

# Pharma M&A: Diverse and Accelerating

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By Peter Young.

I have been involved with the pharmaceutical and biotech industries, as a strategy consultant with Bain & Company, a venture capitalist with J.H. Whitney, and as an investment banker with Salomon Brothers, Lehman Brothers and Young & Partners.

Over that period of time, I have never seen as many different strategies being followed by pharmaceutical companies as we see today. Many of these strategy differences are geared to specific markets, technologies and branches of pharmaceuticals.

Although it is true that there are many legitimate ways to succeed, a host of these strategies appear to be diametrically opposite of one another: Diversified versus pure play, generic versus ethical, regional versus global, R&D versus limited R&D, organic development versus acquisitions, and so on. Not everyone will succeed and over time we will see which strategies are the most compelling and successful.

The following are examples of how Big Pharma companies have shifted their strategies and are following very diverse paths:

- expansion into vaccines (Novartis, Sanofi, Glaxo, Merck, Pfizer), the aggressive pursuit of biotech companies and their products (Astra Zeneca, Merck, Pfizer, Lilly, BMS)
- internal development and an expansion of generic activities (Novartis and Pfizer overseas)
- exit non-pharma to be pure play (Pfizer, BMS, Abbott/AbbVie)
- pursuit of regional consolidation (Bayer, Sanofi, Astellas)
- bailing out altogether (Altana, Akzo Nobel, 3M, DuPont, BASF, Solvay)
- geographic diversification (Eisai, Takeda)
- large scale mergers (Pfizer, Merck, Roche)
- reduced focus on R&D (Valeant).



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Regardless of which strategies are being pursued, M&A is a key element and a prominent weapon that is being used to propel and reshape companies.

The following are our observations about the pharma M&A landscape.

### **Accelerating Pharma Deal Activity**

Young & Partners compiles and analyzes pharma M&A activity every quarter, as well as the pipeline of deals that are an indication of the M&A outlook.

In the first half of 2014, 25 deals worth \$21.3 billion were completed versus 42 deals worth \$39.9 billion that were completed during all of 2013. This represents only a moderate increase in the number of deals and dollar activity compared to last year from an annualized point of view.

However, there has been a tsunami of larger deals announced as of and after the end of last quarter. As of June 30, 2014, the value of the deals announced but not closed was \$121.6 billion (24 deals) and a host of deals have been announced since then.

The key drivers of this accelerated pipeline of activity has been a massive rearrangement of the industry as companies choose to drive to leadership in their core businesses and relinquish weaker businesses, take advantage of the tax inversion benefits to the extent that they will continue to be available, and make sure that they get the right pieces in an extraordinarily competitive and expensive arena.

For example, in a \$19 billion swap, Novartis is providing GlaxoSmithKline with a vaccine unit while GlaxoSmithKline is handing off its oncology business to Novartis. At the same time, the two companies are also forming a joint venture to develop a consumer healthcare business. In addition, Novartis announced the sale of their animal health business to Lilly for \$5.4 billion to exit a non-core, non-pharma business.

Notable inversion transactions announced but not closed include Mylan's acquisition of Abbott generic products for \$5.3 billion and AbbVie's acquisition of Shire for \$54.2 billion. Both transactions will allow the acquirer to re-domicile in a lower tax rate country outside the U.S.

Bayer has agreed to acquire Merck's OTC business for \$14.2 billion to strengthen its OTC business while, at the same time, entering into a clinical collaboration to test drugs for heart failure and other cardiovascular conditions.

In addition, two offers have been made that have not been accepted by the target, Pfizer's offer for AstraZeneca that was withdrawn in May and Valeant's \$52 billion offer for Allergan that is ongoing.

What does this mean? It means that we have entered a period of frenzied activity that will continue for some time, driven by strategic moves, as diverse as they may be.

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