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Industry records all time high mergers and acquisitions

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Singapore: Pharmaceutical, medical technology and biotech sector witnessed a euphoria when mergers and acquisition activities in 2014 soared all-time high. The year recorded 1215 deals, closed and announced, sealing $ 379.5 billion in total value. According to Mergermarket, an analytic and intelligence firm on global deals, medical and biotech sector closed around 869 deals clocking $354.3 billion by Q3 2014 and H1 2014 hit the highest half-year value on record with $260.2 billion, marking an increase of 227.8 percent from H1 2013, that valued at $ 79.4 billion.

Actavis' acquisition of Allergan at a whopping $63 billion and Forest Laboratories at $23 billion were the highest valued deals of the year. As high as eleven transactions betted on large scale deals and four were bracketed above $10 billion. Actavis' aggressive consolidation strategy has strengthened its stand in the market with large product profile, including novel and generics drugs, under its umbrella. Novartis, on the other hand, aimed to refocus on its business by diluting non-performing assets and swapping profile with GSK to focus on core business areas. Novartis acquired GSK's oncology profile at $15 billion and GSK acquired a large basket of over the counter drugs.

Novartis also let go its non-influenza vaccine business to GSK and animal health unit to Eli Lilly at $5 billion respectively. Analysts believe that companies would continue to prune their product profiles to garner maximum profit from their acquired business. In the years to come, pharmaceutical companies would align and re-align their generics, novel and other the counter products to remain competitive in the industry.

Actavis, for instance, created a large combined profile of specialty pharmaceutical products with the acquisition of Forest Laboratories at $28 billion. The company is now anticipating annual revenue of $15 billion in 2015 post acquisition. According to Actavis, the pro forma combination of two companies would churn $2 billion revenue in CNS franchise, $1 billion revenue in gastroenterology and women's health and $500 million in cardiovascular, urology and dermatology pipeline, respectively.
Similarly Bayer that has larger interest in over the counter products, managed to acquire the profile from Merck at $14.2 billion amid an intensive competition. Bayer and Merck have also shaken hands to jointly develop cardiovascular and

pulmonary artery hypertension drug. In another deal, Roche shelled out $8.25 billion to acquire InterMune.

China-A surprise package

China emerged as a hot bed of the increasing interest of global as well as domestic pharmaceutical companies to strengthen in the emerging market. In a bid to expand and further penetrate in China and emerging markets, Bayer acquired Dihon Pharmaceutical, a China based company specializing in OTC dermatology products and herbal traditional Chinese medicine (TCM) products for women's health indications, with presence in Nigeria, Vietnam, Myanmar and Cambodia.

At domestic front, Shanghai Fosun Pharmaceutical acquired hospital management and operator Chindex International at $433 million in order to expand its health care capabilities across the country. Chindex manages United Family Healthcare chain of hospitals in Beijing, Shanghai and Guangzhou. The company also announced to acquire 65 percent in Suzhou Erye Pharmaceutical firm for approximately $137.31 million.

In another major deals in China, Luye Pharma announced to acquire 58 percent stake of Beijing Jialin Pharmaceutical at around $600 million to build its profile in new cardiovascular drugs. The company informed its investors that the acquisition is to strengthen the market position and bring competitive advantage in cardiovascular system, especially in the area of lipid regulators.

China's pharmaceutical companies exhibited strong interest in growing their drug profile and market share and did not shy away from shelling out their cash reserves or diluting a non-performing assets. Shenzhen Hepalink Pharmaceutical acquired Scientific Protein Laboratories, a global manufacturer of active pharmaceutical ingredients, ate $ 337.5 million to increase its share in heparin product market.

Frost and Sullivan forecasts that 2015 is expected to see more lucrative mergers and acquisitions deals in the healthcare space that would overshadow the deals of 2014. According to the analyst firm, biotech companies will bullish research and development and there would be more Asia-focused mergers and acquisitions.

"The industry is mired in a transitional phase where traditional global markets have been exhausted for growth, yet the opportunities for new services and care (ambulatory/mobile/home care) lack the appropriate level of development and infrastructure to seamlessly launch novel solutions. However, the Asia Pacific region (ex-Japan) will continue to provide double digit growth in 2015 at 11 percent compared to the global average of 5 percent," said Ms Rhenu Bhuller, senior vice president, healthcare practice, Frost & Sullivan, Asia Pacific.

Reflecting the trend, Morgan Stanley Private Equity Asia (MSPEA) partnered with Hong Kong listed Sihuan Pharmaceutical Holdings to acquire 69.21 percent stake in Nanjing Jiangbei People's Hospital (JB Hospital) for $66 million.

M&A in medical device industry

Analyst firm GlobalData highlights that the medical device industry also witnessed a record high in terms of deal valuations in 2014, with a total of 96 mergers and acquisitions, representing an increase of 18.5 percent from 2013. The largest deal of 2014 was Medtronic's $42.9 billion acquisition of Covidien, creating the world's largest medical device company.

