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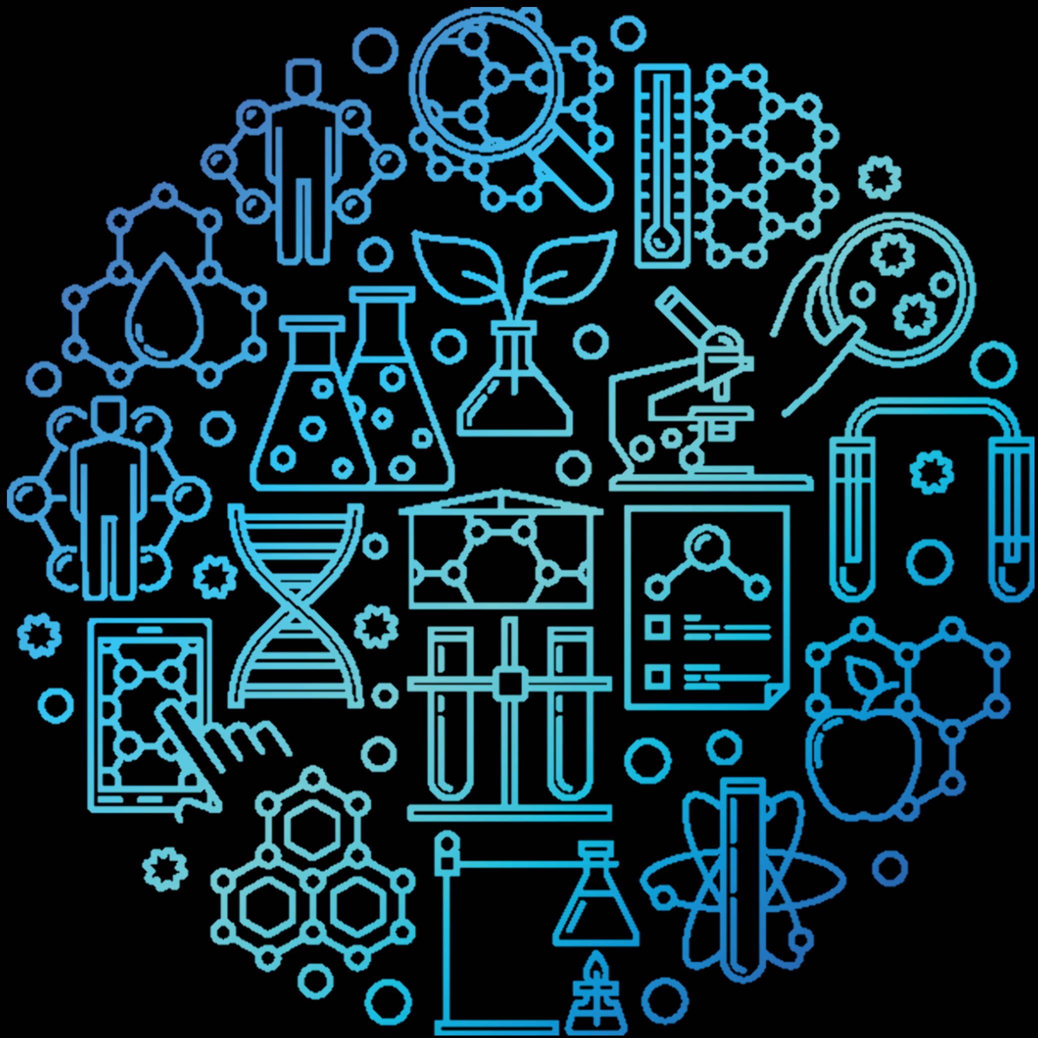


Current Pharma M&A Trends

March 2022

Current pharma M&A trends – A prescription to jump-start performance and growth of the sector

One thing that sets the Indian pharmaceutical sector apart from other sectors in the economy is that it earned the country the title of the “pharmacy of the world”. The Indian pharmaceutical industry is aspiring to touch US$130 billion by 2030, according to the Indian Pharmaceutical Alliance (IPA). With a 70 percent market share, generic drugs form the largest segment of the Indian pharmaceutical sector. Over-the-counter medicines constitute about 21 percent of the market, while patented drugs have a 9 percent share.[1] The country is the world’s largest supplier of generics, accounting for 20 percent of the global exports. Moreover, India is the world’s third-largest manufacturer of drugs by volume and the largest exporter of formulations.[2]

These numbers are promising. However, India cannot take its position for granted as pharmaceutical firms across the globe are targeting new markets in search of growth. Given the shrinking pipelines, complex regulatory processes, increased scrutiny, licence and patent expirations, and tough competition from generics manufacturers, these firms are scrutinising ways that can get them in the groove. Organic growth strategies take longer to yield results. Companies need to make considerable investment in terms of time and resources as formulations have to pass through several phases, including R&D and approval, to reach the market. M&A deals present an extremely tempting proposition for pharma companies by helping them quickly reach new markets.

