

Big pharma continues M&A spending spree in 2010

Big pharma's appetite for acquiring companies to bolster ailing pipelines or tap new markets shows no signs of abating. Although total deal numbers and money spent on M&A activity last year dipped from 2009 when mega-mergers dominated the scene, deal activity among the world's biggest drugmakers remains high compared to the pre-credit crunch era, with \$57bn spent across 30 M&A related transactions.

However, excluding mega-mergers of recent years from the analysis reveals a picture of declining asset values: last year saw big pharma spend \$15bn on 24 deals compared to 2006 when just 17 deals cost \$38bn. Aside from Novartis buying out the rest of Alcon, the biggest M&A deals last year saw renewed interest in the generics space and features the now annual acquisition of a US biotech company by Japanese pharma (see tables below).

Spending spree

The table below, showing M&A deal data from *EvaluatePharma*, reveals big pharma's M&A activity in the last couple of years in particular, and total activity over the last five years. The table also shows the split between acquisitions of pharma/biotech targets next to the total number of deals, a sum that would include purchases of medtech or animal health assets, for example.

Big Pharma - M&A analysis for last five years										
	2010				2009					
	Pharma deals		Total deals		Pharma deals		Total deals		Five Year Total (2006-2010)	
Company	Value (\$bn)	Count	Value (\$bn)	Count	Value (\$bn)	Count	Value (\$bn)	Count	Value (\$bn)	Count
Novartis	41.0	4	41.0	4	2.6	4	2.6	4	61.3	15
Abbott Laboratories	4.5	2	4.5	2	6.6	2	10.3	6	22.8	12
Pfizer	3.8	3	3.8	4	68.1	3	68.1	3	73.5	14
Johnson & Johnson	2.2	2	2.7	3	2.2	3	3.0	4	25.3	14
Sanofi-Aventis	1.2	4	1.3	5	4.2	6	8.2	7	12.8	16
Eli Lilly	1.2	2	1.2	2	-	-	-	-	10.4	6
GlaxoSmithKline	0.8	5	0.8	5	4.1	6	4.1	6	8.9	21
Bristol-Myers Squibb	0.7	1	0.7	1	2.4	1	2.4	1	3.7	4
Merck & Co	0.5	2	0.5	2	41.2	3	41.2	3	43.7	9
Roche	-	-	0.3	2	-	-	0.0	1	51.8	13
AstraZeneca	-	-	-	-	0.5	1	0.5	1	17.6	4
Schering-Plough	-	-	-	-	-	-	-	-	15.6	1
Wyeth	-	-	-	-	-	-	-	-	0.2	2
Genentech	-	-	-	-	-	-	-	-	0.9	1
Total	56.0	25	56.8	30	131.9	29	140.4	36	348.4	132.0
<i>Excluding mega-mergers</i>	<i>15.0</i>	<i>24</i>	<i>15.9</i>	<i>29</i>	<i>22.8</i>	<i>27</i>	<i>31.4</i>	<i>34</i>	<i>141.1</i>	<i>127.0</i>

The \$132bn spent on M&A activity by big pharma in 2009 was the highest on record since the last significant wave of mega-merger activity in 2000. In the absence of further mega-merger consolidation in the preceding year, values for 2010 were always going to dip.

Indeed, removing Novartis' buy-out of Alcon last year for \$41bn, which took the total transaction cost to the Swiss group to a staggering \$51.4bn ([Novartis ups offer to grab Alcon growth, December 15, 2010](#)), shows underlying M&A spend for big pharma at \$15bn, one of the lowest totals in recent years.

In the mega-merger free years of 2007 and 2006, big pharma spend was \$37bn and \$38bn, respectively, on just 17 deals in each year.

(For full details of the intervening years, 2006-2008, please contact news@epvantage.com).

While there is evidence that company valuations are improving, there is a long way to go to return to the heights of the pre-credit crunch era, suggesting big pharma's appetite for snapping up relatively inexpensive assets is likely to continue in 2011 ([Deal values show signs of recovery in 2010 as M&A drive continues January 18, 2011](#)).

Predator or prey

What is also interesting about the above data set is that the big pharma consolidation in recent years, removing three potential acquirers in Wyeth, Schering-Plough and Genentech, appears to have little

detrimental effect on deal activity.