Ms Niharika Midha, analyst at GlobalData states that the unusually high amount of M&A activity in 2014 highlights a trend that goes beyond mega-mergers and into the expansion of product portfolios.

She mentioned, "A considerable number of deals in 2014 involved larger companies swallowing up smaller ones with novel technologies that were clinically proven to be superior to existing devices. This definitely sets the tone for the coming year, as the medical device industry consolidates into fewer prominent players that directly compete with each other and innovation is fueled by heightened demand."

"Covidien has an established market position in surgical and wound care specialties, which are promising segments. Medtronic can readily leverage this reputation for an expanded product portfolio and enhanced global footprint. Additionally, Covidien has been expanding its business in patient monitoring and hospital services, areas likely to generate significant revenue in the near future," she added.

The Sudden Surge

Today pharmaceutical companies either need to invest in internal research and development or buy potential development programs from small companies. Recent activities of pharma giants of closing down or resizing their R&D operations indicate the shrinking budget for internal research. While integrating cost cutting strategies pharmaceutical have to build assets that provide promising revenue channels in future. Mergers and acquisitions promises to be a safer bet for big pharmaceutical companies seeking for profits in the competitive industry. Small biotech companies are driving some promising drug research projects and are most suited to large pharmaceutical companies to add new drug in their profile. The acquisition also helps the biotech companies to pick mileage of their projects and elevate it to the next level towards human clinical trial. Pharmaceutical companies are willing to spend money to acquire next generation potential blockbuster drugs from the market than investing in in-house research.

Another interest is to acquire distributors for a larger network of market access channels and consolidate the life services by acquiring healthcare and hospital management solutions. The idea is to anticipate the forthcoming opportunities in the realm of bioscience industries.

According to an analysis by Deloitte, as growth in developed markets slows life sciences companies are expected to continue expanding their presence in emerging markets through acquisitions and joint ventures. Key growth drivers include an increase in wealth and income levels, increasing government and consumer awareness about the benefits of a good health care system, and a trend towards healthier lifestyles.

Trend continues in 2015

Beginning of 2015 indicated the continuity of the trend that bioscience industry picked in 2014. It includes consolidation of strength, building drug pipeline, shifting focus to emerging market and not underestimating the strength of start-up companies that are proving to be major contributors of strength building. In the first quarter of the year itself, mergers and acquisition in bioscience sector has touched almost $59.3 billion, a 94 percent increase over the same period a year ago, states Reuters.

The biggest deal of 2015 so far has been AbbVie's purchase of Pharmacyclics at $21 billion and it would add volumes in the deals of the year. Pharmacyclics has developed treatment for blood cancer, Imbruvica, and AbbVie's access to the potential top selling drug would be its major revenue generator in coming years. Abbvie, the developer of Humira, needs to reduce its dependency on the profit churning ageing rheumatoid arthritis drug as several other companies including Amgen, Boehringer Ingelheim, Pfizer, Fujifilm Kyowa Kirin Biologics, Sandoz and Samsung are in late-stage clinical development with their respective adalimumab biosimilars.

In another notable deal, Valeant Pharmaceuticals decided to acquire Salix Pharmaceuticals for $10 billion for its gastrointestinal drug profile and Shire announced to buy US-based NPS Pharmaceuticals for $5.2 billion to gain access to drugs for rare diseases.

Roche also came forward to put a stake of $1 billion in Foundation Medicine to develop cancer-fighting drugs and Johnson & Johnson signed a $509 million deal with Swiss biotech firm AC Immune to develop vaccines for Alzheimer's.
Ernst and Young notes that transactions are skewing toward bigger deals and companies operating on a global scale looked at restructuring the business that allows efficient use of foreign capital. The market analysis firm highlights that partnerships and informal collaborations would continue with the pace in a rapidly shifting landscape to grow the distribution networks and leverage previous investments. E&Y notes that new insurance and payment models, rapidly changing consumer demographics, and an explosion of technology-based treatment innovations are driving both horizontal and vertical M&A activities. In the pharmaceuticals segment, rising demand for generic drugs and the loss of revenue from blockbuster patent expiries is driving consolidation with both research-based and generics companies looking for acquisitions of all sizes.

Mr Glen Giovannetti, global lifesciences leader, E&Y remarks, "We expect 2015 to be a year of robust and highly competitive M&A activity in the biopharma industry, marked by a continued rise in deal premiums. This will be challenging, especially for some big pharma firms still in need of acquisitions to meet market growth expectations. There is now a scarcity of targets that can offer a meaningful impact on closing revenue shortfalls, what we call 'growth gaps'."

According to a survey by KPMG, life science and healthcare sector is expected to have 84 percent of the deal activities amid all sectors triggered by affordable care act and several macro-economic factors would facilitate M&A facilitated by large cash reserves and opportunities in emerging markets.