# MERGER & ACQUISITION IN PHARMACEUTICAL INDUSTRY: AN ANALYTICAL STUDY

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# BACKGROUND

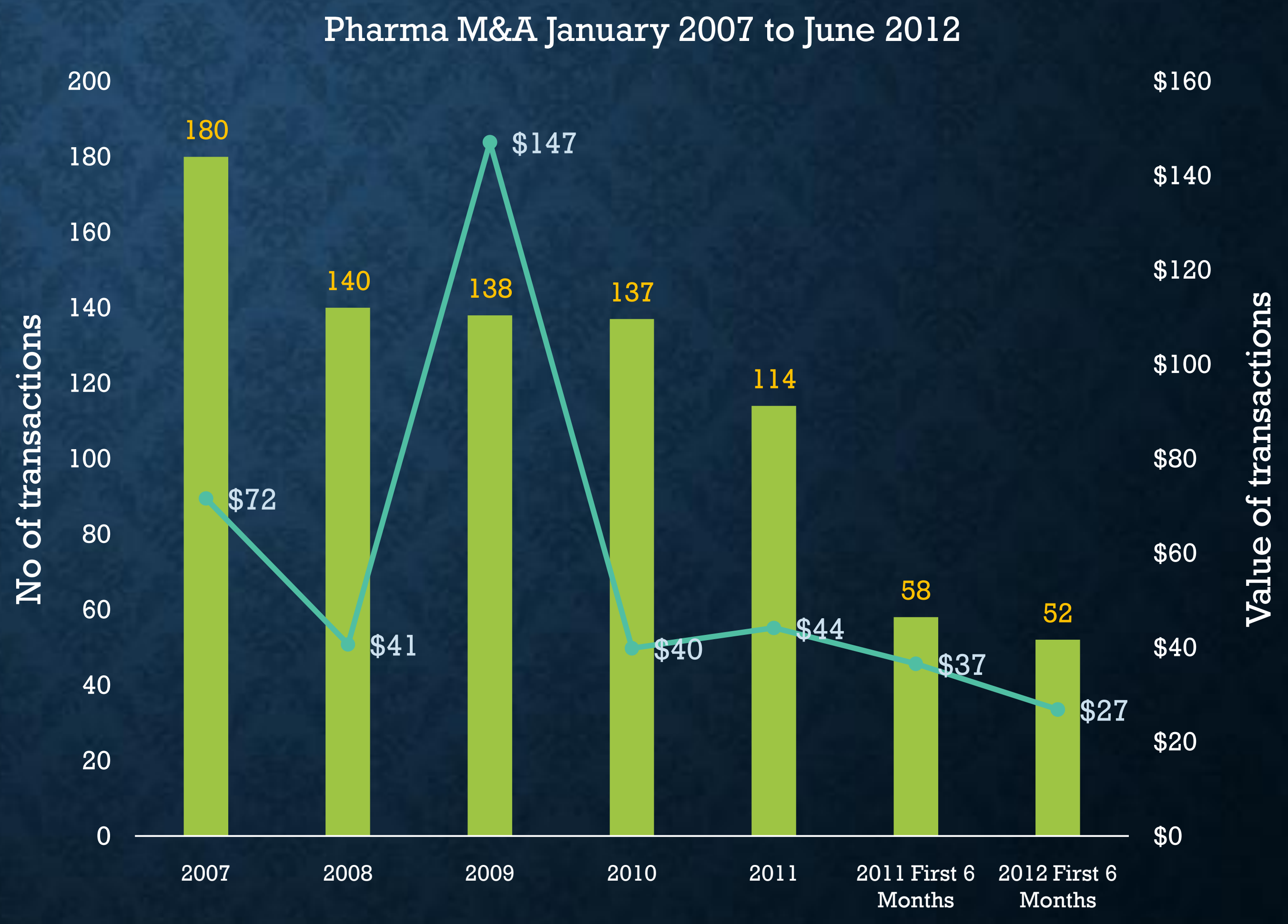
- Mergers and acquisitions are transactions in which the ownership of business organizations or their operating units are transferred or combined.
- It can be done in several forms, such as:
- Merger
- Acquisition
- Consolidation
- Tender offer
- Management Acquisition

