Evaluate Vantage

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A Covid-19 threat to business acquisitions

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20 key healthcare transactions, most struck before the Covid-19 pandemic hit, have yet to be formally completed.

Even if the coronavirus pandemic wasn't directly to blame for today's scrapping of Aurobindo's $900m buyout of Novartis's generics brands it might have been the straw that broke the camel's back. How many other pending acquisitions might face a similar fate?

To answer the question *Vantage* analysed open M&A deals on *EvaluatePharma*, and identified 20 healthcare-related transactions dating back to November 2018 that have been announced but have not yet been completed. Clearly not all risk being scrapped, but at the very least a delay or renegotiation are scenarios investors must now consider.

In terms of value three pending transactions stand out: Abbvie's $63bn buyout of Allergan, Stryker's $5.4bn bid for Wright Medical, and UCB's pending acquisition of Ra Pharmaceuticals, worth $2.1bn.

The first is due to close in May after Abbvie agreed with the US FTC to divest brazikumab to Astrazeneca, and Zenpep and Viokace to Nestlé. For it to be completed on time relies on finalisation of paperwork, which during a global lockdown cannot be dismissed as a mere formality.

The Stryker/Wright deal is on shakier ground; after drawing the attention of the FTC the companies looked like struggling to meet a second half completion date – and that was before Covid-19 hit the west. The Ra takeover was to have closed in the first quarter, but as of today Ra remains listed on Nasdaq.

Selected pending acquisitions in healthcare					
Announced	**Acquirer**	**Target**	**Target's domicile**	**Value ($m)**	**Note**
17 Mar 2020	Arya Sciences	Immatics	Germany	350	To close Q2 2020
16 Mar 2020	Acelrx	Tetraphase	US	27	Various conditions
15 Mar 2020	Advanz Pharma	Correvio Pharma	Canada	76	To close Q2 2020
3 Mar 2020	Thermo Fisher	Qiagen	The Netherlands	11,500	To close H1 2021
2 Mar 2020	Gilead	Forty Seven	US	4,900	To close Q2 2020
2 Mar 2020	Hypera Pharma	Certain Takeda brands	C/S America	825	To close H2 2020
19 Feb 2020	Meridian Bioscience	Exalenz Bioscience	Israel	49	To close Q2 2020
12 Feb 2020	Dr Reddy's	Certain Wockhardt generics activities	India	259	To close by mid-2020
11 Feb 2020	Ligand	North Carolina assets of Icagen	US	40	To close Apr 2020
21 Jan 2020	MD Anderson	Bellicum's Houston facility	US	15	Was to have closed Q1 2020
16 Jan 2020	Biontech	Neon Therapeutics	US	67	To close Q2 2020
18 Dec 2019	Fujifilm	Hitachi’s imaging biz	Japan	1,633	To close Jul 2020
12 Dec 2019	Altaris Capital	3M's drug delivery biz	UK	650	To close H1 2020
4 Nov 2019	Stryker	Wright Medical	US	5,400	H2 2020 close, but FTC raised questions
10 Oct 2019	UCB	Ra Pharmaceuticals	US	2,100	Was to have closed Q1 2020
2 Oct 2019	Lantheus Holdings	Progenics	US	641	Terms amended Feb 2020
25 Jun 2019	Abbvie	Allergan	Ireland	63,000	To close May after antitrust divestment
18 Apr 2019	Canopy Growth	Acreage Holdings	US	3,400	Open as at Apr 2020
17 Apr 2019	Echo Pharmaceuticals	Samco Gold	UK	45	Reverse takeover, open as at Jan 2020
13 Nov 2018	Cipla	Avenue Therapeutics	US	180	Buying remaining 67% depends on US approval of IV tramadol
Source: EvaluatePharma & company filings.					

The more recent deals in this analysis, such as Gilead’s takeout of Forty Seven and Thermo Fisher's of Qiagen, will not necessarily be under threat since they were signed during the reality of Covid-19. The extent of the threat was perhaps not yet fully understood, however.

But for a typical pending transaction perhaps the biggest worry is that the pandemic will lead to a lengthy delay, by the end of which the target business’s valuation will have departed from the reality that had existed at the time the deal was struck.

The Novartis/Aurobindo termination could be a case in point. That deal, involving the Indian company paying

$900m for some 300 US oral and dermatology brands in the Sandoz portfolio, had been signed all the way back in September 2018; 14 months later the FTC asked the companies for more information.

Today the deal was terminated by mutual agreement. The reason given was that FTC approval was not obtained within expected timelines, implying that it was no longer realistic to rely on a price agreed on so long ago. Covid-19 was not cited, but the prospect of it delaying completion even further cannot have helped.

Amendments?

Given the break fee that most deals carry, terminating by mutual agreement is a blessing. Failing that, the terms of a pending transaction could be amended to suit the new reality, but not without much negotiation and legal expense.

Also interesting is the imaging group Lantheus's proposed takeover of the oncology company Progenics. That deal was struck last October, but in February its terms were amended to give Progenics holders a greater share of the combined entity. And today the Covid-19 lockdown caused the investor votes on the transaction to be postponed by two months to June.

This is the new reality that shareholders awaiting a takeover dividend have to contend with.