

Can Indian companies be on Pfizer's next acquisition spree?

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Pfizer has been fairly subdued since the AstraZeneca deal collapse. "Whether this is indicative of the fact that it is biding its time to repeat the attempt to secure AstraZeneca's assets or rethink its corporate strategy, remains to be seen. The financial benefits of an AstraZeneca deal have been impacted by changes to the US tax laws regarding repatriation of overseas earnings, and the company might therefore look closer to home as far as external investment opportunity goes," says analyst Mr Joshua Owide, GlobalData's director of healthcare industry dynamics.

Biologics and specialty diseases

While many big pharma companies pursue a path of smaller-scale biotech acquisitions, Pfizer appears intent on retaining its large-scale M&A model.

"Pfizer might look at companies such as BMS Bristol-Myers Squibb or Eli Lilly, to expand its base business. Recent market movements have made a number of US biotech companies extremely costly as potential targets, and so more established, large-scale companies with greater opportunity for cost-stripping could present a more appealing investment opportunity. Those companies operating in biologics will undoubtedly be brighter on Pfizer's radar," said Mr Owide.

Again, biologics will be a key focal point, similar to the Wyeth deal a few years ago, while companies with strong development pipelines will be of particular interest, given Pfizer's own shortcomings in terms of new product developments.

Mr Owide commented that Pfizer has struggled to match its size through R&D and is therefore particularly reliant on external innovation to maintain its position as a global pharmaceutical leader. "Despite Pfizer's historical presence in primary care diseases, the company is shifting increasingly towards specialty diseases, and this will also play a major role in determining its future acquisition targets," explained Mr Owide.

India or China?

What about developing markets like India or China? Will Pfizer cast its shadow on these markets this year? Analysts say that there is always potential for companies to invest in emerging markets, notably in India, where the generics market is thriving.

"Pfizer's commitment to innovative medicines will likely mean its focal point remains in the developed markets with regard to headline M&A deals," remarked Mr Owide.

AZ deal resurrected?

Another question that has been plaguing many minds in the industry is, will Pfizer make a comeback this year on its failed bid with AstraZeneca? Analysts think it could be feasible. However, the new US tax laws could be a major deterrent, as financial engineering was one of the major drivers behind Pfizer's record bid for AstraZeneca.

Also, is it possible for Pfizer's M&A strategy to backfire at some point? There is an element of repeating the same action and expecting different results. Mr Owide opined, "Pfizer's approach has persistently failed to foster innovation and expand its intellectual property libraries in a truly meaningful way, meaning there are doubts as to how sustainable this approach can be."

However, Pfizer will always look to deals with significant synergies, and those will largely be around manufacturing and commercial infrastructure, which is unlikely to change. The knock-on effect of Pfizer's deal-making more directly relates to its acquisition targets and their employees, rather than its own workforce.

The AstraZeneca deal was slightly unique compared to its previous acquisitions, in that a large proportion of value was related to pipeline assets. So rather than simply strip out costs, it would have had to foster innovation in order to accrue the underlining value from the deal.

Financial engineering

Generally speaking, financial engineering has been a fundamental driver behind the upsurge in M&A deals, with companies able to offer significant premiums on the basis of accruing higher future earnings through lower tax rates.

The upsurge in approvals has also been an encouraging force, with companies looking to secure novel compounds at the earliest possible opportunity.

Innovation lost?

Focusing on the innovation part, M&As can work in two ways. Acquired companies with a history of innovation are increasingly operated as wholly-owned subsidiaries, rather than simply asset-stripped.

"This is more fruitful in terms of sustained levels of innovation, as these companies and their employees are typically specialized in their fields," noted Mr Owide.

Perfect examples of this model include Genentech (Roche), Genzyme (Sanofi) and Millennium (Takeda). However, M&A that is largely focused on asset-stripping and operational synergies are much more damaging in terms of innovation. The value of these deals, while high, is largely tied to those assets already on the market or in late-stage development.