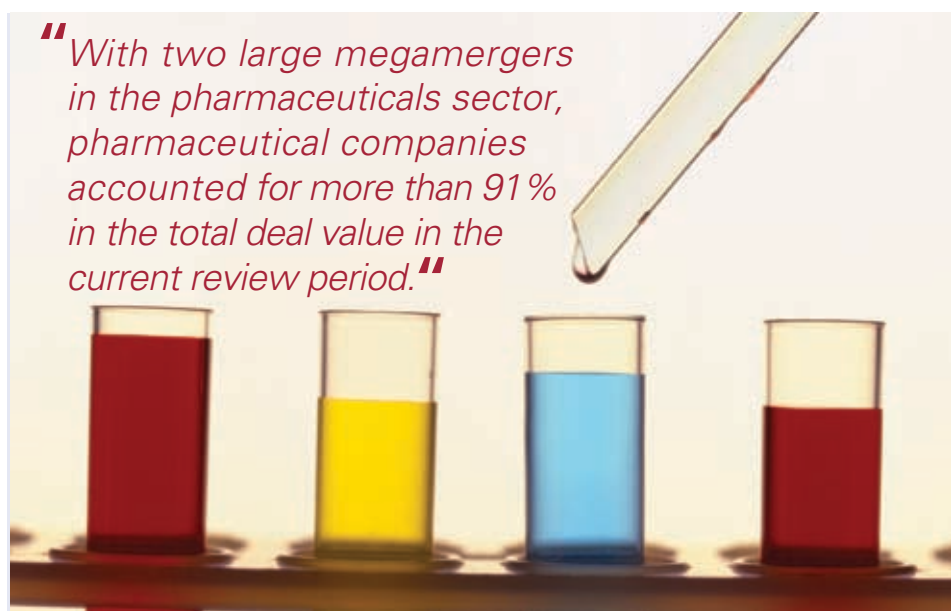


Table 1: Analysis of the total pharmaceuticals M&A deals by acquirer type (June 2008 – May 2009)

Acquirer type	Total disclosed value of deals (US\$ million)		Total percentage share	
	June 08 – May 09	June 07 – May 08	June 08 – May 09	June 07 – May 08
Pharmaceuticals	146,229	28,624	91.09%	50.14%
Financial investors	3,616	11,880	2.25%	20.81%
Biotechs	1,882	1,386	1.17%	2.43%
Others	8,813	15,199	5.49%	26.62%
Total	160,541	57,089	100%	100%

In the **biotechnology sector**, pharmaceutical companies continued to be active acquirers, with the deal value of acquisitions increasing 273.8 percent in the current review period. The major acquisition by a biotechnology company was Invitrogen's acquisition of Applied Biosystems. The deal value of such acquisitions increased by 267.6 percent. A significant fall was seen in deals by financial companies. The value of disclosed deals fell by 68.9 percent over the previous review period. The economic crisis has had a significant impact on PE-driven M&A deals in the biotechnology sector. With the slowdown in PE activity, small and mid-size biotechnology companies have been targeted by cash-rich pharmaceutical and biotechnology companies.⁶

Table 2: Analysis of the total biotechnology M&A deals by acquirer type (June 2008 – May 2009)

Acquirer type	Total disclosed value of deals (US\$ million)		Total percentage share	
	June 08 – May 09	June 07 – May 08	June 08 – May 09	June 07 – May 08
Pharmaceuticals	55,640	14,885	84.73%	66.80%
Financial investors	533	1,716	0.81%	7.70%
Biotechs	8,352	2,272	12.72%	10.20%
Others	1,140	3,409	1.74%	15.30%
Total	65,665	22,282	100%	100%

Key deals

- In January 2009, Pfizer entered into a merger agreement with Wyeth valued at US\$68 billion. The deal is to be financed through a combination of cash, stock and debt. A consortium of banks will provide US\$22.5 billion for the M&A.⁷
- In March 2009, Roche acquired the remaining 44 percent of Genentech shares for an all-cash US\$46.8 billion deal. Prior to the deal, Roche raised US\$39 billion through bond sales.⁸
- In March 2009, Merck & Co. acquired Schering-Plough in a cash-stock deal worth US\$41.1 billion. The cash component includes US\$9.8 billion from Merck's cash reserves and US\$8.5 billion committed by JP Morgan Chase.⁹

Outlook: The path ahead — Megamergers or smaller strategic deals?

The megamergers of Q1 2009 have put pressure on other large pharmaceutical and biotechnology companies.¹⁰ Companies such as AstraZeneca, Bristol-Myers Squibb, Eli Lilly, Johnson & Johnson and Sanofi-Aventis may be the likely candidates for the next wave of consolidation.¹¹

The current environment and expectation point toward more large deals. However, the industry's experience shows that megamergers often do not produce the intended synergies, but rather tend to erode shareholder value and create major integration challenges, while not achieving improved new drug pipelines.¹²

However, executives of several companies have indicated they will not join the megamerger bandwagon, and will instead rely on their own research and development (R&D) or enter into smaller partnerships or M&A deals.

- Andrew Witty, CEO of GlaxoSmithKline, intends to stay away from megamergers¹³ and expects to enter in more bolt-on acquisitions to add to its business in emerging markets and over-the-counter medicines.¹⁴
- Eli Lilly, Novartis and Sanofi-Aventis have also made their intentions clear about not entering into megamerger deals.¹⁵

"I think we are seeing deals that are really driven more by weakness than what I would describe as strong strategic combinations. They are predicated on synergies and rather massive cost-cutting. That will improve short-term problems but fail to answer the long-term question of research productivity."

– John Lechleiter, Chairman, President and Chief Executive Officer, Eli Lilly

It is still not clear whether the sectors are heading towards more megamergers of the scale seen in Q1 2009 or whether they will move towards smaller strategic acquisitions. Deals in the biotechnology sector could increase further in 2009 as small and mid-size biotechnology companies become increasingly willing to enter into deals at value prices. Large pharmaceutical and biotechnology companies are scouting around for deals at much lower valuations, and the current trend of M&A in generics is one to watch for in the future.

FURTHER INFORMATION

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Companies mentioned in this issue

Applied Biosystems	7, 8	Merck & Co.	4, 5, 6, 8
AstraZeneca	9	Novartis	5, 9
Barr Pharmaceuticals	6, 5	Pfizer	4, 5, 6, 8
Bristol-Myers Squibb	9	Ranbaxy Laboratories	6
Daiichi-Sankyo	6	Roche	4, 5, 7, 8
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ImClone	7	Teva	5
Invitrogen	7, 8	Wyeth	4, 5, 8
Johnson & Johnson	9	Zentiva	5, 6

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