MERGERS AND ACQUISITION IN THE USA HEALTHCARE INDUSTRY

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ABOUT ZS

ZS is a USA based professional consulting firm that works side by side with companies to help develop and deliver products that drive customer value and company results.

- Pharmaceutical and Biotech
- High-Tech and Telecommunications
- Business services
- Medical Products and Services
- Financial Services
- Media

RATIONALE

The current study was undertaken as a part of the market analysis for ZS Associates, keen on exploring how they can make use of M&A trend to help their clients stay ahead of the market. A secondary research on how M&A trends in the USA healthcare industry are changing over time was proposed.

OBJECTIVES

To identify the type of M&A that are happening more in the USA healthcare industry- Horizontal or Vertical

To predict the trends of M&A activity in the USA healthcare industry

To determine the reasons for increase or decrease in the M&A activity in the USA healthcare industry

METHODOLOGY

Study Design	Literature based Descriptive study
Data	Databases such as Bloomberg, Evaluate Pharma, Citeline, TrialTrove, DataMonitor, Google
Method	Available secondary research data sources were deployed to obtain the information

DEFINITIONS

Mergers

When two companies join forces. Such transactions typically happen between two businesses that are about the same size and which recognize advantages the other offers in terms of increasing sales, efficiencies, and capabilities.

Acquisition

When one company buys another company and folds it into its operations. Sometimes the purchase is friendly and sometimes it is hostile, depending on whether the company being acquired believes it is better off as an operating unit of a larger venture.

Inclusion Criteria

- Deal value of $50 Million or more
- Mergers and acquisitions amongst- pharmaceuticals, payers, providers, retails, digital, biotech, medical device
- Either of the two companies are USA based

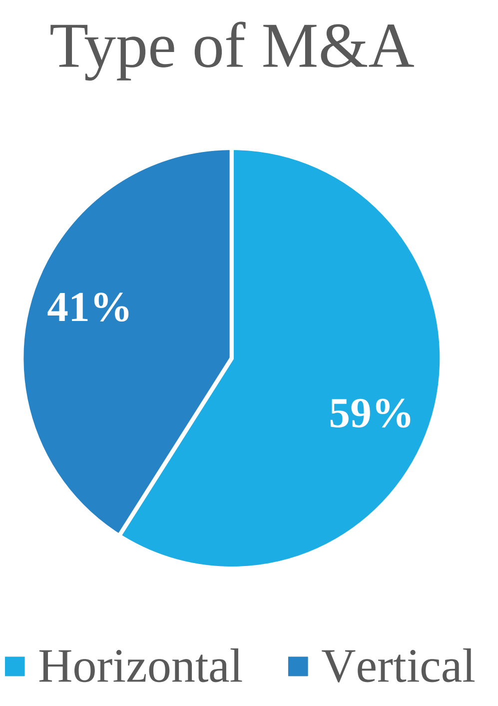
Exclusion Criteria

- Deals that have been speculated but not confirmed by both the companies
- Proposal made but not accepted by the other company or government
- Deal value has not been disclosed
- Deals that have been terminated

INFERENCE

TYPES OF M&A- HORIZONTAL OR VERTICAL?

