PharmaDeals Review
ISSN: 1756-7874
Vol 2009 Issue 4 | Page 33
Published: 29 Apr-2009
DOI: 10.3833/pdr.v2009i4.1102

Section: Editorial

Is This the Calm After the Storm?

by Taskin Ahmed, PharmaVentures Ltd, Oxford UK

The first quarter of 2009 saw a flurry of consolidation in the pharmaceutical industry but the general feeling is that perhaps the major deals have been done and further M&A activity is likely to be at a relatively smaller scale.

According to the PharmaDeals® Agreements database, the total disclosed value of M&A deals during the first quarter of 2009 was US$118 B. The two mega-mergers, Pfizer-Wyeth and Merck-Schering Plough, represented 90% of that total. When one includes the US$46.8 B offer made by Roche for the remainder of Genentech, which started last year and eventually accepted by Genentech in March this year, the total goes up to nearly US$165 B. Compared to the same quarter last year, M&A deals totalled just under US$6 B and no deal touched the one billion dollar mark. In fact, the total value of M&A deals in the whole of 2008 was lower than the first quarter of this year.

Although confidence in the financial markets remains fragile, the pharma industry mega-deals have brought some cheer – at least to the M&A departments in the investment banks. In the current economic climate, pharma companies have been fortunate to have large cash reserves to fund their acquisitions. But they have also convinced the banks to lend, possibly signalling a thawing of the credit markets. The alternative to costly short-term bank debt was to tap the bond markets. Roche took this route to fund part of its buyout of Genentech.

Entering the second quarter, M&As are continuing unabated. By the third week of April, the total disclosed value of M&A deals was US$4.8 B. The lion's share of the total was GlaxoSmithKline's (GSK) acquisition of Stiefel for US$3.6 B. Sanofi-aventis has been the most prolific with three acquisitions in as many weeks: BiPar Sciences, a biopharm company specialising in cancer based in California, and two Latin American generics firms, Medley and Kendrick. It is also looking out for deals in China.

M&A activity will continue to be strong for the rest of the year but unlikely to be at the heady values seen earlier this year. This is because many of the other potential players in the industry such as Sanofi, GSK and Novartis have ruled themselves out of doing any mega mergers. Although big mergers present opportunities for cost-cutting, they have not resulted in increased R&D productivity or the sought-after pipeline of blockbusters. Having had a strategic re-think, large pharma companies are still scouting the industry for acquisitions, but these are likely to be mostly smaller, targeted deals.

There is continued speculation on further M&A activity. PharmaDeals Review has previously reported on several of the rumours such as Sanofi eyeing up Solvay's pharmaceuticals business; Nycomed's private equity owners are reportedly keen on a quick exit; Elan, which is reviewing its options and is hoping for a saviour; and the eye-care company, Allergan, was linked to a takeover by GSK. AstraZeneca recently confirmed in the Wall Street Journal it was steering clear of any mega-mergers. But it wants to bolster its late stage pipeline and is on the look-out for small- to medium-sized acquisitions in Europe. That doesn't leave a lot of choice, but could Solvay be an option?