

July 27, 2011

Valeant's rumoured move on Meda makes sense in parts



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News that Valeant Pharmaceuticals is on the prowl for another big acquisition is not particularly surprising, considering the company has made no secret of its desire to keep striking deals. So despite Meda's denials today a move for the Swedish specialty pharma business, which has a remarkably similar modus operandi to its trans-Atlantic rival, cannot be completely ruled out ([Valeant seeks to repeat the growth trick with surprise Cephalon bid, March 30, 2011](#)).

However, a complete take out would still be fairly surprising considering the multiple transactions between the two companies over the last few years. Rights to numerous products have changed between their hands and joint ventures set up, as each has focused on aligning portfolios with their individual geographical and therapeutic ambitions. Valeant may simply be seeking to take over a greater share of these joint ventures, or have its eye on a particular part of the Meda business.

Overlapping

Unsourced news reports, starting in the *Wall Street Journal*, claimed Valeant had made an informal approach to Meda in the recent past. The Swedish company's denial was hardly emphatic, saying "an approach of the kind that is described in the article" had not been received. Meda's chairman Bert Ake Eriksson, who is also chief executive of the company's largest shareholder, Stena Sessan, told *Reuters* today Valeant had never spoken to him about a takeover.

The Canada-based company has refused to comment.

Still, it is likely that the management teams of the two companies regularly speak, as their businesses overlap in many areas. They struck their most significant deal in August 2008, when Valeant sold its business operations in Western and Eastern Europe, including Russia, to Meda for \$392m. A few days later, they announced plans to form joint ventures in Australia, Canada and Mexico; majority owned by Meda, Valeant retains a minority interest.

The two were already linked through a product called ezogabine, a novel anti-epileptic now being sold by GlaxoSmithKline as Potiga, on which both receive royalties.

Then in 2009 Meda bought European marketing rights from Valeant to an acne product, awaiting approval in Europe under the brand name Acnex. And finally Meda sold Valeant US, Canada and Mexican rights to two dermatology products, Elidel and Xerese.

Geographically spread

Despite these close connections, it would be a surprise if Valeant was interested in all parts of Meda's business. Wanting to buy back the European presence in particular would be quite a U-turn. And whereas Valeant embarked on a strategy in 2007 to reduce its geographical footprint, Meda has been seemingly doing the opposite.

Still, Valeant's moves of the last couple of years somewhat echo the strategy the Swedish group embarked upon in the middle of last decade ([Meda testing if bigger is better, August 4, 2008](#)).

Starting off with the \$588m acquisition of German specialty player Viatrix in 2005, in 2007 Meda went on to buy part of 3M's drugs business for \$840m, US specialty player MedPointe for \$790m and a smaller domestic rival, Recip, for \$492m. A year after the buying the Valeant division, another US specialty player, Alaven, was bought last year for \$350m.

As a result Meda is now spread more thinly than Valeant, and it also moves in more therapy areas, including cardiology, respiratory and pain.

However, they share a focus on dermatology and in North America; Meda has a large US division, where a fifth of its \$1.6bn annual sales were derived last year, making the the US its biggest region.

Big ambitions

Meda struggled last year with a couple of underperforming products and patent expiries - sales fell 12% to SKr11.6bn (\$1.8bn), causing earnings to dip.

Shares in the company declined 20% over the course of 2010 on concerns about growth in the wake of the firm's buying spree, although they have largely recovered over the course of this year. The stock jumped 7% today to SKr76.05, valuing the company at SKr23bn, or \$3.5bn.

As such, Meda looks a bit like the type of business Valeant has been trying not to be for the last few years ([*Valeant must deliver on growth promises as deals continue to flow, July 18, 2011*](#)). But that is not to say the unwanted divisions could not be sold off or desired units acquired - talks over which could be the root of these rumours.

At the end of the day though Valeant clearly has big ambitions and there are not many companies of Meda's size and shape out there - a fact that could ultimately tip the balance in favour of a takeout.