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Sanofi-Genzyme deal leaves few biotech targets standing

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Sanofi-Aventis' $20bn acquisition of Genzyme demonstrates big pharma's appetite for diversification and building commercial product portfolios to help survive the impending patent storm has not been sated (*Patent storm gathering strength, January 28, 2010*). But with Genzyme now out of the picture, the list of viable targets with the potential to offer a similarly transformational deal has become rather short (see table below).

Perennial M&A rumour mill targets such as Celgene and Allergan feature in a list dominated by companies with existing strategic ties to big pharma. If rare diseases are what big pharma is after, and the signs are they most certainly are, then Shire and Alexion Pharmaceuticals appear the most attractive targets – little wonder then that shares in both companies break record highs almost every week.

Potential M&A Targets		Market Cap ($bn)	Total Revenues ($bn)	
			2011	2016
1	Amgen	50.9	15.1	16.2
2	Gilead Sciences	31.3	8.3	10.7
3	Celgene	25.0	4.5	8.2
4	Allergan	22.4	5.1	7.3
5	Biogen Idec	16.2	4.6	4.7
6	**Shire**	**15.5**	**3.8**	**5.4**
7	**Alexion Pharmaceuticals**	**8.2**	**0.7**	**1.8**
8	Vertex Pharmaceuticals	8.0	0.5	2.6
9	Actelion	7.0	2.0	1.8
10	Dendreon	5.1	0.4	2.9
11	Human Genome Sciences	4.9	0.2	2.6
12	Cephalon	4.5	3.0	2.4
13	United Therapeutics	3.8	0.7	1.1
14	Regeneron Pharmaceuticals	3.0	0.5	1.4
15	BioMarin Pharmaceutical	2.8	0.5	0.9
16	InterMune	2.1	0.0	0.6
17	Pharmasset	1.8	0.0	0.5
18	Incyte	1.8	0.1	1.1
19	Theravance	1.8	0.0	0.3
20	Seattle Genetics	1.7	0.1	0.4

The list of potential M&A targets excludes a number of blood plasma product companies: Baxter International

($30bn), CSL ($20bn), Grifols ($3.5bn) and Talecris Biotherapeutics (3bn).

The assumption here is that M&A activity appears to be happening from within the sector, as seen by recent attempts to acquire Talecris - CSL's aborted move a couple of years ago and Grifols' ongoing deal. However, with the FTC rumoured to want to block the Grifols-Talecris merger on anti-competitive grounds, as it did against CSL, it is questionable whether further consolidation can occur.

Should the Grifols-Talecris deal fall through, Talecris will need to find a new suitor outside its peer group, which could prick the ears of big pharma looking for diversification. While profit margins in this market are slightly lower than big pharma is used to, the extent of patent cliff woes may prompt some companies to consider such a move. CSL's profit margin of around 22% this year actually compares very favourably with the likes of Bristol-Myers Squibb, Eli Lilly and Novartis.

Too big to merge

The table above lists attractive potential M&A targets in the pharma and biotech space. The world's biggest independent biotech, Amgen, tops the list, and HIV specialist Gilead Sciences comes second, but both have healthy market capitalisations that put them out of the reach of all but the biggest of big pharma.

Celgene and Allergan follow. Celgene has safety worries hanging over its biggest product, multiple myeloma therapy Revlimid, and at a market cap of $25bn looks rather expensive for a company that will rely on one product for three-quarters of its growth in the next five years.

Allergan's name was mooted when the first rumours of Sanofi's urge to merge emerged but remains primarily a consumer products company that might not fit every corporation's strategy (*Rumoured $20bn Sanofi-Aventis swoop could be about diversification, July 2, 2010*).

Under pressure from billionaire investor Carl Icahn, Biogen Idec has previously been put on the block but with no success.

Orphan disease specialists

If Genzyme was attractive to Sanofi because of its portfolio of orphan disease products, then Shire could be described as Genzyme with a British accent. Indeed, the UK company was the beneficiary of Genzyme's manufacturing woes in its Replagal to replace Fabrazyme and Vpriv to replace Cerezyme. And at a $15.5bn market capitalisation it will not come much cheaper than Genzyme.

If Shire is the fox that knows many little things, then Alexion is the hedgehog that knows one great thing – namely, Soliris, the paroxysmal nocturnal haemoglobinuria treatment that is the world's most expensive prescription drug at $400,000 a year. The patent on that likely blockbuster runs through 2021, with life-cycle extensions possible, giving any potential suitors a steady money-maker in ultra-rare indications that are not likely to draw many competitors.

BioMarin is another rare-disease target, and as a consequence of the Genzyme transaction it may regain full control of Hurler's syndrome therapy Aldurazyme, commercialised through a joint venture with the US biotech. As the California company already has a small sales force for Naglazyme, treating a similar condition, analysts from UBS reckon BioMarin might have the ability to market Aldurazyme independently, thus improving its value; although until the Biomarin-Genzyme situation is resolved potential suitors are likely to stay on the sidelines.

Rising stars, rumoured targets

After Alexion is Vertex Pharmaceuticals, which has one of the most touted drugs in the late-stage pipeline with hepatitis C drug telaprevir (*Which of 2011's launches will be future blockbusters?,February 3, 2011*). However, partnerships with Johnson & Johnson make it a less-attractive target – and likewise, with Human Genome Sciences' in deals with GlaxoSmithKline and Regneron with Bayer and Sanofi.

Actelion is another company that has been subject to M&A rumours, with shareholder Elliott Advisors recently advocating for a sale of the company. Meanwhile, Dendreon emerged as one of the bigger success stories of 2010, spurring much talk of renewed interest in therapeutic vaccines, with its only remaining challenge seemingly its ability to meet demand (*Relief all round as Dendreon bags landmark Provenge approval, April 30, 2010*).

The hunger for promising products has already driven a great deal of dealmaking activity in the pharma space. There remain attractive targets, but with such a short list those big pharma companies that have not already taken action may be spurred to step up.