

## Welcome to the age of portfolio deals

April 2014 saw a stellar day for strategic deal making. The multiple swaps of GSK and Novartis (and Eli Lilly), which in one stroke strengthened Novartis' position in oncology and GSK's in vaccines; created a global giant in OTC and relieved Novartis of its stepchild animal health. The transactions left Novartis focused on the dynamic, high-profit parts of the conglomerate and most importantly, less complex and more competitive in all markets in which the firm plays. Novartis clearly gave the industry an example of strategic deal making: in a phase where many players, in particular US-managed companies, still believe that "bigger is just better", more sophisticated companies realize that only a strong position in the *relevant* market will secure the future

prospects. These companies look for "portfolio deals", i.e. sell sub-critical businesses to players better suited to own and manage them, or vice versa, look for such sub-critical portfolios which they can acquire. Since Novartis' famous deal day, less spectacular portfolio deals have been signed by Pharma companies (see table overleaf). Some of them, such as Boehringer and Sanofi at the end of last year, found a way to "align the many stars" (as called by the Novartis executive who led the "deal day") required to enable an asset swap. Some companies completely reshaped their core and future with business portfolio deals: AstraZeneca is acquiring assets in respiratory, an indication which is dominated by few large players and is one of

three core areas for the UK firm, while systematically selling all non-core legacy drugs (such as its GI product Entocort®, a deal led by IMAP Switzerland). However, most spectacularly relative in terms of the size of the company, was Almirall's refocusing from an aspiring player in respiratory to a dermatology company: first selling its product franchise and late-stage pipeline to AstraZeneca including transferring over 700 staff (a deal which, given the organization's self-understanding, amounted to open heart surgery); and then acquiring PoliChem to bolster its dermatology portfolio. We expect strategic consolidation in specific business areas to be a sustainable driver for transactions over the next few years.



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

/ Concordia becomes global with US\$ 3.5bn AmCo buy

/ Amgen buys Dezima for US\$ 1.6bn

/ Cipla buys InvaGen for US\$ 500m

## EXAMPLE OF PORTFOLIO DEALS – SELLING / BUYING BUSINESS UNITS BETWEEN PHARMA COMPANIES

WHEN	DEAL	SIZE	RATIONALE
DEC 15	Sanofi animal health and Boehringer Ingelheim's consumer health.	US\$ 19.7bn	Boehringer had been looking for a solution for its OTC division for some time and strengthening its core animal health franchise makes sense.
DEC 15	AstraZeneca acquiring Takeda's respiratory business, including 200 staff.	US\$ 575m	Takeda was sub-critical in respiratory treatments which in turn composes one of three core areas for AZ (see further deals below).
NOV 15	Astellas selling its global dermatology business to LEO Pharma.	US\$ 724m	Gives dermatology specialist LEO more products (atopic dermatitis, acne and skin infections) and access to China and Russia, while Astellas can use funds to accelerate innovation in its core areas.
JUL 15	Boehringer Ingelheim exiting US generics by selling Roxane to Hikma.	US\$ 2.7bn	Hikma massively increases foothold as one of the key generic players in the USA, becoming sixth largest generics provider. Boehringer can focus on its innovative platform.
JUL 15	Teva buys Allergan's generics drug business.	US\$ 40.5bn	Divesting the generics business makes Allergan a pure originator – and attractive target for Pfizer.
JUN 15	Baxter to spin-off its biopharmaceutical business.	US\$ 17.9bn	Baxter spin-offs its biopharma business unit newly called Baxalta, which then becomes an attractive target for Shire. Baxter to focus its core business around hospital supply.
MAY 15	SigmaTau divests OncoSpar to Baxter / (Baxalta).	US\$ 900m	Divesting the oncology business and merging its European sales with Alfa Wassermann splits SigmaTau in two parts.
JUL 14	AstraZeneca acquires Almirall's respiratory business.	US\$ 875m	Almirall had great hopes for its respiratory drugs, but found competition was too strong and sold it to AstraZeneca, for which respiratory is one of three core businesses.
JUL 14	Mylan acquires Abbott's ex-US developed markets generics business.	US\$ 5.3bn	Almost pure generic player Mylan is a better owner for slow-growing and low-margin generic drugs in established markets than Abbott – who is in MedTech and hospital supply.
MAY 14	Merck & Co. sells their OTC drugs to Bayer.	US\$ 14.2bn	Bayer's stated goal to become the world's largest OTC supplier meant it had to buy the legacy drugs from Merck, most of them former Schering brands.
APRIL 14	Novartis vaccine business to GSK. (October: influenza business to CSL).	US\$ 5.3bn US\$ 275m	In a big strategic reshuffle, Novartis and GSK combined their vaccine businesses (now owned by GSK), oncology division (now owned by Novartis) and OTC drugs (pooled in a JV), while Novartis sold its animal health business to Eli Lilly. Result: all units with substantially better relative market shares.
APRIL 14	Novartis and GSK pool OTC businesses in 36.5: 63.5 JV.	n/a (US\$ 10.1bn combined revenue)	
APRIL 14	Novartis acquires GSK's oncology division.	US\$ 14.5bn	
APRIL 14	Novartis sells its animal health business to Eli Lilly.	US\$ 5.4bn	

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

/ Teva acquires Mexican branded generics business RIMSA for US\$ 2.3bn

/ Roche acquires Adheron for US\$ 105m

/ Recipharm buys Nitin majority for US\$ 103m