Dear Reader,

As most industry participants acknowledge, Big Pharma’s growth prospects seem limited. The European fiscal crisis and the effects of the patent cliff and the U.S. Affordable Care Act (“ObamaCare”) depress profits in the formerly lucrative western markets for original drugs.

Consequently, the revised IMS forecast for the pharma market predicts growth of only 1.6 percent p.a. for non-generic drugs (see page 13). The emerging markets offer little solace: India’s stance for compulsory licenses undermines the growth prospects of originals, China’s government pushes almost only generics, and Latin America is difficult to enter even by acquisitions.

While most big and mid-sized pharma players have long since started to use M&A to fuel growth, good targets are scarce and hard to come by. M&A in the industry remains a strong sellers’ market, around the globe in all regions, as our IMAP deal makers find in their regional reviews (see pages 6 -11).

Fortunately, looking a bit farther ahead, there are some trends developing which are fundamentally positive for the industry as a whole. A new initiative by ten of the largest pharma companies, TransCelerate BioPharma, aims at reducing the costs of clinical trials by 50 percent, using a mixture of clever thinking and technology. Next Generation Sequencing (NGS) will almost certainly fuel the advent of a plethora of new, highly specific treatments, particularly in oncology (see page 12). Regenerative medicine and cell-based treatments, from cancer vaccines to new therapies for heart diseases, open a completely new subsector in the industry.

With its global reach and local presence, IMAP’s Healthcare team is superbly positioned to support pharma and biotech companies to develop and implement M&A strategies that address the challenges of the market changes. Contact us for a confidential discussion of your plans and needs.

Yours truly,

Ch. Bieri

Christoph Bieri
Chair, IMAP Healthcare Team

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2012 – many transactions, but no mega-deals

Continuous strong deal making in the sector

In 2012, we observed approximately 450 transactions involving targets in the sector, i.e., pharma and biotech companies, diagnostic product providers, and service providers to the pharma and biotech industry. This number is about 10% lower than in 2011, but still much higher than in 2010.

The year 2012 did not bring the very large transactions seen in 2011, such as the Sanofi / Genzyme or Takeda / Nycomed combinations. The largest transaction announced in 2012 was the spin-off of Abbot’s original drugs unit to AbbVie; in many respects this is an outlier and not included in our analysis. The only other deal with a value larger than US$10 billion was the closing of Inhibitex’ acquisition by Gilead in early 2012, extensively covered in last year’s report. With these two exceptions, all other transactions had deal values below US$10 billion. Consequently the sum of disclosed transaction values – US$67 billion - is also lower than in 2011 (US$ 90 billion).

More than half of all deals involved targets in Western Europe or North America

The Western hemisphere still accounts for most of the deal activity in the industry. Transactions involving targets located in North America and Western Europe composed almost two-thirds of the total number of deals and five-sixths of the disclosed deal volumes.

<table>
<thead>
<tr>
<th>Location of Target</th>
<th>Range</th>
<th>North America</th>
<th>W. Europe</th>
<th>China</th>
<th>LatAm</th>
<th>CEE</th>
<th>India</th>
<th>Japan</th>
<th>Other</th>
<th>Total 2012</th>
<th>Total 2011</th>
</tr>
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<tbody>
<tr>
<td>More than US$ 1B</td>
<td>10</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14</td>
<td>10</td>
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<tr>
<td>US$ 100M - US$ 1B</td>
<td>38</td>
<td>16</td>
<td>5</td>
<td>3</td>
<td>3</td>
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<td>7</td>
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<td>Less than 10m US$</td>
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<td>Overall result</td>
<td>169</td>
<td>114</td>
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<td>26</td>
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<td>16</td>
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</table>

No big moves to emerging markets

There was surprisingly little deal activity from the West to emerging markets. Despite all buzz, we count only 41 transactions involving acquirers from mature markets and targets located in emerging countries, with a total disclosed deal value of US$ 3.4 billion.

<table>
<thead>
<tr>
<th>Acquiror location</th>
<th>Target Location</th>
<th>North America</th>
<th>Western Europe</th>
<th>Japan</th>
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<tr>
<td>China</td>
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<td>LatAm</td>
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<td>Total</td>
<td>19</td>
<td>16</td>
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</table>
Access to pipeline and products most important driver for large deals

Aside from Watson’s acquisition of Actavis, most of the large transactions were driven by the acquirer’s need to fill its development pipeline. In 11 of the 33 transactions with published deal values of US$500 million or more, the obvious driver seems have been the pipeline; 12 of those 33 deals were seemingly driven by access to established products. More than 40% of disclosed deal values accounted for pipeline-driven deals.

