

# MERGERMARKET

## Pharma, Medical & Biotech Trend Report

### Q1-Q3 2016

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## Data analysis

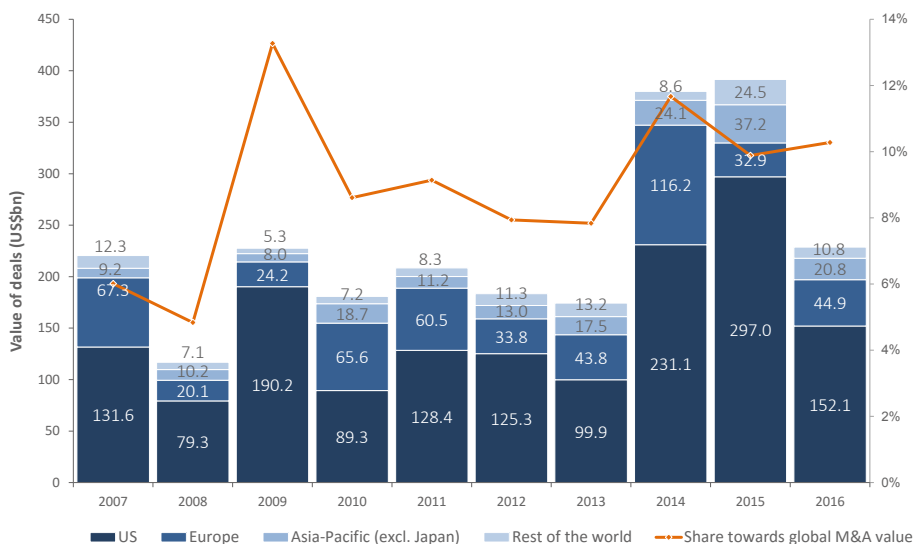
Pharma, Medical & Biotech (PMB) took another dive in Q3 2016 (US\$ 56.9bn, 316 deals), losing 31.4% of its deal value and 12.2% of its deal count compared to Q2 2016 (US\$ 82.9bn, 360 deals). It was the second consecutive decrease in value since Q4 2015.

Despite the quarter-on-quarter downward trend, year-to-date activity in the PMB sector remained relatively robust and amounted to 1,033 deals worth US\$ 228.7bn in Q1-Q3 2016. While deal value was down 31.8% compared to the record high levels of Q1-Q3 2015 (US\$ 335.4bn), overall, this year's activity was the third-highest by both deal value and deal count in Mergermarket history (to 2001), with only the previous two years topping these results. The share of PMB's aggregate value in global M&A has stood at 10.3% so far in 2016, while the average market share for the sector over the previous five years was lower at 9.3%.

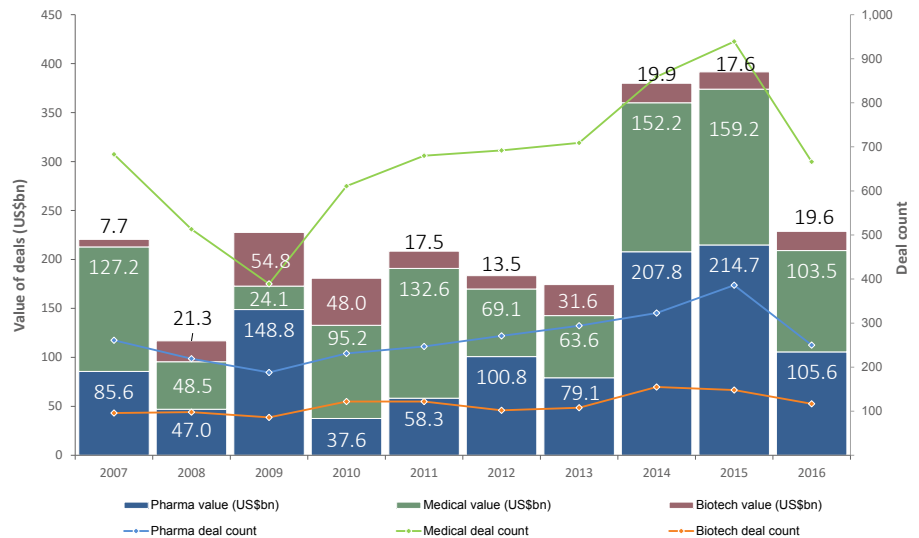
The US maintained its dominant position in the global PMB sector, accumulating 103 deals worth US\$ 35.7bn in Q3 2016, though this was a 40% decrease in value and a 23.7% drop in deal count compared to Q2 2016 (US\$ 59.4bn, 135 deals). At the same time, the country's overall M&A activity across all sectors was up 17.4% by value from the previous quarter, resulting in an almost 50% decline in the sector's market share in the US (from 18.1% in Q2 2016 to 9.3% in Q3 2016).

