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Pharma M&A values buoyed by climbing asset prices

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After a couple of moribund years on the M&A front the pharma industry picked up the pace in 2013, with $76bn in takeovers and mergers recorded by *EvaluatePharma* over the year.

That figure is a sizeable increase on the previous few years even though only one transaction, Amgen’s takeout of Onyx, topped the $10bn mark, and even that one only just tipped over. A string of $1bn+ deals struck by the rapidly expanding mid-size sector helped inflate the total amount spent even as the number of deals fell. It is clear that asset prices are now sufficiently bloated to more than compensate for fewer M&A deals.

Pharma and biotech acquisitions of the last decade		
Deal announcement date	**Deal value ($bn)**	**Deal count**
2013	75.6	169
2012	43.2	185
2011	55.2	190
2010	109.0	192
2010 (excluding Novartis-Alcon)	71.3	191
2009	151.9	170
2009 (excluding mega-mergers)	42.8	168
2008	109.1	185
2008 (excluding mega-mergers)	62.3	184
2007	70.3	166
2006	100.2	152
2005	61.5	142
2004	97.6	97
2004 (excluding mega-mergers)	34.6	96
2003	39.1	91

As always, these data exclude any acquisitions of companies with no involvement in pharmaceuticals – so pure medtech buys or big pharma’s occasional forays into animal health or infant nutrition are not included. As such, the analysis reflects the activity within the drug development sector.

At only 169 transactions, this activity seems to have dropped back to levels seen before the financial crash in 2008. Deal making took off that year, as larger players took advantage of rock bottom asset prices and big pharma embarked on a buying spree to beef up lacklustre pipelines and soften the fall from respective patent cliffs.

Deal activity now might arguably be drifting down to a more natural level. However, sky-high valuations must also be having an impact by deterring would-be buyers. Big pharma might still be very keen to prop up pipelines, but it is also under intense pressure from shareholders not to overpay. So should the bubble burst, it will be interesting to see whether deal activity climbs once again.

These topline data certainly indicate that average prices have risen – an analysis to be published tomorrow will examine this trend, and look at which companies are spending the cash.

But a look at the 10 biggest deals struck last year, below, is revealing. Only one big pharma name is present, AstraZeneca, although Bayer and Amgen also arguably fall into this camp. The remaining names belong to the burgeoning mid-cap sector, many of which are making the most of cheap debt and strong cash flows to fund ambitious expansion plans.

Top 10 take outs of 2013				
Rank	**Acquiring company**	**Target company or business unit**	**M&A deal status**	**Deal value ($bn)**
1	Amgen	Onyx Pharmaceuticals	Closed	10.4
2	Valeant Pharmaceuticals International	Bausch + Lomb	Closed	8.7
3	Perrigo Company	Elan	Closed	8.6
4	Actavis	Warner Chilcott	Closed	8.5
5	AstraZeneca	Diabetes business of Bristol-Myers Squibb	Open	4.3
6	Shire	ViroPharma	Open	4.2
7	Salix Pharmaceuticals	Santarus	Closed	2.6
8	Bayer	Algeta	Open	2.4
9	Mylan	Agila (division of Strides Arcolab)	Open	1.9
10	Endo Health Solutions	Paladin Labs	Open	1.6

Trailblazer Valeant made the second-biggest buy of the year, with its takeover of Bausch & Lomb. The company has struck a top-10 deal in three of the last four years, and only narrowly missed out in 2011 when it walked away from Cephalon to leave Teva to buy the company for $6.8bn in the third-largest transaction that year.

Valeant still spent $2.5bn over six transactions in 2011 and is surely one of the most prolific dealmakers of the past few years; its aggressive chief executive, Michael Pearson, has made no secret of his desire to continue along the same path. But the appearance of the likes of Endo, Perrigo and even Salix in the list of big dealmakers last year shows that others are cottoning on to the benefits of this strategy (*JP Morgan Healthcare Conference 2014 – Valeant's success sees others copy the tax trick, January 17, 2014*).

Forest's swoop on Aptalis last week kicked off 2014 with a $2.9bn deal and shows that the mid-caps will remain active this year. And with asset valuations showing no sign of deflating, it seems likely that spending levels will remain bouyant.

However, with big pharma seemingly remaining reluctant to join in, those $10bn+ deals will remain scarce.

Annual big deal action			
Year announced	**$20bn+ deals**	**$10bn+ deals**	**$1bn+ deals**
2013	0	1	16
2011	0	2	9
2010	2	2	8
2009	2	2	14
2008	1	2	12
2007	0	2	11
2006	1	3	9
2005	0	1	14
2004	2	2	10
2003	0	1	6

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