As Bloomberg reported, premiums for takeovers of biotech companies were at their highest in 12 years - more than 71% - as a result of Big Pharma’s intensified hunt for new molecules.

Where was the money spent?

Sum of disclosed deal values, split by deal driver:
100% = US$ 50billion

- Access to pipeline products: 41%
- Increase size: 6%
- Access to marketed products: 31%
- Expand geographical reach: 14%
- Financial buy-outs: 8%

Deals with deal values over US$ 500m

The deals we follow:

a) Targets are pharma or biotech companies, providers of services or scientific instrumentation to the pharma and biotech industry, or diagnostic product developers and marketers.

b) The transaction involves the acquisition of a majority stake or recapitalization but not investments or minority stake acquisitions.

c) The deal had to be closed or announced based on a binding agreement, in 2012.
Regional insights

North America

M&A climate in the pharma / biotech industry

In 2012, prices remained high and a number of deals saw hefty premiums paid, with many exceeding 100% per share over pre-announcement closing prices. 2012 proved to be another strong year for M&A activity in biotech / pharma, although only 14 deals were in the “billion dollar” range and average deal size was down.

Most notable transactions in 2012

**Bristol-Myers Squibb and AstraZeneca acquire Amylin:** Bristol-Myers Squibb completed the largest acquisition of 2012 with its US$7 billion acquisition of Amylin in August. AstraZeneca added a unique twist by providing US$3.4 billion in cash and entering a development alliance with BMS. BMS will buy out Amylin’s former marketing partner, Eli Lilly & Company.

This deal was BMS’ second acquisition of the year as the company looks for ways to counter the loss of patent coverage on their US$7.1 billion drug, Plavix. BMS and AstraZeneca have faced issues with their current pipeline product, Forxiga. They hope to capitalize upon Amylin’s growing success with Bydureon, a once-per-week type 2 diabetes drug, and its predecessor, Byetta, a twice-per-day type 2 diabetes injection.

**TPG Capital acquires Par Pharmaceutical:** TPG Capital acquired generic drug manufacturer Par Pharmaceuticals for US$1.8 billion in September 2012, after being pushed by activist investor Ralph Whitworth to react to “global consolidation.” TPG has agreed to pay US$50/share in cash, a valuation 37% above Par’s closing price the day prior to announcement. The transaction is one example of the ongoing consolidation in the generics industry, with the Watson/Actavis deal the most prominent in 2012. Par had sales of US$926 million in 2012, with more than 50 products on the market and 30 currently in development.

**Walgreens acquires 45% stake in Alliance Boots:** Walgreens took major steps in solidifying its globalization strategy when it acquired a minority stake in the UK’s Alliance Boots for US$6.7 billion in August 2012, with the option to acquire the balance of Alliance in three years for an additional US$9.5 billion in cash and Walgreens stock. This is the latest strategic move by Walgreens and Alliance as both seek to globalize their businesses. The two companies combined have a total of 11,000 retail stores in 12 countries and more than 370 distribution centers servicing 170,000 medical centers in 21 countries. Walgreens and Alliance are likely to expand their footprint into emerging markets in Asia over the next few years.

Mid-term expectation for M&A activity in the region

Mid-term activity is expected to stay strong as companies look to maintain revenue growth, enter new markets, and increase patent coverage. Increased competition from generics will continue to pose an issue for Big Pharma as R&D efforts have not proved as successful as in previous periods.

The number of multi-billion dollar acquisitions will remain in the minority, although Big Pharma and Big Biotech continue to hold large amounts of investable cash. The majority of acquisitions are expected to remain on the small side, although a handful of multi-billion dollar acquisitions are likely for 2013.

Contributors:

IMAP in Naples / Falls River Group

Kurt Andersen (kurt.andersen@imap.com)
Christopher Boll (christopherboll@imap.com)
Regional insights

Western Europe

M&A climate in the pharma / biotech industry

Western Europe’s Pharma and Biotech industry faces a very insecure macro-environment due to the deep fiscal crisis of the EU and its ramifications to the healthcare systems in general. Still, mid-sized and larger Pharma and Biotech companies (revenues of €1bn or more) are highly acquisitive for targets in Western Europe. As in all geographies, size –over-all mass, or relative market share in specific niches – is considered a key element for the long-term success in the industry. Western Europe remains a typical sellers’ market: Good targets – with promising development programs and/or established brands – are rarely available, and valuation multiples are substantially higher than in other industries.