The main reason for this is that the purchased companies were never serial acquirers anyway; Wyeth for example spent just \$200m on two M&A deals in the four years prior to being bought by Pfizer.

The data also highlights a bit of a divide among big pharma between serial acquirers and those that tend to shy away from M&A. Given the Wyeth example, perhaps it is no surprise that those with the lowest number and money spent on M&A in the last five years, namely AstraZeneca, Bristol-Myers Squibb and Eli Lilly, are most commonly rumoured to be takeover targets.

Generics to the fore

Of the biggest M&A deals for pharma or biotech targets last year, three of the top ten involved generics companies: Teva's acquisition of ratiopharm, Abbott's purchase of Piramal's branded generics business and Endo's surprise buy out of Qualitest Pharmaceuticals.

In contrast only one generics based deal was struck in 2009, Watson's purchase of Arrow Group, although 2008 did see four generics deals in the top ten.

Meanwhile three of the top ten deals initiated last year have yet to close, with Grifols' move on Talecris and J&J's offer for Crucell most at risk of failing to complete. Should these deals founder the picture for M&A activity in 2010 could change somewhat.

Similarly, Sanofi-Aventis' proposed \$18.5bn purchase of Genzyme, which is not included here given the deal has not been agreed by Genzyme, could end up boosting M&A values in 2010 should a deal be reached.

Astellas' acquisition of OSI is just the latest example of Japanese pharmaceutical companies using healthy cash reserves to globalise their businesses; Dainippon Sumitomo's purchase of Sepracor in 2009 and Takeda's acquisition of Millennium Pharmaceuticals in 2008 also featured in the top ten deal leagues.

Top 10 Pharma/Biotech M&A Deals in 2010 and 2009

Year	Rank	Acquiring Company	Deal Type	Target	Deal Value (\$bn)	Status	Financing Structure
2010	1	Novartis	Majority Stake + Company Acquisition	Alcon	41.0	Closed	Share Exchange + Cash
	2	Teva Pharmaceutical Industries	Company Acquisition	Ratiopharm	5.0	Closed	Cash
	3	Valeant Pharmaceuticals International	Company Acquisition	Biovail	4.5	Closed	Share Exchange + Cash
	4	Astellas Pharma	Company Acquisition	OSI Pharmaceuticals	4.0	Closed	Cash
	5	Abbott Laboratories	Business Unit	Piramal Healthcare Solutions business	3.8	Closed	Cash
	6	Pfizer	Company Acquisition	King Pharmaceuticals	3.6	Open	Cash
	7	Grifols	Company Acquisition	Talecris Biotherapeutics	3.4	Open	Share Exchange + Cash
	8	Celgene	Company Acquisition	Abraxis BioScience	2.9	Closed	Share Exchange + Cash
	9	Johnson & Johnson	Company Acquisition	Crucell	2.2	Open	Cash
	10	Endo Pharmaceuticals	Company Acquisition	Qualitest Pharmaceuticals	1.2	Closed	Cash

		Pharmaceuticals	Acquisition	Pharmaceuticals			
2009	1	Pfizer	Company Acquisition	Wyeth	68.0	Closed	Share Exchange + Cash
	2	Merck & Co	Reverse Takeover	Schering-Plough	41.1	Closed	Share Exchange + Cash
	3	Abbott Laboratories	Business Unit	Solvay	6.6	Closed	Cash
	4	GlaxoSmithKline	Company Acquisition	Stiefel Laboratories	3.2	Closed	Cash
	5	Warner Chilcott	Business Unit	Procter & Gamble	3.1	Closed	Cash
	6	Dainippon Sumitomo Pharma	Company Acquisition	Sepracor	2.6	Closed	Cash
	7	Bristol-Myers Squibb	Company Acquisition	Medarex	2.4	Closed	Cash
	8	Sanofi-Aventis	Company Acquisition	Chattem	1.9	Closed	Cash
	9	Watson Pharmaceuticals	Company Acquisition	Arrow Group	1.8	Closed	Share Exchange + Cash
	10	Gilead Sciences	Company Acquisition	CV Therapeutics	1.4	Closed	Cash

All data sourced from EvaluatePharma.