

M&A in 2016: Pause for breath in a shifting market

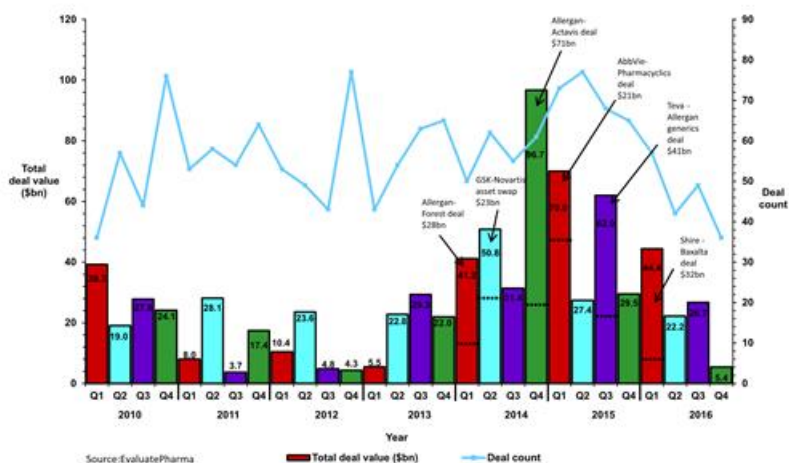


[Jonathan Gardner](#)

Are pharma groups biding their time or exercising caution? This is the question that needs to be asked when looking at 2016’s M&A totals, which fell back substantially from the free-spending days of 2014 and 2015.

The \$98.7bn spent on acquisitions in 2016 was less than half that of the biotech boom’s peak in 2014 even though many biotech targets became more affordable as their valuations tumbled through the course of the year. With the expectation that there is still some way to go before biotech hits bottom, and that US big pharma could soon be awash with overseas cash thanks to a repatriation tax holiday, business development chose to practise restraint – and 2017 is shaping up to be no less volatile than 2016 (see tables below).

Pharma and biotech M&A transactions announced each quarter



Some perspective is in order, however. Before the boom, \$98.7bn would have been seen as a good year, particularly as 2016 only featured one megamerger, the acquisition of Baxter’s Baxalta spinoff by Shire. The boom years were marked by multiple megamergers each year, three in 2014 and two in 2015.

Five-year M&A		
Period	Combined deal value (\$bn)	Deal count
2016	98.7	184
2015	189.0	283
2014	220.2	228
2013	79.6	225
2012	43.8	222

Furthermore, looking at average values from various perspectives, it appears that those who succeeded in pulling off deals did all right if one views 2014 and 2015 as outliers. Only one grouping of deals, those between \$1bn and \$10bn, has seen average valuations dip below 2012 numbers – the withdrawal from furious M&A of Valeant specifically and its competitors in the speciality pharma world generally has likely contributed to this trend. This analysis only includes acquisitions by pharma and biotech companies - it excludes medtech and diagnostic players, for example.

M&A totals by valuation category										
	<\$250m		\$250m-\$1bn		\$1-10bn		\$10-25bn		\$25+bn	
	Count	Avg (\$m)	Count	Avg (\$m)	Count	Avg (\$bn)	Count	Avg (\$bn)	Count	Avg (\$bn)
2016	63	58	26	590	12	2.9	1	14.0	1	32.0
2015	129	59	33	536	26	2.9	3	16.4	1	38.7
2014	87	51	36	522	23	3.6	1	16.0	2	49.3
2013	88	56	33	526	14	3.6	1	10.4	0	-
2012	87	46	22	528	9	3.1	0	-	0	-

The slackening in the number of acquisitions is probably where concerns can be raised, along with the poor performance in the fourth quarter of 2016, which saw the lowest dollar value in four years.

M&A activity in the fourth quarter was likely suppressed by the run-up to and fallout from the US presidential election, especially as key issues – drug pricing, health insurance coverage and corporate tax reform – hung on the outcome. It could be no coincidence that to find a three-month period with less activity one has to go back to the last US presidential election at the end of 2012.

Average M&A deal values				
Year announced	Avg for \$250m-\$20bn deals (\$bn)	Avg for deals ≤ \$20bn (\$m)	Value all deals ≤ \$20bn(\$bn)	Total deal count ≤ \$20bn
2016	1.7	660	54.3	101
2015	2.0	685	129.4	189
2014	2.0	828	121.7	147
2013	1.7	608	79.6	131
2012	1.3	371	43.8	118

Moreover, the big deals of the year were tilted toward lowered risk. Six of the top 10 were of companies with established products; a seventh was of Celator, a company that had already passed a phase III milestone; and an eighth, Anacor, had already submitted Eucrisa to the FDA when Pfizer made its play.

That leaves only Abbvie's acquisition of Stemcentrx and Allergan's of Tobira as truly risky transactions. The former is already looking like a high-stakes gamble ([Asco 2016 - AbbVie pulls back rova-T curtain, June 6, 2016](#)).

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

Date announced	Acquirer	Target	Status	Value (\$bn)
Jan 2016	Shire	Baxalta	Closed	32.0
Aug 2016	Pfizer	Medivation	Closed	14.0
Apr 2016	AbbVie	Stemcentrx	Closed	9.8
Feb 2016	Mylan	Meda	Closed	7.2
May 2016	Pfizer	Anacor Pharmaceuticals	Closed	5.2
Dec 2016	Lonza	Capsugel	Open	3.5
Sep 2016	Allergan	Tobira Therapeutics	Closed	1.7
Aug 2016	Pfizer	AstraZeneca's small-molecule anti-infective business outside US	Closed	1.6
Jul 2016	Galenica	Relypsa	Closed	1.5
May 2016	Jazz Pharmaceuticals	Celator Pharmaceuticals	Closed	1.5

A common assumption is that the big players have been keeping their powder dry as they watch valuations fall. Given that biotech has broadly fallen about 30% from its mid-2015 peak, it could be that valuations might not have fallen far enough – or enough time elapsed since the top – for buyers to jump back in in a big way.

This year has kicked off with a bang, driven as it has been by deal making around the JP Morgan conference – specifically Ariad's takeout by Takeda and Valeant's Dendreon sell-off. But if US President-elect Donald Trump follows through on his tweet-and-shame threat against biopharma's pricing practices it will be a difficult year for anybody trying to estimate valuations accurately – which has the potential to suppress M&A through 2017.

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