# M&A IN PHARMACEUTICAL INDUSTRY

- Companies are heavily relying on corporate alliances to improve competitiveness through gaining greater market share, widening the portfolio to reduce business risk and for entering new markets and geographic locations etc.
- Multinationals are practicing it from several decades but from last one decade Indian pharma houses including Sun Pharma, Cipla and Lupin, too took the acquisition path in their quest for international expansion

# LITERATURE REVIEW

- According to The Pharmaceutical Acquisition Report, Second Edition, 2012, published by Irving Levin Associates, Inc. from 2007 to 2012, the pharmaceutical M&A market accounted for 761 transactions and a dollar volume of $370 billion (based on prices revealed at the time of the announcement). The dollar volume reported for those transactions remained at a fairly constant $39-44 billion range during the 2008-2010 period of the Great Recession and into 2011-12. The exception was 2009, when two mega-deals—Pfizer's $68 billion acquisition of Wyeth and Merck's $41 billion acquisition of Schering-Plough—caused the reported dollar volume to explode, reaching $147 billion for the year.



According to Grant Thornton (India), The M&A and Private Equity Scenario, 2006, objective behind the M&A Transaction

- 33 % To improve revenues and profitability
- 28% to get faster growth in scale and quicker time to market
- 22% to acquire new technology or competence
- 11 % To eliminate competition and increase market share
- 3% to tax shields and investment savings
- 3% Any other reason

- **OBJECTIVES**:
- To examine the presence of trends in overseas M&A’s by pharma organization.
- To examine the motivations behind overseas M&A’s by pharma organization.

**STUDY DESIGN**

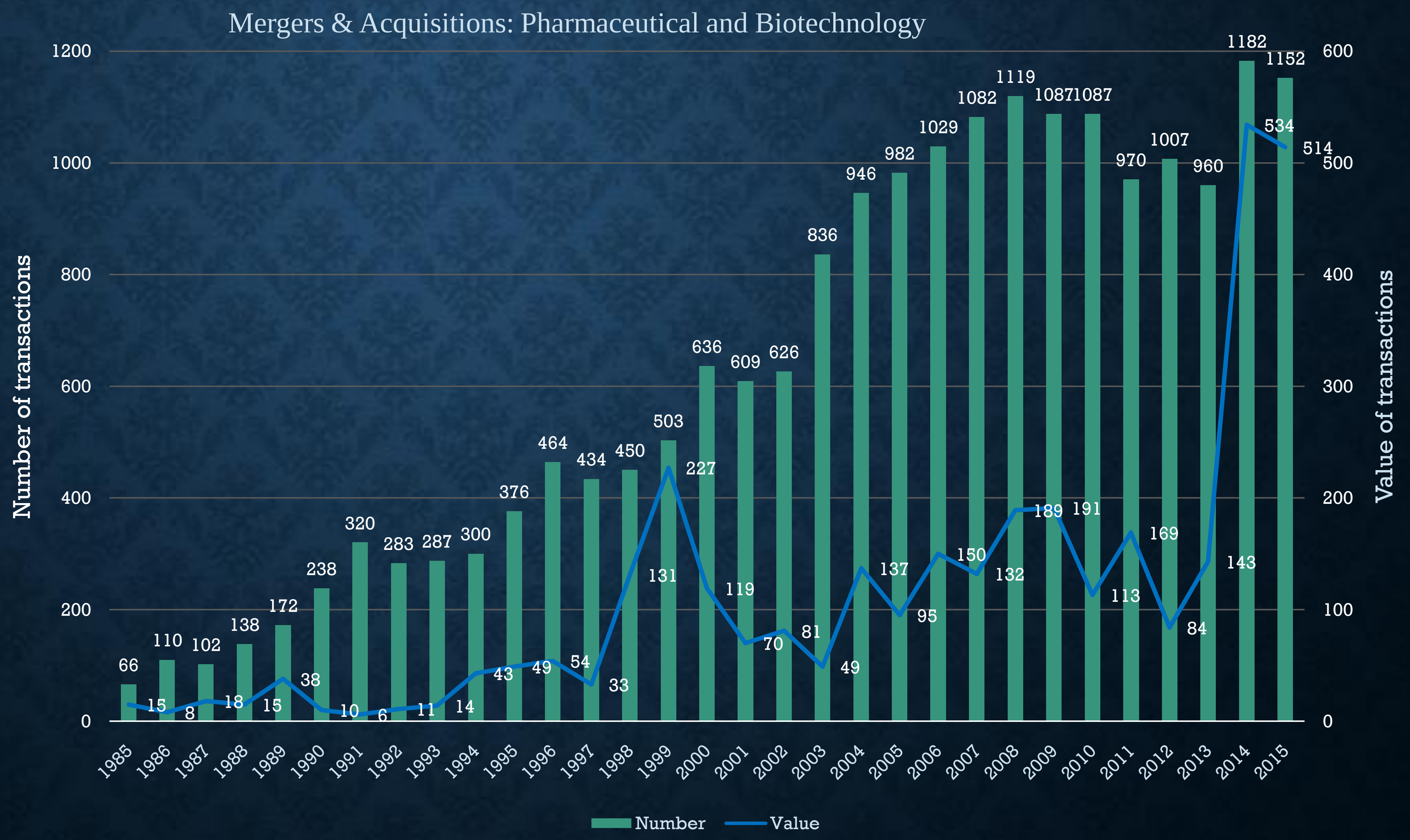
- Type of study: - Exploratory research
- Data (information) collected: - Secondary data
- Data collection tools: - Internet & Journals

