

MERGERMARKET

Pharma, Medical & Biotech Trend Report

H1 2016

Data analysis

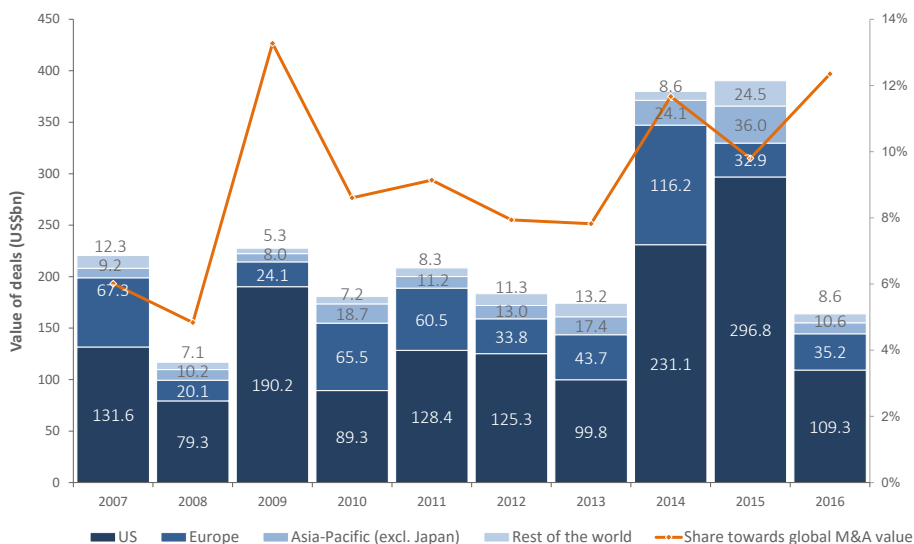
Pharma, Medical & Biotech (PMB) continued to have an impact on M&A activity in H1 2016, becoming the third-leading sector globally. Despite seeing a slight decline of 10.2% by value compared to H1 2015 (US\$ 182.4bn, 716 deals) – no small feat considering last year saw record highs from which most other sectors have more steeply fallen – PMB recorded a total deal value of US\$ 163.8bn across 631 deals, and accounted for 12.3% of global M&A value.

PMB's relatively strong performance in the first half of the year is all the more noteworthy considering recent clampdowns on so-called tax inversion transactions, popular in the PMB sector, by government regulators. Following the introduction of additional rules by the US Treasury Department in early April 2016, the largest Pharmaceutical and de-facto inversion in history – US-based Pfizer's US\$ 183.7bn bid for Ireland-based Allergan – collapsed, and has potentially discouraged other deals of similar size and nature.

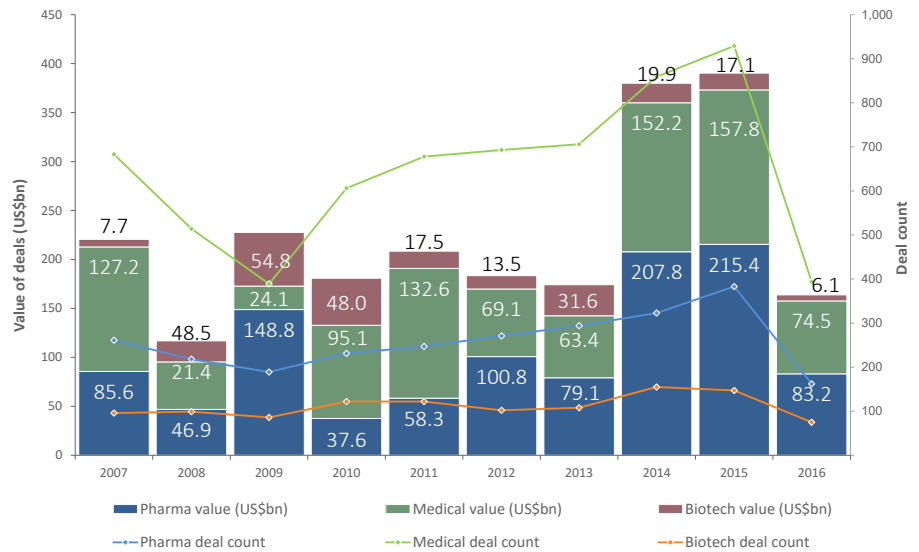
US-based PMB activity, which accounted for 66.8% of global PMB value with 241 deals worth US\$ 109.3bn, experienced a noticeable slowdown in H1 2016, falling 23.6% compared to H1 2015 (US\$ 143bn, 287 deals). The US PMB trend was driven mainly by its top two transactions: the US\$ 35.2bn cross-border transaction between Ireland-based Shire Plc and US-based Baxalta, the largest US PMB transaction of the period, which accounted for 32.2% of US market share and 21.5% of global sector market share. The second-largest PMB transaction, US-based Abbott Laboratories' US\$ 29.9bn bid for US-based St. Jude Medical, accounted for 27.4% of US market share, and 18.2% of global sector market share.

