

Teva strives to meet growth targets with Cephalon buy



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At the beginning of 2010, Teva announced hugely ambitious sales growth targets that signalled the acquisitive company had no intention of slowing down ([Teva's bullish forecast enhances generics outlook, January 8, 2010](#)). The swoop on German generics player Ratiopharm a couple of months later was not a surprising move, but few will have been anticipating the Israeli company turning white knight for Cephalon.

Growth in specialty, branded pharmaceuticals is firmly in Teva's sights and this \$6.8bn deal –\$1.1bn more than Valeant was prepared to pay – will certainly give the company's current portfolio a big leg up. But by adding a pipeline with a number of high risk candidates, some of which will require serious investment, it becomes significantly more exposed to the risks of novel drug development.

Meeting targets

In a presentation yesterday Teva said its branded business, led by MS therapy Copaxone, would immediately be boosted by \$1.4bn in sales with the addition of the Cephalon products. Pro forma revenues of \$7bn this year are set to grow to \$9.2bn by 2015, it predicted.

Importantly, the move lowers Copaxone's importance to its branded business from 70% to 47%. With threats to this flagship product emerging from both new competitors and potentially generics in the next couple of years, this diversification was needed.

Teva also needs to do deals of this size if it is to meet its lofty ambitions.

At the beginning of 2010 it set what still appears to be hugely optimistic revenue guidance for 2015 – predicting \$31bn in sales by 2015. Currently, consensus is nowhere near that figure – analysts are expecting just shy of \$24bn according to [EvaluatePharma](#).

Adding what analysts are expecting for Cephalon that year only takes the figure to \$26.6bn, suggesting Teva's ambitions remain bigger.

Full value

The same can be said for Valeant, which walked away from Cephalon while handing its congratulations to Teva for winning the day with a "very full value" offer price.

It was clear from the outset that Valeant did not hold Cephalon's pipeline in high regard – particularly the more recent early stage acquisitions – and the Canadian specialty pharma company would never have bid as high as Teva.

Teva and Valeant are pursuing completely different strategies and as such will have valued Cephalon very differently – the divergence occurring largely around the pipeline.

This consists of 11 clinical stage candidates, in the CNS, oncology and pain fields, with a couple of other diverse products thrown in, such as revascor, a novel heart failure therapy in phase II.

Teva has demonstrated it can bring novel products to the market with Copaxone, but this move signals a readiness for a much bigger investment.

And recent attempts to bring novelty to the market have not all been successful. Investors' hopes for MS pill laquinimod have dimmed as good news from competing products has emerged, and the 6% drop in share prices since the beginning of April shows shareholders will demand successes ([Biogen boosted by dosing win for phase III oral MS candidate, April 11, 2011](#)).

Transformation

Following this deal, Teva still has a \$4.5bn shortfall in its 2015 sales guidance.

Few investors or analysts will be comfortable ascribing anything close to this value to its current pipeline, meaning further deals must be on the way.

It appears this growth could come from buying generics or branded products. Should the company continue on the branded route, buying a portfolio closer to the market would give greater confidence.

Teva already claims to be the biggest specialty pharma company in the world, and reckons the move consolidates this position, ahead of companies like Forest Laboratories and Allergan.

The Cephalon deal “represents nothing less than the transformation of Teva’s branded business,” said Shlomo Yanai yesterday, chief executive of the generics giant.

Should Teva continue to grow this side of the business, the deal will come to represent the transformation of the whole group.