

## ***The Global Merger and Acquisition Frenzy in the Pharmaceutical Sector***

✉ **Rahul Vyas**

*Asst. Professor,  
Faculty of Management Studies,  
Pacific University, Udaipur*

Big ticket mergers have played a vital role in shaping up the global pharmaceutical landscape. Most of the pharmaceutical companies that have stayed among the world's 20 largest in the last ten years have been involved in “mega-mergers,” defined variously as deals larger than \$10 billion in which the target company boasts of at least 10 percent of the acquirer's sales and 20 percent of the acquirer's market capitalization. The objective behind these M&As can be broadly classified as a) For promoting R&D, rationalization and consolidation b) For improving working capital.

The wave of big mergers in the pharmaceutical industry is turning into a tsunami, with deals worth more than \$100 billion announced during the last quarter of FY 2013 and Q1 of FY 2014. It all began with several mega deals taking place back in FY 2009: Pfizer took over Wyeth, Merck bought Schering-Plough and Roche merged with Genentech. As of Q1 FY 2014, investor William Ackman and Montreal-based Valeant Pharmaceuticals have bid for Botox maker Allergan, worth about \$40 billion. Novartis, GlaxoSmithKline and Eli Lilly have started a rather complex deal for about \$25 billion. Novartis is trading its vaccine division for GSK's cancer drug business. GSK and Novartis are also setting up a joint venture to produce and sell over-the-counter (OTC) drugs, striving for leadership in this segment with brands like Excedrin and Panadol. The flurry in M&A activity this year follows the trend of a couple of deals which kicked off in late 2012. In their quest for growth, domestic players also are expanding their footprint externally.

An objective of the mergers is to prepare for less profitable years expected ahead. New Patents are taking time to come into production and the costs have escalated. The average cost of developing and launching a new drug was

estimated at \$5 billion in 2013, as compared to \$1.1 billion in the late 1990s. Simultaneously, the expiring patents are driving the industry's revenue down. In FY 2013, combined sales reached \$582 billion, compared with the 2011 peak of \$610 billion.

The top pharma companies of the country in the month of March 2014 were:

Top Pharma Companies	Total Sales
Abbott	Rs 452 crore (US\$ 73.67 million)
Cipla	Rs 322 crore (US\$ 52.48 million)
Sun Pharma	Rs 313 crore (US\$ 51.02 million)
Zydus Cadila	Rs 268 crore (US\$ 43.69 million)

In April 2014, Sun Pharmaceutical Industries took over Daiichi Sankyo's 63.9% ownership of Ranbaxy Laboratories to create India's largest pharma company, currently a leader in 13 specialty and generic pharma segments, with estimated annual revenue of \$4.2bn. Sun will become the world's 5th largest specialty generic and pharma company with operations in 65 countries, 47 manufacturing facilities across 5 continents, and a plethora of specialty and generic products.

This huge rush has two basic reasons; The first being the patent cliff or the expiration of drug patents such as Pfizer's Lipitor, and a benign phase in which most Pharma MNCs have a relatively high cash reserve and a consistently lower debt level. The industry leaders are flush with cash reserves; a case in point being Pfizer which has accumulated \$70 billion.

The challenges posed by expiring patents, the global recession, competition posed by generic products, a reduction in healthcare spending and pricing pressures are forcing the Pharma and Biotech industry to restructure and streamline strategies to increase profitability. Pharma companies typically enjoy huge profit margins on new drugs, but the expiration of patents leaves them vulnerable to steep decline in sales. M&As have become the key for the reversal of reduced profitability by opening access to new markets while creating more revenue pools and to

### ***...The Global Merger and Acquisition Frenzy in the Pharmaceutical Sector***

#### **Global M & As in the Pharma Industry (April-May 2014)**

<b>Licensor Acquired / licensee Acquirer</b>	<b>Deal type</b>	<b>Product / technology</b>	<b>Amount (\$m)</b>
GSK/ Novartis	Acquisition	Oncology portfolio including pipeline products	15,500
Biomet/ Zimmer Holdings	Acquisition	Devices - Musculoskeletal/ Orthopedics	13,350
Novartis/ GSK	Acquisition	Vaccines portfolio, excluding influenza business	7,100
Novartis/ Eli Lilly	Acquisition	Animal Health franchise	5,400
Ranbaxy Laboratories/ Sun Pharmaceuticals	Acquisition	Generics including Lipitor, Nexium, Diovan	3,200
Andromeda Biotech/ Hyperion Therapeutics	Acquisition	DiaPep277 24-amino acid peptide derived from human heat shock protein 60 (hsp60) to treat T1DM (p3)	570
Furiex/ Forest Labs	Acquisition	IBS, eluxadoline, a mu opioid receptor agonist/ delta opioid receptor antagonist for treating symptoms of IBD (NDA-ready)	1,460

some extent compensating for the depletion of the R&D pipeline.

Major Pharma Companies are on an aggressive buying spree as they look for ways to augment revenue and to improve sluggish drugs portfolio. It's generally believed that large mergers have destroyed value in the pharmaceutical industry. Some experts insist that these deals are unsuccessful and that the challenges of large-scale integration disrupt the organization and critical programs and research and development efficiency suffers. These naysayers have some merit but they ignore larger points: mega-mergers have created value for stakeholders; moreover these deals have been critical for the long term sustainability of the acquirers.

The MNC Pharma companies have demonstrated that, in spite of the inevitable disruption caused by the mergers, they end up better off by these acquisitions or mergers. Taking this into consideration, the industry will keep consolidating to survive where cash cows are being laid off, new breakthrough drugs are few and far between, and time to market is becoming longer and longer. Major drug companies are also exploring M&A opportunities in parallel sectors such as nutritional supplements, over-the-counter (OTC) products, and cosmetics in a bid to further expand their product range and shore up the nose-diving profits. Acquiring companies in these segments could help drug manufacturers diversify their risks in the primary pharmaceutical sector. ♦

*rahulv09@gmail.com*