

# EXPRESS Pharma

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**M**ergers and Acquisitions (M&A) seem to be the flavour of the season. Sun Pharma took over Ranbaxy and Bayer acquired Merck's consumer healthcare business. Pfizer bidding for Astrazeneca in what could be more than a \$100-billion takeover offer, has also been in the news for quite some time. Leading manufacturer of generic drugs, Teva Pharmaceuticals persistent attempts to acquire Cipla has been a topic of discussion in the industry. The surge in M&A activities, is expected to have a significant impact on the way the Indian pharma industry would shape up in future.

## M&A drivers

Though recent months have seen a spur in M&A deals, the reasons and motives behind each one of them vary.

KV Subramaniam, President and Chief Executive Officer, Reliance Life Sciences, analyses the development and says, "M&A activities have certainly accelerated in the first four months of this year, with several big ticket deals announced or are being currently pursued. Big pharma companies, who have largely stayed away from large deals in 2013, are looking at M&A route to expand into new product categories, new geographies and new technologies, besides focusing on growth in revenues and profits." He adds, "The focus now is more on the larger market opportunities, whereas, earlier it was directed at acquisitions of innovation-driven start-ups for technology platforms and early stage development product companies."

Patent protection was ensuring good profits to the innovator companies. However, post patent expiry profit margins started sinking considerably and pharma companies had to look for other avenues and alternate resources to earn money and stay afloat. This situation proved to be a precursor for the rise in M&A activities in the global pharma industry.

V Krishnakumar, Partner, Transaction Advisory Services

-Lifescience & Healthcare, Ernst and Young, informs, "As the global blockbuster boom of the 1980s and 1990s ran out of steam and patent expiries started accelerating, big pharma has been forced to cut down on inefficiencies and focus on core competencies. Hence, there has been (and will continue to be) significant consolidation in the global pharma industry." He adds, "This consolidation is enabling the rationalisation of various aspects of the business including product portfolios, R&D operations, manufacturing operations and investment on new product pipelines."

Ameesh Masurekar, Director, AIOCD Pharmsoft-tech AWACS, informs that the driving factors behind M&As globally and in India are quite different. He opines that Daiichi may not have had pressing reasons to exit from Ranbaxy at such a low valuation if it had been a purely domestic Indian company. He states, "Globally, the blockbuster molecules are reducing in every decade. This has led to increased pressure on sales, marketing, manufacturing and all other indirect costs." He further claims that the recent M&As were an attempt to maintain the bottomline, and reduce costs rather than to increase the topline. Sun and Ranbaxy deal is unique because of its valuation, its supposed ability to enhance topline purely because of the merger and its potential to reduce costs as well.

"The pharma industry globally is going through a challenging time with increasing public scrutiny and immense pressure on pricing," feels Ranjit Shahani, Vice Chairman and Managing Director, Novartis India. He says, "M&As is one way for pharma companies to gain scale and have a strategic position in the market place as can be seen from recent examples where companies have



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**KV Subramaniam,**  
 President and Chief Executive Officer,  
 Reliance Life Sciences



either bought out brands, formed JVs or divested businesses that are not among the top three in the market. In some cases, companies have bought out stressed assets in an endeavour to turn those around and gain market share."

**A trend setter deal?**  
 Ranbaxy's acquisition by Sun Pharma is perhaps the most significant acquisition in the Indian pharma industry. However, experts do not deny the chances of more such acquisitions.

"Several M&A deals have happened in India involving MNCs as well as Indian acquirers in the past and we expect this trend to continue," informs Subramaniam.

Masurekar echoes Subramaniam's views and explains, "Ranbaxy and Sun Pharma deal will open the doors for several more acquisitions in India. The buyer may be an Indian company or an MNC."

He adds, "The Daiichi acquisition of Ranbaxy was at five to six times the sales and Piramal acquisition of Abbott was at eight to nine times the sales. Due to these two deals there were high expectations and it was difficult for any buyer to match these. Now, with this deal, the expectations would be realistic, a new benchmark has been set and this would eventually open up more prospects for M&As."

Krishnakumar also endorses the views of Subramaniam and Masurekar and says that the trend of M&As will continue. Discussing the rationale behind his views he says, "Indian Big Pharma has definitely become an attractive buyer universe for prospective Indian sellers over the last one to two years, because of the heightened regulatory scrutiny involving the sale of Indian pharma companies to MNCs. Besides, the case for domestic consolidation is becoming more and more significant in the context of heightened drug price controls."

Domestic consolidation will help in keeping drug prices under control. However, multiple branded generic versions of new molecules will act as an obstacle in doing so. Krishnakumar explains, "Over 100 companies launch and try to promote their branded generic versions of each new molecule, which results in an enormous amount of wasteful activities and expenses in terms of manufacturing, distribution and doctor promotion. It also creates an unnecessary logjam of paperwork for regulatory authorities such as the State FDAs, DCGI, etc. Ultimately only the top 10-15 companies succeed in building large brands."

He adds, "We need to see more domestic consolidation happen so that the inefficiencies in the industry can get minimised, which in turn will increase the ability of pharma companies to provide cheaper drugs to patients without having to sacrifice profits. We believe that having eight to 10 companies selling a molecule provides for adequate competition; we don't need to encourage the launch of 100+ brands for each molecule."

Shahani says, "The pharma industry is highly fragmented and clearly has been ripe for consolidation for quite some time. These recent M&As are clear indicators. In life there are no permanent competitors so there is always the possibility that there could be more M&As in the Indian pharma space and of course globally."

According to Sun Pharma spokesperson, each situation is very specific. Whether it will spark off a trend is difficult to say.

## Potential targets

Pharmemerging markets like India are considered to be the next big ground for M&A activities. It will be interesting to see the kind of Indian companies that are going to be the targets of potential bidders.

Subramaniam says, "Against the backdrop of subdued growth in developed markets such as the US and the EU, pharmemerging markets continue to show a robust