Most notable transactions in 2012

**Watson Pharmaceuticals acquired Actavis Group** for a consideration of €4.4bn. The combined entity, which will trade under the Actavis brand, is one of the largest generics groups globally, with more than US$8bn revenues and 17,000 employees. Earlier, US-based Watson had acquired Strides Arcolab’s far Eastern and Australian businesses, hence the group will span most regions of the world. The synergies which are targeted in the Watson/Actavis combination, more than US$300m p.a., clearly show that even at this size, scale effects are still juicy in the generics industry.

**Jazz Pharmaceuticals acquired EUSA Pharma**, a UK based specialty pharmaceutical company engaged in late-stage oncology, pain control and critical care products, from a group of Private Equity firms. Jazz paid US$700m to get access to EUSA’s product portfolio and to enhance Jazz’s international distribution network. Having had US$46m revenues in the last quarter pre-acquisition, EUSA was valued at more than 3.8x revenues, not untypical for transactions in Pharma / Biotech sector, but not imaginable in most other industries.

**GSK streamlined its OTC drug portfolio by selling a group of OTC drugs** in Germany, UK, Poland and Italy, including a production site in Germany, to Omega Pharma, for a consideration of more than US$600m. Earlier in the year, GSK had sold a number of other non-core OTC brands in the US and Canada. The process of buying and selling established products has long been common practice in the industry. However, we observe that several large players are trying to dispose of substantial product groups. While this may be a logical consequence of past acquisitions through which these products accumulated, it also shows that OTC manufacturers strive to manage their portfolios more and more like large consumer brand companies, pruning their portfolios to focus on key brands while removing lesser products.

Mid-term expectation for M&A activity in the region

The European fiscal crisis and its consequences will continue to re-shape the whole healthcare sector, including the boundary conditions for Pharma and Biotech companies. In the short-term, we expect higher activity of mid-sized transactions, driven by the need of players to arrange with the immediate consequences of the industry changes, in particular in Southern Europe. Meanwhile, there is a consolidation trend in the OTC-sector where several companies try to build substantial positions.

Contributors:

IMAP in Switzerland / Kurmann Partners
Christoph Bieri (christoph.bieri@imap.com)
Peter Degen (peter.degen@imap.com)
Regional insights

CEE

M&A climate in the pharma / biotech industry

The level of M&A activity for the past five years in the CEE region has been consistent - between 23 and 30 deals per year. In 2012, there were 27 transactions. About one-third of all transactions took place in Russia, followed by the Czech Republic (five deals), and Poland (four deals). Perhaps most interesting was private equity fund activity: 12 deals – almost half of all transactions - were buy-side acquisitions by private equity.

Most notable transactions in 2012

Penta / Lloyds, Gehe, Simonpharma: Penta Investment, the Central European private equity group, continued its acquisitions in 2012 in line with strategy to consolidate the pharmacy sector in Central Europe. In August, Penta Investments acquired Lloyds pharmacy chain and wholesale distributor Gehe from Celesio for €84.5 million. Lekarny Lloyds and Gehe Pharma recorded operating incomes of €0.4 million and €8.8 million in 2011. At the end of 2012, Penta Investments acquired SimonPharma, the Czech pharmaceutical company, along with its internet pharmacy DocSimon. SimonPharma recorded operating income of €0.34 million in 2011. Lekarny Lloyds and SimonPharma will be integrated under the branded pharmacy chain, Dr. Max, which operates more than 450 pharmacies in Czech Republic, Slovakia and Poland.

Mid Europa Partners / Walmark: Mid Europa Partners, a UK-based PEG, acquired a 50% stake in Walmark, the Czech manufacturer, distributor and seller of nutritional supplements and pharmaceuticals drugs. With revenues close to €100 million and employing approximately 800 staff, Walmark is the leading vitamins, minerals and dietary supplements manufacturer in CEE. The joint venture with a financial investor is in line with Company’s massive expansion. The original owners and founders will actively co-manage the Company and will continue to have a substantial bearing on decision making.

Valeant Pharmaceuticals / Natur Produkt International: Natur Produkt International, the Russia-based specialty pharmaceutical company, was acquired by Valeant Pharmaceuticals for almost €130 million, from Renova, a financial conglomerate who had owned the target since 2009. Natur Produkt is a manufacturer and distributor of OTC and generic drugs, and food supplements; it generated more than €45 million in 2011. The acquisition will enable Valeant Pharmaceuticals to enhance its presence in the over-the-counter pharmaceuticals market and strengthen its position in Russia.

