Primer: M&As in pharma

An overview of the drivers of M&A

January 29, 2019

Producer
Paige Wulff

Pharma mergers-and-acquisitions propel innovation, realign portfolios and enhance collaboration

Drivers of pharma M&A

M&A as an innovation source

- McKinsey research shows that the share of revenues coming from innovations outside of Big Pharma has nearly doubled from 2001 to 2016.
- Developing new drugs requires high investment, with a low probability of success. Late-stage trials also require the ability to navigate regulatory pathways.

M&A to enhance synergies

- M&As help pharma companies scale up and generate cost synergies that lead to financial and operational gains.
- Companies with high margin spreads have the opportunity to capture synergies by acquiring companies with smaller portfolios.

M&A to realign portfolios

- Companies can use M&As to change the direction of their growth.
- This may be driven by a shift in strategy, a desire to improve commercial success, or a need to get rid of assets from prior deals that no longer benefit their company.

Sources: Roerich Bansal, et al., "What's behind the pharmaceutical sector's M&A push," McKinsey, October 2018.

Tax reform in 2017 led to an increase in merger-and-acquisition activity in 2018

2017 tax reform drove M&A activity in 2018

- 2017 tax reform may lead US-based pharmaceutical companies to divest more noncore assets from previous years.
- After-tax proceeds from a divesture could increase by around 23% due to lower taxes on the seller.
- The first half of 2018 saw 212 deals worth more than $200 billion, up from 151 deals in the 2017 period.

Changes in drug discovery sources may lead to more M&A activity

- Because of drug discovery, pharmaceutical companies have shifted from conducing mostly in-house R&D to driving innovation through external sourcing.
- In 2018, new drugs created by internal R&D labs at global pharmaceutical companies accounted for only 22% of new drugs, while startup pharmaceutical and biotech companies made up for the remaining 78%.

