

M&A gives signs of reverting to the mean



Joanne Fagg

If the slide in the key Nasdaq biotechnology index and the shrinkage in venture funding were not enough, another sign of how the boom has fizzled is how much buyers are spending on acquisition targets. Through the first nine months of 2016 M&A transactions reached \$93.2bn, half the amount spent last year, and the number of deals has fallen too.

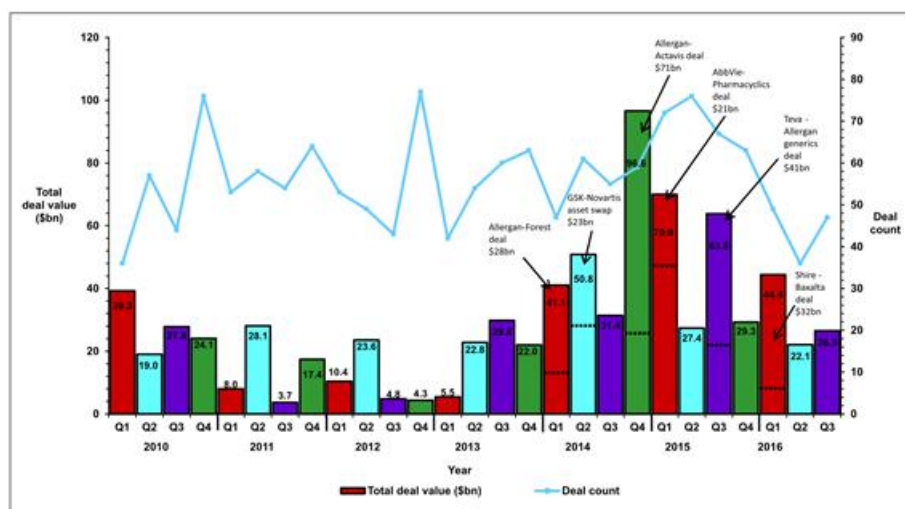
The reluctance of potential buyers, many of whom are awash with cash, to strike deals in an environment of cooling valuations is curious: it could be that buyers are becoming choosier, that many believe the bottom has yet to come, or that once-reliable speciality pharma players are on the sidelines. A megamerger in the fourth quarter would change this picture dramatically, of course, but on the nine-month run rate it looks like 2016 will come well short of the top of the market (see tables below).

Deals declining

Still, 2016 is not necessarily anything to sneeze at, if measured against the pre-biotech boom years. At \$93bn so far spent on M&A, 2016 has already surpassed that of the years 2011-13, and is on track to beat 2010.



Pharma and biotech M&A transactions announced each quarter



Data sourced to EvaluatePharma. Copyright © 2016 Evaluate Ltd. and EP Vantage. All rights reserved.

A little more concerning, perhaps, for the people who make their living pitching and executing acquisitions is the shrinkage in the number of deals. At 140 through the end of September, it looks like 2016 will struggle to match the trend of the preceding six years, in which more than 200 transactions took place, no matter the total overall valuation.

Of the \$93bn worth of deals already announced, nearly half - \$46bn - is encompassed in just two transactions: Shire-Baxalta and Pfizer-Medivation. If these two are removed from this analysis 2016 looks modest: the average price tag is just \$341m. This is less than the average of 2013, a year that had as its biggest deal Amgen's \$10.4bn takeout of Onyx Pharmaceuticals

10 biggest pharma and biotech M&A deals announced in 9M 2016

Date announced	Acquirer	Target	Status	Value (\$m)
Jan 2016	Shire	Baxalta	Closed	32,032
Aug 2016	Pfizer	Medivation	Closed	14,000
Apr 2016	AbbVie	Stemcentrx	Closed	9,800
Feb 2016	Mylan	Meda	Closed	7,200
May 2016	Pfizer	Anacor Pharmaceuticals	Closed	5,200
Sep 2016	Allergan	Tobira Therapeutics	Open	1,695
Aug 2016	Pfizer	AstraZeneca's Small Molecule Anti-Infective Business outside USA	Open	1,575
Jul 2016	Galenica	Relypsa	Closed	1,530
May 2016	Jazz Pharmaceuticals	Celator Pharmaceuticals	Closed	1,500
Jul 2016	Fosun International	Gland Pharma	Open	1,260

If one wants to view the glass half-full, then 2016 has given at least one reason for optimism: five of the top 10 deals so far in 2016 occurred in the third quarter, including Pfizer's competitive \$14bn takeout of Medivation. Biotech valuations have broadly fallen 21% over the first nine months of the year, making many more affordable options.

Fewer bidders

But as long as biopharma's most voracious dealmakers in the speciality world are handcuffed by internal problems - Valeant by legal issues and the need to downsize, Mylan by its pricing battles with payers - the number of potential buyers has fallen. Biotechs contemplating a trade sale now have fewer bidders, and those who are in the game can afford to be more patient - and a slowing M&A scene can certainly drive down prices.

Five-year M&A activity

Period	Combined deal value (\$bn)	Deal count
9M 2016	93.2	140
2015	190.5	278
2014	219.9	222
2013	80.1	219
2012	43.2	222
2011	57.1	229

Furthermore, one motivation to acquire has disappeared, that being US companies buying overseas companies for more attractive tax domiciles.

Still, there are some cash-rich players that need a strategic buy - Gilead Sciences to refill its pipeline, Pfizer to bulk up as it abandons its three-way split, for example - so the end of 2016 could yet deliver a surprise. Without this outcome, however, M&A in 2016 looks like it is pointing toward a return to the pre-boom business as usual.

To contact the writer of this story email [Jonathan Gardner](mailto:Jonathan.Gardner@epvantage.com) or [Edwin Elmhirst](mailto:Edwin.Elmhirst@epvantage.com) in London at news@epvantage.com or follow [@ByJonGardner](https://twitter.com/ByJonGardner) or [@EPVantage](https://twitter.com/EPVantage) on Twitter

More from Evaluate Vantage

Evaluate HQ
44-(0)20-7377-0800

Evaluate Americas
+1-617-573-9450

Evaluate APAC
+81-(0)80-1164-4754

© Copyright 2022 Evaluate Ltd.