

Pfizer rewrites the takeover record books



Jacob Plieth

As stock market indices crept back up 2015 looked like ending with a rather average quarter of acquisition activity. But then Pfizer bought Allergan for \$160bn and rewrote the record books.

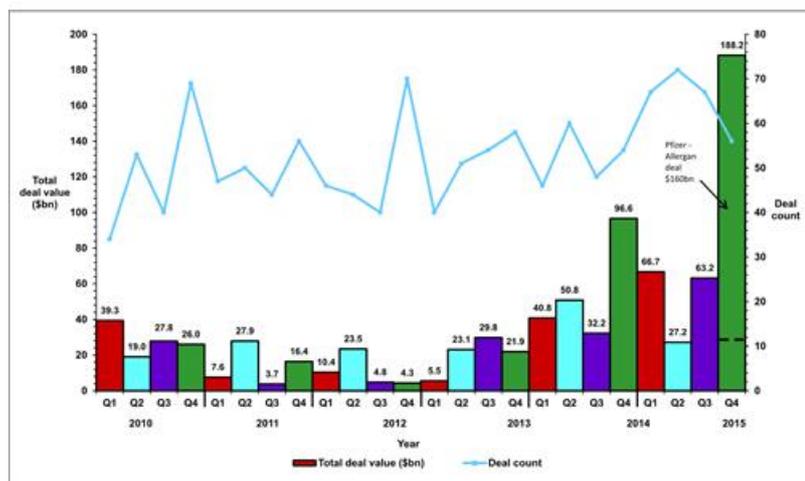
The fourth-quarter M&A total of \$188.2bn therefore blew out of the water anything seen in recent years, and even without Allergan 2015 as a whole would have represented a reasonably impressive haul for deal bankers. Still, with markets off to a dreadful January, many might feel apprehensive about their 2016 bonuses.

There is nothing better than the annual JP Morgan investor conference to test the mood of the year ahead for biopharma, but this year's instalment has turned out to be a damp squib. And apart from Shire's \$32bn swoop on Baxalta there has been a drought of significant deal announcements, in keeping with the pessimism of the Nasdaq biotech index, which now stands down 17% since January 1.

Despite a serious summer holiday wobble, at the end of 2015 there were few signs of the carnage ahead. Without Pfizer's \$160bn contribution the fourth-quarter M&A total would have stood at \$28.2bn, and the full year would have brought in \$185.3bn of transactions.



Pharma and biotech M&A transactions announced each quarter



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That \$185.3bn would have failed to break the 2014 record of \$220.4bn, but it would have been impressive all the same ([Mega-merger drought fails to impede record-breaking acquisition year, January 15, 2015](#)). Interestingly, the 2014 record had also been set courtesy of Allergan, specifically its incorporation into Actavis, worth \$66bn.

And it was not only the total value of M&A deal-making that remained high, but also the absolute number of transactions announced, which hit 262 last year, up 25% over 2014.

Five-year M&A activity		
Period	Combined deal value (\$bn)	Deal count
2015	345.4	262
2014	219.7	209
2013	80.3	203
2012	43.1	200
2011	55.6	197

Mega mergers

Pfizer signalled the effective return of the mega-merger, something not seen during the current biopharma cycle. As such a historical comparison with all deals can now be made without adjusting for the distorting effect of Novartis's Alcon purchase.

It had previously been smaller deals that fuelled merger-mania, involving medium and large pharma companies buying biotechs to fill R&D pipelines, in addition to speciality groups bulking up. With the recent consignment of Valeant to the penalty box, and uncertainty about just how much tax savings can still be squeezed from acquisitions, speciality pharma M&A is likely to slow.

In the fourth quarter the speciality theme was only just in play, with Shire taking out Dyax for \$7bn and Leo buying Astellas's dermatology business for \$1bn. It played a major role in 2015 as a whole, with Hospira, Allergan's generics business and Par featuring as targets among the year's 10 biggest takeouts.

The big biotech purchase of the year was Abbvie's expensive \$18bn move on Pharmacyclics ([A few unsung heroes from AbbVie's desperate \\$21bn move, March 5, 2015](#)). Just how overpriced this was was shown months later when AstraZeneca paid \$4bn for a 55% stake in Acerta, a group with a key follow-up to Pharmacyclics' lead drug, Imbruvica.

10 biggest pharma and biotech M&A deals announced in 2015				
Deal announced	Acquirer	Target	Deal status	Value (\$bn)
Nov	Pfizer	Allergan	Open	160.0
Jul	Teva	Generics business of Allergan	Open	40.5
Mar	AbbVie	Pharmacyclics	Closed	17.6
Feb	Pfizer	Hospira	Closed	17.0
Feb	Valeant	Salix Pharmaceuticals	Closed	11.4
May	Alexion	Synageva BioPharma	Closed	8.4
May	Endo	Par Pharmaceutical Companies	Closed	8.1
Jul	Celgene	Receptos	Closed	7.2
Dec	AstraZeneca	Acerta Pharma	Closed	7.0*
Nov	Shire	Dyax	Open	6.5

*Note: *value of \$4bn for 55% stake, plus option to buy remainder.*

So if 2015 broke records what will the current year bring? Clearly the worry has to be that, with the markets down and small and medium-sized biotech flush with cash after recent fund-raising, biz dev departments will hunker down and try to sit out the bad times.

On the other hand, however, with stock markets now decidedly bearish, many assets have become more affordable. True, the risk is that they might be even cheaper a month or two down the line, but big pharma is still rich, and it is still after late-stage assets.

And of course the sector might still be overvalued, but its fundamentals remain as strong as they were two years ago; jitters are the result of instability in China and a falling oil price.

If you are a deal banker you will certainly be hoping for pharma to whip out its chequebook even more readily in 2016, as well as the more distant prospect of divestments and a mega-merger or two.

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