The largest PMB deal in Q3 2016 was Pfizer's US\$ 13.2bn acquisition of Medivation, a California-headquartered biopharmaceutical company. After Pfizer's record-breaking, US\$ 183.7bn bid for Ireland-based Allergan failed in April 2016 due to tightening US regulations, Pfizer has focused on making many "smaller" acquisitions. In May, Pfizer bought Anacor Pharmaceuticals for US\$ 4.5bn, followed by BIND Therapeutics for US\$ 20m in July, a 78% stake in Bamboo Therapeutics for US\$ 150m in August, and AstraZeneca's rights to a small-molecule antibiotics business for US\$ 550m, also in August.

## Regional breakdown



## Global sub-sector trend



The purchase of Medivation at a 21.4% premium was one of the latest deals on the list, with the transaction expected to close by the end of the year.

Similar to US activity, European M&A in the sector also slowed in Q3 2016 following the Brexit referendum in June: there were 96 deals worth US\$ 9.5bn announced in the region during Q3, a 51.1% decrease in value and a 25% drop in deal count compared to Q2 2016 (US\$ 19.4bn, 128 deals). On the other hand, Asia saw an uptick in activity, with deal value more than tripling from US\$ 2.9bn in Q2 to US\$ 9.7bn in Q3 and deal count rising for two consecutive quarters. Moreover, Asia saw 84 deals in the third quarter of 2016, the highest number of PMB deals for the region on record. Although Europe and Asia ended Q3 with similar market shares by value (16.4% and 17%, respectively), Europe maintained its edge in the year-to-date, contributing 19.6% to the global PMB value, compared to Asia's 9.1%.

With the US Treasury Department further clamping down on tax inversions this year, cross-border activity in the PMB sector has dwindled: cross-border M&A has declined for not only the past two quarters, but for the past two years as well, coinciding with the Treasury's several rounds of new inversion rules. Reaching record-high levels in Q1-Q3 2014 (US\$ 172.8bn), just

before the first regulations were announced in September 2014, it dropped to US\$ 126.2bn in Q1-Q3 2015, and further to US\$ 101.9bn in the first three quarters of 2016. Its market share now stands at 44.6%, compared to 68.9% in 2014.

Over the past two years, the PMB sector has seen its share of negative press: from Mylan increasing its prices for the EpiPen by 600%, to Turing Pharmaceuticals' price hike and the subsequent arrest of its CEO, to Theranos, initially praised as the success story of Silicon Valley, tumbling. Amid regulatory concerns and a changing global geopolitical environment, PMB seems to be weathering the storm at the moment. However, M&A in the sector might take a slightly different shape in the future, opting for fewer mega-deals in favor of "smaller" transactions, the way Pfizer has done this year.