Europe, meanwhile, experienced a significant increase within its own PMB sector. With 215 transactions worth US\$ 35.2bn, Europe's total PMB value increased by 92.8% compared to H1 2015, with 235 deals worth US\$ 18.3bn. Consequently, Europe contributed 21.5% to global PMB value in the first half

Regional breakdown



Global sub-sector trend



of 2016. The driving force behind such an increase was the third-largest PMB transaction between Germany-based Boehringer Ingelheim and France-based pharmaceutical company Meril, worth US\$ 12.6bn, which accounted for 35.7% of Europe's total PMB value, and 7.7% of global sector value.

The Asia-Pacific region, currently undergoing a high volume of domestic market volatility, had no significant contributions within the PMB sector for H1 2016, accounting for only 6.5% of total PMB value globally with 110 deals worth US\$ 10.6bn. The US\$ 1.2bn acquisition of 12 China-based pharmaceutical companies by Shanghai Shyndec Pharmaceutical was the largest transaction in Asia (excluding Japan), accounting for 11.2% of total regional market share.

Pharmaceuticals was the leading sub-sector in the first half of 2016 with 162 deals worth US\$ 83.2bn, which declined by 34.4% compared to H1 2015 (US\$ 126.8bn, 185 deals) and accounted for 50.8% of global sector market share. Shire's acquisition of Baxalta was the key deal for the sub-sector, accounting for 42.3% of total Pharmaceutical market share. Medical ranked behind Pharmaceuticals, with a total value of US\$ 74.5bn across 394 deals in H1, up 45.5% compared to the same period last year (US\$ 51.2, 461 deals),

and accounting for 45.4% of global PMB value. The Abbott Laboratories/St. Jude Medical deal has been the primary reason behind the sub-sector's deal value increase, accounting for 40.1% of total Medical market share. Biotechnology contributed only 3.7% to total PMB market share with 75 deals worth US\$ 6.1bn, up 36.7% compared to H1 2015 (US\$ 4.5bn, 70 deals).

With the global market uncertainty over Brexit and increased regulations from government authorities, the days of high valuations and transactions based largely on tax incentive schemes within the PMB sector may be numbered. However, where one door closes, usually another one opens.

Top deals

Value (US\$m)	Deal details	Advisory details
35,219	<p>Announcement date: 11-Jan-16</p> <p>Target: Baxalta Inc (USA)</p> <p>Bidder: Shire Plc (Ireland-Republic)</p> <p>Seller: -</p>	<p>FA to sell-side: Citi; Goldman Sachs</p> <p>LA to sell-side: Jones Day; Kirkland & Ellis; Skadden Arps Slate Meagher & Flom; <i>Advising FA:</i> White & Case; Fried Frank Harris Shriver & Jacobson</p> <p>FA to buy-side: Barclays; Deutsche Bank; Evercore Partners Inc; Morgan Stanley</p> <p>LA to buy-side: Arthur Cox; Cravath, Swaine & Moore, Ropes & Gray; Slaughter and May; <i>Advising FA:</i> Freshfields Bruckhaus Deringer</p>
29,850	<p>Announcement date: 28-Apr-16</p> <p>Target: St. Jude Medical Inc (USA)</p> <p>Bidder: Abbott Laboratories (USA)</p> <p>Seller: -</p>	<p>FA to sell-side: Guggenheim Partners</p> <p>LA to sell-side: Gibson Dunn & Crutcher; <i>Advising FA:</i> White & Case</p> <p>FA to buy-side: Bank of America Merrill Lynch; Evercore Partners</p> <p>LA to buy-side: Baker & McKenzie; Baker Botts; Cleary Gottlieb Steen & Hamilton; Wachtell, Lipton, Rosen & Katz; <i>Advising FA:</i> Davis Polk & Wardwell; Wilson Sonsini Goodrich & Rosati</p>
12,564	<p>Announcement date: 27-Jun-16</p> <p>Target: Merial SAS (France)</p> <p>Bidder: Boehringer Ingelheim GmbH (Germany)</p> <p>Seller: Sanofi SA (France)</p>	<p>FA to sell-side: -</p> <p>LA to sell-side: -</p> <p>FA to buy-side: Bank of America Merrill Lynch; Rothschild</p> <p>LA to buy-side: Freshfields Bruckhaus Deringer</p>
9,933	<p>Announcement date: 10-Feb-16</p> <p>Target: Meda AB (Sweden)</p> <p>Bidder: Mylan NV (United Kingdom)</p> <p>Seller: -</p>	<p>FA to sell-side: Rothschild; SEB</p> <p>LA to sell-side: Mannheimer Swartling; <i>Advising FA:</i> White & Case</p> <p>FA to buy-side: Centerview Partners; Handelsbanken Capital Markets</p> <p>LA to buy-side: Cravath, Swaine & Moore; NautaDutilh; Stibbe; Vinge; <i>Advising FA:</i> Cadwalader, Wickersham & Taft; <i>Advising Debt Provider:</i> Davis Polk & Wardwell</p>
7,493	<p>Announcement date: 01-Feb-16</p> <p>Target: Alere Inc (USA)</p> <p>Bidder: Abbott Laboratories (USA)</p> <p>Seller: -</p>	<p>FA to sell-side: JPMorgan</p> <p>LA to sell-side: Cravath, Swaine & Moore; <i>Advising FA:</i> Davis Polk & Wardwell</p> <p>FA to buy-side: Evercore Partners</p> <p>LA to buy-side: Jones Day; Kirkland & Ellis; <i>Advising FA:</i> Wilson Sonsini Goodrich & Rosati</p>