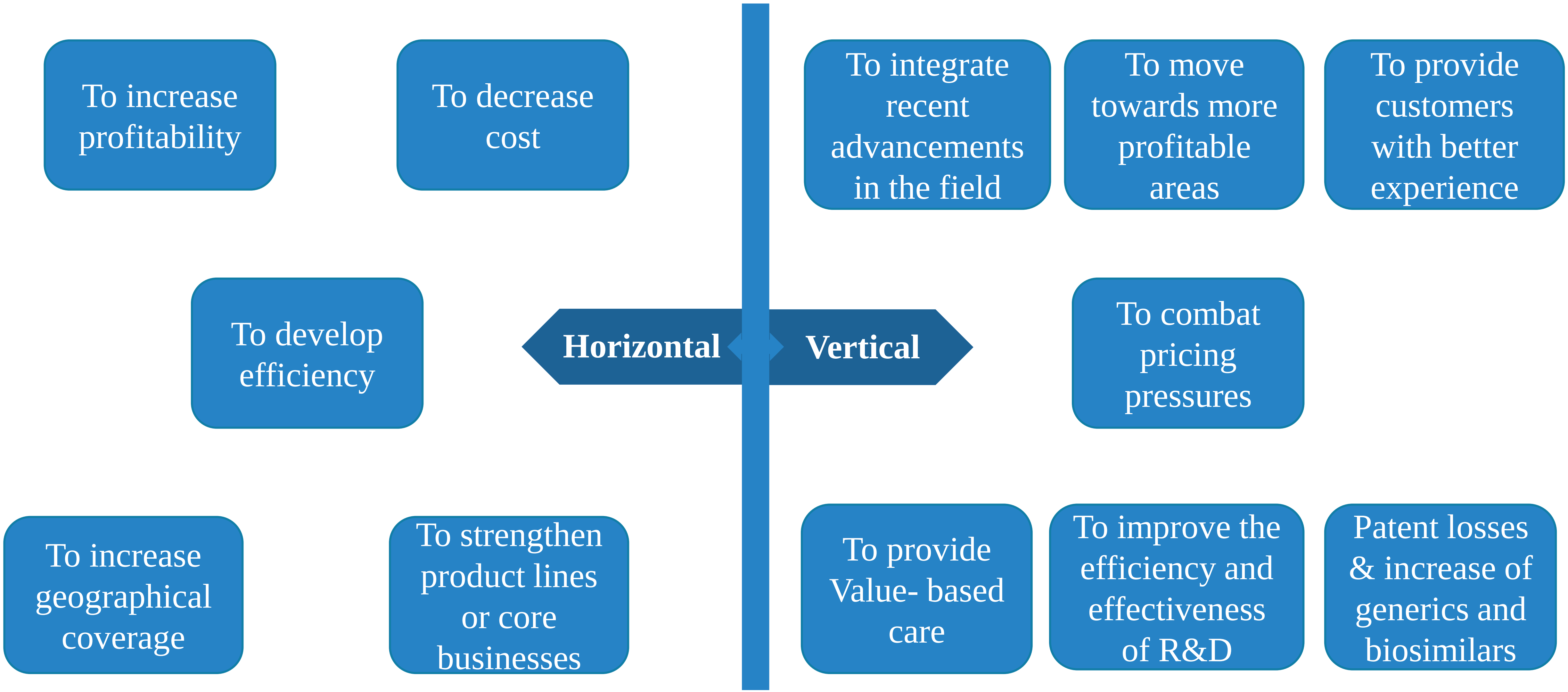
One of the reasons that the pharma industry was sustainable was that pharma invented something, and then it had a decade to plan the next thing. But now it is entering an era where the biopharma innovation machine is working at a pace that outstrips the life of the patent. For the first time, it is seeing technical obsolescence in pharma, where the product life cycle is shorter than the intellectual-property cycle.



