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Mid-cap consolidation spree looks set to yield bigger deals

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Actavis's surprise move on Forest this week confirms that the race to add scale among the mid-caps will remain a big theme this year. It also suggests that, for those striving to get to the top, competition for assets is only going to get fiercer.

For those on the prowl, the recent wave of consolidation among the specialty pharma sector means a shortening shopping list. A trawl of *EvaluatePharma* reveals 30 mid-cap listed companies that could be classed as either hunter or hunted, while the private sphere also contains some sizeable candidates (see tables). But with mid-range targets gradually disappearing, some bigger deals must be on the way if the likes of Valeant are going to fulfil their lofty ambitions.

	Mid-cap pharma – the hunters and the hunted?			
Rank	**Company**	**2013 Total WW Revenues ($bn)**	**2013 Free Cash Flow (Pre-Dividends $m)**	**Market Cap ($bn)**
1	Teva Pharmaceutical Industries	20.1	5,276	43.3
2	*Actavis-Forest*	*11.9*	*3,919*	-
3	Actavis	8.5	3,354	35.1
4	Mylan	6.9	1,151	18.5
5	Allergan	6.1	1,838	37.3
6	Valeant Pharmaceuticals International	5.7	3,421	48.9
7	Shire	4.9	1,431	32.4
8	UCB	4.5	359	13.5
9	Perrigo Company	4.2	1,106	20.9
10	Hospira	4.1	260	7.3
11	Galenica	4.0	322	6.2
12	Forest Laboratories	3.4	282	24.7
13	Aspen Pharmacare	2.8	224	11.6
14	Endo Health Solutions	2.8	877	8.8
15	Lundbeck	2.7	147	5.1
To see the full table with 30 companies please email news@epvantage.com				

According to consensus forecasts from *EvaluatePharma*, the Actavis-Forest combination will create a company with annual sales of $16.6bn in 2018. Its biggest sales growth drivers will be Linzess, Asacolm, Namenda XR, Lo Loestrin FE and Bystolic, all products sourced from Actavis's recent buying spree, which also included Warner Chilcott (*Actavis enters the Forest and comes out a specialty pharma company, February 18, 2014*).

And Forest has only just completed the acquisition of Aptalis, the private specialty pharma group that was preparing to float after a couple of years in private equity hands. Announced in the first few days of 2014, the $2.9bn deal kicked off what looks to be an active year for M&A bankers, who will surely be scouring the sector for other targets (*No float needed as Forest picks up Aptalis, January 8, 2014*).

The table above provides a snapshot of the mid-cap specialty companies that could well emerge as either bidders or targets; many boards are no doubt trying to decide which path they would prefer to take in the coming months, and aligning their respective ducks accordingly.

This is by no means intended to be an exhaustive list – free cash flow of more than $100m in 2013 was chosen as a cut-off point, for example – and there will be many other companies out there with attributes that could prove attractive, but have yet to start making money. The table below lists some of the biggest private companies around; many of these are likely to have ownership structures that preclude a sale and there will certainly be other sizeable private groups around for which sales figures are not published or not easily available.

Big bites

But to really achieve scale quickly, the M&A-hungry chief executives at companies like Valeant, Actavis and Endo will have to look at the targets at the top of these lists. Valeant's Michael Pearson has publically declared an ambition to drive the company to become one of the fifth biggest drug makers by the end of 2016. The Canadian company has some way to go – its current market value of close to $50bn compares with much higher values for the current top five drug makers, which range from Roche's $250bn to GlaxoSmithKline's $132bn – and this assumes his target peer group excludes the huge but diversified Johnson & Johnson, worth $259bn.

Consolidation of the likes of Actavis and Forest will of course only help Valeant in its quest, providing it with bigger bites – assuming agreement on price can be negotiated on their subsequent takeover some time down the road.

Mr Pearson has made much of his refusal to overpay and has shown willingness to walk away in the past. Speculation that he will step in to snatch away Forest has arisen – Forest stock remains substantially higher than the price on the table and shares in Actavis have risen 12% since the deal was announced, suggesting investors are far from unhappy about the price paid.

Should he need any encouragement, Valeant shares have also climbed since the deal was announced, by 5%; the company's management team has created a huge amount of shareholder value over the last few years, and investors are clearly confident this will continue.

Tellingly, despite being the largest company on sales by a long way, Teva shares have also climbed on speculation that they are a target since the Forest bid emerged – including the 5% climb today, the stock has advanced 10% to $48.78, a two-and-a-half year high.

It is typical of the current bull market that the share price reactions to these recent deals have been overwhelmingly positive, and will no doubt spur management teams on to strike further deals. But Valeant's investors, and shareholders in other ambitious companies, will have to hope that enthusiasm for growth does not cloud judgements: assets can only get pricier in this sort of environment.

Selected private companies			
Company	**2012 WW revenues ($m)***	**Headquarters**	**Key therapy areas**
Les Laboratoires Servier	5,064	France	Cardiology, CNS, endocrine, oncology
Menarini	4,115	Italy	Medtech, cardiology, respiratory
Pierre Fabre	2,543	France	Oncology, family health, dermo-cosmetics
Galderma	2,057	Switzerland	Dermatology (JV between Nestle and L'Oreal)
LEO Pharma	1,419	Denmark	Dermatology
Omega Pharma	1,340	Belgium	OTC, personal care
Grünenthal Gruppe	1,251	Germany	Pain, contraception
Octapharma	1,177	Switzerland	Haematology, immunotherapy, intensive care & emergency medicine
Aché Laboratórios Farmacêuticos	823	Brazil	Generics, cardiovascular, CNS
** For many of these companies, 2013 results are not yet available*			

All data sourced to EvaluatePharma.

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