Heat chart based on potential companies for sale

	Pharma, Medical, Biotech	TMT	Industrials and Chemicals	Consumer	Energy, Mining, Utilities	Business Services	Financial Services	Other
North America	633	508	309	282	444	313	177	239
Europe	212	439	521	619	315	226	296	527
North Asia	149	323	543	214	116	116	154	372
Australasia	51	101	42	80	90	63	72	128
South Asia	54	121	92	59	57	63	117	106
South East Asia	21	61	53	62	76	28	75	164
C&S America	21	64	60	89	102	54	20	79
Japan	42	73	49	39	14	17	12	43
Central Asia	0	2	6	5	17	1	2	5
Africa	8	13	35	20	56	12	20	49
Middle East	2	4	13	0	14	4	0	125

Drivers

In the health care industry, especially in North America, experts anticipate strong activity driven by strategic and financial buyers for the rest of the year. PE firms across the US have some of the largest funds to date for acquisitions and investment, and their limited partner investors are pressuring them to put those resources to work as quickly as possible. Though companies scared by the downturn in commodities prices have hit the pause button on hiring for now, some will begin to look toward inorganic growth fueled by cheap debt and balance sheet cash, acting as drivers for M&A activity throughout the remainder of the year, with sellers expecting to get 8x-10x EBITDA on larger deals in the healthcare and pharmaceutical space.

Forthcoming changes to EU directives on medical devices and in vitro diagnostics (IVD) may lead to greater opportunities for CROs and service companies as well as industry consolidation in Europe. However, the influence of UK notified bodies, which oversee compliance with EU rules, is now in question following Brexit. Experts agreed that the UK's referendum to leave the EU will complicate device regulation implementation – if the UK exits the EU, UK notified bodies will not be permitted to issue certificates for compliance with EU law and will lose business, unless politicians negotiate a recognition agreement similar to Switzerland, Turkey, Norway or Australia during the two-year exit period.

Brazilian health care targets could help to stimulate M&A activity in Central & South America this year. Since early 2015, approximately 1.8 million people have lost their health insurance due to rising unemployment, leaving many health insurance and hospital operators in Brazil in dire financial straits and in need of a capital injection. Such relatively cheap assets have proved to be attractive potential targets for some bidders such as Asisa, a privately held, Spanish health insurance and hospital management company currently analyzing options in the Brazilian healthcare sector. A spokesperson for Madrid-based Asisa said the Spanish company is focused on expanding its operations overseas and is indeed weighing options to enter the Brazilian healthcare industry, including acquisitions, joint ventures or the set-up of a local business from scratch. Further, opportunities in Brazil have been boosted by a new law enacted in early 2015 that lifted the ban on foreign investments in Brazilian hospital and medical clinics.

Mexico's pharmaceutical M&A market has stalled for the moment due to high valuations and reluctance by regional, family-owned businesses to sell. With strong cash flow generation and great expectations for the future, as well as reason to hold out for offers that do not meet their expectations, many family-owned Mexican pharmaceutical companies are currently happy with their businesses and looking to expand to other countries and innovating in different subsectors. In Latin America, owners of Mexican family businesses are the most reluctant to sell their companies, as they value their contribution to society and their status in the community over money. Rather than selling, Mexican pharmaceutical companies see themselves more as consolidators, looking for regional acquisitions or partnerships. Additionally, those interested in acquiring a Mexican pharmaceutical company should be prepared to make large cash payouts, following a precedent set by recent deals. The country's pharmaceutical sector is one of the most expensive as they have performed better in the country's currently depressed economy.

