

MERGERMARKET

Pharma, Medical & Biotech Trend Report

Q1-Q4 2016

Data analysis

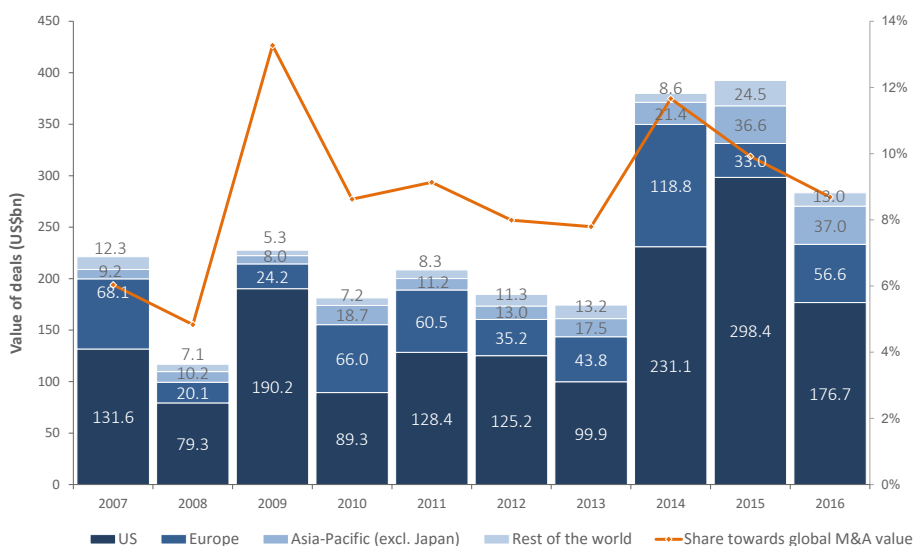
Global Pharma, Medical & Biotech (PMB) M&A felt the heat for the first time since 2014 from US regulations targeting tax inversion deals for the third year in a row, though still managed to take advantage of the need for consolidation in an environment of cheap financing. Total deal values for the sector fell 27.8% in 2016 to their third-highest values on Mergermarket record (since 2001), US\$ 283.4bn, from 2015's record-breaking US\$ 392.4bn. Volume, despite dropping by 52, finished the year with 1,439 deals, the second-highest number of transactions on record after the previous year's 1,491.

Government regulations also appeared to have an effect on cross-border activity. 2016 saw 468 such deals worth USD 126.5bn, a 21.8% decrease in value with 38 fewer deals compared to 2015's 506 deals worth a total of US\$ 161.7bn. 2016 also saw a 51.5% decrease in value with 26 more deals compared to 2014 (442 deals, USD 260.9bn). We highlight the last two years, as 2014 hit highs for deal values and then saw a drop off that paralleled regulation roll-outs.

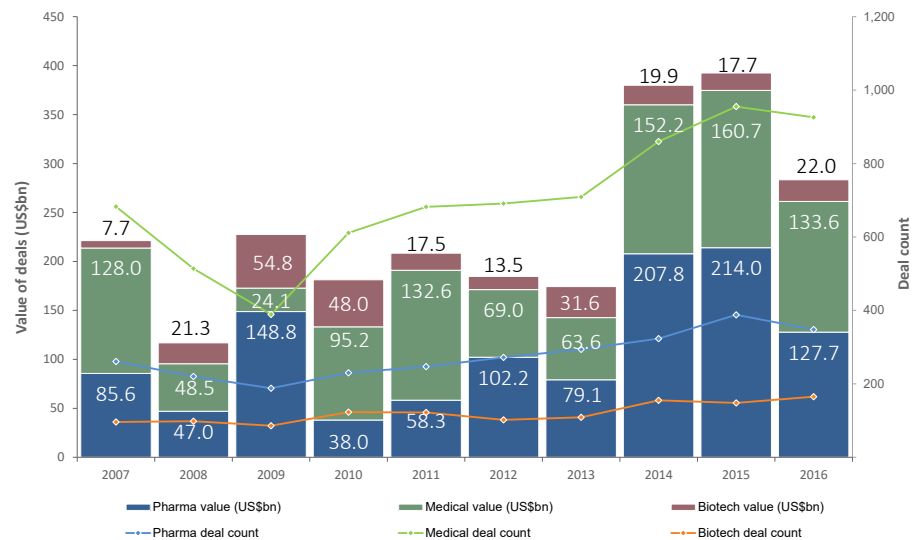
The US was once again the most targeted region for PMB M&A activity, with 528 deals worth US\$ 176.7bn. This figure is a 40.8% decrease with 74 fewer deals compared to the 2015 values (US\$ 298.4bn, 602 deals). 2016 also saw the US's global market share decrease from 76% to 62.4%. Chinese inbound activity for the US reached all-time highs in 2016, a trend that can also be seen in the PMB sector. The year saw China's highest investment values in US PMB assets ever with US\$ 1.5bn and eight deals, also notable as the first time that Chinese inbound deals into the US's PMB sector surpassed a billion dollars. With Chinese regulatory bodies looking to significantly reduce the outflow of capital from its borders, such a trend may not continue in 2017.