**METHDOLOGY**

- **Sample Selection:-** Top 20 deals happened in pharmaceutical industry are taken as sample Hence the sample size of study comes out to be 20 mergers & acquisitions.
- **Data Collection**: Secondary data collected through the journal, books, financial statement of respective organizations through web and expert opinion

# OBSERVATIONS AND DISCUSSION

- According to data reveled from Institute for Mergers, Acquisitions and Alliances (IMAA), numbers of M&A during the last 30 years (1985 to 2015) are 19553 and estimated value is $3442 billions.



| | | | Top 20 M&A Deals | | |
|---|---|---|---|---|---|
| S.no | Year announced | Acquirer company | Target/Merging company | Deal Type | Announced Value (bn $) |
| 1 | 1999 | Pfizer | Warner-Lombert | Acquisition | 87.3 |
| 2 | 2004 | Sanofi | Aventis | Acquisition | 73.5 |
| 3 | 2000 | GlaxoSmithKline | SmithKline Beecham and Glaxo Wellcome | Merger | 72.4 |
| 4 | 2015 | Actavis | Allergan, Inc | Acquisition | 70.5 |
| 5 | 2002 | Pfizer | Pharmacia | Acquisition | 64.3 |
| 6 | 2009 | Pfizer | Wyeth | Acquisition | 64.2 |
| 7 | 2008 | Roche | Genentech | Acquisition | 44 |
| 8 | 2009 | Merck & Co. | Schering-Plough | Acquisition | 41.1 |
| 9 | 2015 | Teva Pharmaceutical Industries | Actavis | | 40.5 |
| 10 | 1998 | AstraZeneca | Astra+Zeneca | Merger | 30.4 |
| 11 | 1996 | Novartis | Ciba-Geigy+Sandoz | Merger | 29 |
| 12 | 2014 | Actavis | Forest Laboretries | Acquisition | 28 |
| 13 | 1999 | Pharmacia | Pharmacia & Upjohn + Monsanto | Merger | 25.2 |
| 14 | 2010 | Sanofi | Genzyme | Acquisition | 19.6 |
| 15 | 2006 | Bayer | Schering AG | Acquisition | 18.4 |
| 16 | 2001 | Amgen | Immunex | Acquisition | 16.8 |
| 17 | 2006 | Johnson & Johnson | Pfizer Consumer Health | Business Unit | 16.6 |
| 18 | 2007 | AstraZeneca | Medimmune | Acquisition | 14.7 |
| 19 | 2007 | Schering plough | Organon | Business Unit | 14.5 |
| 20 | 2014 | Novartis | GlaxoSmithKline Oncology | Business Unit | 14.5 |

MARCH 7, 1996

**CIBA-GEIGY AND SANDOZ MERGE**

$ 30.09 billion

NOVARTIS

The ultimate motive behind this deal was:

- to distance themselves from the unsure chemical markets and jump to new business opportunities.
- To remain competitive in the rapidly changing marketplace and to reduce the cost of operating in Switzerland.


