

Few M&A teams venture beyond domestic borders



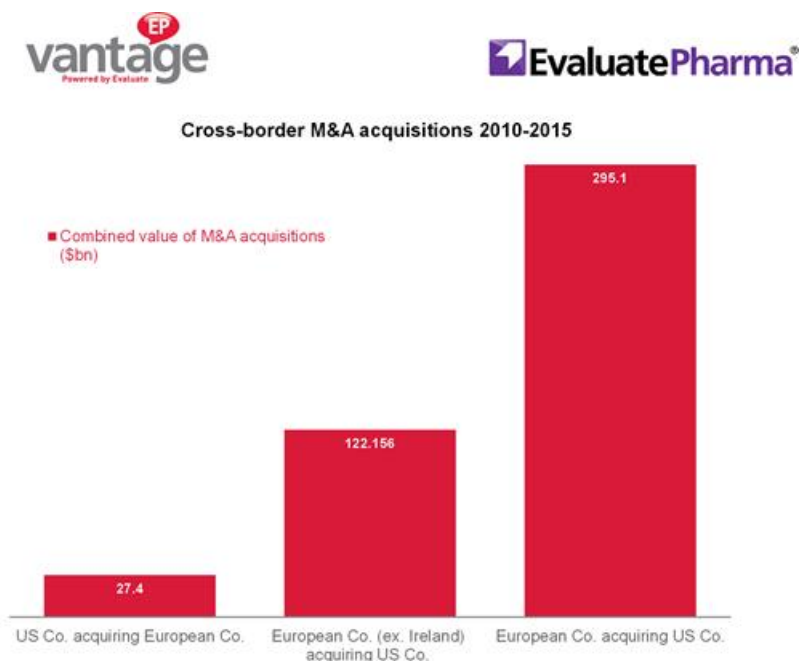
Amy Brown

Thanks to its Genzyme buyout, Sanofi was already architect of one of the biggest overseas takeouts of a US drug maker in the past five years. In missing out on Medivation the French pharma giant robbed itself of becoming one of the most prolific foreign raiders in this sector.

The \$20bn Genzyme deal ranks as the fifth-biggest European takeover of a US drugmaker since 2010, a group that appears to have seen substantially more money spent in the US than counterparts across the pond have sent in the opposite direction. However a closer look at the action reveals that very few real cross-border deals have actually happened, underlining just how rare Sanofi's Medivation move would have been had it pulled it off (see tables below).

The data appear to show Europe as the major driving force of pharma M&A over the past five years. However, to get a real picture of the flows of money crossing the Atlantic, Ireland-based companies arguably need to be stripped from the picture.

The flight of predominantly US companies to Ireland for tax purposes massively skews the picture; indeed grouping this as a region in its own right, "Irish" companies have done more deals than those in the US and Europe combined over the five-year period, *EvaluatePharma* shows.



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For the most part, these Irish companies are effectively US operations. Shire is an exception here - the company was founded and is headquartered in the UK, and has a primary listing in London.

Allergan is the dominant "Irish" acquirer, having been responsible for \$104bn of deals in this analysis. The company was over the course of four years forged from a string of acquisitions; the first was US-based Watson Pharmaceuticals' takeover of Iceland's Actavis, which then inverted to Ireland through the takeover of Warner Chilcott in 2013.

Over the next two years it bulked up in the US with the buyouts of Forest Labs and Allergan, ultimately taking the latter's name. Considering that much of the debt to fuel this acquisition spree undoubtedly came from the US, as did the executives driving the strategy, it is clear that the "European" label here is strictly a technical

point.

EU on US - top five 2010-15		
Acquirer	Target	Deal Value (\$bn)
Actavis	Allergan	70.5
Novartis	Alcon	48.1
Shire	Baxalta	32.0
Allergan	Forest Laboratories	28.0
Sanofi	Genzyme	20.1

As such the acquisitions by Novartis, Shire and Sanofi represent more authentic cross-Atlantic movements of capital. If Allergan is discounted the top five are joined by Roche's \$8.3bn takeout of Intermune and Mallinckrodt's \$5.6bn purchase of Questcor.

Mallinckrodt, again, is effectively only a European company for purposes of domicile - it can trace its roots back to Missouri in 1840, and only became a UK company on its spin-out of the medtech group Covidien in 2012, with a London listing.

Looking the other way at the biggest European take-outs by US players, the list looks modest by comparison. Stripped by technical reasons of big acquirers like Allergan and Perrigo, decidedly mid-cap moves get to feature in the top five.

US on EU - top five 2010-2015		
Acquirer	Target	Deal Value (\$bn)
Mylan	Meda	7.20
Mylan	Abbott branded generics	5.52
Johnson & Johnson	Crucell	2.24
Amgen	Dezima Pharma	1.55
BioMarin	Prosensa Holding	0.84

Of course, a key contributing factor is that a US takeout of a European big pharma company is politically hazardous -as Pfizer found when trying to buy AstraZeneca - and in any case there are insufficient large companies outside the US to move the needle in this kind of analysis.

Conventional wisdom has it that the US dominates the world in M&A action and this unquestionably remains the case. However, it is also true that substantial "real" cross-border moves remain relatively rare.

Differences in working culture and practices and the difficulties that this might present when physically merging two entities and their employees are real causes of reluctance to consider cross-border acquisitions. Technology might have lessened this, but the worries remain. It is no coincidence that Genentech, Genzyme and MedImmune, US biotechs swallowed by European pharma giants, have largely been allowed to retain their corporate identities.

In this increasingly globalised world distinctions like domicile are becoming less relevant. Myriad countries are represented in board rooms, capital flows easily from all corners of the globe and sales are sourced internationally.

However, it still takes a bold boardroom to venture beyond national borders. Having done it once Sanofi was emboldened to do it again, but was foiled by a more desperate domestic bidder. With US companies like Incyte, Biomarin and Exelixis seemingly in the line of fire, might a European suitor come knocking?

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