## Top deals

Value (US\$m)	Deal details	Advisory details
35,219	<p><b>Announcement date:</b> 11-Jan-2016</p> <p><b>Target:</b> Baxalta Inc (USA)</p> <p><b>Bidder:</b> Shire Plc (Ireland-Republic)</p> <p><b>Seller:</b> -</p>	<p><b>FA to sell-side:</b> Citi; Goldman Sachs</p> <p><b>LA to sell-side:</b> Jones Day; Kirkland &amp; Ellis; Skadden Arps Slate Meagher &amp; Flom; <i>Advising FA:</i> White &amp; Case; Fried Frank Harris Shriver &amp; Jacobson</p> <p><b>FA to buy-side:</b> Barclays; Deutsche Bank; Evercore Parters; Morgan Stanley</p> <p><b>LA to buy-side:</b> Arthur Cox; Cravath Swaine &amp; Moore; Davis Polk &amp; Wardwell; Ropes &amp; Gray; Slaughter and May; <i>Advising FA:</i> Freshfields Bruckhaus Deringer</p>
29,850	<p><b>Announcement date:</b> 28-Apr-2016</p> <p><b>Target:</b> St. Jude Medical Inc (USA)</p> <p><b>Bidder:</b> Abbott Laboratories (USA)</p> <p><b>Seller:</b> -</p>	<p><b>FA to sell-side:</b> Guggenheim Partners</p> <p><b>LA to sell-side:</b> Gibson Dunn &amp; Crutcher; <i>Advising FA:</i> White &amp; Case</p> <p><b>FA to buy-side:</b> Bank of America Merrill Lynch; Evercore Partners</p> <p><b>LA to buy-side:</b> Baker &amp; McKenzie; Baker Botts; Cleary Gottlieb Steen &amp; Hamilton; Torys; Wachtell Lipton Rosen &amp; Katz; <i>Advising FA:</i> Davis Polk &amp; Wardwell; Wilson Sonsini Goodrich &amp; Rosati</p>
13,999	<p><b>Announcement date:</b> 22-Aug-2016</p> <p><b>Target:</b> Medivation Inc (USA)</p> <p><b>Bidder:</b> Pfizer Inc (USA)</p> <p><b>Seller:</b> -</p>	<p><b>FA to sell-side:</b> Evercore Partners; JPMorgan</p> <p><b>LA to sell-side:</b> Cooley; Wachtell Lipton Rose &amp; Katz; <i>Advising FA:</i> Davis Polk &amp; Wardwell; Fried Frank Harris Shriver &amp; Jacobson</p> <p><b>FA to buy-side:</b> Centerview Partners; Guggenheim Partners; M&amp;A International</p> <p><b>LA to buy-side:</b> Ropes &amp; Gray; <i>Advising FA:</i> White &amp; Case</p>
12,564	<p><b>Announcement date:</b> 27-Jun-2016</p> <p><b>Target:</b> Merial SAS (France)</p> <p><b>Bidder:</b> Boehringer Ingelheim GmbH (Germany)</p> <p><b>Seller:</b> Sanofi SA (France)</p>	<p><b>FA to sell-side:</b> Lazard</p> <p><b>LA to sell-side:</b> Linklaters; Weil Gotshal &amp; Manges</p> <p><b>FA to buy-side:</b> Bank of America Merrill Lynch; Rothschild</p> <p><b>LA to buy-side:</b> Freshfields Bruckhaus Deringer</p>
9,933	<p><b>Announcement date:</b> 10-Feb-2016</p> <p><b>Target:</b> Meda AB (Sweden)</p> <p><b>Bidder:</b> Mylan NV (United Kingdom)</p> <p><b>Seller:</b> -</p>	<p><b>FA to sell-side:</b> Rothschild; SEB</p> <p><b>LA to sell-side:</b> Cleary Gottlieb Steen &amp; Hamilton; Mannheimer Swartling; <i>Advising FA:</i> White &amp; Case</p> <p><b>FA to buy-side:</b> Centerview Partners; Handelsbanken Capital Markets</p> <p><b>LA to buy-side:</b> Cravath Swaine &amp; Moore; NautaDutilh; Stibbe; Vinge; <i>Advising FA:</i> Cadwalader Wickersham &amp; Taft; <i>Advising Debt Provider:</i> Davis Polk &amp; Wardwell</p>

## Heat chart based on potential companies for sale

	TMT	Consumer	Industrials and Chemicals	Pharma, Medical, Biotech	Energy, Mining, Utilities	Financial Services	Other
North America	643	411	405	579	412	243	284
Europe	574	667	610	232	342	270	577
North Asia	337	221	393	129	120	159	309
Australasia	122	98	52	54	65	63	118
South Asia	224	148	175	82	150	157	314
South East Asia	88	78	77	35	95	72	212
C & S America	94	108	71	30	111	23	101
Japan	96	57	70	54	18	23	44
Middle East	62	17	11	29	21	22	29
Africa	18	30	52	8	75	28	54
Central Asia	2	8	6	0	14	2	6

## Drivers

Consolidations in the healthcare sector prompted by the Affordable Care Act (ACA), with an emphasis on cutting costs and increasing value for services, has led to hospital systems growth via buying up smaller providers and medical IT companies.

The PMB sector is expected to see a continuing trend toward healthcare organizations acquiring community hospitals in non-urban areas. Many of these smaller groups have seen a decline in patients while also taking in a higher number of uninsured clients, and have thus been unable to generate enough income to offset costs.