Criteria of heat chart:

Mergermarket's sector heat chart is based on companies tagged as potential targets in the last six months.

Financial advisor league table by value

Ranking			H1 2016		H1 2015	
H1 2016	H1 2015	Company Name	Value (US\$m)	Deal count	Value (US\$m)	% Value change
1	12	Evercore Partners	81,746	8	11,913	586.2%
2	7	Barclays	49,543	9	26,499	87.0%
3	4	Morgan Stanley	48,072	5	40,279	19.3%
4	9	Bank of America Merrill Lynch	47,555	6	17,929	165.2%
5	6	Citi	42,285	6	28,645	47.6%
6	11	Guggenheim Partners	41,506	6	16,490	151.7%
7	8	Deutsche Bank	39,317	8	25,801	52.4%
8	2	Goldman Sachs	38,884	6	58,906	-34.0%
9	15	Rothschild	26,792	8	6,344	322.3%
10	1	JPMorgan	21,867	12	105,111	-79.2%

Financial advisor league table by deal count

Ranking			H1 2016		H1 2015	
H1 2016	H1 2015	Company Name	Value (US\$m)	Deal count	Value (US\$m)	Count change
1	5	Jefferies	7,980	15	16	-1
2	9	Deloitte	610	13	12	1
3	1	JPMorgan	21,867	12	24	-12
4	4	PwC	1,191	12	18	-6
5	12	Houlihan Lokey	2,100	10	9	1
6	11	Barclays	49,543	9	10	-1
7	7	EY	1,328	9	12	-3
8	22	Evercore Partners	81,746	8	5	3
9	14	Deutsche Bank	39,317	8	8	0
10	3	Rothschild	26,792	8	19	-11

Legal advisor league table by value

Ranking			H1 2016		H1 2015	
H1 2016	H1 2015	Company Name	Value (US\$m)	Deal count	Value (US\$m)	% Value change
1	11	White & Case	84,770	17	35,886	136.2%
2	4	Cravath, Swaine & Moore	60,606	6	48,833	24.1%
3	9	Freshfields Bruckhaus Deringer	51,119	6	36,533	39.9%
4	16	Kirkland & Ellis	50,177	15	28,099	78.6%
5	2	Davis Polk & Wardwell	49,261	11	78,287	-37.1%
6	46	Jones Day	44,740	15	6,116	631.5%
7	22	Fried Frank Harris Shriver & Jacobson	39,686	5	23,198	71.1%
8	1	Skadden Arps Slate Meagher & Flom	37,975	10	87,738	-56.7%
9	25	Wilson Sonsini Goodrich & Rosati	37,343	4	19,304	93.4%
10	10	Ropes & Gray	37,242	13	36,320	2.5%

Legal advisor league table by deal count

Ranking			H1 2016		H1 2015	
H1 2016	H1 2015	Company Name	Value (US\$m)	Deal count	Value (US\$m)	Count change
1	7	White & Case	84,770	17	19	-2
2	2	DLA Piper	1,654	17	23	-6
3	11	Goodwin Procter	7,945	16	15	1
4	5	Kirkland & Ellis	50,177	15	20	-5
5	1	Jones Day	44,740	15	26	-11
6	14	Baker & McKenzie	36,254	14	12	2
7	4	Ropes & Gray	37,242	13	20	-7
8	3	Latham & Watkins	5,157	13	22	-9
9	6	Weil Gotshal & Manges	19,952	12	20	-8
10	17	McDermott Will & Emery	405	12	12	0

Mergermarket criteria

All data is based on transactions over US\$ 5m and is based on Mergermarket's M&A deals database. Deals with undisclosed values are included where target's turnover exceeds US\$ 10m.

Deals where stake acquired is less than 30% will only be included if deal value is greater than US\$ 100m. Click [here](#) for full deal criteria.

M&A trend: Based on dominant sector of target company being Pharma, Medical & Biotech. Dominant geography of target company based on global activity or the region stated. Excludes lapsed and withdrawn bids.

Cross-border M&A: Based on a transaction involving at least two different countries between either target, bidder or seller.

Top deals: Based on dominant sector of target company being Pharma, Medical & Biotech. Dominant geography of target company based on global activity.

FA refers to financial advisor. LA refers to legal advisor. Excludes lapsed and withdrawn bids.

League tables: Based on dominant sector of target company being Pharma, Medical & Biotech and dominant geography of target, bidder or seller being global. Financial advisor tables *exclude* lapsed and withdrawn bids. Legal advisor tables *include* lapsed and withdrawn bids.

All values are in US\$.

Data correct as of 30-Jun-2016.

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