In the first half of 1997,

- Novartis's net income totaled about $2.2 billion, a gain of 27 percent over the comparable figure a year earlier.
- Operating income climbed by 25 percent,
- Sales rose 19 percent, to 16.56 billion Swiss francs.
- Novartis did not release third quarter earnings, but did report a 21 percent gain in nine-month sales, to 23.9 billion Swiss francs.

- Without the effect of currency fluctuation, sales growth equaled 8 percent.

# MERGER OF ASTRA AND ZENECA

1998

$ 30.4 billion

AstraZeneca

- Motivation behind merger: High cost of R&D, Upcoming patent off, desire to compete in US market, shareholder pressure.
- New entity's market capitalization $67 billion.

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Pfizer
Warner Lambert

$ 90 billion in 1999

Main motive behind deal was to Acquire Lipitor and to achieve cost saving by head count reduction.

- The resulting leaded both the global anti-hypertensive and anti-hyperlipidemia markets and become one of the leading CNS marketers.
- The combined company formed was second-largest pharmaceutical company in sales, but had the largest capitalization among its competitors. Its market capitalization was approximately $220 billion, compared with that of second-place Merck, about $185 billion.

Glaxo Wellcome

+

Smith Kline Beecham

$ 72.4 billion

GlaxoSmithKline

- In terms of geographical strategy: merger increased both companies' global strength and, in the US in particular, the merged company benefited with one of the largest sales forces in the industry.
- In terms of portfolio fit:. Their merger transformed the combined company particularly strong in anti-infectives and CNS.

- The inability of GSK in producing blockbuster products, joint hand with the R&D and cost reduction made things worse.
- Analysing GSK's stock market performance (1998 - 2003), tells that GSK failed to touch the anticipated heights and were only able to sail along with the industry growth.
- In the first year of post-merger, GSK claimed 12% increase in pharama industry, with the help of cost savings and disposal of assets. The firm anticipated double the level of saving in the next year. The health care grew only 3%.

# AMGEN IMMUNEX ACQUISITION DEAL

$ 16.8 billion

In 2001

- Alliance of two Biotech companies
- Amgen becomes no 1 by this deal

- However deal was not welcomed by stock market
- Initial downfall for 2 yrs, Amgen started gaining from 2003.

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# Pfizer Pharmacia acquisition deal

$ 64 billion deal
Announced in 2002

- Pfizer remained on top position
- Deal added another blockbuster Celebrex

- However deal made everything that expected by Celebrex's revenue
  But
- Post merger market shares of Pfizer have decreased from 15.5% in 2001 to 10.3% in 2005.

# SANOFI-AVENTIS

Announced in 2004
Costs $ 73.5 billion to Sanofi

- Deal benefited Sanofi's pipeline with six new potential drugs
- Deal increase Sanofi's exposure to European markets
- However deal was proved to be successful but initially it was not welcomed.
- The Paris stock exchange reacted to the news of merger of the two companies with clear falls in share values for both Sanofi and Aventis

# AstraZeneca and Medimmune deal

Announced in 2007
Accounted for $15.6 billion

- The acquisition of MedImmune significantly accelerated AstraZeneca's biologics strategy
- Added Numax, a follow-on to respiratory drug Synagis, as well as a refrigerated version of intranasal influenza vaccine, FluMist.
- The acquisition also increased AstraZeneca's total pipeline by 45 projects.

