

M&A - without Shaxalta a meagre quarter



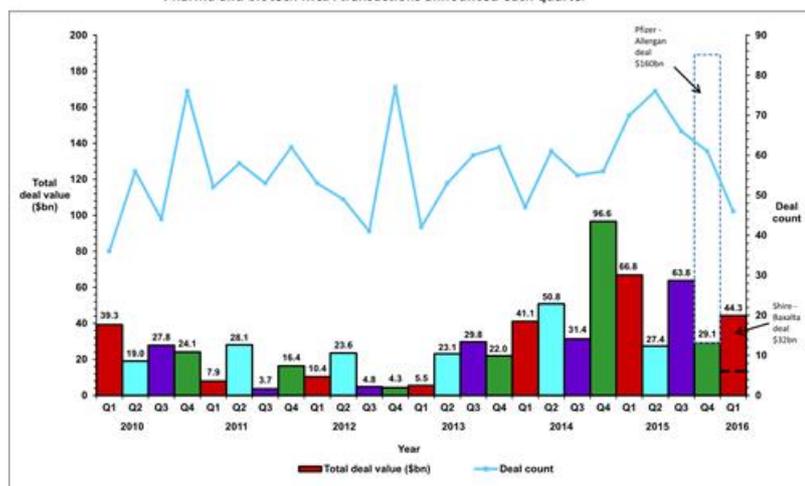
Madeleine Armstrong

The main M&A story so far this year was the one that got away: the collapse of Pfizer’s purchase of Allergan. But a closer look at M&A activity in the first quarter uncovers greater cause for concern. Like the tail-end of last year, the quarter just ended has been propped up by an outsized deal – Shire’s \$32bn acquisition of Baxalta – which at least looks like it will not fall through.

Take away Shaxalta and only one megadeal remains, with the rest coming in under the \$1bn threshold (see table below). There has also been a steep decline in the number of acquisitions since the second quarter of 2015. But things could pick up again soon, with Pfizer and Allergan both expected to seek out new targets now they have money to spend.



Pharma and biotech M&A transactions announced each quarter



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After the US Treasury crackdown that scuppered Pfallergan, Shire was quick to put out a statement saying the Baxalta transaction would proceed as planned and should be completed by mid-2016, as previously estimated.

Investors seemed to take this at face value, with the group’s share price rebounding after jitters on Tuesday. While there is a tax-saving element to the Shaxalta deal, it does not fall foul of the new US three-year lookback rules that sank Pfallergan, which took aim at serial inversions ([Back to basics after the death of Pfallergan, April 6, 2016](#)).

But the US changes could push up Shaxalta’s tax rate from the 16-17% that the Ireland-domiciled Shire had expected, making the deal less attractive ([Tax U-turn means Shaxalta is a go, January 11, 2016](#)).

Even so, Credit Suisse analysts noted: “We do not see the possible loss of this level of tax as likely to derail management’s strong desire to complete the transaction.”

| Five-year M&A activity | | |
|-----------------------------------|-----------------------------------|-------------------|
| Period | Combined deal value (\$bn) | Deal count |
| Q1 2016 | 44.3 | 46 |
| 2015 | 187.1 | 273 |
| 2014 | 219.9 | 219 |
| 2013 | 80.3 | 217 |
| 2012 | 43.1 | 220 |

This is good news for the pharma industry after a dearth of big deals in the first quarter. The second largest acquisition of this period was Mylan's \$7.2bn purchase of Meda, but in joint third place were four deals at around \$600m apiece.

Perhaps M&A is being held back by excessively optimistic expectations on the part of targets, despite many share prices nosediving this year.

| 10 biggest pharma and biotech M&A deals announced in Q1 2016 | | | | |
|---|----------------------------|----------------------|---------------|--------------------|
| Date announced | Acquirer | Target | Status | Value (\$m) |
| January | Shire | Baxalta | Open | 31,890 |
| February | Mylan | Meda | Open | 7,200 |
| March | Vectura | SkyePharma | Open | 622 |
| March | Bristol-Myers Squibb | Padlock Therapeutics | Closed | 600 |
| January | Merck & Co | Quartet Medicine | Open | 585 |
| March | Humanwell Healthcare Group | Epic Pharma | Open | 550 |
| January | Roche | Tensha Therapeutics | Open | 535 |
| January | Biogen | Rodin Therapeutics | Open | 497 |
| January | Merck & Co | IOmet Pharma | Closed | 408 |
| January | Acorda Therapeutics | Biotie Therapeutics | Open | 363 |

But there are still companies that need to acquire assets, and Pfizer and Allergan are just two of these. The former has been linked with GlaxoSmithKline, AstraZeneca and, indeed, Shire, which would all put inversion back on the agenda. And Allergan has wasted no time, already striking a deal with Sosei for its Alzheimer's disease portfolio.

Glaxo might also be back on the acquisition trail once its megamerger-averse chief executive, Sir Andrew Witty, departs next year.

Other players needing to refresh their pipelines soon might include Lilly, particularly if its Alzheimer's project solanezumab disappoints, and AbbVie, whose reliance on its rheumatoid arthritis blockbuster Humira is looking increasingly shaky as biosimilar competition begins to bite.

And many have been waiting for some time for Gilead to put its hand in its pocket and spend some of its cash pile. Its recent \$400m purchase of Nimbus Therapeutics' NASH candidate will not have satisfied those keen for a big oncology acquisition.

If the present malaise continues 2016 looks likely to fall short of previous years in both the number of deals and the total spent. Some of these companies will need to act if this is to change.

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