

## Pharma reacquaints itself with risk in first half



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Slowly but surely big pharma is casting off the shackles of prudence and embracing risk again, *EvaluatePharma* data on merger and acquisition activity in the first half of 2012 suggest.

First-half deal values are up overall, and a dig into the data on bigger-ticket takeovers also reveals an upward trend in the average sales multiples being paid. While such a crude metric says little about individual transactions, when spread across a range of deals it does back up the view that pharma is tending away from just buying in immediate revenues and becoming increasingly comfortable acquiring businesses that are not yet generating significant sales (see data below).

Admittedly, it is still far too early to say that we have returned to the spendthrift climate before the 2008 downturn, a time that saw such acquisitions as Takeda's purchase of Millennium Pharmaceuticals and of course AstraZeneca's spectacularly overpriced takeout of MedImmune ([Takeovers tick up in 2012 but feeding frenzy still some way off, July 25, 2012](#)).

### Average sales multiple paid for \$250m+ takeovers (excluding mega-mergers)

Deal announcement date	Deal count	Deal value (\$bn)	Sales of target (\$bn)	Sales multiple
2012 H1	20	30.9	4.9	6.3x
2011	31	47.7	9.2	5.2x
2010	36	71.4	19.3	3.7x
2009	26	25.3	25.7	1.0x
2008	25	39.1	6.9	5.6x
2007	24	40.4	2.8	14.7x

Stripping out the less significant acquisitions – those whose total value was below \$250m – as well as mega-mergers reveals a dip in overall sales multiples paid by acquirers from 2007 to 2009, followed by a steady increase between 2010 and now.

Mega-mergers are excluded here simply because their size might skew the data unduly. In effect this means stripping out Pfizer's 2009 takeover of Wyeth and Roche's decision to buy out its remaining interest in Genentech the previous year; in any case, Roche already consolidated Genentech's sales.

Even if Pfizer/Wyeth is included 2009 can clearly be seen to have been a trough year, with a combined takeover multiple of 3.6x sales. This is to be expected given that the credit crisis had set in and focus turned away from risky assets.

### An upward trend

But what is particularly interesting is the trend from 2010 into the first half of the current year: average multiples are seen rising from 3.7x through 5.2x to 6.3x while the run rate for the number of deals being done in this price range remains at between 30 and 40 a year.

In effect this suggests that acquirers are increasingly happy to buy companies that generate little or no current revenue, such as Inhibitex and Amylin Pharmaceuticals. Moreover, this trend holds true even though the less dynamic deals – say, Watson buying Actavis, Novartis acquiring Fougera or Teva taking over Cephalon – are still being done.

To reflect the prevailing appetite deal dates relate to when takeovers were announced rather than when they were completed, so Sanofi's acquisition of Genzyme falls in 2010; this pushes up that year's multiple somewhat, although the other big deal of 2010 – Novartis's buyout of the remainder of Alcon – was done at only 1.5x sales, so the overall trend probably holds true.

One need look no further than Gilead Sciences' \$11.2bn takeout of Pharmasset last year to see that biotech is back in vogue. If the first half of 2012 is anything to go by, risk has not gone out of fashion yet.

2012 H1 takeovers worth \$250m and above					
Acquiring company	Target	M&A deal status	Deal value (\$m)	Sales (\$m) (Target)	Sales multiple
Celgene	Avila Therapeutics	Closed	925	-	NA
Bristol-Myers Squibb	Inhibitex	Closed	2,500	2	NA
Amgen	Micromet	Closed	1,160	418	2.8x
Dainippon Sumitomo Pharma	Boston Biomedical	Closed	2,630	-	NA
Shire	FerroKin Biosciences	Closed	325	-	NA
Bausch + Lomb	ISTA Pharmaceuticals	Closed	500	160	3.1x
Biogen Idec	Stromedix	Closed	563	-	NA
Bristol-Myers Squibb	Amylin Pharmaceuticals	Open	7,000	233	30.0x
Amgen	KAI Pharmaceuticals	Closed	315	-	NA
Amgen	MN Pharmaceuticals	Closed	700	200	3.5x
Spectrum Pharmaceuticals	Allos Therapeutics	Open	410	76	5.4x
Takeda	URL Pharma	Closed	800	600	1.3x
Watson Pharmaceuticals	Actavis	Open	5,924	2,454	2.4x
GlaxoSmithKline	Human Genome Sciences	Open	3,600	131	27.5x
AstraZeneca	Ardea Biosciences	Closed	1,260	8	NA
Jazz Pharmaceuticals	EUSA Pharma	Closed	730	95	7.7x
Novartis	Fougera Pharmaceuticals	Closed	1,525	429	3.6x
Takeda	Multilab Indústria e Comércio de Produtos Farmacêuticos	Closed	273	71	3.9x
Valeant Pharmaceuticals International	Orapharma	Closed	426	-	NA
Upsher-Smith Laboratories	Proximagen Group	Open	347	-	NA
			<b>30,896</b>	<b>4,877</b>	<b>6.3x</b>

All data sourced to EvaluatePharma

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