# BAYER AND SCHERING AG DEAL

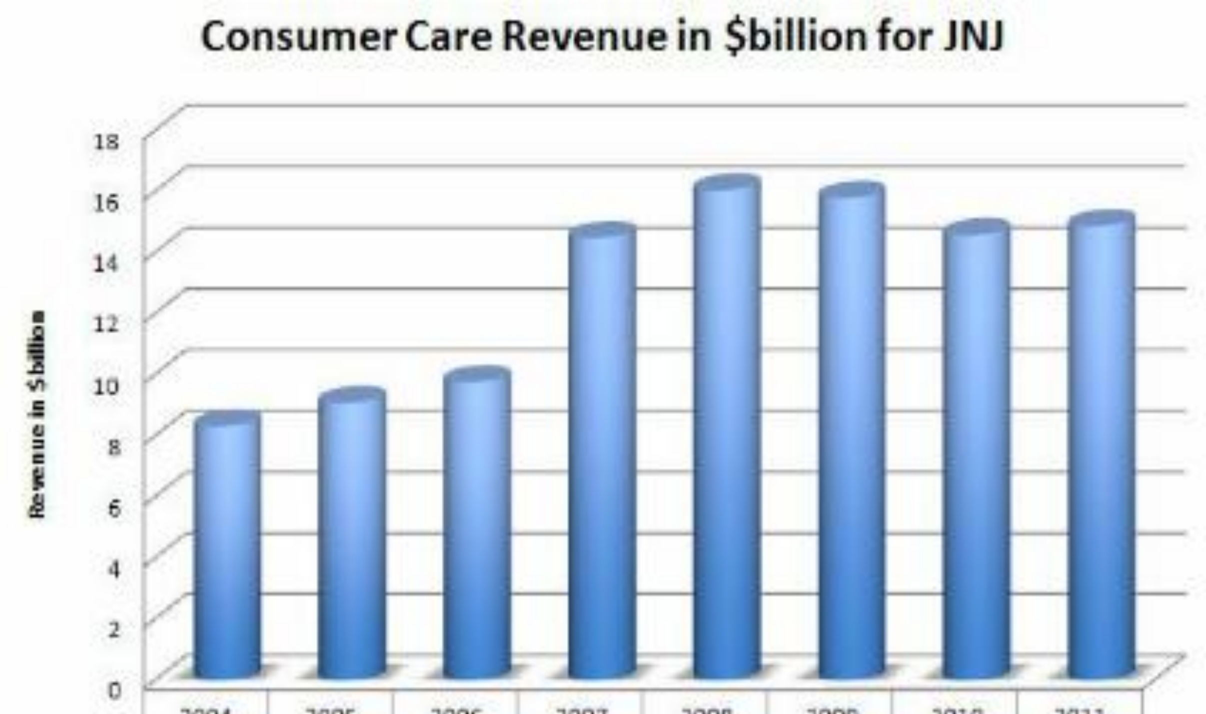
Announced in 2006
For $ 18.4 billion

- Bayer Schering Pharma saw stellar sales growth of 117.4% y/y to 2.6 billion euro during the second quarter of 2007 and to just over 5 billion euro for the first six months of the year.

Announced in 2006
For $ 16.6 billion

# Johnson & Johnson and Pfizer Consumer Health deal

Acquired market-leading brands include LISTERINE oral care products and the NICORETTE line of smoking cessation treatments, ZANTAC and BENADRYL. This combination creates the world's premier consumer health care company




| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| Series1 | 8.33 | 9.096 | 9.774 | 14.493 | 16.054 | 15.803 | 14.59 | 14.883 |

# ROCHE AND GENENTECH DEAL

Accounted for $44 billion
Announced in 2008

- Deal came with cost savings of around $750 million to $850 million a year, was not the main goal of the deal.
- The goal was to improve coordination on product development
- The first quarter sales of Roche in 2009 showed a healthy 7 percent increase, a positive indication post merger.

