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Pharmaceutical Executive

THE ANNUAL M&A SURVEY

Two knockout megamergers
are dominating the deal
books, but the story is
more interesting than that



A Roller-Coaster Year for Pharma

After a slow first half of the year, two megamergers put pharma mergers and acquisitions on the fast track in 2009

BY PETER YOUNG

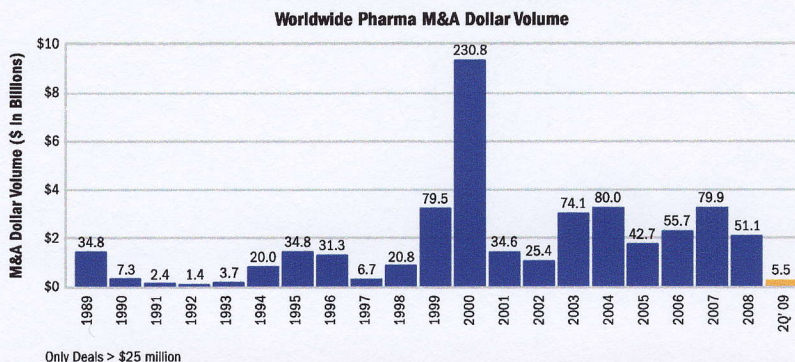
Pharma's M&A activity in 2009 has followed a remarkable pattern, with very few deals in the first half followed by two historic megamergers in the second half. With 14 completed deals worth \$5.5 billion, the first six months were decidedly anemic, when compared to the 42 deals worth \$51.1 billion completed in 2008. But thanks to the Pfizer/Wyeth deal, which closed on October 16, and the Merck/Schering-Plough merger, set to close by year's end, 2009 will ring out with a huge M&A dollar value, but an otherwise weak level of actual dealmaking. (The Roche acquisition of the remaining minority interest in Genentech it did not own was not a change of control, and was not included in this analysis. But it does represent the ongoing effort by Big Pharma to acquire biotech-based pharma.)

As for pharma stock prices, values stabilized after several years of being battered, but they have suffered more than the overall market as the year turned.

On the biotech side, it was a different story. M&As were down dramatically with no uptick in sight. In the stock market, the industry's traditional strong performers—the large-caps—continue to stumble, a reversal of roles when compared to mid-cap

DOLLAR VALUE OF WORLDWIDE PHARMA ACQUISITIONS

After a period of relative inactivity in the early 90's, global pharma M&A escalated in 2000. Deal volume has been healthy since, but only two mega deals have closed since then (in 2003 and 2004). Although first half 2009 volume is low, the Wyeth and Schering Plough deals are on the horizon.



DOLLAR VALUE OF WORLDWIDE BIOTECHNOLOGY ACQUISITIONS

M&A volume was chronically low for years. Three large acquisitions drove a temporary surge in 1999. After a major decline in 2000, activity has generally been high and volatile, fueled by pharma acquisitions of biotech companies and biotech consolidation.

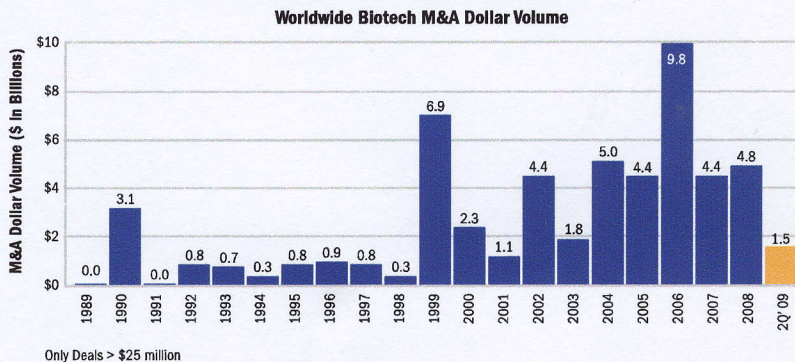
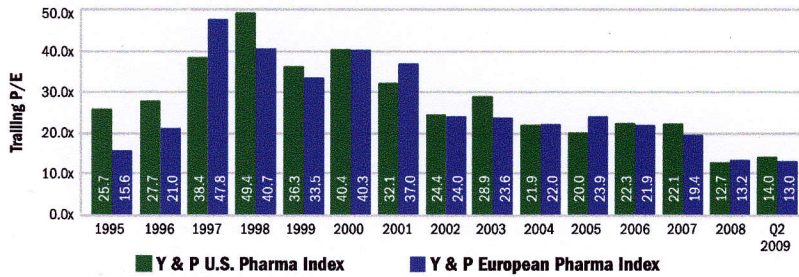