Europe's share in global PMB M&A values jumped the most this year, rising from 8.4% in 2015 to 20%, recording 461 deals worth a total of US\$ 56.6bn, a 71.8% increase with 23 fewer deals compared to 2015 (US\$ 33bn, 484

Regional breakdown



Global sub-sector trend



deals). The two largest transactions, Boehringer Ingelheim GmbH's US\$ 12.6bn acquisition of Merial SAS, and Mylan NV's US\$ 9.9bn acquisition of Meda AB, both had bidders and targets based in Europe. Both were also pharmaceuticals transactions.

Although the pharmaceutical sub-sector had four of five of the largest valued deals, it was not the top sub-sector for 2016, seeing 348 deals worth a total of US\$ 127.7bn and the largest decrease in value (40.3%) with 40 fewer deals from 2015's 388 deals worth a total of US\$ 214bn. Medical was the largest sub-sector in 2016, with 926 deals worth a total of US\$ 133.6bn, down 16.9% with 29 fewer deals from 2015's US\$ 160.7bn, 955 deals. The medical sub-sector was highlighted by medical device transactions seeing a large increase in activity. In 2016, medical device transactions saw 94 deals worth US\$ 58.5bn in value, which is 43.8% of total Medical deal value for the year. 2016's medical device performance is even more impressive considering it was a 198.5% and 143.8% increase from 2015 and 2014 figures, respectively, which were not only record years for M&A, but also for PMB M&A. Lastly, biotechnology saw 165 deals worth US\$ 22bn, up 24.5% with 17 more deals than 2015 (US\$ 17.7bn, 148 deals).

Despite regulatory issues resulting in the collapse of high profile deals such as Pfizer's US\$ 183.7bn bid for Allergan in 2016, global PMB deal activity still managed to finish the year strongly. Anticipation over president-elect Donald Trump's proposed tax holiday for companies to repatriate cash could also lead to more activity next year. However, other Trump proposals such as trade and immigration restrictions could also cause problems for companies' growth strategies, leaving 2017 a difficult year to predict.

Top deals

Value (US\$m)	Deal details	Advisory details
35,219	<p>Announcement date: 11-Jan-2016</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; Matheson; 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 Parters; Morgan Stanley</p> <p>LA to buy-side: Arthur Cox; Cravath Swaine & Moore; Davis Polk & Wardwell; Ropes & Gray; Slaughter and May; <i>Advising FA:</i> Freshfields Bruckhaus Deringer</p>
29,850	<p>Announcement date: 28-Apr-2016</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; Shardul Amarchand Mangaldas & Co; <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: AZB & Partners; Baker & McKenzie; Baker Botts; Cleary Gottlieb Steen & Hamilton; Torys; Wachtell Lipton Rosen & Katz; <i>Advising FA:</i> Davis Polk & Wardwell; Wilson Sonsini Goodrich & Rosati</p>
13,199	<p>Announcement date: 22-Aug-2016</p> <p>Target: Medivation Inc (USA)</p> <p>Bidder: Pfizer Inc (USA)</p> <p>Seller: -</p>	<p>FA to sell-side: Evercore Partners; JPMorgan</p> <p>LA to sell-side: Cooley; Wachtell Lipton Rose & Katz; <i>Advising FA:</i> Davis Polk & Wardwell; Fried Frank Harris Shriver & Jacobson</p> <p>FA to buy-side: Centerview Partners; Guggenheim Partners; Oaklins</p> <p>LA to buy-side: Ropes & Gray; <i>Advising FA:</i> White & Case</p>
12,564	<p>Announcement date: 27-Jun-2016</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: Lazard</p> <p>LA to sell-side: Linklaters; Talwar Thakore & Associates; Weil Gotshal & Manges</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-2016</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: Cleary Gottlieb Steen & Hamilton; 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; Morgan Lewis & Bockius; NautaDutilh; Stibbe; Vinge; <i>Advising FA:</i> Cadwalader Wickersham & Taft; <i>Advising Debt Providers:</i> Davis Polk & Wardwell</p>

Heat chart based on potential companies for sale

	TMT	Industrials and Chemicals	Consumer	Pharma, Medical & Biotech	Energy, Mining & Utilities	Financial Services	Other
North America	267	100	117	149	105	65	220
Europe	242	201	212	84	102	96	285
North Asia	91	148	60	25	42	54	162
Australasia	38	13	45	19	31	27	72
South Asia	25	33	19	22	19	19	53
South East Asia	37	32	34	17	31	19	89
C & S America	37	32	38	10	29	16	40
Japan	14	18	21	19	7	6	26
Middle East	18	8	6	8	5	5	11
Africa	8	10	10	2	21	9	31
Central Asia	0	1	2	1	1	0	0

Drivers

Expectations that president-elect Donald Trump will enact some kind of tax reform, including a potential tax holiday, have led to anticipation of M&A picking up in the sector. However, until Mr. Trump takes office and has enacted his first policies, and has demonstrated how well he can work with Congress, uncertainty over exactly what the sector is likely to see in 2017 remains.