# PFIZER AND WYETH DEAL

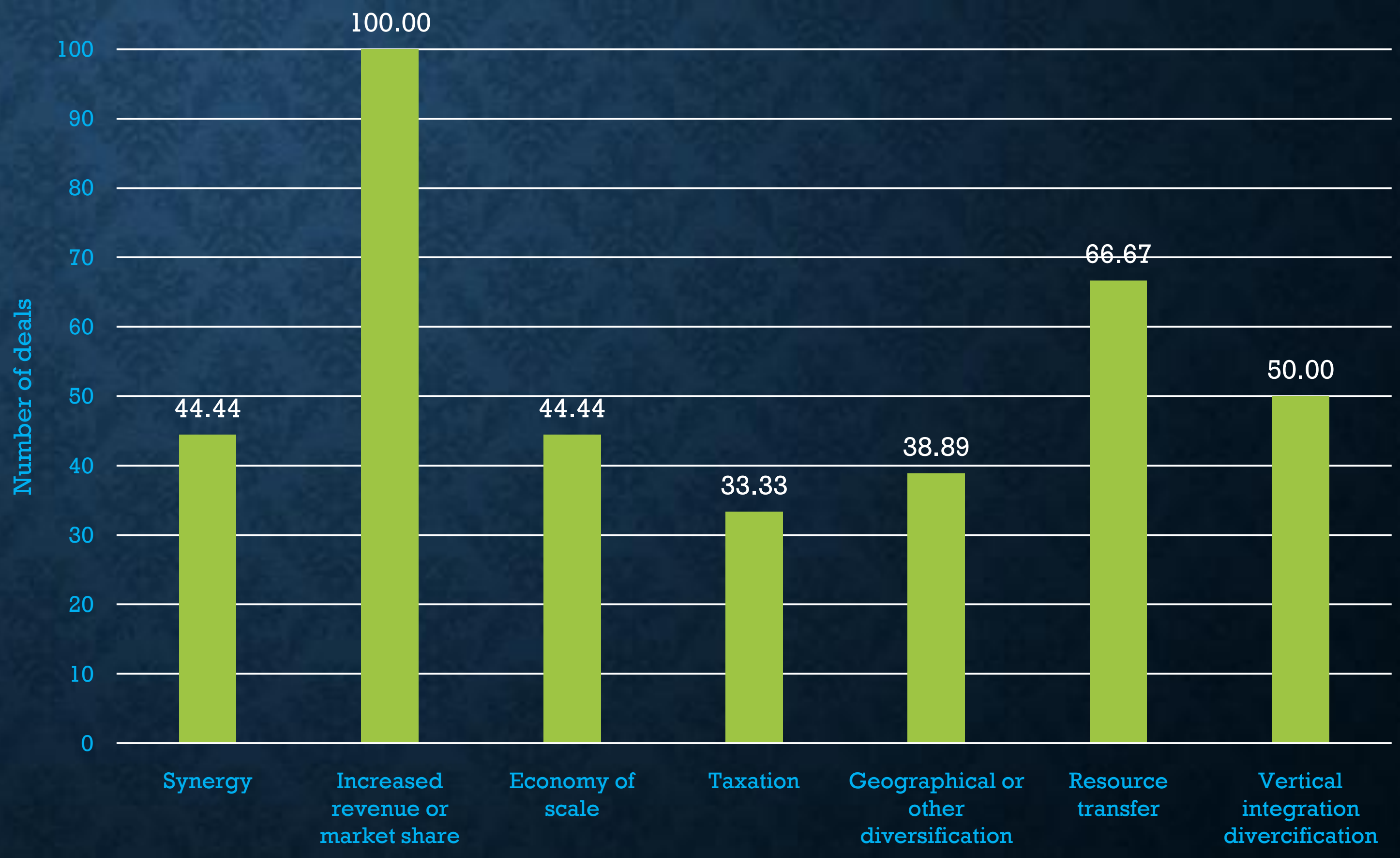
Accounted for $64.2 billion
Announced in 2009

- Pfizer attempted to gain access to Wyeth's drug pipeline which included blockbusters such as Prevnar (the world bestselling vaccine), Sutent (treatment for cancer), Geodon (treatment for schizophrenia) and Zyvox (treatment for infections).
- The merged entity also intended to benefit from significant cost cuts, as layoffs of 19 500 employees had been announced.
- Pfizer does not have much to gain from the acquisition of Wyeth. Clearly this acquisition is aimed at just diluting its expiry threats and buying Pfizer some more time to remain at the top in the pharmaceutical industry.

# RESULTS AND DISCUSSION

- By analyzing the data we can conclude that these are the motivating factors behind M&A in pharma industry
- Developing the R&D is a common trend throughout industry.

#Figure 3: Motivation Behind M&A V/S No of deals



# RESULTS AND DISCUSSION

## Trends

- To develop core strength/specialty division

Pfizer made an alliance with Warner Lombert, Glaxo Wellcome & SmithKline Beecham Merger, Schering-Plough Corp. and Organon deal, Pfizer and Wyeth deal

- Interest towards nonprescription market and OTC/consumer products

Johnson & Johnson and Pfizer Inc, Novatis & GSK

- Interest for biotech industry: six deals out of top 20 were happened to acquire biologicals.

# CONCLUSION

- To increase market share and revenue through geographical or other diversification and through resource transfer is proved to be the biggest motivation behind all top 20 M&A.
- Pharmaceutical M&A are trending towards diversifying their business by showing higher value towards Consumer Health/OTC division and Biotech industry.

# LIMITATIONS

- Study included only top 20 M&A deals, although these deals can represent whole industry, but scientifically we cannot generalize the results for whole pharma industry.
- None of the Indian companies is included in the study because they do not feature in the top 20 M&A deals.

# THANK YOU