M&A is heating up

At the end of 2013, many industry observers thought that M&A in the Pharma & Biotech industry had reached a high plateau. They were wrong: 2014 showed a consistently higher deal activity in terms of value in all regions (+130% higher sum of total transaction values), albeit not in terms of number of deals (more or less flat at around 600). In addition to the already high IPO activity, the IPO boom continued, with 91 companies going public in 2014, raising overall US$ 6.4bn in the process.

Most notably, 2014 was a year of many mega-mergers. There were eleven transactions bigger than US$ 5bn (up from four in 2013), including four with transaction values higher than US$ 10bn - in 2013, there was only one such large transaction.

Geographic shifts

As in 2013, most of the money was spent on targets located in the USA, whereas Western Europe and Canada have seen most activity in terms of the number of deals (see figure 1). Deal value of US-based targets quadrupled in 2014 vs. 2013. This was the result of the large mergers with US-based targets.

Looking at where the money came from (the location of the acquirer) however shows a distinct shift from the US to Western Europe: Most of the transactions of 2014 by value and by number of deals involved acquirers located in Western Europe, in contrast to 2013, when most of the deals and money involved US-based acquirers. This is not the result of a strategic shift but rather the result of transactions driven by tax inversions, which some of the acquirers used to create "tax-efficient M&A platforms" (see also page 13).

Global deal drivers

The benefits of a lower tax rate were major deal drivers in 2014, but the strategic rationales of the largest transactions in 2014 were gaining scale (such as Actavis, which is now a true Big Pharma company), consolidation of the businesses a company covers, and adding complementary products to the core business areas.

The prime example of refocusing a business was Novartis. In April, the giant initiated a series of transactions to dispose of business where it was in a sub-critical position. Thereby Novartis and GSK engineered an innovative deal in which they swapped businesses, achieving their goal in one stroke: GSK and Novartis now co-own (under GSK's leadership) one of the global leaders in OTC; Novartis increased its oncology footprint by acquiring GSK's business and pipeline; and GSK increased its position in vaccines by acquiring Novartis' non-influenza vaccine assets. The same day, Novartis' animal health unit went to Eli Lilly.

We believe that a major pruning of product and business portfolio will be seen in the next few years particularly by the companies who went through acquisition sprees such as Actavis, Perrigo or Mylan. For these companies, the critical question will be how they can combine OTC, generics and originator businesses, with their totally different constraints and challenges, or whether they have to spin off assets which do not fit their core competences.

TABLE 1 DEALS IN 2014 BY TRANSACTION SIZE

	2014		2013	
RANGE	TTV	DEALS	TTV	DEALS
Bigger than US$ 5bn	158'827	11	39'440	4
US$ 1bn to US$ 5bn	40'175	16	26'132	13
US$ 50m to US$ 1bn	31'304	117	32'060	109
Smaller than US$ 50m	2'412	173	3'235	214
Unknown	0	259	0	274

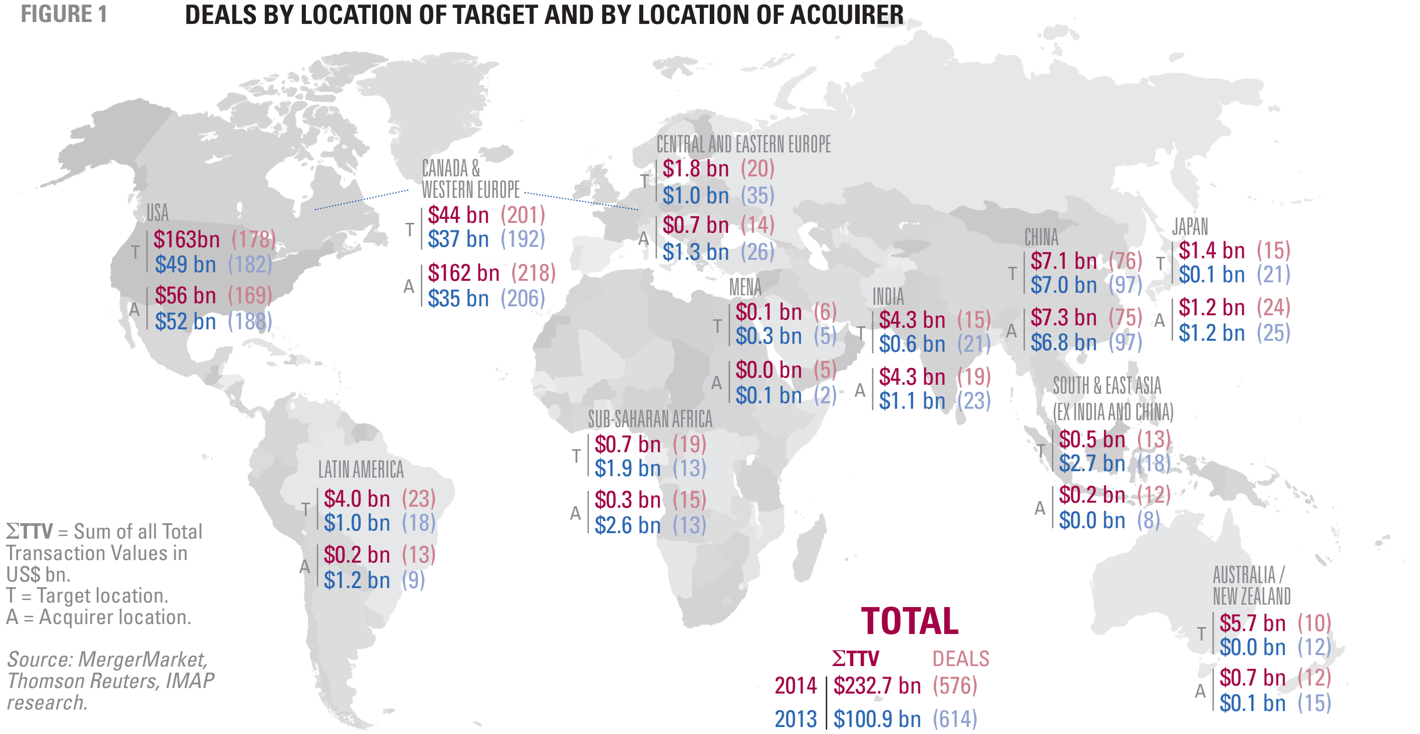
TTV: Sum of transaction values in US$ bn. *Source: MergerMarket, Thomson Reuters, IMAP research.*

