Evaluate Vantage

September 28, 2009

Abbott's buying spree continues with €4.5bn Solvay buy

Amy Brown

The acquisition announced today by Abbott Laboratories of Solvay's drugs unit, for €4.5bn ($6.6bn), certainly serves to underline the diversified firm's ongoing hunger for bolt-on acquisitions. The deal is the sixth announced this year and the third this month alone; if they all go through the total outlay will come to $10.5bn.

This will be the biggest move for the company since the 2001 acquisition of Knoll for $6.9bn, however, Abbott can certainly afford the buying spree; this deal in particular makes good use of a big pile of cash the firm has sitting outside of the US. On a conference call this morning all the strategic buzzwords were mentioned: gaining access to vaccines and emerging markets, a stronger pipeline and accelerating earnings growth. Shareholders welcomed the news, sending the stock up 4% in early trade to $49.15, the highest point since February.

Focus on the bottom

Abbott generated group sales of $29.5bn last year, compound growth over the next six years is forecast at 6%, hardly stratospheric. With $3bn in turnover, Solvay will not have a huge impact on the top line; the bottom line is where Abbott is hoping to see a marked impact.

The group believes it can extract faster growth from Solvay's business than the current owners, a reasonable claim given Abbott's size and clout. The Belgian group's pancreatic enzyme Creon was highlighted as one product that would be given a significant marketing push.

As well as building existing brands by launching them more widely, Abbott believes the new enlarged pipeline represents another engine for earnings growth. Solvay brings $500m in R&D capacity, the company estimates, which when combined with Abbott's existing operations should be able to churn out vital new growth drivers.

Meanwhile, expansion into emerging markets is also an important part of the deal, allowing Abbott to hit the ground running in new territories such as Russia. The group forecast sales from emerging markets of $4bn by 2013.

Building a pipeline

In terms of new therapeutic focus, vaccines were highlighted, as were Alzheimer's and Parkinson's diseases; a number of novel Alzheimer's compounds are due to be moved into phase II next year, Abbott said, suggesting a new push for the company into the CNS field.

Complete ownership of the now jointly marketed fibrates business, including recently launched TriLipix, will also have an impact, as Abbott will no longer have to pay out royalties.

All of this, and the $600m in operating cash flow the Solvay business is already generating, will mean faster earnings growth, Abbott predicted.

Synergies have not yet been announced, and despite the company's protestations that cost cuts were not the main reason for doing the deal no doubt these will gradually emerge. Given that business tax rates are higher for Solvay its Belgium head office should be braced for cuts in particular.

Track record

Abbott ended the first half with almost $7bn in cash on its balance sheet and generates on average around $1bn in free cash every quarter, therefore the current buying spree is well funded. The group's management today made no secret of a desire to strike licensing deals to further enlarge the R&D pipeline.

Still, when the rumours that Abbott was bidding first surfaced, not everybody was convinced Solvay would make a good fit; even the group's chief executive admitted they were not interested in the beginning (*Solvay suitors cause some puzzlement, July 15, 2009*).

In terms of track record, Abbott will struggle to surpass its move for Knoll. For an initial outlay of $6.9bn, the combined NPV of the products that came with that acquisition is currently $35.3bn, thanks to the giant of a product that is Humira, according to EvaluatePharma.

However in terms of lessening Abbott's reliance on the hugely successful antibody, this deal could be an important step.