According to “CFO Survey 2021: A resilient India poised to thrive in the new normal” (conducted by Deloitte India),[1] 55 percent CFOs in the Life Sciences and Healthcare (LSHC) sector agreed that they give priority to M&A deals. Supporting these findings are the M&A deal value numbers that increased to US$1.9 billion in H1 2021, from US$772 million in the same period last year.[2]

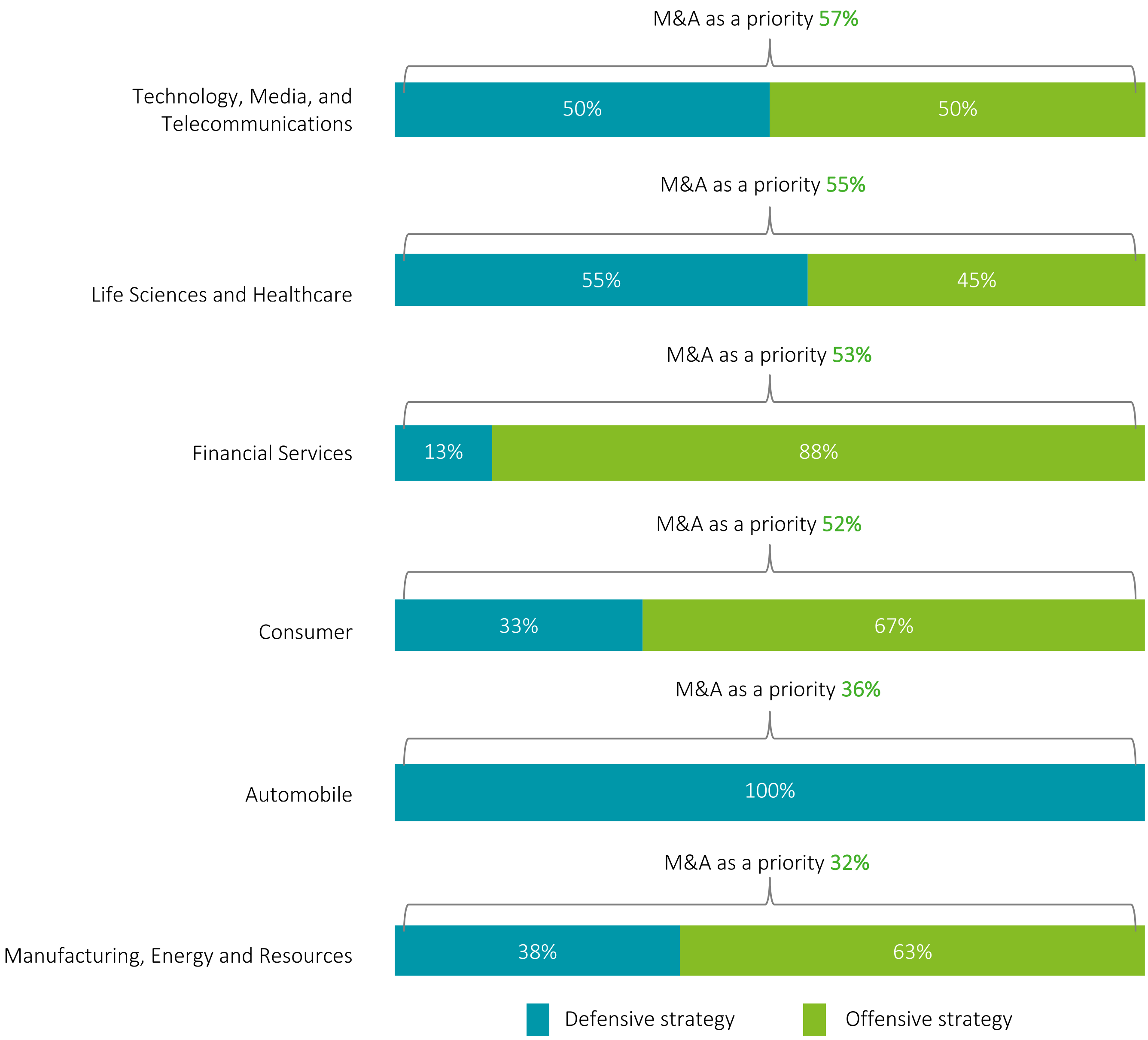
M&A strategies

Two main goals drive most of pharma M&A deals: (a) maintaining a hold on the market while amplifying the current performance, and (b) embracing innovative and disruptive technologies to get ahead of the competition, instead of reinventing the wheel. Fulfilling the first goal calls for a defensive M&A strategy, while chasing the second one needs an offensive strategy.