Photo: Getty Images / Carlos Davila

ETHICAL DRUG COMPARATIVE LTM P/E RATIOS

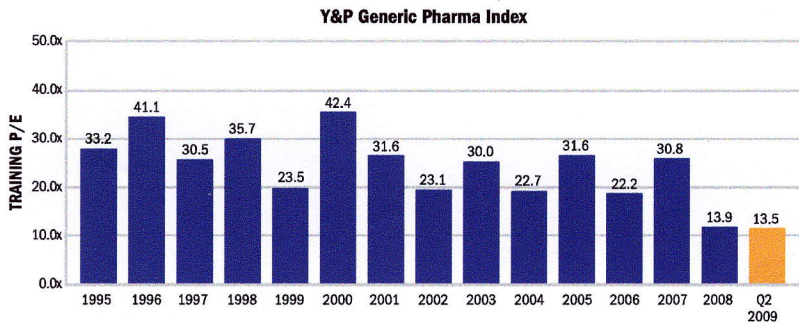
Ethical Pharma P/E ratios expanded aggressively until 2000 when the industry troubles began. P/E ratios retreated dramatically until 2004 when they flattened out. They continued to retreat after 2007 on continued bad news with the market collapse.



U.S. Pharmaceutical Index: ABT, BMY, JNJ, LLY, MRK, PFE, SGP, WYE
 European Pharmaceutical Index: AZN (LN), GSK (LN), NOVN (VX), SAN (FP)

GENERIC PHARMA COMPARATIVE LTM P/E RATIOS

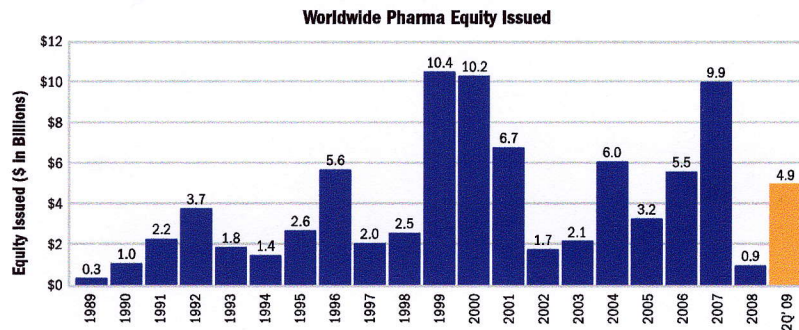
Generic pharmaceutical P/E ratios expanded rapidly in the late 90s, only to fall dramatically back to less than 1995 levels. Since then, P/E ratios have fluctuated dramatically, with a substantial drop from 2008 on.



Generic Pharmaceuticals Index: BRL, KVA, MYL, TEVA, WPI

DOLLAR VALUE OF WORLDWIDE PHARMA EQUITY ISSUED

Equity financing in dollar terms has been modest and erratic due to the industry's limited equity needs. M&A financing boosted 2007 totals. Volume in 2008 volume with the stalled equity markets, but first half 2009 has seen a moderate up tick.



Only Deals > \$25 million

and small-cap biotech stocks that rallied after a dismal first quarter.