Large consolidations, meanwhile, have hit snags this year as can be seen in the Aetna/Humana and Anthem/Cigna health insurance mega-mergers, which were struck by antitrust suits brought by the US Department of Justice. Political impediments combined with election year uncertainty also saw the collapse of the Pfizer/Allergan transaction in the spring following the introduction of a new round of rules aimed at clamping down tax inversion deals.

Partly as a result of the above, middle-market deals are now as in vogue as ever, with financial lenders increasingly interested in smaller deals. This corresponds to a trend of PMB giants seeking micro-deals that are more likely to close without government interference. In fact, competition among bidders for such buys has been fierce, with more capital available than targets. Private equity funds, pension plans, and sovereign wealth funds all appear to be on the hunt for the latest middle to small market buys before the end of the year, when interest rates in the US are largely expected to rise.

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		Company Name	Q1-Q3 2016		Q1-Q3 2015	
Q1-Q3 2016	Q1-Q3 2015		Value (US\$m)	Deal count	Value (US\$m)	% Value change
1	15	Evercore Partners	94,997	10	19,314	391.9%
2	12	Bank of America Merrill Lynch	61,760	14	24,782	149.2%
3	2	Morgan Stanley	59,073	11	94,269	-37.3%
4	4	Goldman Sachs	58,175	12	64,690	-10.1%
5	13	Guggenheim Partners	54,941	9	19,918	175.8%
6	3	Barclays	53,973	14	68,382	-21.1%
7	8	Citi	46,515	10	39,889	16.6%
8	11	Deutsche Bank	39,317	10	27,587	42.5%
9	1	JPMorgan	39,226	24	159,660	-75.4%
10	6	Centerview Partners	31,767	8	59,666	-46.8%

## Financial advisor league table by deal count

Ranking		Company Name	Q1-Q3 2016		Q1-Q3 2015	
Q1-Q3 2016	Q1-Q3 2015		Value (US\$m)	Deal count	Deal count	Count change
1	3	Jefferies	14,455	26	27	-1
2	5	PwC	3,479	25	22	3
3	1	JPMorgan	39,226	24	32	-8
4	10	Deloitte	1,002	19	17	2
5	7	EY	2,634	18	20	-2
6	4	Rothschild	27,494	15	27	-12
7	17	Bank of America Merrill Lynch	61,760	14	11	3
8	8	Barclays	53,973	14	17	-3
9	16	Piper Jaffray & Co	1,300	14	12	2
10	2	Goldman Sachs	58,175	12	28	-16

## Legal advisor league table by value

Ranking		Company Name	Q1-Q3 2016		Q1-Q3 2015	
Q1-Q3 2016	Q1-Q3 2015		Value (US\$m)	Deal count	Value (US\$m)	% Value change
1	8	Davis Polk & Wardwell	99,712	15	79,207	25.9%
2	4	White & Case	98,507	24	103,659	-5.0%
3	5	Cravath Swaine & Moore	65,876	10	99,262	-33.6%
4	10	Kirkland & Ellis	57,975	25	72,287	-19.8%
5	22	Freshfields Bruckhaus Deringer	57,819	8	37,645	53.6%
6	32	Fried Frank Harris Shriver & Jacobson	56,377	9	23,198	143.0%
7	12	Wachtell Lipton Rosen & Katz	52,990	5	67,953	-22.0%
8	11	Cleary Gottlieb Steen & Hamilton	50,695	6	68,648	-26.2%
9	23	Ropes & Gray	50,441	17	37,037	36.2%
10	50	Jones Day	46,769	26	12,022	289.0%

## Legal advisor league table by deal count

Ranking		Company Name	Q1-Q3 2016		Q1-Q3 2015	
Q1-Q3 2016	Q1-Q3 2015		Value (US\$m)	Deal count	Deal count	Count change
1	3	DLA Piper	8,528	31	33	-2
2	1	Latham & Watkins	11,232	28	38	-10
3	4	Jones Day	46,769	26	33	-7
4	2	Kirkland & Ellis	57,975	25	35	-10
5	5	White & Case	98,507	24	29	-5
6	10	Baker & McKenzie	36,750	23	24	-1
7	7	Weil Gotshal & Manges	22,671	19	28	-9
8	11	Cooley	22,507	19	24	-5
9	6	Goodwin Procter	9,755	19	29	-10
10	8	Ropes & Gray	50,441	17	27	-10

## 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-Sep-2016.

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## About Mergermarket

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