Evaluate Vantage

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M&A values soar as big pharma shows signs of re-entering the game

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It took more than simply a desire to get deals done for the pharma and biotech sector to achieve 2014's staggering acquisition record. Climbing valuations also contributed, prompted by surging stock markets and fierce competition for assets.

This can be illustrated with a look at average transaction values – an analysis of sub-$20bn deals reveals that their average price tag surged 39% last year, to $911m. A further look into *EvaluatePharma's* data shows a massive jump in the number of mid-sized takeovers. Scrutiny of the industry's biggest spenders, meanwhile, indicates that big pharma generally remains cautious, although some companies seem willing to take a seat at the negotiating table again (see tables below).

Average deal values have been climbing...		
Year announced	**Avg for $250m+ deals ($bn)**	**Avg for deals ≤ $20bn ($m)**
2014	2.3	911
2013	1.7	656
2012	1.3	387
2011	1.5	428
2010	1.9	411
2009	1.0	390
2008	1.6	528
2007	1.7	595

The table above, a look at average deal values cut a couple of ways, shows just how far these have climbed in the past few years. This analysis only includes the activities of pharma and biotech companies, excluding medtech firms for example, and has removed the skewing effects of the very biggest takeovers of these years, namely Allergan last year and the big ticket take-outs of Genentech, Wyeth and Schering-Plough.

The analysis suggests that by 2013 valuations had returned to pre-crash levels, only to accelerate further across 2014. For followers of biotech stock indices, in particular the Nasdaq Biotechnology Index in the US, this will come as little surprise.

Additionally, an analysis published yesterday revealed how the $212bn of announced transactions was achieved without any real uptick in volume (*Mega-merger drought fails to impede record-breaking acquisition year, January 15, 2015*).

This was of course inflated by the two huge Actavis takeovers – $66bn for Allergan and $28bn for Forest Labs – while deals the size of Novartis and GlaxoSmithKline's $16bn-for-$7bn asset swap do not happen often. But these are unlikely to explain fully the hike in average deal values.

The table below shows the distribution of activity across various transaction sizes, and the big jump in the $1bn to $10bn bracket is very clear. Rising stock markets mean that many more companies have now crossed the blockbuster market cap threshold, which only means more expensive forays for those with acquisitive ambitions.

Big deal action				
Year announced	**≥$50bn deals**	**$25bn - $50bn deals**	**$10bn - $25bn deals**	**$1bn - $10bn deals**
2014	1	1	1	22
2013	0	0	1	14
2012	0	0	0	9
2011	0	0	2	6
2010	0	1	1	12
2009	1	1	0	10
2008	0	1	1	9
2007	0	0	2	7
2006	0	0	3	11
2005	0	0	1	9
2004	1	0	1	4
2003	0	0	1	5
2002	1	0	0	1
2001	0	0	2	5
2000	2	0	0	5
Total	*6*	*4*	*16*	*129*

Those ambitions have mostly been harboured by operators in the speciality or generics space in the last year or so. Large drug companies outside the big pharma bracket have been more active in terms of deal values and volumes in the past three years, and none more so than Actavis and Valeant, the table below shows.

This analysis only includes pharma and biotech activity, so would exclude Lilly's animal health move, for example.

Big pharma companies has been leaning more towards risk-sharing collaborations, although in 2014 a number of them did re-enter the M&A game, to a certain extent.

The analysis, which looks at the three-year M&A spend of the industry's biggest companies, finds that big pharma committed $82bn over the past three years. The same analysis conducted 12 months ago came to a total of $24bn.

Roche's move on Intermune and Merck & Co's buys of Cubist and Idenix perhaps show that some big pharma executives are growing more willing to make riskier M&A bets. However, on the flip side, Novartis and Glaxo's asset swap suggests that internal issues are more prominent for others, and it is notable that Lilly has failed to make any pharma buy in the past three years. AbbVie, of course, got burnt for sticking its neck out.

In the coming year, many will welcome more enthusiastic participation from big pharma in the dealmaking world. However, many senior executives have openly declared their refusal to entertain the valuations that the sector is now sporting.

Market conditions suggest that the M&A environment will remain healthy in 2015. But it is hard to believe that many of the highly valued companies fingered as takeouts will manage to attract suitors in a period of almost unchecked exuberance.

The industry's big spenders – three-year M&A bill			
Big pharma			
Company	**3yr spend ($bn)**	**3yr deal count**	**M&A ranking**
Novartis	19.2	10	2
Merck & Co	13.7	3	4
Roche	11.3	6	8
Bristol-Myers Squibb	11.2	6	9
GlaxoSmithKline	10.7	7	10
Total 11 big pharma	*81.6*	*58*	–
Other big drug makers (market cap ≥$20bn)			
Company	**3yr spend ($bn)**	**3yr deal count**	**M&A ranking**
Actavis	111.5	10	1
Bayer	17.7	4	3
Perrigo	13.6	7	5
Valeant	13.2	14	6
Amgen	12.6	4	7
Total 14 other drug makers	*181.8*	*73*	–
For a list of the top 20 M&A spenders, please contact news@epvantage.com			

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