The followers of defensive strategy prioritise acquisition of assets to fill gaps in the core portfolio, capture synergy for completed transactions, and restore “the balance” in financial statements by restructuring portfolios and divesting non-core assets. Those embracing offensive strategy prefer acquiring disruptive and innovative assets and competitors to enter new-growth segments, accelerating digital transformation, and collaborating with peers.

[1] https://www.ibef.org/download/Pharmaceuticals-October-2019.pdf
[2] https://www.ibef.org/exports/pharmaceutical-exports-from-india.aspx

Based on the findings of "CFO Survey 2021", the table below shows M&A trends across different sectors. More than half of the CFOs from the LSHC sector give priority to M&A activity – the data indicates an almost equal mix of defensive (55%) and offensive (45%) strategies.



These findings indicate that CFOs are still more inclined towards boosting their product and pipeline diversity, scale, and pricing power. M&A deals can fast-track their companies' growth. These deals also make a lot of sense for pharma companies as commercialisation of drugs takes considerable time and effort. We have the biggest example right in front of us when COVID-19 caught the world unawares. Although the entire world's finest brains were at work and governments were ready to give the emergency approval to the most effective formulations to contain the virus, it still took almost a year to launch vaccines in the market. The commercialisation process is quite cumbersome – starting from building R&D capabilities, getting approvals for formulations, conducting trials, applying for patents/licences, and finally launching the drug in the market.

M&A trends prevalent in the industry

Before we delve into current M&A trends, a key change that the world saw in 2020 (the year of COVID-19) is worth mentioning. In 2020, collaboration amongst various pharma players across the globe has increased to leverage each other's strength to fulfil the unprecedented need for both innovation and keeping up with the huge surge in demand for existing and new drugs. Global players (such as Pfizer, Moderna, Astra Zeneca, J&J, BioNTech, Elli Lilly, and Gilead) have joined hands with many Indian pharma companies (such as Serum Institute, Dr. Reddy's Laboratories, Zydus Cadila, Biocon, Cipla, and Sun Pharma) for manufacturing their vaccines and drugs.[3]

That said, the changing business environment for pharma companies offers opportunities to use both offensive and defensive M&A strategies to capture unassailable leadership in the market. The following trends were seen amongst companies turning to defensive strategies to safeguard their future.

Making acquisitions focused on therapeutic segment divisions and brands

Large and mid-sized Indian companies are acquiring existing divisions of smaller Indian companies as well as those of foreign companies to get a direct access to an established product domain in specific therapeutic segments, whereas some prefer brand acquisitions to fill product gaps in their portfolios and strengthen weaker divisions. For example, Dr. Reddy's acquired select business divisions of Wockhardt[4] to strengthen its presence in the Indian market. Mankind acquired select brands of Dr. Reddy's.[5] Cipla also bought brands Vysov and Vysov M from Novartis AG for India.[6]

Licensing patented products

There are three main types of deals involving the licensing of patented products.

Acquiring exclusive marketing rights: Innovators offer to licence their patented products, giving exclusive marketing rights to the licensee in the geography for an agreed period. For example, Boehringer Ingelheim signed an agreement with Lupin to co-market Boehringer's anti-diabetic drugs Gibtulio Met and Ajaduo in India.[7] Glenmark Pharmaceuticals and Torrent Pharmaceuticals joined hands to co-market anti-diabetes drug Remogliflozin Etabonate in India.[8]

Inking non-exclusive agreements: Due to the pandemic, companies have also entered into non-exclusive agreements to meet the increased demand for certain drugs. Gilead licensing of Remdesivir;[9] Merck's licensing of Molnupiravir;[10] and Eli Lilly's licensing of Baricitinib[11] are examples of non-exclusive agreements between pharma companies.

Entering into off-patent licensing agreements: Companies are open to licence non-patented, generic portfolios as well. Abbott signed an agreement to take over the distribution and marketing for MSD's generic portfolio in India.

