Novartis on the acquisition trail?

Novartis’ announcement yesterday that it would be raising $5bn by issuing bonds has caused a flurry of speculation that the Swiss company might be arming itself to hit the acquisition trail.

When EP Vantage contacted Novartis yesterday, the group said that the money was not earmarked for the Alcon acquisition process that it started last April, and would instead be used for “general corporate purposes”. With fund raising for Alcon off the table, according to the company, the most obvious deduction is that Novartis is giving itself the flexibility to do acquisitions as and when opportunities arise.

Daniel Vasella, chief executive of Novartis, has also in recent weeks made no secret that he is in the market for acquisitions, and would consider a series of smaller deals.

Wriggle room

Novartis has not shied away from deals in the last 12 months, buying Nektar’s pulmonary business in December for $115, Speedel for $425m in September and forking out a massive £10.4bn for a 25% stake in eye-care company Alcon (Record number of deals signed in 2008, January 7, 2008).

What is less certain is whether Novartis will complete the acquisition of the remaining 52% of Alcon that it is contractually obliged to buy between January 2010 and July 2011, for a fixed price of $181 a share, valuing the stake at $28bn.

The doubt centres around the fact that shares in Alcon have fallen from the $143.18 fixed price of the purchase of the first stake to their current levels of $82.22, representing a 54% discount to the amount Novartis is expected to pay to complete the acquisition.

As such the group is unlikely to want to use this tranche of money for the transaction, especially since many believe that rather than pay the punitive looking price, Novartis will renegotiate the terms of the deal if the shares do not start to tick up soon.

In terms of timing of the bond issue, Andrew Weiss, healthcare analyst at Vontobel, said it could be a case of the group taking advantage of the easing of credit in the markets. “In recent weeks we have seen Pfizer is raising $22.5bn and Roche claiming that it will fund part of its offer for Genentech with bonds, as the credit markets have started to open.”

A shot in the arm

If Novartis is looking for companies to bulk up its businesses, many believe that the group might run an eye over a vaccines company. It currently has a close relationship with Austrian group, Intercell, but the prospect of Novartis buying the company outright is unlikely.

Back in 2007, Novartis signed a development deal with the group, which gave it rights to develop up to 10 products in Intercell’s pipeline and opt-in rights for all vaccine candidates discovered during the collaboration. Just to be on the safe side Novartis also took a 16% equity stake. With the Swiss company effectively owning the pipeline there is little incentive to buy Intercell unless someone else makes a move, or one of the development products is hugely successful.

Commentators in the market have instead been speculating about a tie up with Crucell. The Dutch company was last month left on the shelf after Pfizer announced that it would be buying Wyeth, an event that scuppered the deal negotiations between Crucell and Wyeth.

With a market cap of $1.34bn and Novartis’ current cash pile of $6bn, excluding the money from the bond issue, Crucell would be easily digestible.

Déjà vu

Back in 2006 Novartis had the chance to extend its vaccines business when it joined Crucell in a bidding war
for Berna Biotech, then valued at $462.5m. Novartis in the end withdrew its offer after conducting due diligence, leaving Crucell to win the day.

The changes in the vaccine space over the last three years mean that this second bite of the cherry will be a lot more expensive, especially if it gets into a bidding war with Pfizer, who might be interested in picking up where Wyeth left off.

Whatever Novartis’ strategy in terms of what products or companies it will be adding to its business, the group has ensured that it now has the financial flexibility and muscle to carry it out.