Mid-term expectation for M&A activity in the region

Overall we expect moderate growth in deal numbers in 2013, with a focus on consolidation in pharmacies, diagnostics and clinics in more developed countries in the region. The issue might be privatization of hospitals in some countries – the Polish government plans to privatize around 100 hospitals for US$800 million.

The situation is different in Hungary and Romania. Hungary’s poor economic climate clearly indicates a buyers’ market. In Romania the situation is similar, but there is at least a trend to consolidate pharma distributors. In Serbia, the government plan to privatize Galenika, a pharma producer with sales of €200 million, is the only deal we anticipate. In Ukraine we anticipate further consolidation in distribution – e.g., in 2012, EBRD invested €20-30 million into a private local company to finance an acquisition of a pharma distributor.

Russia, in contrast, is a target to many global companies seeking to establish a footprint here. Large sums of state money – including National Health Project funds – are funneled into the industry, and new legislation requires certain medications and equipment to be produced locally. This forces big foreign med tech and pharma companies to make a greenfield investment, establish a JV with a local firm, or acquire a local player. Russia is definitely a sellers’ market as good targets are scarce and valuations are rather high.

Contributors

IMAP in Czech Republic / REDBAENK
Michal Misun (michal.misun@imap.com)
Zuzana Ziacikova (zuzana.ziacikova@imap.com)
China

M&A climate in the pharma / biotech industry

The M&A climate started to heat up in 2012. The majority of China’s 2012 deal activity was related to drug manufacturing and commercialization, which is different to several years ago when CRO services were the name of the game. Local players drove consolidation of production capacities as well as sales and distribution channels.

Market growth of between 15 and 18% continues attracting foreign players trying to find a fast entry or expansion in China via M&A. Valuations are at an average of 3.2x revenue multiple, and EBIT multiples beyond 20x.

Most notable transactions in 2012

The vast majority of China’s M&A deals in pharma in 2012 were domestic-domestic deals, with most of them within the deal value bracket of US$10 million to US$100 million.

In 2012, the largest deal in China’s pharma sector was China Pharmaceutical Group’s acquisition of Robust Sun Holdings Ltd for US$1.157 billion. This was an important move for the buyer into finished preparations and higher-value drugs, as most of the buyer’s current sales depend on antibiotics, vitamin C, and drug intermediaries. With this transaction, the buyer acquires the research and production capacities of finished preparations for use in diseases related to CNS.

The listed player China Resources Sanjiu Medical & Pharmaceutical Co., Ltd., which is famous in China’s OTC market with the label “999,” made an important move into the skin care market by acquiring Guangdong Shunfeng Pharmaceutical Co., Ltd., for US$95.33 million. There was a fierce battle for this target, as 21 other companies were among the bidders. Shunfeng holds China’s sixth-best selling dermatology product, but was lacking a broader distribution network. Furthermore, Shunfeng will be serving as a key production base for Sanjiu in the future.

Shanghai Pharmaceuticals Holding Co. Ltd acquired 70% of Chanzhou Kony Pharma Co., Ltd, for US$35 million, with a strategy to increase its exposure in high-quality API production, aiming at an attractive market both overseas via exports and in China. This represents a further step for Shanghai Pharmaceuticals in completing its already multi-faceted activities along the pharmaceutical value chain, by adding on more intermediaries’ production capacities to its portfolio.

Only a handful of cross-border transactions took place in 2012. Although most foreign players are actively looking to buy, many of them were working systematically on their deal pipeline during 2012. Different to 2011, there were no ground-shaking large deals conducted by MNC pharma in China, and most MNCs were consolidating their previous acquisitions.

Pfizer entered a 49:51 joint venture with local drug maker Zhejiang Hisun Pharmaceutical, with an investment of US$145 million. The purpose of the JV is to provide Pfizer with the necessary play in the generics field on a commercial level, but also soon on a regulatory level. The European drug store chain Alliance Boots acquired 12% (valued at US$90 million) of Nanjing Pharmaceuticals, making Alliance Boots the second largest shareholder with Nanjing Pharmaceuticals Company - a US$3.2 billion company with operations in 12 cities across China, and ranked as China’s 5th largest pharmaceutical wholesaler. This investment is an additional expansion in China for Alliance Boots, which has had a JV with Guangzhou Pharmaceuticals Corp. since 2008, and should provide the buyer with a larger play in the Chinese pharma retail and wholesale market. Eli Lilly increased its equity position in the Chinese company Novast Laboratories Ltd with US$20 million, with the target of developing, registering, and producing branded generics in China.

