

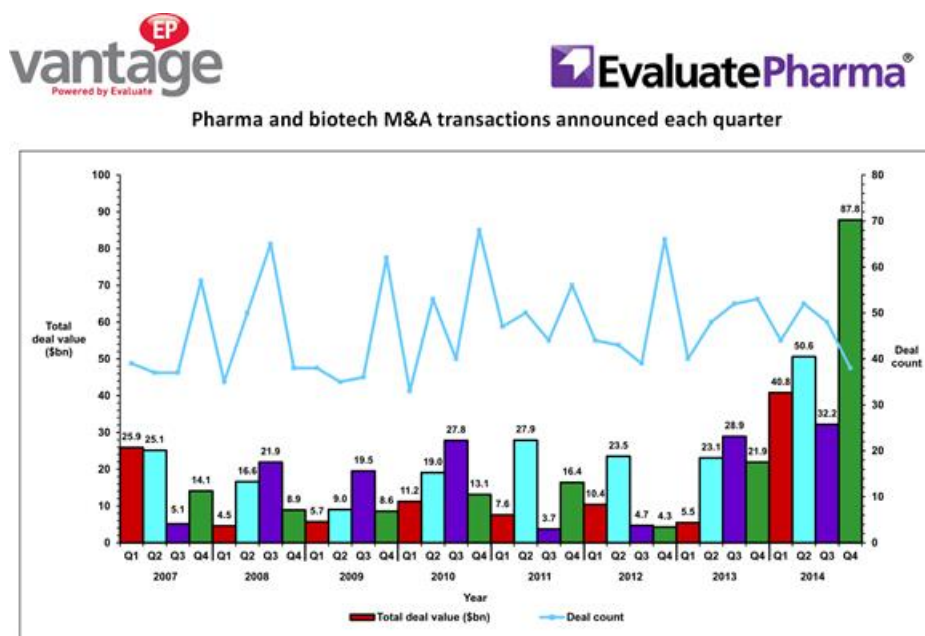
Mega-merger drought fails to impede record-breaking acquisition year



[Joanne Fagg](#)

It comes as little surprise that 2014 was a huge year for M&A in the pharma and biotech sector. Acquisitions worth more than \$200bn were announced, a remarkable figure reached even in the absence of a traditional, big pharma mega-merger.

Of course the \$66bn that Actavis paid for Allergan is certainly in the valuation territory of such transactions, coming within a whisker of Pfizer’s \$68bn takeover of Wyeth in 2009. That year, which also saw Schering-Plough swallowed by Merck & Co, saw deals worth \$152bn announced. With last year’s total far exceeding this, the gluttony of 2014 is laid bare (see tables below).



Analysis excludes mega-merger takeovers of Genentech, Wyeth, Schering-Plough and Alcon

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The quest for targets to help lower tax bills drove much of the activity in the first three quarters of the year. In the graph above, which provides a quarterly analysis of *EvaluatePharma's* deal data, the last three months of the year was heavily skewed by the Allergan takeout. This analysis only includes transactions struck by pharma and biotech companies, excluding medtech, for example.

Without this \$66bn, activity appeared to dim in the later part of the year. Moves by the US to limit the appeal of inversions and other such financial engineering was partly to blame, derailing several transactions, most notably AbbVie’s move on Shire.

Still, with investors continuing to react enthusiastically to corporate activity, deal making remained firmly on the agenda of many a company.

A decade in deal making*		
Year announced	Deal value (\$bn)	Deal count
2014	212	182
2013	79	193
2012	43	192
2011	56	197
2010	109	194
2009	152	171
2008	109	188
2007	70	170
2006	101	154
2005	62	143
<i>*Data include mega-mergers</i>		

Looking at the annual run rate, above, it is notable that, despite no apparent uptick in the number of deals being struck, the total value of deals announced still soared.

This tally was inflated by a couple of large transactions – as well as Allergan, Actavis also bought Forest for \$28bn, while the asset swap between Novartis and Glaxo cost them each, respectively, \$16bn and \$7bn for oncology and vaccine assets (see top 10 below).

But soaring valuations also played a role. Pharma and biotech indices outperformed other sectors and the broader markets – the Nasdaq Biotechnology Index for example surged 34% across the year, compared with an 11% rise in the S&P 500 – forcing buyers to write ever-larger cheques. This applied across all deal sizes, but particularly among the speciality pharma sector, where activity was particularly fast paced and competitive, and several \$1bn-plus transactions were struck.

Hence the \$212bn tally was reached, setting a new record for the last decade by a comfortable margin, and leaving even mega-merger years in its dust.

For 2014 to be beaten, another pharma mega-merger would surely have to happen, in a year of similarly voracious deal appetite and sky-high valuations. It is not beyond the realms of possibility that that year is 2015. Some believe that Pfizer is still interested in AstraZeneca – another almost-deal of last year that would come in around the \$100bn mark – and stock markets remain buoyant and the financing climate receptive.

Shire opened this year with the \$5.2bn takeout of NPS Pharmaceuticals, an encouraging signal of things to come. A huge drop-off in deal activity this year certainly seems unlikely. However, this relies in no small part on the US biotech bull market remaining in rude health. And then perhaps the main drag will come from what many consider a sign of the sector's success – valuations are so stretched, that at some point even hungry buyers will choose to remain unfulfilled.

10 biggest pharma and biotech M&A deals announced in 2014

Deal announced	Acquirer	Target	Deal status	Value (\$bn)
Nov	Actavis	Allergan	Open	66.0
Feb	Actavis	Forest Laboratories	Closed	28.0
Apr	Novartis	Oncology business of GlaxoSmithKline	Open	16.0
Dec	Merck & Co	Cubist Pharmaceuticals	Open	9.5
Aug	Roche	InterMune	Closed	8.3
Apr	GlaxoSmithKline	Vaccines (excluding flu) business of Novartis	Open	7.1
Apr	Mallinckrodt	Questcor Pharmaceuticals	Closed	5.6
Jul	Mylan	Branded generics pharmaceuticals business of Abbott Laboratories	Open	5.3
Nov	Perrigo Company	Omega Pharma	Open	4.5
Jun	Merck & Co	Idenix Pharmaceuticals	Closed	3.9

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