M&A TIME LINE 2014

JANUARY FEBRUARY MARCH APRIL MAY JUNE JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DECEMBER

- **Alnylam acquires Sirna and its siRNA assets from Merck & Co. For US$ 192m**
- **Lotus acquired Alvogen's Korean and India assets for US$ 162m**

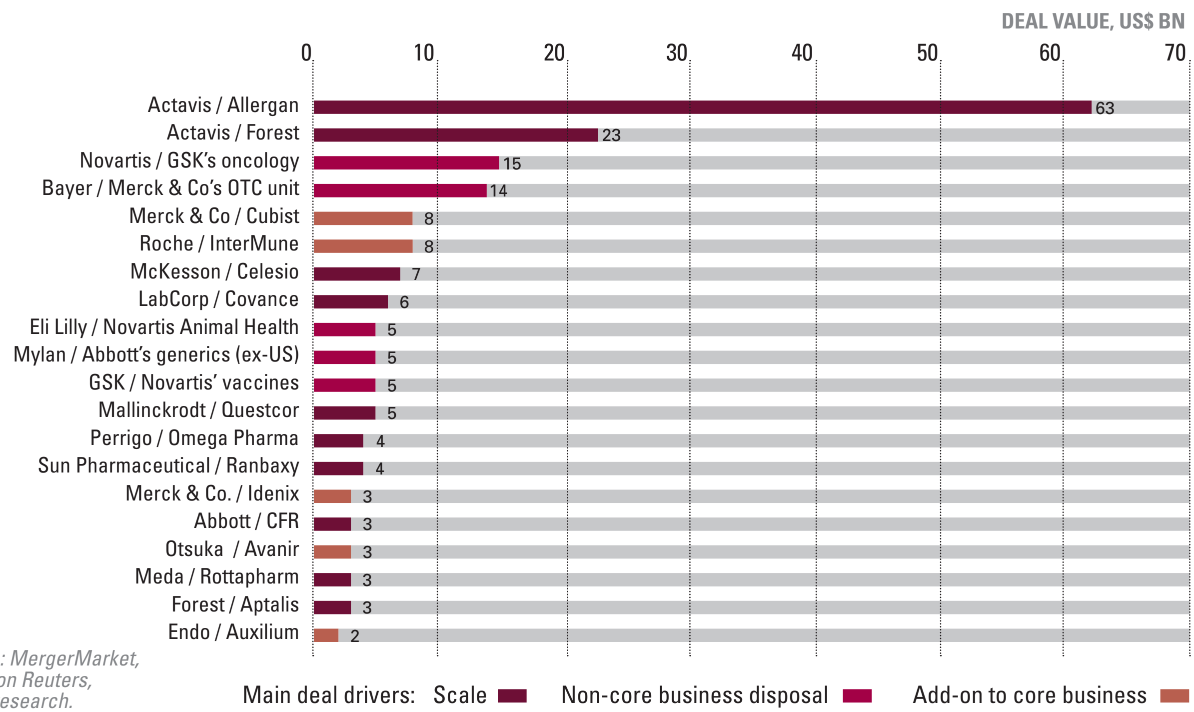
FIGURE 1 **DEALS BY LOCATION OF TARGET AND BY LOCATION OF ACQUIRER**



ΣTTV = Sum of all Total Transaction Values in US$ bn.
T = Target location.
A = Acquirer location.

Source: MergerMarket, Thomson Reuters, IMAP research.

FIGURE 2 **TRANSACTIONS WITH A DEAL VALUE LARGER THAN US$ 2BN**



Source: MergerMarket, Thomson Reuters, IMAP research.

JANUARY **FEBRUARY** MARCH APRIL MAY JUNE JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DECEMBER

/ Forest acquires Aptalis for US$ 2.9bn

/ Elanco purchases Lohman Animal Health for US$ 600m