In a China outbound transaction, BGI (formerly known as the Beijing Genomics Institute) acquired Complete Genomics of California for US$117 million, helping BGI to strengthen its presence in the US. At the same time, BGI received a round of investment up to US$200 million from financial investors including Sequoia Capital, China Everbright Investment, and Shenzhen Capital.

Mid-term expectation for M&A activity in the region

We expect 2013 to be a strong deal year in pharma / biotech, with a certain uptake of deals after the political leadership change. Domestic consolidation: the player landscape in drug production and sales will further consolidate, driven by Chinese players acquiring other domestic players. Ready for the generics war: although there may be no larger deals between MNCs and large domestic players on the immediate horizons, many foreign players are looking to find bolt-on acquisitions for branded generics.

Platform strategies: Chinese targets are less likely to be interesting to foreign buyers because of the product portfolios they have to offer, but can serve as a platform to drive registration work for the portfolio of imported products.

Contributors

IMAP in China / InterChina Consulting
Franck Kaiser (Franck.Kaiser@imap.com)
Regional insights

India

M&A climate in the pharma / biotech industry

In 2012, 31 M&A deals involved Indian players (inbound, outbound and domestic; and including product portfolio deals). Total deal value substantially increased from 2011 levels of US$860 million to US$1.7 billion. PEGs invested in 14 deals (totaling US$180 million) - twice as much as the year before. Domestic and inbound deal valuations are in the range of 18.0x – 20.0x EBITDA, a bit lower than 4-5 years ago.

Most notable transactions in 2012

Sun Pharma acquiring Dusa: India-based Sun Pharma acquired US-based Dusa Pharma for US$225 million (3.8x LTM sales and 26.5x LTM EBITDA). Sun Pharma offered to buy Dusa’s shares at a 38% premium over previous day closing price. DUSA is a dermatology company focused on developing and marketing its Levulan photodynamic therapy platform. DUSA’s proven technical and USFDA-approved manufacturing will help Sun Pharma gain entry into the fast-growing US dermatological treatment market. The acquisition will lead Sun to consolidate its dermatology portfolio in the US as its Israel-based subsidiary, Taro Pharma, also has a strong dermatology range.

B. Braun acquiring Ahlcon Parenterals: B. Braun Melsungen AG acquired a 75% stake in Ahlcon Parenterals India Ltd. for a total consideration of US$50 million (4.9x LTM sales and 30.7x LTM EBITDA). Ahlcon is engaged in the business of parenterals and manufacturing life-saving intravenous fluids and medical disposals. B Braun is a leading player in India in medical devices, critical care, surgical instruments, and renal care therapy. The acquisition will further accelerate B. Braun’s growth in India, following its recent acquisition of a controlling stake in another India-based medical devices manufacturer, Oyster Medisafe. With this acquisition, the Company will introduce many other safe infusion therapy products in the Indian market and in other South East Asian markets.

Serum Institute acquiring Bithoven Biologicals in July 2012: The Serum Institute of India, one of India’s largest vaccine companies, acquired Bithoven Biologicals, a bioengineering and pharmaceutical company based in the Netherlands, for US$100 million. Bithoven Biologicals serves as a contract manufacturer of monoclonal antibodies and other biologicals, in addition to offering its extensive vaccine portfolio. Through the acquisition, the Serum Institute will get access to the technology and expertise necessary to manufacture the Injectable Polio Vaccine (Salk), a capability currently possessed by only a handful of other vaccine manufacturing plants globally. This first overseas acquisition by the group will also provide the Serum Institute with an important manufacturing base in Europe, with access to the important European and US markets.

Mid-term expectation for M&A activity in the region

The Indian Healthcare market is growing at a CAGR of 15% and is expected to reach US$104 billion in 2014 from the current (2012) levels of US$78 billion, becoming one of the top 10 markets globally. As a booming pharma market - with foreign players trying to gain access to it and domestic players consolidating their positions - India remains a ‘seller’s market’.

Indian companies will keep scouting for access to technology capabilities (Dr. Reddy / OctoPlus) and marketing and distribution set up (Cipla buying 51% stake in South Africa-based Cipla Medpro) for inbound M&A, regulatory challenges on FDI in pharma, and recent price controls on essential medicines may dampen the interest of foreign players in mid-term, but the long-term prospects are bright.

