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Big biotech companies witness increased M&A: Report

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Big biotech companies witness increased M&A activities says Frost and Sullivan

The recent announcements of deals involving pharma majors Novartis, GlaxoSmithKline (GSK) and Eli Lilly, worth nearly $25 billion, shows that the pharma majors are strategically responding to challenges faced by the industry. The leading drug makers are facing a two-fold crisis. The number of blockbuster drugs about to lose their patents are dismayingly high, and the pipelines of these companies are currently abysmally empty compared to the scenario five years earlier. The increasing liabilities in drug development, coupled with decreasing returns on investment in pharma. Merger and Acquisition (M&A) Trends in the Global Pharmaceutical and Biotechnology Industry R&D (research and development) have made major market participants re-evaluate their growth strategies. The major drug makers have reduced their R&D to sales ratio in the past few years. Increasing generic competition, efforts to contain the public spending on drugs globally, and growth in the number of companies competing for the same profit pool is adding to the woes of big pharma companies suffering from R&D deficit.

The trends are in tune with Frost and Sullivan's latest recent research on Mergers and Acquisitions (M&A) in Pharma. Our research identified that in the background of Specialty Pharma and big Biotech companies increasing their presence in M&A deal making, their contribution to total M&A deal value has reduced from 70 percent in 2007 to 3.6 percent in 2013. Frost and Sullivan research predicted that the complete absence of mega-deals in the industry in the recent past can be altered by a few mega-deals that are expected to happen in 2014.

The deals announced between Novartis and GSK in April 2014 are a clear indication that M&A deals in the industry have evolved. The mega deals that happened in the 2000s were broad based acquisitions where the deals involved acquisitions of entire firms; however, the recent transactions are custom-build transactions. The Novartis-GSK-Eli Lilly deal has lead the way. Pharma majors are restructuring by retaining and acquiring segments which are performing well and laying-off segments that have risks or have
proven to be a liability.

This deal clearly indicates that Novartis wants to focus on oncology, GSK on vaccines and Eli Lilly on animal health. Novartis is selling its vaccine division to GSK for an amount close to $7 Billion. It is noteworthy that the contribution of vaccine division of Novartis has reduced from 6.0 percent of total revenue in 2010 to 3.9 percent of total revenue in 2013. GSK will benefit by the acquisition of vaccines which enable more insulation from patent expiry and also access to Novartis' Bexsero for meningitis and Cervarix for human papillomavirus. The Food and Drugs Association's approval of GSK's Oncology drugs

Tafinlar and Mekinist in 2013 will be a good bet for Novartis.

Currently, consumer health divisions of Novartis and GSK contribute nearly 7.0 percent and 19.6 percent respectively, to the total revenue. With the proposed joint deal between consumer-health divisions will result in a combined size of $12.8 billion. Novartis has also decided to sell its animal health division as a part of the strategy to focus on divisions contributing higher revenues. For Eli Lilly which has witnessed an increase in revenue contribution from 6 percent in 2010 to 9.5 percent of total revenue in 2013, this buy of Novartis' animal health division is a strategic move towards strengthening its presence in the global animal health market.

The recent developments, allong with Canadian company Valeant's proposed deal to acquire Allergan, and increasing cash reserves among some of the major industry participants, hint the scale of realignments of assets and businesses that are expected to continue in the near future.