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OSI deal sees Astellas finally join its peers with a major overseas acquisition

Evaluate Vantage

To coin a L'Oréal phrase, in the eyes of Astellas Pharma, OSI Pharmaceuticals is definitely 'worth it'. Having conducted its due diligence of OSI's private books, Astellas yesterday raised its original hostile offer of $52 cash per share to an accepted bid of $57.50 cash per share, valuing the deal at $4bn, the second biggest overseas acquisition by a Japanese pharma company.

Big sighs of relief all round then at Astellas, who failed to land CV Therapeutics last year and adopted a slightly risky approach to bidding for OSI. But it now looks set to increase its presence in the US market and gain a portfolio of marketed and pipeline cancer drugs, most notably lung cancer drug Tarceva. As for OSI, some ambitious shareholders will be disappointed with the price as the stock reached $59.80 on Friday, but given that the offer is a 55% premium overall and equivalent to a five-year high they should be more than happy.

Suitable compromise

Since Astellas launched its hostile bid in March, the bid process has been surrounded by rumours and speculation that Astellas would not budge from its hostile price or that a white knight would rescue OSI instead (*Astellas goes hostile again, OSI the target, March 1, 2010*).

However, since OSI opened its books to Astellas, the most likely outcome appeared to be a compromise with an improved offer from Astellas, but not at the chunky premium that an overly excited market was hoping for.

OSI shareholders are likely to have until May 31st to tender their shares at the revised price. Until now less than 0.5% of shares had been sold to Astellas but that is bound to change dramatically over the next two weeks, especially if OSI's biggest investors - JGD Management, Wellington Management and BlackRock Global Investors with a combined share of 22.6% - decide to take up this improved offer.

In early trade today OSI's shares homed in on the offer price, slipping 4% to $57.37, suggesting some bullish investors will have to absorb any losses and just accept Astellas' offer.

Second biggest overseas acquisition

Aside from the mergers and general consolidation within Japanese pharma companies of the last six years, an Astellas-OSI tie up would rank as the second biggest M&A deal, as data from *EvaluatePharma* below reveals.

The stand out deal of recent years is Takeda's $8.8bn acquisition of Millennium Pharmaceuticals, a company with a similar profile in many respects to OSI, although the premium Takeda paid of 17 times sales looks on the high side.

Top 10 Japanese Pharma Overseas Acquisitions					
Rank	**Acquiring Company**	**Target**	**Deal Value ($m)**	**Sales Multiple**	**Deal Date**
1	Takeda	Millennium Pharmaceuticals	8,800	17x	May-2008
2	Astellas Pharma	OSI Pharmaceuticals	4,000	9x	May-2010
3	Daiichi Sankyo	Ranbaxy Laboratories (majority stake)	3,950	n/a	Nov-2008
4	Eisai	MGI Pharma	3,900	9x	Jan-2008
5	Dainippon Sumitomo Pharma	Sepracor	2,600	2x	Oct-2009
6	Shionogi	Sciele Pharma	1,446	4x	Oct-2008
7	Astellas Pharma	Agensys	537	n/a	Dec-2007
8	Hisamitsu Pharmaceutical	Noven Pharmaceuticals	428	4x	Aug-2009
9	Eisai	Morphotek	325	n/a	Apr-2007
10	Taisho Pharmaceutical	PT Bristol-Myers Squibb Indonesia	310	n/a	Oct-2009

The Astellas-OSI deal also has many similarities to Eisai's $3.9bn purchase of MGI Pharma, also priced at around 9 times sales.

The fact that all ten of the biggest deals have been struck within the last three years provides further evidence of Japanese pharma's broadening horizon, if any were needed.

Impact on partnering?

Last year, Astellas was the most active Japanese company on the product licensing front, licensing 10 products with $280m paid upfront for deals with a combined value of $1.45bn. This ranked Astellas in eighth spot in the global league of big pharma companies, even ahead of the likes of Pfizer, Eli Lilly and Novartis.

By far its biggest single deal was for Medivation's prostate cancer drug, MDV3100, it paid $110m upfront and agreed to a further $655m in developmental and commercial milestones. Clearly OSI's experience and infrastructure within oncology should help Astellas maximise the chances of turning MDV3100 into a regulatory and commercial success.

However, having just burnt two-thirds of its current cash pile of $5.75bn and facing the standard integration issues that such a large acquisition presents – OSI currently employs over 500 staff - the inevitable question is how much the OSI deal will detract from Astellas' ongoing and future licensing activities.

For the next 6-12 months Astellas' current position as a major partner of choice, up there with the big pharma players, may need to be revised.