Contributors

IMAP in India / o3 capital
Shiraz Bugwadia (shiraz.bugwadia@imap.com)
Prashant Jain (prashant.jain@imap.com)
Saurabh Soni (saurabh.soni@imap.com)

South America

M&A climate in the pharma / biotech industry

Overall, the industry consolidation process has been progressing, with a record number of 61 deals. It seems to have come to an end in Brazil where only few medium-sized or small independent companies remain. In Colombia and Mexico, an acceleration of the process has been observed while Peru and Ecuador still seem to be in an earlier consolidation stage. Few transactions have been seen in Argentina, Chile, and Uruguay, where the consolidation started earlier than in the rest of Latin America.

While multinational corporations have traditionally dictated the pace of the process, regional players have also become a driving force. Biotech products have been high on the agenda of most regional branded generics competitors for some time now. However, no major deals have been observed in 2012. The Joint Venture of four major Brazilian labs under the name of Bionovis – the equity partners are EMS, Achê, Hypermarcas and União Quimica – shows the dedication of the established branded generics players to defend their market share into a future when biotech products will be key to maintain a leading position in the market. Other regional competitors such as Roemmers, Tecnofarma (both Argentina) and Pisa (Mexico) seem to have increased their efforts to build their biotech portfolios as well.
Regional insights

Most notable transactions in 2012

In 2012, the most prominent deals in the healthcare segment have taken place in Colombia, followed by Brazil. The acquisition of Lafrancol (Colombia, US$562 million) by Recalcine (Chile) has been the largest transaction; the acquisition of Panpharma (wholesaler in Brazil, US$346 million) by Celesio (a leading Germany-based European wholesaler) came in second. The acquisition of Genfar (Colombia, US$274 million) by Sanofi (France) was third; next was the Multilab acquisition (Brazil, US$241 million) by Takeda (Japan). The common denominator of all these deals may be seen in the quest for market share in growth markets - with the exception of Panpharma, where Celesio increased an already existing stake.

Interestingly, however, the largest deal in the healthcare segment took place in the veterinary segment with the acquisition of Tortuga Companhia Zootecnica Agraria (Brazil, US$614 million) by DSM (Netherlands). It remains to be seen if this acquisition turns out to be the trigger of a consolidation process in this sub-segment of the health care market.

Mid-term expectation for M&A activity in the region

We expect an increase of M&A transactions in the Andean region and Mexico, a decrease in Brazil and little activity in Argentina, Chile and Uruguay.

Contributor

Peter Degen (peter.degen@imap.com)

Peter is one of IMAP’s Pharma experts for Latin America.

Mexico

M&A climate in the pharma / biotech industry

The Mexican pharmaceuticals sector had sales of US$13 billion and grew by 2.5% in 2012. Over the past three years there have been a variety of M&A transactions through which large Mexican and multinational companies have actively been consolidating and gaining market share in Mexico.

Most notable transactions in 2012

Valeant Pharmaceuticals acquired certain assets from Atlantis Pharma, the Mexico-based branded generics pharmaceutical company, for a total consideration of US$71 million. The acquired assets generated US$26 million in revenue for the year 2011. The acquisition is in line with Valeant’s strategy of expanding its export business to Central America and the Andean region.

Genomma Lab (Mexico), the listed over-the-counter (OTC) pharmaceutical company, closed its acquisition of OTC cold remedy brands XL-3MR for US$40 million, equating to 2.5x XL-3MR sales. The company plans to regenerate and relaunch the brands in early 2013. The XL-3MR acquisition includes brands XL-3 DíaMR, XL-3 XtraMR, XL-3 InfantIlMR, XL-3 VRMR, XL-DolMR, XL-Dol InfantIMR and XL-AcidIMR. The acquisition includes the rights to sell the brands in their principal market, Mexico, as well as in Brazil, Argentina, Colombia, Chile, Perú, Ecuador, Costa Rica, Honduras, Nicaragua, Panama and additional unspecified countries. The acquisition will increase Genomma Lab’s market share in the cold remedy sector to 37%.