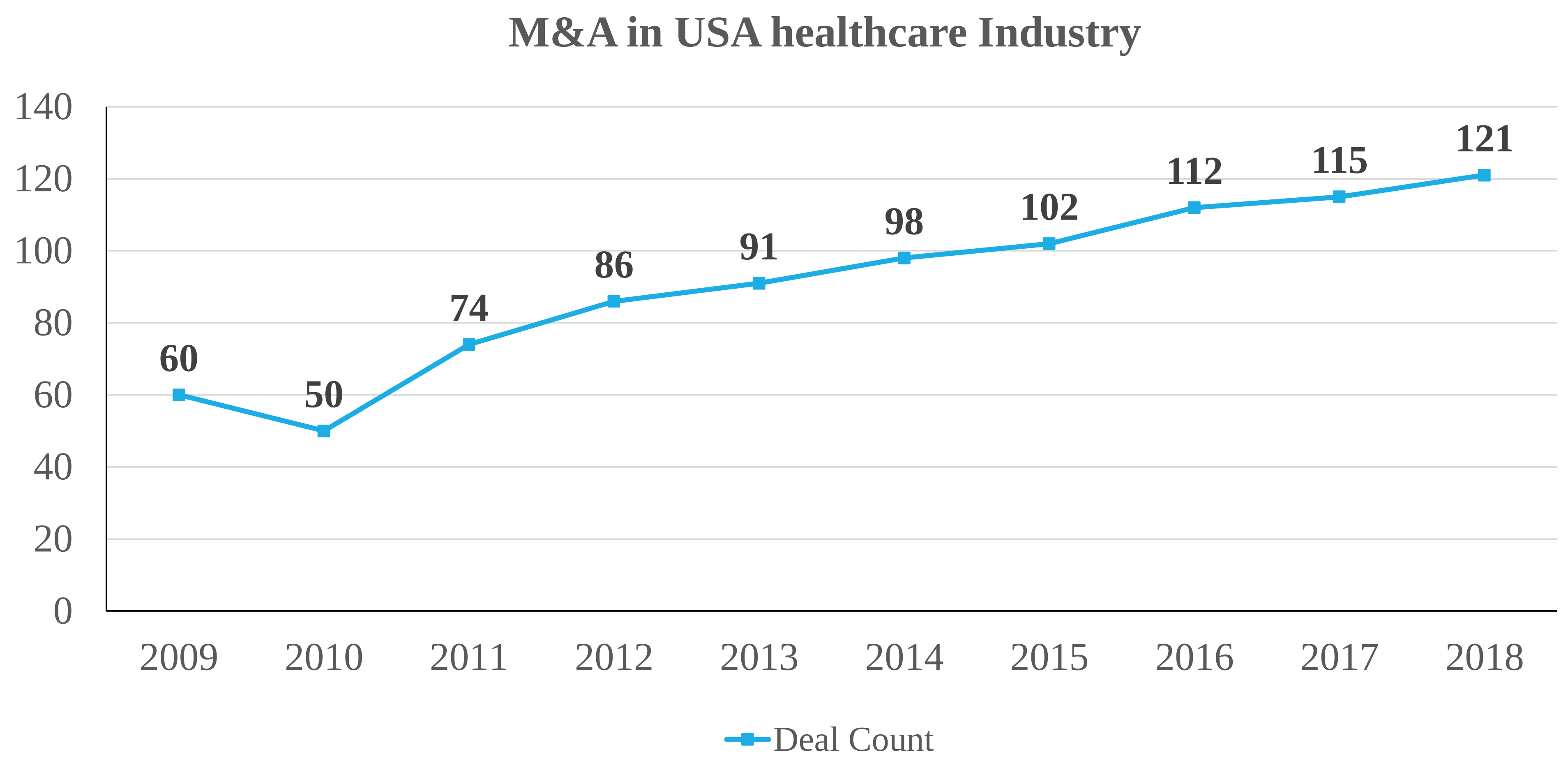
Trend is shifting from horizontal to vertical mergers*

* In 2015, there were 78% Horizontal mergers and in 2018, there were 67%

Source: Bloomberg


Horizontal
Vertical
To increase profitability
To decrease cost
To develop efficiency
To increase geographical coverage
To strengthen product lines or core businesses
To integrate recent advancements in the field
To move towards more profitable areas
To provide customers with better experience
To combat pricing pressures
To provide Value- based care
To improve the efficiency and effectiveness of R&D
Patent losses & increase of generics and biosimilars

Reasons for increase in the M&A activity in the USA healthcare industry



Source: Bloomberg

REASONS

- **To boost profitability**
- **To secure their position against potential new entrants in the domain**
  - Takeda will become the 1st Japanese company to reach the top 10 drug makers by revenue after its merger with Shire
  - GSK and Pfizer collaboration will help them together become global leaders in OTC products
- **By reducing debt burden**
  - Takeda Pharmaceutical will consider selling off up to $10B in assets to slash the debt from its planned purchase of Shire