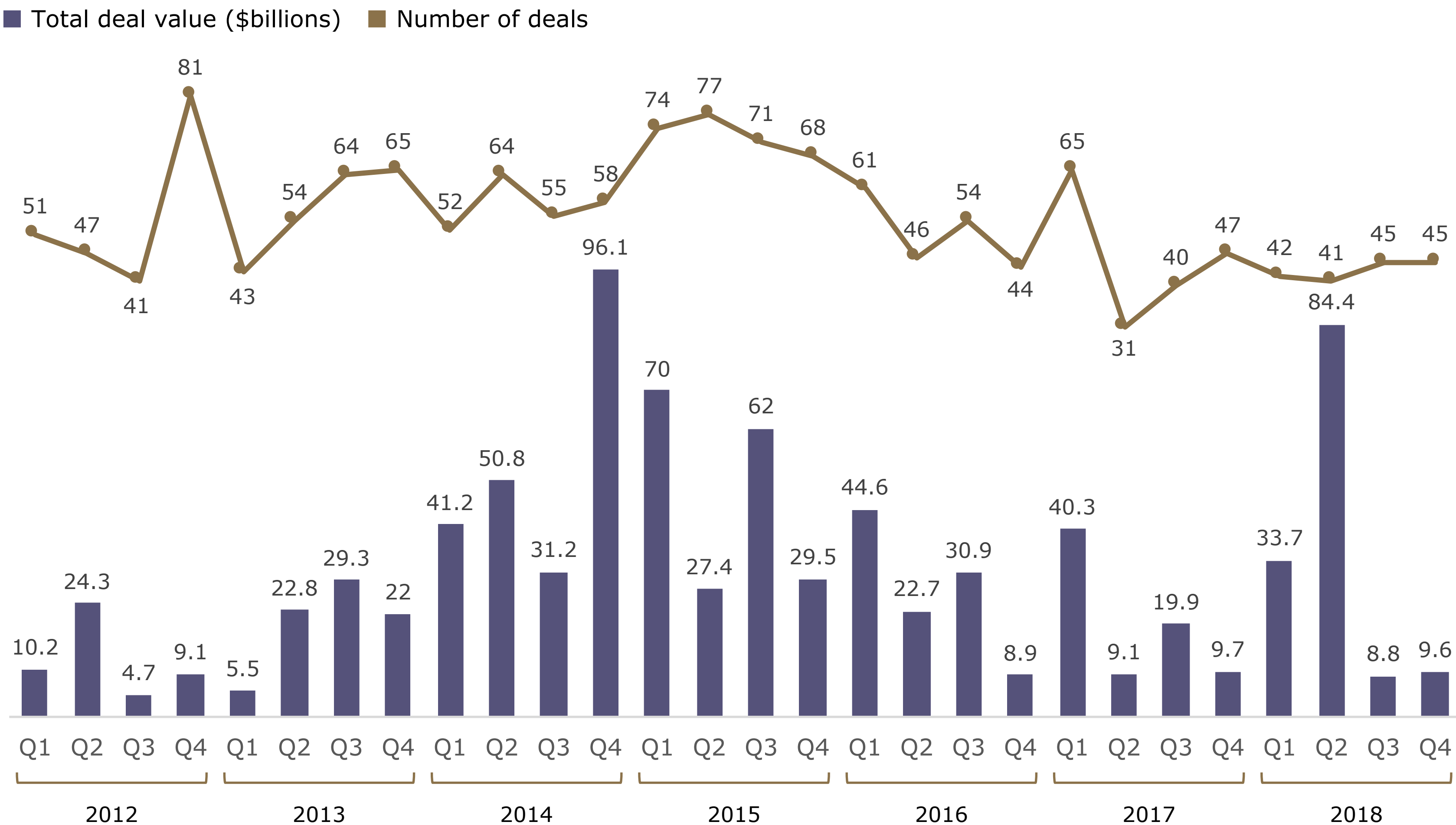
Biggest M&As announced in 2018

Acquirer	Target	Value ($billions)
Takeda	Shire	$64.2
Sanofi	Bioverativ	$11.6
Celgene	Juno Therapeutics	$9.0
Novartis	Avexis	$8.7
Celgene	Impact Biomedicines	$7.0

Sources: Roerich Bansal, et al., "What's behind the pharmaceutical sector's M&A push," McKinsey, October 2018; Amy Brown and Edwin Elmhirst, "As takeover hopes build, 2018 provides a low bar to beat," Vantage. January 9, 2019.

Q2 of 2018 saw over $84.4 billion in pharma and biotech M&A transactions

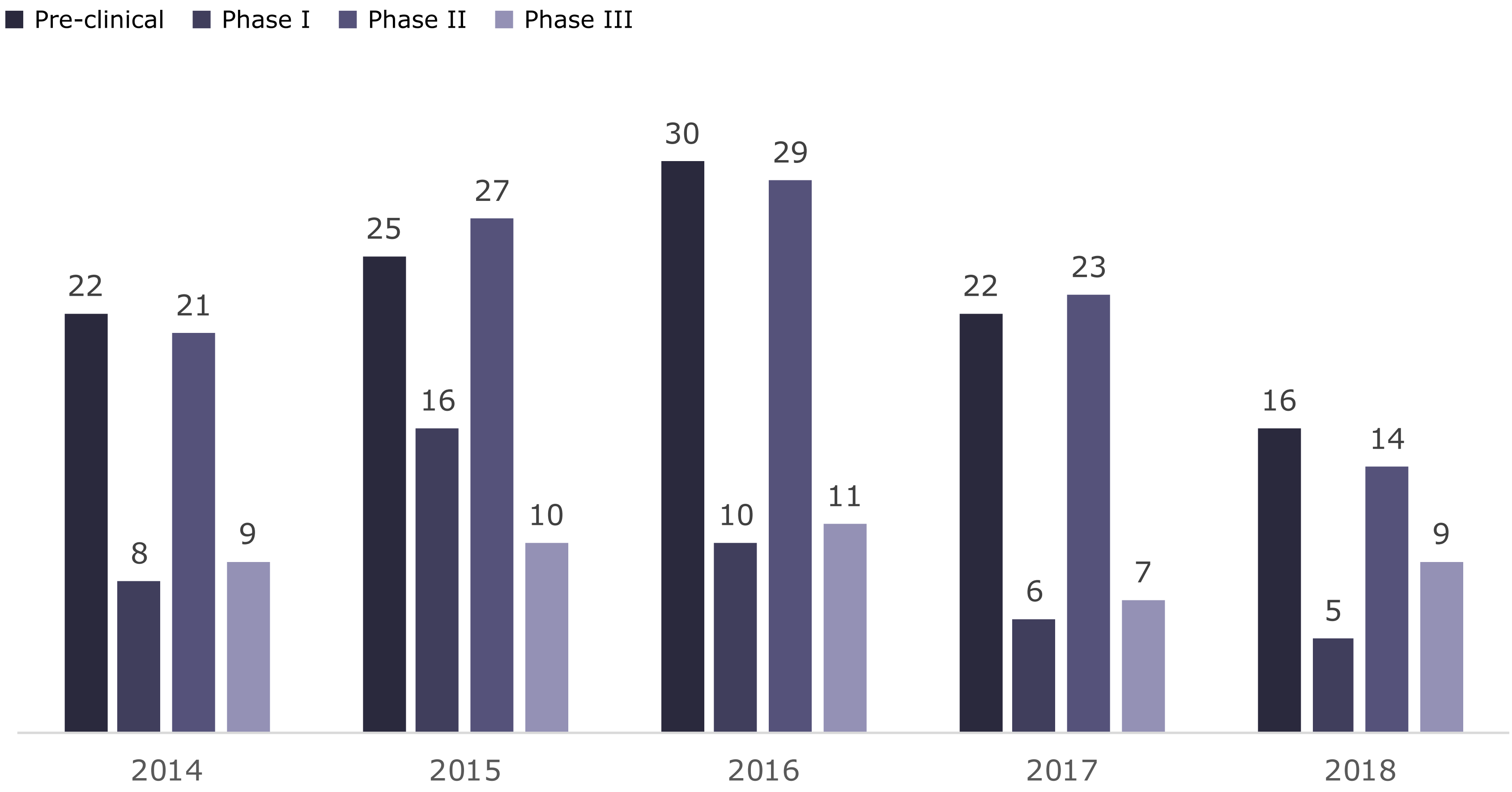
Pharma and biotech M&A transactions announced each quarter



Sources: Amy Brown and Edwin Elmhirst, "As takeover hopes build, 2018 provides a low bar to beat," Vantage. January 9, 2019.