Taisho Pharmaceutical (Japan) acquired four companies from Takashi Tsuru Kayaba, the Mexico-based private investor; for an undisclosed consideration. These were Compania Internacional de Comercio (CICSA), the Mexico-based company engaged in production, commercialization, and distribution of OTC drugs, cosmetics and related products; Grupo Imperial Corporativo (GI), the Mexico-based company engaged in administration and lease of real estate and other assets; Kosei, the Mexico-based company engaged in provision of personnel services to CICSA; and Vitaclina Corporation of America (VitaCorp), the US-based company engaged in marketing and distribution of products produced by CICSA. CICSA, GI, Kosei and VitaCorp together reported revenues of approximately US$27 million. The acquisition will enable Taisho to enter the OTC drug market in Mexico and utilize CICSA’s production facilities in Mexico as a platform to serve the North American continent. With this acquisition, Taisho will expand its existing business in North America.

Mid-term expectation for M&A activity in the region

We anticipate that a variety of labor, investment and healthcare reforms stemming from the new presidency, along with the expiration of many patents worldwide, will bring an increase to local and cross-border M&A activity across multiple sub-sectors of the healthcare industry.

For example, the weight management sector poses an interesting growth opportunity: Mexico has the world’s second-highest obesity rates. Additionally, healthcare related to diabetes, a disease that accounts for 14% of the deaths in the country, also represents a long-term market opportunity.

Based on recent talks with local market participants and foreign multinationals, and our own market investigation, IMAP expects there will be a growing trend of cross-border M&A and Joint Ventures in the market.

Contributors

IMAP in Mexico / Serficor

Gilberto Escobedo (gilberto.escobedo@imap.com)

Alberto Saba (alberto.saba@imap.com)
Anatomy of a deal that didn’t happen

NGS technologies may fundamentally change medical practice

The proposed transaction between Illumina and Roche - much discussed but not completed - shed stark light on a trend that may profoundly shape the future of the industry: the advent of very fast and very cheap DNA sequencing.

In January 2012, Illumina and Life Technologies each presented – within a few hours of the other – the HiSeq and the Proton Sequencer, respectively. These devices allow sequencing of the whole human genome in less than one day. These new devices are the latest installment in the enormous advances in sequencing technology started in 2007, which pushed down the cost of sequencing by a factor of 1000 (see graph). Many industry experts expect that the cost of sequencing the full human genome will drop below one thousand dollars in the next few years, even though the cost curve shown below has flattened recently.

Taking commercial advantage of these technical advances seems to be difficult. Genome sequencing as such has been a graveyard for technology companies: the specialist website blueseq.com lists 14 companies that failed to develop their own next generation sequencing platform. It looks like the two winners are indeed Illumina and Life Technology. But beware - other emerging technologies may soon enable faster, cheaper, and smaller devices, such as Oxford Nanopore’s MinIon, which is the size of a large USB stick.

This dramatic technical advancement in sequencing combines with two additional trends: personalized medicine, and the increasing specialization in oncology. The 2012 report of the Personalized Medicine Coalition reports 13 treatments where the label requires diagnostic tests to ensure efficacy, and another 12 for which diagnostic tests are recommended for safety reasons. Many of these tests detect genetic differences amongst individual patients. Faster and cheaper sequencing will enable blanket searches for the genetic mutations which cause or influence a disease, and will accelerate the advance of personalized therapies targeting specifically these mutations.

This in turn requires companion diagnostic tests to be developed in parallel with a drug candidate. Patients are tested to determine whether or not their cancer is related to the targeted mutation, and only if positive can the new drug be prescribed. Owning the leading sequencing technology would offer a pharma company a substantial advantage in the race to find new drug targets and to bring drug/companion diagnostic packages on the market.

Roche, as a leader in oncology and a globally leading diagnostics company, has pushed personalized medicine for years – the company claims that, already, 60% of its candidate drugs are developed together with companion diagnostics. With 454 (a sequencing technology company) and Nimblegen (a DNA array company), Roche’s Diagnostic division has an established position in genomic analysis technology. Roche’s technologies, however, are not suitable for whole-genome sequencing. Acquiring the leading sequencing platform would allow the pharma giant to consolidate its leadership.

Illumina looks like a perfect target for Roche’s personalized medicine strategy

Life Technologies is an outcome of the M&A frenzy in the life science technology sector early of this new millennium. The conglomerate comprises a large number of lab consumables and lab instrumentation businesses and would be an unwieldy acquisition for Roche. With a market cap of US$18.5 billion, Life Technologies would also be quite pricey. This leaves Illumina as the logical target for Roche in order to consolidate its leadership in the personalized medicine / NGS race. In particular, Illumina also owns other clinical tests that fit nicely into Roche’s portfolio.

