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M&A - Value of deals looks healthy but number meagre



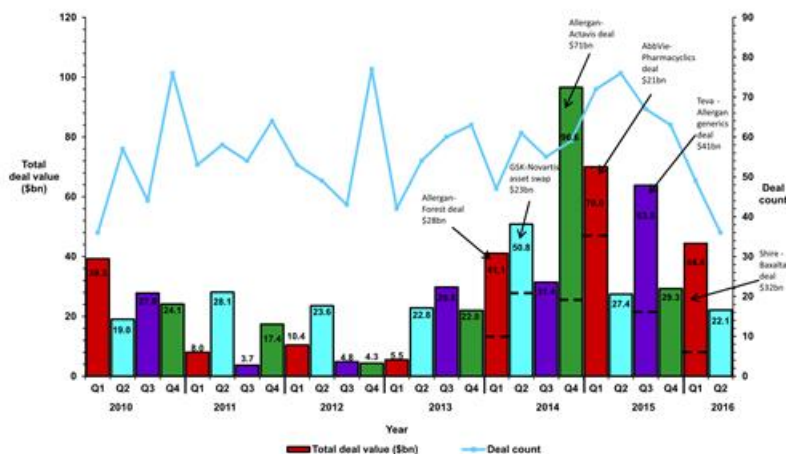
[Jonathan Gardner](#)

Underlying M&A activity appeared to pick up in the second quarter after a slow start to the year, when tumbling equity markets put the frighteners on dealmakers.

Pharma and biotech companies announced transactions worth \$22.1bn, according to *EvaluatePharma*, a figure achieved without any big deal to pump up the total - AbbVie's \$9.8bn takeout of Stemcentrx was the largest. This quarterly tally looks pretty respectable when looking back over the last few years, an encouraging sign for an industry concerned about a slowdown (see tables below).



Pharma and biotech M&A transactions announced each quarter



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A look at the graph above shows that the underlying deal value slumped in the first quarter, if Shire's \$32bn takeover of Baxalta is stripped out. The following three months, however, contained a healthy number of sizeable transactions - including six of \$1bn or more. With the IPO market showing signs of slowing and venture financing likely to follow, evidence of continuing life in the M&A market will be encouraging for companies and their investors - as well as bankers - alike.

It remains to be seen whether this level of activity can continue if markets keep fretting about a global economic slowdown. On the upside, big pharma as a group is certainly not without pipeline problems, albeit perhaps not as severe as a few years ago. However, it seems likely that the speciality pharma sector will no longer be a hefty contributor of deals, given the withdrawal of several big buyers from the scene.

10 biggest pharma and biotech M&A deals announced in H1 2016

Date announced	Acquirer	Target	Status	Value (\$m)
Jan 2016	Shire	Baxalta	Closed	32,032
Apr 2016	AbbVie	Stemcentrx	Closed	9,800
Feb 2016	Mylan	Meda	Open	7,200
May 2016	Pfizer	Anacor Pharmaceuticals	Closed	5,200
May 2016	Jazz Pharmaceuticals	Celator Pharmaceuticals	Open	1,500
Jun 2016	Merck & Co	Afferent Pharmaceuticals	Open	1,250
Apr 2016	Gilead Sciences	Nimbus Apollo	Closed	1,200
May 2016	Mylan	Renaissance Pharma	Closed	1,000
Jun 2016	Aspen Pharmacare	AstraZeneca's portfolio of anaesthetic medicine outside US	Open	770
Mar 2016	Vectura	SkyePharma	Open	622

Either way, a look at the annual run rate below shows that while 2016 might not match the last two years in terms of deal value, it could still put in a respectable showing. It is clear that 2014 and 2015 were the exceptions rather than the rule on this measure.

And should Sanofi or another bidder finally get its way with Medivation, the year could yet see another sizeable transaction. Investors appear convinced that the US biotech is worth \$10bn plus.

Five-year M&A activity

Period	Combined deal value (\$bn)	Deal count
H1 2016	66.5	85
2015	190.5	278
2014	219.9	222
2013	80.1	219
2012	43.2	222
2011	57.1	229

Worrying signs?

A less comforting signal that emerges from the graph above is the quarterly drop in the number of transactions being struck. This has fallen for the last four consecutive quarters. Should this trend continue the sector will have reason to worry, particularly the smaller end of the industry, which relies on a healthy M&A market for refreshment.

The table above shows a remarkably similar amount of deals being struck each year, over the last five years. However, half way through 2016 and we are not even at the half way point of the slowest of these periods. If this is a reliable indicator of the health of the deal landscape, then maybe the situation is not as vigorous as first thought.

M&A in many cases is driven by a need to refill pipelines, and with so many development-stage biotech companies having seen their valuations shrink to early-boom levels, the sector could see a resurgence in the sort of bolt-on deals that allow big pharma to buy in innovation. If the pace does not accelerate in the second half, it very well may be a sign that business development still does not see many good deals out there, and that valuations will continue to sink.

To contact the writers of this story email Amy Brown or Joanne Fagg in London at news@epvantage.com or follow [@AmyEPVantage](https://twitter.com/AmyEPVantage) or [@JoEPVantage](https://twitter.com/JoEPVantage) on Twitter

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[+1-617-573-9450](tel:+1-617-573-9450)

Evaluate APAC

[+81-\(0\)80-1164-4754](tel:+81-080-1164-4754)

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