These observations come from Young & Partners' Strategic, M&A, and Financial Trends report, tracking all biopharma deals worth \$25 million or more from January through June 2009. What follows are some of the report's key facts and figures against a backdrop of the worldwide economic crisis.

The Global Economic Crisis and the Biotech and Pharma Industry

Almost alone among the world's leading industries, pharma has remained only modestly affected by the steep economic downturn as the demand for new drugs is unabated. Although a series of interventions by governments around the world appear to have succeeded in averting a total collapse of the financial system, many economists are projecting a prolonged recession with a very slow recovery over a number of years.

There are early signs that the credit squeeze is beginning to ease for strong investment-grade firms, but access to capital for other companies remains sporadic and equity financing scarce. While strong cash flows and high credit ratings have insulated established pharmaceutical companies, the biotech industry has been severely punished. Until the market's appetite for risk returns, many good biotechs will continue to simply run out of money.

The major uncertainty in the domestic pharmaceuticals business is the push to reform the nation's healthcare system, an effort being pushed forward by the Obama administration and Democrats in Congress.

Pharma Stocks: Out of Favor

During the first half of 2009, the overall stock market plunged dramatically and then staged a recovery. By June 30, the S&P 500 was only down by 1.3 percent and the FTSE Europe Top 100

by 1.7 percent. Pharma fared worse: The Y&P US Pharma index decreased by 15.2 percent, and the Y&P European Pharma index by 9.1 percent. By contrast, the Y&P Generic index was up by 7.6 percent.

Trailing P/E ratios also changed. The Y&P (Young & Partners) US Pharma index increased to 14.0x from 12.7x at the end of 2008, the Y&P European Pharma index was down slightly to 13.0x from 13.2x, and the Y&P Generic index also dipped a bit to 13.5x from 13.9x. Nonetheless, these multiples are dramatically down from where they were just a few years ago when both Big Pharma and Big Biotech were still the darlings of the stock market; investors now understand that the industry has structural problems that it must overcome in order to address future uncertainties.

Pharma M&As: A Tale of Two Halves

In the first half of 2009, M&A volume was only 14 deals worth \$5.5 billion—a mere sliver of 2008's total of 48 deals worth \$51.2 billion. Remarkably, there were only two deals over \$1 billion in value.

However, the announcement of two megamergers in the second half of the year—Pfizer's \$68 billion acquisition of Wyeth and Merck's \$41 billion buyout of Schering-Plough—will cause the 2009 Pharma M&A dollar volume to surge. As of June 30, the value of the deals announced but not closed was \$133.9 billion, heavily dominated by the two deals.

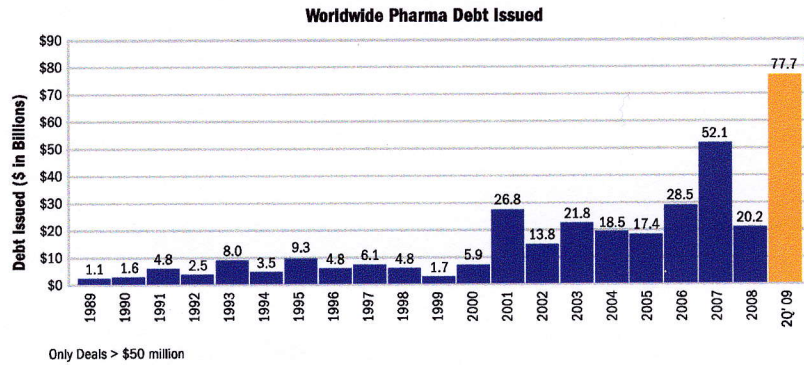
Pharma Debt and Equity: Blessed by the Market

Debt and equity financing activities surged in the first half of 2009 after collapsing in 2008. Non-bank debt issuance was \$77.7 billion, compared to \$20.1 billion for all of 2008. The market opened up for investment-grade debt and a flood of issues resulted.

There were 12 equity offerings issued worth a total of \$4.9 billion vs.

