

## Pharma M&A on Track to Reach Records

(Source: Edited excerpts from an article prepared by Manuel Baigorri, Elizabeth Fournier and Brooke Sutherland of Bloomberg News)

Merger seeking companies from AbbVie Inc. to Valeant Pharmaceuticals International Inc. spent the first three months of 2015 buying smaller targets and driving an overall rise in takeover volumes. Although the targets are smaller in size, the motives haven't changed: Cash rich buyers are looking for promising drug candidates and portfolios of medicines with a long shelf life, as patents for older products expire. The competition for biotechnology assets in particular has led to several takeover battles, even as premiums reach records.

"Big pharmaceutical companies are sitting on phenomenal piles of cash," said the head of European health care investment banking at Barclays Plc in London. "They will be forced to look at M&A amid the current biotech exuberance." Biotechnology and pharmaceutical deals accounted for almost US\$100 billion of the US\$815 billion in overall global purchases agreed to in the first quarter. While global M&A is outpacing the start of last year, drug deals are racing ahead, with volumes more than doubling from the first quarter of 2014.

Four of this year's top five pharmaceutical takeovers involved companies that attempted larger deals last year, sometimes even with each other. The largest of the quarter, AbbVie Inc.'s US\$21 billion bid for Pharmacyclics Inc., came six months after its plan to buy U.K. drugmaker Shire Plc fell apart, while Shire itself bolstered its defenses against potential suitors by acquiring NPS Pharmaceuticals Inc. for US\$5.1 billion.

## Walgreens Boots Alliance Attracting Attention

(Sources: articles prepared by Michael Johnsen and Ellen Jean Hirst of *Drugstore News* and the *Chicago Tribune*, respectively)

The attention that Walgreens Boots Alliance (WBA) is currently receiving by the investment community has resulted from its new global, pharmacy-led healthcare model; its integration, in part, of the pharmaceutical supply chain; and, its new dynamic management team headed by Stefano Pessina, Walgreens executive vice chairman and acting CEO. The buzz around what Walgreens Boots Alliance may or may not pursue will become clearer this week as the company hosts its first analyst day as a merged entity.

Earlier this week, Barry Rosenstein, managing partner of JANA Partners and Walgreens Boots Alliance board member, hinted that Walgreens Boots Alliance may be pulling the trigger on an acquisition in the U.S. sooner than later in an exclusive interview with CNBC. "The Walgreens situation is terrific," he told CNBC. "There's tremendous change afoot. There's opportunities on the cost side; there's opportunities on the capital allocation side; and there's strategic opportunities. I think you're going to see this company continue to do some pretty exciting things."

"WBA's willingness to pursue horizontal and/or vertical M&A represents an encouraging signal in our view, as it's clear new management recognizes the challenges of its current market position and plans to more aggressively improve its strategic outlook," stated Ed Kelly, Credit Suisse research analyst. "A horizontal drug retail

Pfizer Inc. switched its attention from AstraZeneca Plc to Hospira Inc., snapping up the provider of injectable drugs in a transaction valued at about US\$17 billion — downgrading its ambitions from what would have been the industry's biggest ever takeover.

Valeant Pharmaceuticals International Inc., which spent much of 2014 embroiled in a hostile takeover battle for Botox maker Allergan Inc., found itself at the center of a competition for Salix Pharmaceuticals Ltd.. Valeant eventually beat rival Endo International Plc with a more than US\$11 billion offer.

Even companies not involved in last year's failed deals are joining the fray, though without much success so far. Johnson & Johnson took on AbbVie in the contest for Pharmacyclics' jewel, the cancer drug Imbruvica, only losing out in the final hours of negotiations. The contest is driving premiums to record highs, with buyers able to take advantage of cheap financing to raise additional cash for knockout bids. It's also leading bidders to take a chance on drugs that haven't yet been fully cleared for use such as Salix's biggest selling drug Xifaxan, which is yet to receive secondary approval from the U.S. Food and Drug Administration as a treatment for irritable bowel syndrome.

Buyers "are making big bets as valuations are gigantic and risks of integration are very high," said the head of the health care management center at Vlerick Business School in Brussels. "The

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deal - the first option highlighted by management - clearly makes sense. That being said, the evolving healthcare landscape opens the door to other attractive options," he suggested. "We believe a large vertical PBM transaction with Express Scripts or a JV [joint venture] with a captive PBM [Pharmaceutical Management Benefit company] like UNH's Optum could also create value and address issues with the standalone drugstore model."

Why the excitement of analysts? Here's what Stefano Pessina, who is also past chairman and past director of IFPW, told analysts: "I am convinced that the formation of Walgreens Boots Alliance is a unique first which will almost inevitably lead to many other new firsts in our industry," he said. "It may not yet be clear which steps these will be, but we are determined to continue to show the way and be at the forefront of innovating healthcare. ... [T]his market, the American market, is ready for another round of consolidation. Because the margins are squeezed everywhere; the government is more and more in charge of the costs of the healthcare business and ... they will exercise their power to squeeze the cost as much as possible, as we have seen in Europe for decades," Pessina added. "But as I have said before, we want to be, as we have been in the past, at the forefront of changes."

Walgreens Boots Alliance recently said that it will close about

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## Pharma M&A (cont.) . . .

prices seen in recent transactions are just crazy. They're paying big money for high uncertainty."