Divesting non-core divisions/brands

Quite a few Indian and foreign companies divest their non-core divisions/brands to focus on their main portfolios. The divestment frees up the resources that can be reallocated to the key brands, saving costs related to inventory, field force, sales, and marketing. Sanofi divested its nutraceutical business to Universal Nutriscience[12], while Pfizer sold its non-core brands to Abbott and Sun Pharma. Glenmark Pharmaceuticals also sold its gynaecology division to Integrace Pvt. Ltd; earlier it had divested its orthopaedic portfolio to Integrace.[13]

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Companies that have been able to ride the upswing in demand and quickly respond to the changes in the market find offensive strategies a better fit to their growth plans. A few of the M&A activity trends amongst such companies are listed below.

Riding the private equity interest in API, niche products, and contract manufacturing assets

Private equity investors are looking to leverage Indian pharma companies' chemistry leadership for direct exports of APIs to global markets, along with growth opportunity in the custom manufacturing of drugs and intermediates under the Contract Research and Manufacturing Services (CRAMS) model.

Carlyle collaborated with Hyderabad-based drugmaker Viyash Life Sciences to jointly set up an integrated generic pharmaceutical platform in India[14]. Carlyle has also acquired a majority stake in SeQuent Scientific[15] and a 20 percent stake in Piramal Pharma Limited[16]. PAG agreed to acquire an undisclosed controlling stake in Acme Formulation (a contract manufacturing and R&D services provider).[17]

Advent Int. acquired a controlling stake in ZCL Chemicals (a specialty API manufacturing unit)[18] and Bharat Serums & Vaccines (a biopharmaceutical company).[19]

Investing in biosimilars and biologics

India is one of the leading manufacturers of similar biologics. It has a thriving domestic market with 93 total products approved through 2019.[20] Indian companies collaborate with European and US companies to develop biosimilars and biologics for global markets. Biocon Biologics entered into an agreement with the Clinton Health Access Initiative (CHAI, working to save lives and reduce the burden of disease in low- and middle-income countries) for cancer biosimilars in more than 30 countries in Africa and Asia.[21]

Biocon collaborated with Viatris (formerly known as Mylan) in 2009 to co-develop a portfolio of biosimilar antibodies and other recombinant proteins, along with insulin analogue.[22] Biocon also joined hands with Sandoz to develop, manufacture, and commercialise multiple biosimilars in immunology.[23] Aurobindo Pharma acquired biosimilar products from TL Biopharmaceutical AG.[24]

Signing collaboration deals focused on research and development

Foreign pharma companies are targeting Indian pharma players to develop formulations for the global as well as domestic markets. For example, MedGenome tied up with US-based Emmes, a clinical research organisation for rare diseases.[25] Syngene International and Deerfield Discovery and Development Corporation (3DC) have signed a five-year agreement to jointly advance therapeutic discovery projects.[26] Glenmark Pharmaceuticals signed an agreement with Boston-based APC Therapeutics for the development of a potential cancer treatment drug.[27] Sun Pharmaceutical joined hands with Spanish firm Almirall for the development and commercialisation of tildrakizumab.[28]

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Growth supplements needed by the sector

Pharma features in the list of the top 10 sectors for foreign investment in India.2 Indian drugs and pharmaceuticals companies have received a cumulative foreign direct investment worth US$18.12 billion between April 2000 and June 2021. The government has already started realigning its pharma strategy focused on nurturing a supportive environment for M&A deals, taking targeted policy initiatives, and reviewing drug pipelines to accelerate the sector's pace of growth.

In February 2021, the government approved a production-linked incentive scheme for the pharmaceuticals sector from FY2021 to FY2029, to attract investments of INR 15,000 crore.[29] It also has plans to allocate US$70 million for local players to develop biosimilars and establish medical parks.[30] Steps such as launching National Digital Health Mission[31] to increase access to digital healthcare, supporting state-sponsored health coverage programmes, and focusing on chronic healthcare, will also support the growth aspirations of pharma players. Another aspect that cannot be underrated is lower production, R&D, and clinical trial costs (almost 50 percent, 87 percent, and 90 percent, respectively) in India compared with developed markets. The Department of Pharmaceuticals also issued a draft research and development policy[32] that aims at creating an ecosystem for innovation by focusing on three areas – creating a regulatory environment facilitating innovation and research in product development; incentivising private and public investment in innovation through a mix of fiscal and non-fiscal measures; and building an enabling ecosystem designed to support innovation and cross-sectoral research as a strong institutional foundation for sustainable growth in the sector.

The right prescription to boost M&A activity and bring the pharma sector closer to its dreams of becoming "Atmanirbhar" would involve adapting to the changing market realities by building a robust healthcare infrastructure, optimising tax landscape, and creating an ecosystem for R&D to encourage innovation in the pharma sector.

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