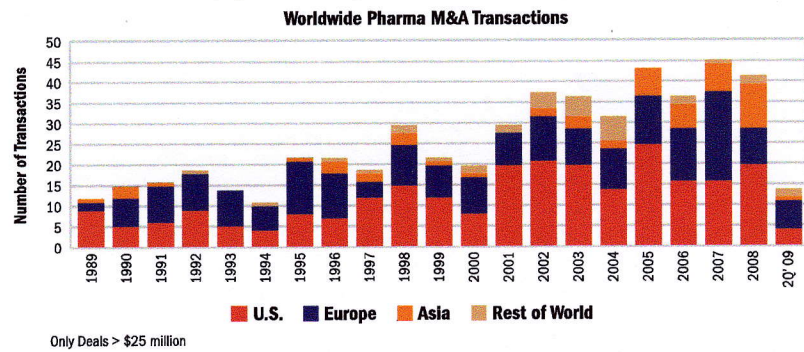
WORLDWIDE PHARMA NON-BANK DEBT (INCLUDING PRIVATE PLACEMENTS)

Starting in 2001, the industry saw a sharp increase in non-bank debt financing due to acquisitions, particularly in 2007. Heavy refinancing has driven the surge in the first half of 2009.



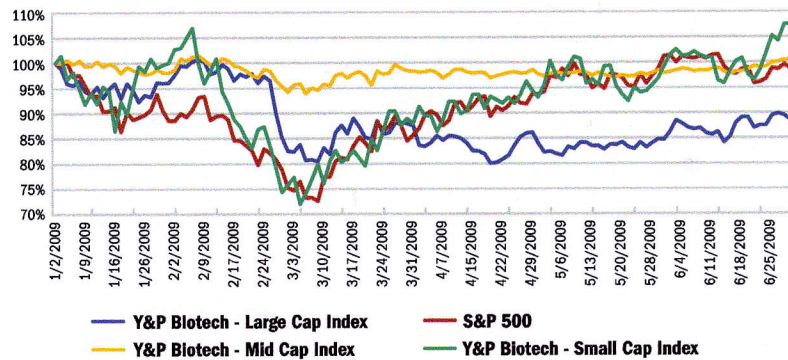
NUMBER OF WORLDWIDE PHARMA ACQUISITIONS - BUYER ORIGIN

Deal volumes have been high for the last 8 years. But volume in the first half of 2009 has slowed.



Y&P BIOTECHNOLOGY INDICES - FIRST HALF 2009

Performance in the first half of 2009 was strong for the mid- and small cap biotechs, particularly relative to the general stock market. Large cap biotechs did very poorly.



Y&P Biotechnology - Large Cap Index: AMGN, BIIB, DNA, GENZ, GILD, CELG
 Y&P Biotechnology - Mid Cap Index: AMLN, CEPH, IMCL, MEDX, PDLI, ONXX, OSIP, VRTX
 Y&P Biotechnology - Small Cap Index: CVTX, GERN, ISIS, LGND, PGNX, QLT, VPHM

10 worth \$0.9 billion for all of 2008. Issuers included Pfizer, Cephalon and Cadence. There is no question that pharma was able to withstand the overall collapse of the equity issuance markets.

Biotech Stocks: A Reversal of Roles

One of the most interesting developments has been the relative good fortune of biotech stocks. Although the Y&P Biotech Large Cap index fell by 11.5 percent, the Y&P Biotech Mid-Cap index increased by 0.3 percent and the Y&P Biotech Small-Cap index increased by 7.5 percent. The market did not tie the fortunes of the biotech companies to the general global recession and, strangely, did not penalize the group overall for the industry's financing crisis.

Biotech M&As: Where Did the Volume Go?

