

Section: Mergers & Acquisitions

Roche Gets Genentech for US\$46.8 B

by Taskin Ahmed, PharmaVentures Ltd, Oxford UK

Roche has agreed to purchase the remaining 44% of Genentech it doesn't own by raising its offer to US\$95 a share to secure the deal. The merger was approved by the special committee set up by the Genentech board. Roche needed to seal this deal before trial results for the cancer drug, Avastin®, come out, and if positive, could have raised Genentech's price even further. Genentech is Roche's best hope for revenue growth as Roche also contends with its own patent expirations. The combined company will have revenues of US\$17 B and become the seventh largest pharma company in the world. It ends a protracted battle that began eight months ago when Roche offered US\$89 a share which was rejected by Genentech.

Roche has finally clinched the deal to buy Genentech for US\$46.8 B after the Genentech board recommended shareholders to accept the deal. The merger is, so far, the biggest in Swiss corporate history and overshadows last year's acquisition of Alcon by Novartis for US\$39 B (Deal no. 30075). It comes after a long battle when Roche's initial bid in July 2008 was rejected. Since then a lot has happened. Buoyed by the Pfizer-Wyeth merger (Deal no. 32282) and a thawing of the financial markets, Roche came back with a lowered hostile bid of US\$86.50 direct to shareholders. That was also rejected. Roche then had to raise the offer again twice to get the nod from Genentech, thus ending the struggle between the two companies.

Roche, in the meantime, had successfully raised US\$39 B in bonds to enable it finance the impending deal. The latest offer is far short of the US\$112 a share that Genentech was seeking. However, in the current financial climate and with merger-mania gripping the industry following the Merck and Schering-Plough merger (Deal no. 32697), this could be the best offer that Genentech could hold out for considering that the results of the clinical trials for early use of Avastin® (bevacizumab) in colorectal cancer could go either way. Avastin has already been approved to treat colon, lung and breast tumours and had sales of US\$4.5 B for Roche in 2008. If the trial results are positive it may propel Avastin to one of the best selling drugs in the world and boost Roche's growth in oncology.

By acquiring the remainder of Genentech, Roche primarily gets all the revenues from Genentech's best selling cancer drugs in the US which it hadn't before, and a strong portfolio of developments beyond 2015, the date at which the contract between the two companies was to expire. In the Roche-Genentech partnership, Genentech was operating independently and at arms length from Roche – resulting in Genentech leading important breakthroughs in cancer treatment with Herceptin® (trastuzumab), Avastin®. There were fears that

Genentech would lose its identity. But Roche has assured Genentech that this will not be the case.

It also positions Roche in the high profitable biotech business and in the area of personalised medicine; Herceptin is one such drug which is highly effective in certain breast cancer patients who are identified by a diagnostic test. In February 2008, Roche completed the takeover of Ventana Medical Systems, an Arizona-based maker of a test that helps find patients whose cancer will respond to Herceptin (Deal no. 27576). It was another long, drawn out hostile battle, demonstrating Roche's persistence in going the long haul in order to close the deal.

The combined company's research and early development will operate as an independent centre within Roche from South San Francisco. Roche's Pharma commercial operations in the US will be moved from Nutley, New Jersey, to Genentech's site in South San Francisco. US commercial operations in pharmaceuticals will operate under the Genentech name, leveraging the strong Genentech brand in the US market. Functions that are destined for cost cutting are manufacturing, corporate administration and support and Roche expects to save between US\$750 M to US\$850 M.

So far in 2009, the two of the three mega-mergers are US-centric (Pfizer-Wyeth and Merck Schering-Plough are now the top two ranking global pharma companies) where companies are under greater pressure to counter decreasing revenues from blockbuster drugs and patent expirations. It is unlikely that the European pharma companies are going to sit back and watch. It will be interesting to see how GlaxoSmithKline, AstraZeneca and sanofi-aventis now reposition themselves.