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Pharma companies set eyes on China

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China reported total of 97 deals worth $6.5 billion, the highest in Asia Pacific, according to a mergermarket report. The country was followed by Australia with 40 deals and India and South Korea each boasting of securing 39 deals from January 2011 until date.

KPMG in its latest report, titled China's pharmaceutical industry - poised for the giant leap, noted that China is now turning away from its export-oriented focus. Boosting domestic demand and consumption is now a bigger priority. With an increasing presence of an affluent population, there are calls for better services and quality of life in which healthcare reforms play a very important role.

In response to this, foreign companies are looking to spread their networks into rural areas and second and third-tier cities. Mergers with local companies have become a key strategic focus. The report also pointed out that the sector has seen a large number of innovative joint ventures, acquisitions and collaboration between multinationals and Chinese firms, largely geared to leverage the formidable reach of the domestic giants. With every big pharmaceutical company focusing on this region, China is likely to play a crucial role in the way drugs are invented, tested and regulated.

Sharing his thoughts on cross-border investments in China, Dr Ronald Ling, PricewaterhouseCoopers' Asia Healthcare Leader, said, "Given the complexities of cross-border investment into China, we've seen foreign investors playing it safe, testing the waters with small investments in familiar territory. For example, in the hospital sector, recent inbound deals have targeted operators with American ties offering western-style treatment and quality standards. In February, the IFC (a member of the World Bank Group), invested $20 million to help upgrade and expand operations of Asia Pacific Medical Group, an entity founded by US physicians and surgeons with two decades of public hospital operating experience in China.

In early 2011, a US private equity firm took a minority stake in Advanced China Healthcare, a multi-disciplinary outpatient clinic operator in China similarly founded by American physicians. Meanwhile, domestic activity has been dominated by private sector investment into high-end specialty providers, including eye, orthopaedic, aesthetics, and maternal & infants services."

"More recently, however, we find the economics of investing in China's healthcare market improving, and foreign investment restrictions loosening, implying a likely uptick in inbound cross-border deal flow across a wider range of provider types over the medium term. A model we see gaining traction in China's healthcare services sector over the next two years combines sophisticated management skills, transparent physician employment arrangements, and international clinical quality and customer service standards with an efficient, lower-cost operating model that caters to China's local population. This model draws on principles employed by a number of new ventures such as the US-invested, privately held CHC Healthcare and the Angel Women & Children's Hospital in Chengdu," added Mr David Eastlake, PricewaterhouseCoopers' Asia Healthcare Corporate Finance Leader.

Sharing his thoughts, Mr Christoph Bieri, senior transaction advisor, IMAP Healthcare, Switzerland, said, "Much of the future global growth in the pharma industry is expected from emerging markets, where the health systems are rapidly developing, particularly in China. IMAP expects the dramatic growth in China, which is expected to continue in the coming years, to cause big pharma companies to aggressively pursue acquisitions in China thus establishing a foothold. However, only few such acquisitions were announced or closed in 2011. Not that the industry is sitting and waiting. The year 2011 saw additional announcements by a number of pharma companies about initiatives to further penetrate China's fast-growing market."

APAC's other big players

Referring to the developments in the Australian biotechnology industry, mergermarket said, "Biologics are attracting interest because they have a longer patent life and are harder to copy when compared with small molecule-based treatments. Companies developing products for the burgeoning aged population globally, an area in which Australia has expertise due to its aging population, are likely to be particularly appealing not only due to the sheer market size, but also because it is generally easier to pass safety criteria for treatments specific to the aged population as opposed to the youth." Areas of interest include autoimmune, anti-viral , oncology, Alzheimers, and vaccines for diseases like malaria that have been difficult to combat. Many biologics treatments for oncology, autoimmune and anti-viral diseases, and Alzheimers, are also aimed at an aging population.

Grant Thrornton, in its 7th annual edition of Dealtracker for India, reported that the country had 59 deals in the pharmaceutical, healthcare and biotech space with a value of $2.1 billion in 2011. Out of these 31 focused on domestic deals and were valued at $329 million. Some of the major deals included, acquisition of more than 30 brands from Ajanta Pharma by Dabur India; acquisition of Ratricap from Johnson &Johnson by Bafna Pharmaceuticals; acquisition of Universal Medicare by Aventis Pharma; acquisition of Biochem Pharmaceutical by Cadila Healthcare; acquisition of Lincoln Parenteral by Lincoln Pharmaceutical; acquisition of Anand Synthochem by FDC and acquisition of Klar Sehen by Vivimed Labs among others. Besides these, the industry witnessed many merger deals as well, including that between Ind-Swift - Essix biosciences and Dashmesh Medicare; IPCA Lab and Tonira Pharma; Shilpa Medicare and Raichem Life Sciences; Techtran Polyenses and Hemarus Therapeutics; and Wockhardt and Vinton Healthcare.

The Indian pharmaceutical industry witnessed 13 outbound deals in 2011. Some of the deals include acquisition of Diasis Diagnostic Systems by Transasia Bio-Medicals; acquisition of WCI consulting group by TAKE Solutions; acquisition of Bremer Pharma GmbH by Cadila Healthcare; acquisition of Neshar Pharmaceuticals; acquisition of two generic drugs by Zydus Pharmaceuticals, which is a subsidiary of Cadila Healthcare; acquisition of Goanna from Aspen Pharmacare by Lupin, acquisition of Onyx Research Chemicals by IPCA Labs for $7.39 million; acquisition of Uquifa SA by Vivimed Labs for $ 55 million; and acquisition of Irom Pharmaceutical by Lupin .

There were around 15 inbound deals in India. Major deals included acquisition of Nutritional business of Wockhardt by Danone for $355 million; Russian brands of J B Chemicals by Cilag GmbH for $260 million; acquisition of certain assets of Kilitch Drugs India by Akom for $43.48 million; acquisition of Edict Pharmaceuticals by Par Pharmaceutical Companies for $36.7 million; acquisition of Unimark Remedies by Hikma Pharmaceuticals for $33.3 million; acquisition of Bioserve Clinical Research by QPS Holdings; and acquisition of Aurobindo (Datong) BioPharma, a Chinese subsidiary of Aurobindo Pharma by Sinopharm -China National Pharmaceutical Group Corporation. M&A activity will continue to happen in India in all areas such as inbound, outbound and domestic deals. These activities will play a major role in the growth of the companies in particular and the industry in general.