So, why then did the deal not happen? Over months, Illumina’s Board rebuked a US$6.7 billion bid for the company, claiming that the company was worth more – even though the offer gave an 89% premium on the stock price and amounted to 6.5x revenues respectively 34x EBIT. Roche, which prides itself on its discipline in deal making, did substantially sweeten the original offer. The company stood by the amended price and eventually called the transaction off in January 2013. Roche’s chairman publicly stated that the “deal was off the table.” Interestingly, at that same time, Life Technologies entered a process to be bought out…
IMS’ updated market growth forecast is more conservative

In 2011, IMS predicted the drug market (measured as net revenue from sales) to reach 1 trillion US dollars in 2015. We’ll get there, but we’ll need one year more time, says the updated IMS Medicine Outlook of 2012. In the coming five years, net spending is expected to grow 4.14% per year, which is more humble than the 4.94% forecasted in 2011.

What are the changes? In its revised 2012 report, IMS predicts stronger growth for branded products than it did 2011. Emerging Markets are still supposed to grow fast with approximately 13% per year, but much less than in the last forecast. On the down side, the forecast for the volume of generic products decreased slightly. The biggest effect for the difference between the forecasts in 2011 and 2012 was the estimation of rebates and “off-invoice discounts” granted to the customers of generic products. This will slow down substantially net revenue growth.

### Total revenues, medical drugs, forecast by IMS 2011 vs. 2012

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<tr>
<th>Year</th>
<th>2011 Forecast</th>
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<tbody>
<tr>
<td>2010</td>
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### Growth 2012 forecast vs. 2011 forecast

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<tr>
<td>Other</td>
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<td>LoE</td>
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<tr>
<td>Rebates &amp; discounts</td>
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<td>120</td>
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<tr>
<td>Net growth</td>
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</tr>
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</table>
IMAP Healthcare Team

Asia

China
Eduardo Morcillo
eduardo.morcillo@imap.com
Franc Kaiser
franc.kaiser@imap.com
James Wang
james.wang@imap.com
Barry Chen
barry.chen@imap.com

India
Gawir Baig
gawir.baig@imap.com
Prashant Jain
prashant.jain@imap.com
Shiraz Bugwadia
shiraz.bugwadia@imap.com

Europe

Croatia
George Oniunas
jurg@imap.com

Czech Republic
Michal Misun
michal.misun@imap.com
Petr Sedlar
petr.sedlar@imap.com

Finland
Mikko Sistonen
mikko.sistonen@imap.com
Lars Wikholm
lars.wikholm@imap.com

France
Christophe Giecold
christophe.giecold@imap.com
Sebastien Clèdes
sebastien.cledes@imap.com

Hungary
Laszlo Papp
laszlo.papp@imap.com

Italy
Antonio Flores
antonio.flores@imap.com
Antonio Zecchino
antonio.zecchino@imap.com

Netherlands
Peer Joosten
peerjoosten@imap.com

Russia
Evgeny Antipov
Evgeny.Antipov@imap.com
Nikolay Efremov
nikolay.efremov@imap.com
Evgeny Rumyantsev
evgeny.rumyantsev@imap.com

Spain
Francisco Asís Gomez Ruiz
francisco.gomez@imap.com
Miguel Lorenzo
miguel.angel.lorenzo@imap.com

Switzerland
Christoph Bieri
christoph.bieri@imap.com
Peter Degen
peter.degen@imap.com
Juerg Kurmann
juerg.kurmann@imap.com

Turkey
Sevket Basev
sevket.basev@imap.com
Emre Erginler
emre.erginler@imap.com

UK
Karen Edwards
karen.edwards@imap.com
Mark Day
mark.day@imap.com
Ramesh Jassal
ramesh.jassal@imap.com

Latin America

Chile
Patricio Giglio
patricio.giglio@imap.com
José Gabriell Coll
gabriel.colli@imap.com

Mexico
Alberto Saba
alberto.saba@imap.com

USA
Kurt Andersen
kurt.andersen@imap.com
Marc Cabrera
marc.cabrera@imap.com
John Cramer
john.cramer@imap.com
Steve Dresner
steven.dresner@imap.com
Kerry Dustin
kerry.dustin@imap.com
Michael Holland
michael.holland@imap.com
Brian Schofield
brian.schofield@imap.com
Andrew Sherman
andrew.sherman@imap.com
Mitchell Stern
mitchell.stern@imap.com

Latin America

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Switzerland

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In 2012, according to Thomson Reuters, IMAP ranked fifth in number of transactions in the Healthcare Industry with deal values up to US$200m.