Pre-clinical and phase II-stage drug trials are the most frequently bought out

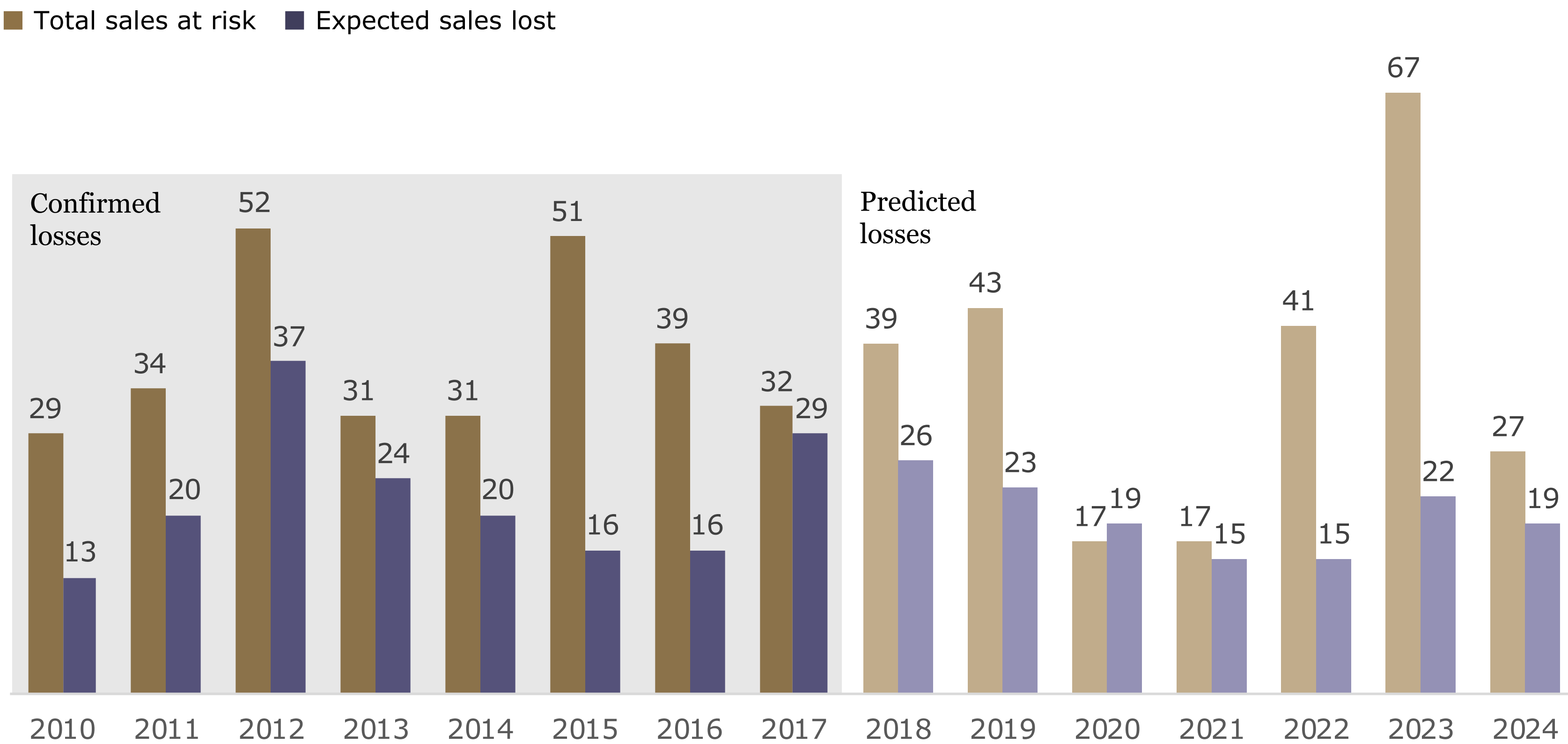
Number of clinical-stage buyouts by most advanced asset



Sources: Amy Brown and Edwin Elmhirst, "Following the M&A money, by phase and therapy area," Vantage, January 29, 2019.

$251 billion of sales are at risk between 2018 and 2024 due to expiring patents

Worldwide sales at risk from patent expiration



Pharmaceutical companies use M&As to acquire new drugs and account for inevitable declines in revenue when patents on brand-name drugs expire and generic competition is introduced into the market.

Sources: "World Preview 2018, Outlook to 2014," EvaluatePharma, June 2018.