In terms of the Affordable Care Act (ACA), a repeal of which is currently being debated in the US Congress, some companies are cautiously optimistic about what exactly "repeal-and-replace" would look like with president-elect Donald Trump in the White House and a Republican-controlled Congress. Rural hospitals in the US, for example, in areas that supported Trump, believe that he would not turn his back on such regions and that he will recognize that healthcare expansion and exchanges have greatly helped those communities. Some companies in the healthcare management business, on the other hand, are less optimistic, especially in light of Trump's support for tax credits in an effort to encourage health savings.

Healthcare IT, particularly in the US market, has seen a trend toward public companies being bought by private equity firms, which have been willing to pay high prices for such assets relative to valuations in the public market -- with debt still relatively cheap, many PE firms are in better positions to win auctions. Further, the big data potential at many would-be targets make their data attractive assets to firms looking for buy-and-builds that could then be sold in a few years for even higher price tags.

The Biosimilars market, in which biological products that are quite similar to generic drugs but which are not exact replicas are made, could lead to lower prices in the future for drugs whose patents are near expiration. Biosimilars are currently more common in Europe, which has been regulating such products since 2005, whereas the US has been doing so only since 2015.

Dental M&A in general in the US and Europe is expected to pick up in the next few months after seeing a record number of dental clinic acquisitions in 2016. In particular, much of the trend is expected to be driven by private equity -- the highly fragmented space has proven to be fertile ground for buyers, particularly financial sponsors with roll-up strategies.

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			2016		2015	
2016	2015	Company Name	Value (US\$m)	Deal count	Value (US\$m)	% Value change
1	13	Evercore Partners	95,557	11	27,213	251.1%
2	14	Bank of America Merrill Lynch	77,291	21	25,547	202.5%
3	3	Goldman Sachs	74,290	18	84,736	-12.3%
4	2	Morgan Stanley	69,720	15	115,547	-39.7%
5	4	Barclays	65,279	20	70,119	-6.9%
6	16	Guggenheim Partners	59,847	13	20,683	189.4%
7	1	JPMorgan	54,319	34	163,251	-66.7%
8	8	Citi	52,310	14	44,162	18.5%
9	12	Deutsche Bank	39,317	10	33,113	18.7%
10	15	Rothschild	33,889	25	24,111	40.6%

Financial advisor league table by deal count

Ranking			2016		2015	
2016	2015	Company Name	Value (US\$m)	Deal count	Deal count	Count change
1	1	Jefferies	21,857	35	40	-5
2	5	PwC	3,896	35	33	2
3	2	JPMorgan	54,319	34	39	-5
4	8	Deloitte	1,702	33	24	9
5	6	EY	2,820	31	26	5
6	3	Rothschild	33,889	25	37	-12
7	21	Bank of America Merrill Lynch	77,291	21	12	9
8	11	Barclays	65,279	20	20	0
9	12	Piper Jaffray & Co	1,643	20	20	0
10	9	KPMG	667	20	24	-4

Legal advisor league table by value

Ranking			2016		2015	
2016	2015	Company Name	Value (US\$m)	Deal count	Value (US\$m)	% Value change
1	5	White & Case	105,041	31	288,997	-63.7%
2	18	Davis Polk & Wardwell	100,655	16	91,748	9.7%
3	3	Cravath, Swaine & Moore	65,876	10	297,212	-77.8%
4	20	Kirkland & Ellis	65,141	35	73,341	-11.2%
5	23	Ropes & Gray	63,388	30	42,546	49.0%
6	37	Fried Frank Harris Shriver & Jacobson	62,047	11	23,198	167.5%
7	24	Freshfields Bruckhaus Deringer	61,811	15	41,645	48.4%
8	8	Cleary Gottlieb Steen & Hamilton	55,020	7	254,462	-78.4%
9	9	Wachtell, Lipton, Rosen & Katz	54,110	6	252,457	-78.6%
10	54	Jones Day	46,997	32	12,290	282.4%

Legal advisor league table by deal count

Ranking			2016		2015	
2016	2015	Company Name	Value (US\$m)	Deal count	Deal count	Count change
1	3	DLA Piper	10,309	42	45	-3
2	2	Kirkland & Ellis	65,141	35	46	-11
3	1	Latham & Watkins	14,406	34	51	-17
4	11	Baker & McKenzie	37,094	33	30	3
5	4	Jones Day	46,997	32	42	-10
6	5	White & Case	105,041	31	38	-7
7	6	Ropes & Gray	63,388	30	35	-5
8	9	Goodwin Procter	10,208	28	32	-4
9	8	Weil Gotshal & Manges	26,277	26	33	-7
10	23	Clifford Chance	5,642	23	17	6

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 target and bidder.

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\$.

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