- **To develop efficiency**
  - Allows manufacturers to consolidate expertise and increase the possibility of new drug approvals and have more potential for future growth
    - Novartis and Endocyte will accelerate development of innovative radioligand technology for treating cancer
    - AstraZeneca and Daiichi Sankyo will work on an experimental treatment for breast cancer
  - Rising R&D expenses, pricing pressures and the growing cost of regulatory compliance: all result in the need for efficiency
- **To combat pricing pressure**
  - Pricing pressure on pharmaceutical segment are predicted to continue, driven by governments, patent losses, and increased promotion of generics and biosimilars
    - Abbvie’s blockbuster drug, Humira, is set to lose its patent protection
  - To deal with these pressures, some pharmaceutical companies are buying rivals to streamline marketing staff. Since 2018, companies are rearranging portfolios based on the coming pricing controls, and acquisitions are expected to be very strategic
    - Centene has acquired its direct competition Wellcare

- **To strengthen current core therapy area**
  - By leveraging existing capabilities, companies are also wanting to grow their product pipeline, as competition for the next innovative drug becomes fierce
  - Even while large pharmaceutical companies strive to stay focused on certain therapeutic areas, they look to their pipelines to create diversity within those area
    - Mega mergers like Bristol-Myers' and Celgene's could be considered to focus on a therapeutic area like oncology. The acquisition moved BMS from a low-growth and low-focus category to higher growth potential and greater focus, as Celgene boasted a robust oncology portfolio built in part by its own deal-making
    - Gilead would be expected to make primary deals in the core therapeutic areas where it currently focuses, particularly cell therapy and NASH
    - GW Pharmaceuticals, in 2019, would be focusing on expanding the scope of its lead cannabinoid product, Epidiolex

TRENDS OF M&A ACTIVITY IN THE USA HEALTHCARE INDUSTRY

- A clear shift can be seen towards the **oncology portfolio** with approximately 32% of the total M&As amongst the USA healthcare industry between October 2018 to March 2019 were focused on oncology. The shift in focus to oncology is seen because cancer market is huge, and treatment has been improving. Also, Immuno- Oncology is expected to grow **142%**—from $14B in 2019 to $34B in 2024
  - Contriving medicines for oncology is famously costly, so it pays to have genuine scale in the field
  - Recent big breakthroughs in the field and particularly in biotech like CAR-T therapies

Cancer is the second largest cause of death globally, therefore there is huge scale of opportunity in the domain

- There is an increase in the **investments made from ex- USA** (geographies other than USA) companies in the USA healthcare industry
  - Foreign investors are lured into **$33 trillion** USA healthcare industry because-
    - Its aging population
    - A stark rise in the prevalence of chronic diseases
    - The robust development of new drugs and medical devices
    - Disruptive care delivery system
    - Lower corporate rates

- **Growth of Mega- Mergers**

  Due to Mega mergers, deal value has increased **76.5%** in 2018 from 2017.

Mega mergers are increasing due to-

- Movement across state lines and multiple geographies to form or expand a regional system
  - Japan based Takeda acquired USA based Shire for $69B stating its rationale as expansion into USA
- Acquiring a smaller company having a block buster drug approval or in the pipeline
  - BMS has acquired Celgene in a $74B deal for its blockbuster drug Revlimid and its interesting pipeline
- To expand their business and compete with rivals
  - CVS, a retail chain has brought health insurer, Aetna in a $69B deal to attract more patients for their walk-in clinics and to compete with their rival Amazon, which will be stepping into healthcare domain

CONCLUSION

The study points out the importance of M&A in the USA healthcare industry, it also gives out the reasons why M&A in the USA healthcare sector is increasing. The study has thrown light on the upcoming trends in the industry such as-

- Over the years trend is shifting from Horizontal mergers to Vertical mergers
- Companies are reinvesting into their core therapy area rather than exploring new markets
- Big pharma companies are divesting from their supplementary business to focus on core therapy areas
- Growth of investments in Oncology portfolio
- Divergence into other geographical areas like China, Canada and Europe
- Growth of mega mergers

THANK YOU!