

## Generic pricing pressure could fuel the urge to merge



Amy Brown

Confirmation that Teva, the biggest generics company in the world, is feeling the pricing pressure like everyone else is being read by some as a warning for this sector. Others see it as a portent for further consolidation.

Of course this speculation has already been fanned by rumours that Novartis is looking to beef up its Sandoz unit with an \$8bn buyout of Amneal, a private US group. Bankers are no doubt licking their lips in anticipation of a wave of new corporate moves in this space, which remains highly fragmented, despite the size of the biggest players (see table).

For the time being Teva, Novartis and Mylan look set to remain the big beasts of generics. And as the table below shows, with global market shares only just into the double figures for these three, there is plenty of the pie to grab.

One to watch is surely Pfizer, which is now a serious generics player in the wake of its Hospira move. The M&A-hungry pharma giant could easily become a new deal maker for the space. Assuming there is any truth in the talk, it is hard to see Amneal going without a competitive process.

The big beasts of the generics world				
	WW generic sales (\$bn)		Market Share	
	2015	2020e	2015	2020e
<b>Teva</b>	8.8	15.8	12.1%	15.6%
<b>Novartis</b>	8.1	11.8	11.1%	11.6%
<b>Mylan</b>	8.2	9.8	11.3%	9.6%
<b>Sun Pharmaceutical</b>	3.2	6.5	4.3%	6.3%
<b>Pfizer</b>	1.1	4.9	1.5%	4.9%
<b>Lupin</b>	2.0	4.4	2.7%	4.3%
<b>Fresenius</b>	2.7	3.4	3.7%	3.3%
<b>Dr. Reddy's Laboratories</b>	1.9	3.1	2.6%	3.0%
<b>Aurobindo Pharma</b>	1.7	3.0	2.3%	2.9%
<b>Endo International</b>	1.7	2.9	2.3%	2.9%

Source: EvaluatePharma

Generics players are turning to M&A for top line growth partly because copycat drug prices are declining across the board. What is worrying investors is whether the projected organic growth rates above are achievable, particularly if the pricing situation deteriorates further.

These fears were exacerbated this month by the quarterly earnings of several big players. Teva shares dropped 8% yesterday when it lowered its guidance for sales this year, blaming a delay in several important new product launches. The unexpected deterioration in its base generics business, partly due to steeper-than-expected price declines, rattled the market.

Endo, meanwhile, warned that the ongoing pricing squeeze on top of fierce competition among generics

players could hurt its profitability in the coming year. And over at Mylan many analysts believe that its top-line results, flattered by acquisitions, masked a big decline in legacy North American revenues. The company struck a more positive note, and confirmed that it continues to see generic prices decline in the mid-single-digits each year.

This industry-wide rate of erosion is widely cited by generics players and in the coming months all will be on the lookout for signs of acceleration. Consolidation among buyers in the US – the pharmacy benefit managers and insurers – and their growing power is frequently cited as one reason for heightening pricing pressure.

### Defence mechanism

On a conference call Teva executives pointed to the company's size as a defence against price pressure. If this is accurate, the rationale for M&A is clear: greater size should mean increased bargaining power with the payers and reduced exposure to particularly competitive drug categories.

To a certain extent the Allergan business provides this for Teva. As well as adding scale it rebalances the business geographically, and gives it more exposure in differentiated products, where there is typically less competition. So signs of retrenchment in its legacy business could help support the rationale for the \$40bn swoop, which many fear was overpriced.

At the same time, however, the Israeli firm needs to prove its argument that the slowdown in generics is just a blip, and deliver the delayed product launches. Otherwise the Allergan move, which produced a huge \$37bn debt pile, will look increasingly onerous.

### The big pure-play generics deals of the last decade

Acquirer	Target	Deal Value (\$m)	M&A rank; all pharma deals	Deal announced
Teva	Generics business of Allergan	38.7	6	2015
Pfizer	Hospira	17.0	12	2015
Endo	Par Pharmaceutical	8.1	32	2015
Teva	Barr Pharmaceuticals	7.5	33	2008
Mylan	Meda	7.2	35	2016

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