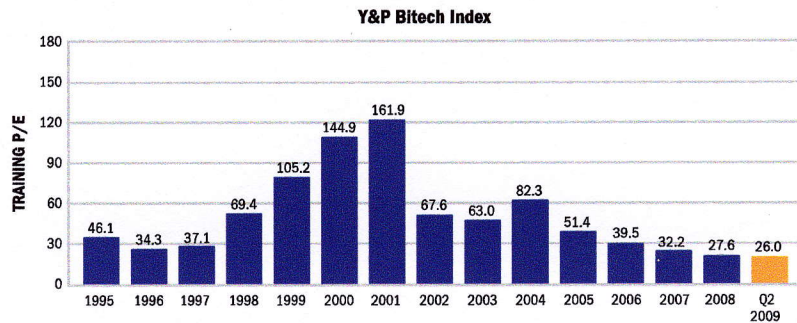
In the first half of 2009, the biotech M&A dollar volume was only \$1.5 billion, well off the 2008 pace when \$4.8 billion of deals were completed; only eight deals were completed in the first half compared to 19 deals for all of 2008. There were no deals greater than \$1 billion in equity value.

What happened? With the supposed push to stock pipelines through acquisitions of biotech companies by both Big Pharma and Big Biotech, why wasn't volume up rather than down? One reason is that the larger, more mature biotechs were picked off in 2006. Another reason is that the big drugmakers increasingly understand that they are in the driver's seat and that high-priced acquisitions are no longer the only way to gain the benefit of a particular biotech's development capabilities. The alliance market offers less costly paths to pursue if they choose. And we are already seeing license deals that are designed to lead to acquisitions down the road.

However, a modest increase in M&A volume is anticipated in the second half

COMPARATIVE LTM P/E RATIOS FOR Y&P BIOTECH LARGE CAP INDEX

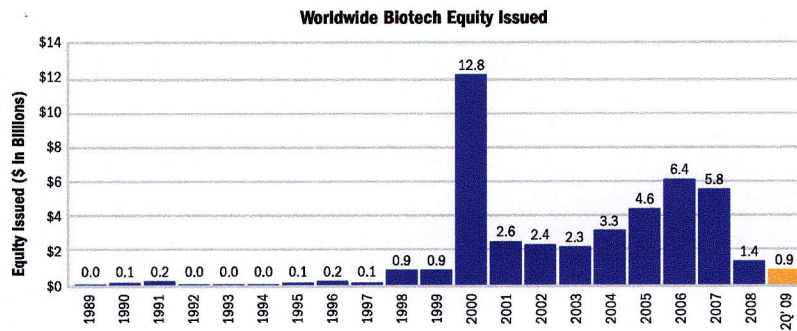
Historical P/E ratios peaked from 1999 to 2001 due to weak earnings and strong investor interest. The average P/E ratio has continued to decline ever since.



Y&P Biotechnology Index: AMGN, BIIB, CELG, DNA, GENZ, GILD

DOLLAR VALUE OF WORLDWIDE BIOTECHNOLOGY EQUITY ISSUED

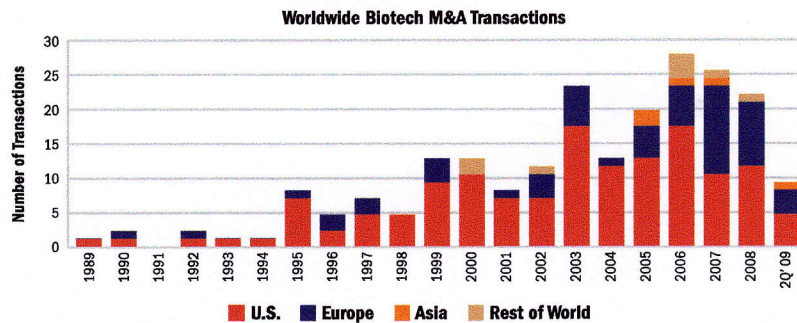
Biotechnology falls in and out of favor with the equity markets. Genomics hype drove equity issuance in 2000. Activity picked up gradually after 2003, with a slight drop in 2007 and a collapse thereafter.