While deal activity so far has been focused in North America and Asia Pacific, where volumes have more than doubled, acquirers may soon have to switch their attention to Europe. "As some of the big specialty Pharma companies run out of targets in the U.S., it will be interesting to see whether they also look at opportunities in Europe," says a Barclays' analyst. "If the dollar remains strong versus the euro, European healthcare companies will be more attractive for U.S. buyers."

Though buyers haven't tried to match the megadeals of 2015, that doesn't mean the rest of the year won't yield bigger transactions, according to an analyst at Gabelli & Co. Pfizer waited until May last year to begin its failed courtship of AstraZeneca, while AbbVie and Shire broke the usual summer lull in deals by revealing their tie-up in July. "Last year started off relatively tame compared to what it ended up being," said the analyst. "There's still the opportunity, and you still have big Pharma out there with a lot of cash."

## Walgreens (cont.) . . .

200 less-profitable U.S. Walgreens stores and open the same number of stores in new locations. A spokesman told the Chicago Tribune that the stores will close during the next three years, with the last closing no later than the end of 2017. The list of stores slated to close is still being finalized. The company now plans to cut US\$1.5 billion by the end of 2017 through reorganizing its corporate operations and streamlining its information technology and other functions. On a call with analysts, Alex Gourlay, executive vice president of Walgreens Boots Alliance and president of Walgreens said the 200 stores that are closing will be replaced by about the same number of new stores. "This really is (about) getting the right stores in the right places," Gourlay said.

Acting CEO Stefano Pessina said he plans to have the company evaluate whether stores should close more often than Walgreen had in the past, to avoid announcing such a large number all at once. "In the future, once we have created this new base, I believe we should every year review all the stores and if every year we have to close 10 stores ... we will have to do it," Pessina said. "It's better to do this gradually over time."

The store closings are 2 percent of the 8,232 drugstores Walgreens has in the U.S., Puerto Rico and the Virgin Islands. Walgreens expects pretax charges for the restructuring of between US\$1.6 billion and US\$1.8 billion.

Walgreens Boots Alliance (WBA) earned US\$2.04 billion in its second quarter, or US\$1.93 per share, compared with US\$716 million a year earlier. Sales were also up 35% to US\$26.57 billion. The adjusted earnings per share for the quarter, of US\$1.18, beat analyst estimates by 23 cents.

"This quarter marked a solid start for our new company, and I remain as optimistic as ever about our long-term future," said Pessina. "At the same time, we understand [the need] to proactively address headwinds such as reimbursement pressure and competition."

Walgreens Boots Alliance announced a 2015 full-year adjusted estimate for earnings per share between US\$3.45 and US\$3.65. Cost savings from the merger for the first half of its fiscal 2015 were US\$310 million. The company said it remains on track to save US\$650 million by the end of the year.

The search for a permanent CEO, to replace former CEO Greg

Wasson, continues.

"We remain confident that in due course, we will find the right person for the board," Pessina said. Pessina also said the company will be looking for opportunities to grow through mergers, acquisitions and joint ventures. But analysts say it will probably be some time before a deal is completed.

"In the near term, they'll be constrained ... they've got some items they need to work through as a new company," said an Edward Jones, senior analyst. "They're looking across the supply chain, across the whole field. They're open to a lot of alternatives: distributors, pharmacy benefit managers, retail stores."

In the meantime, Walgreens announced that U.S. Foods CEO John Lederer had been elected to its board to serve on its finance committee. From 2008 to 2010, Lederer was chairman of the board at Duane Reade, a New York-based pharmacy company that was recently acquired by Walgreens. His appointment was part of an agreement with investor group JANA Partners.

## Indonesia – an Expanding Market Opportunity?

*(Source: an article prepared by Anju Ghangurde and published by Scrip)*

Indonesia could well be the next high potential Southeast Asian market that innovator and generic firms may want to keep their eyes firmly on, according to the author. The key reasons: increased government spending on healthcare; a strong OTC market but possibilities of an "explosion" of growth in prescription generics over the next three to five years as the government steps in to source medicines from the private sector; and, partnering and acquisition opportunities for foreign firms.

According to a new CPhI study, in collaboration with research partner Global Business Reports, released at the Jakarta International Expo, Indonesia is expected to double its current healthcare expenditure, estimated at 3% of total GDP spend in 2013. What is expected to potentially trigger a significant change in the Indonesian pharma landscape is the nation's universal healthcare program, the Jaminan Kesehatan Nasional (JKN), that was set in motion last year and has been designed to facilitate access to drugs for a forecasted population of 257.5 million by 2019. Currently, only half of the archipelago nation's population is covered, implying that a potential sharp rise in spending on medicines over the next few years appeared imminent.

Under the five-year initiative aimed at providing universal healthcare, 19% of healthcare expenditure is predicated to be attributed to pharmaceuticals once fully implemented and 92% of medicines on the essential drugs list will be low cost generics.

The US\$6.5 billion Indonesian pharma market is expected to continue to grow at an annual rate of 12.5% through to 2018. The dominant OTC segment which accounted for about 40% of the market in 2014 is expected rise to 50% in 2015. A burgeoning, health conscious, middleclass with an increased disposable income is seen fuelling the rise in OTC consumption trends. Each year, nearly seven million Indonesians newly achieve middle class or higher socioeconomic status, the report said.

It also said that while the OTC market is thriving in the short-term, a "steadier, linear outcome" is predicted in the medium-to-long term future; the peak in OTC demand is thought to have more or less reached its tipping point. "With government plans to spend more on healthcare, coupled with a tightened regulatory environment, CPhI forecasts that prescription generics will make up an increased percentage of drug consumption in the longer term," the report underscored.