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Deal Dynamics
Insights on cross-border M&A

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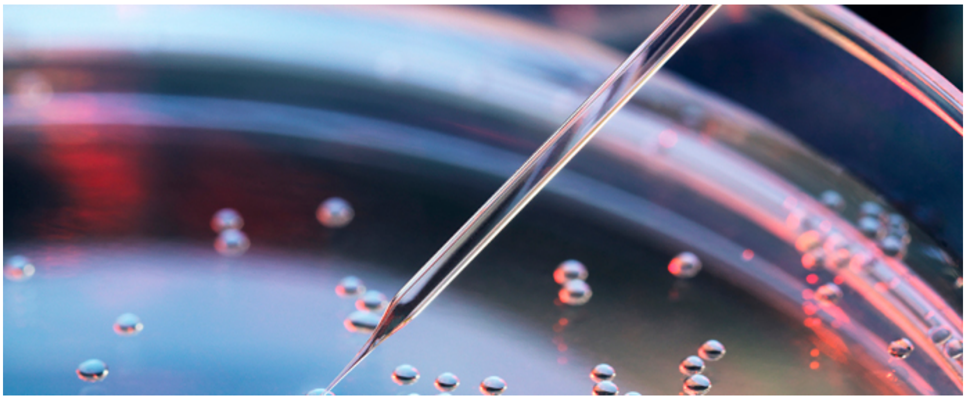
Innovation drives life sciences M&A as firms sell consumer health units

Hogan Lovells Partner, Asher Rubin, tells Deal Dynamics about the key forces behind M&A in the pharmaceutical, medical, and biotech sectors.



The largest deal of the year across all sectors and jurisdictions was Takeda's US$79.7 billion acquisition of rare disease specialist Shire. What was the rationale behind that deal?

Asher Rubin: One of the key reasons for the deal was Takeda's desire to go global – Japan's share of the world's pharma market has been decreasing over the past two decades – and in a way that it had not been before in some new or extended therapeutic areas. For example, Shire has an enviable position in neurology with certain of its products, including Reminyl, used to treat Alzheimer's disease, and Adderall, used to treat attention deficit hyperactivity disorder (ADHD).

If you take that in combination with Shire's acquisition of Baxalta a couple of years ago, which enhanced Shire's expertise in rare hematology, the deal gives Takeda access to all of those products – cancer drugs, biologics, neurological items, and treatments for bleeding disorders – it would otherwise have taken time to develop as an extension of existing competencies, or would not have had at all. Companies can spend a lifetime trying to build those competencies or they can spend a "minute" trying to buy them, and Takeda chose the latter.

We've seen a few companies such as Merck and Novartis sell consumer health or generics businesses. Do you think this is a trend that's going to continue?

Rubin: It's likely that the major pharmaceutical companies will continue to go for "high science" solutions, curing unmet medical needs, and will leave the consumer or the mass-market products to companies specialising in consumer products. Merck, for example, sold its consumer health business to Proctor & Gamble, and GlaxoSmithKline and Pfizer announced in December that they plan to separate their consumer health units by combining them into a joint-venture.

Pharmaceutical companies had been diversifying their risks around consumer health, but that is not what they do well, and the margins are not high enough. I also think that mass market products are not a core business of those companies. If organizations are developing cell therapies and cancer products or curing neurological diseases, the idea of selling nose spray may not be as compelling.

What sub-sectors within pharma do you see as attracting the most interest and highest valuations?

Rubin: The higher value deals have been for unique technologies. Two of the most interesting ones were Celgene's US$9 billion acquisition of the 90% of Juno it did not already own, announced in January 2018, and Gilead's US$10.3 billion acquisition of Kite, announced in Q3 2017.

Both Juno and Kite were developing CAR-T therapies for cancer treatments, a type of cell therapy where patients' T cells are modified so that they will attack cancer cells.

In both these deals, big values were driven by unique technology that pharmaceutical companies really needed to jump into.

What other sectors could be hot next year?

Rubin: Gene therapy is the next frontier in biotech, and you can see this with Novartis' CAR-T product, KYMRIAH. We are really at the beginning of this branch of science, but we'll see more and more, which will undoubtedly drive deals in the future.

There are several gene therapy start-ups that are extremely well-funded from venture funds. Also, there are public companies, such as Intellia Therapeutics, in pre-clinical development for gene editing treatments for genetic diseases such as amyloidosis. Then there is CRISPR Therapeutics, which has raised US$127 million in funding and is researching gene editing treatments for such diseases as myeloma, a type of blood cancer.

We saw a few large deals in the cannabis industry, though not from pharma companies. Do you think that the pharmaceutical industry could look at this space and become more comfortable with stepping in and making acquisitions?

Rubin: It's going to take a while. At present, there is one naturally-derived cannabinoid drug, Epidiolex, developed to treat two rare and severe forms of childhood-onset epilepsy, which has received FDA approval. There are other cannabis-related products in early development, but traditional pharmaceutical companies will wait for a robust level of scientific evidence before buying into the sector.

Companies need to see more proof and more evidence of benefits before they dive in. For the time being, deals are going to be from the outside. And, the other issue is that the U.S. government really needs to make some changes and legislate further before the market opens up.

One of the interesting deals this year was Roche acquiring Flatiron Health, a data platform. Is this a sign that pharma companies are attempting to become more data-driven?

Rubin: Pharmaceutical companies have always been data driven. However, there has been a lack of opportunity for real analytics to be applied to the pharmaceutical, biotech, and device industry. As those opportunities become available, more pharmaceutical companies will get involved. I would expect to see more deals, but these are more likely to be in the form of joint ventures and collaborations than straight acquisitions.

Another interesting area is Prescription Digital Therapeutics (PDTs), such as Pear Therapeutics or Click Therapeutics. These companies are developing wholly digital therapies. They are prescription products, but they're not pills, and they're not vaccines. Instead they are computer programs, which have been shown to be effective in treating disorders such as depression, anxiety and addiction.

Do you see any challenges to dealmaking in the sector in the coming 12 months?

Rubin: The political environment is extremely uncertain, but I don't think it will stop dealmaking. Already the first megadeal of the year, Bristol-Myers Squibb's US$74 billion acquisition of Celgene, has been announced. However, people have to worry about it, and part of the worry is that developing these drugs is a very expensive business. If it costs US$1 billion to develop a drug, the idea that a big pharma company should have to sell it for pennies does not seem right. Then part of the issue is that the United States really does subsidize a lot of the rest of the world on drugs, where drug prices are cheaper.

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