Only Deals > \$25 million

NUMBER OF WORLDWIDE BIOTECHNOLOGY ACQUISITIONS - BUYER ORIGIN

The number of transactions was very low for years, but increased significantly after 2002. Volume in the first half of 2009 has slowed on an annualized basis.



Only Deals > \$25 million

based on announced deals. As of June 30, the total value of deals announced but not closed was \$4 billion.

Biotech Debt and Equity: Why So Depressed?

In the first half of 2009 only one offering of non-bank debt was completed for \$25 million. The depressed overall debt market continued to be the major factor, coupled with the generic fact that biotechs are not good candidates for debt.

Sadly, the equity issuance market continued to stall, with only 11 offerings for \$0.3 billion in the first half. There were no IPOs. The market likes the biotech industry, but has lost its appetite for risk for individual less-proven biotech companies.

The Near-Term Forecast: Cloudy, Chance of Rain

The business outlook for pharma and biotech companies is mixed. Although the demand for innovative drugs remains high, there are patches of clouds across the sky. Many pharma companies are struggling in their R&D efforts for a host of reasons and are struggling to realign themselves to new and, they hope, more successful business models. In addition, the health care reform initiatives in Washington have an uncertain direction but are likely to have a significant effect on pharma and biotech.

Financing will be very easy for established pharma companies. However, a severe lack of funding will continue to kill off many biotech companies, both the unhealthy and healthy ones. Aside from the two pharma megadeals, the M&A front will move at a moderate pace as most deals will be very strategic and moderate in size.

Peter Young is the president and CEO of Young & Partners, an investment bank serving the pharma, biotech, and chemical industries. He can be contacted at pyoung@youngandpartners.com

TOP 10 PHARMA/PHARMA DEALS IN FIRST HALF 2009 BY EQUITY VALUE

There were only two deals over \$1 billion in the first half of 2009

Close Date	Acquirer	Target	Equity Value (\$mm)
3/12/09	Sanofi-Aventis	Zentiva NV (Assicurazioni Generali SpA / PPF Group NV / Genera)	\$1,560
4/17/09	Gilead Sciences	CV Therapeutics	\$1,309
3/19/09	Lundbeck	Ovation Pharmaceuticals	\$900
3/23/09	Endo Pharmaceuticals	Indevus Pharmaceuticals	\$637
5/15/09	Biovail Corp	GlaxoSmithKline Plc (U.S. Rights To Wellbutrin)	\$510
6/22/09	Biovail Corp	Cambridge Laboratories Limited, Portfolio of Tetrabenazine Products	\$230
5/12/09	Sanofi-Aventis	Antisoma plc - US Rights to Oral Fludarabine (Leukaemia drug)	\$65
4/1/09	Strativa Pharmaceuticals	QOL Medical LLC - Worldwide Rights to Nascobal Nasal Spray	\$55
2/2/09	MBO & LDC Ltd.	Quantum Specials Ltd. (Phoenix Medical Supplies & Andrew Patterson)	\$46
6/19/09	Sanofi-Aventis	Pfizer Manufacturing Frankfurt GmbH & Co. KG	\$42

TOP 10 PHARMA/BIOTECH DEALS IN FIRST HALF 2009 BY EQUITY VALUE

Pharma acquisitions of biotech companies and biotech consolidations have continued.

Close Date	Acquirer	Target	Equity Value (\$mm)
4/27/09	Sanofi-Aventis	BiPar Sciences	\$500
3/12/09	Vertex Pharmaceuticals	ViroChem Pharma	\$391
6/29/09	Cephalon	Arana Therapeutics	\$205
2/25/09	The Medicines Co.	Targanta Therapeutics	\$137
3/31/09	Merck	Biologics Platform	\$130
6/23/09	Takeda	IDM Pharma	\$67
1/6/09	GlaxoSmithKline	Genelabs Technologies	\$51
1/2/09	Roche	Memory Pharmaceuticals	\$45