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# Pharmaceutical Executive

**As zombie banks stalk the globe, the biotech industry is going bankrupt and a mega-super-giant-pharma is being born. From the depths of the Great Recession, *Pharm Exec* called in pros on all sides of the M&A business to help us deal.**

**I**t's no secret that pharmas have a number of challenges—patent expirations, getting drugs approved, drier pipelines, and payer pushback over prices. There is also a general feeling that they need to diversify. Consolidation gives the Pfizers and Mercks the ability to quickly address some of these challenges.

There is definitely a strong rationale for each of the three mergers. Wyeth provides Pfizer critical mass, especially in the area of vaccines, and allows it to shift its focus away from blockbuster primary-care products. Genentech gives Roche full access to its oncology portfolio and the ability to improve coordination on product development. Merck gets Schering's anti-clotting drug and its women's health and respiratory treatments clinical program, but also helps diversify its revenue with the 70 percent of Schering's revenue that comes from outside the US.

The three deal structures are different from the debt deals we've seen in the past. They all had a decent-sized equity component—Merck put up 44 percent in cash. This is a trend we expect to continue.

I think these three megamergers are just the tip of the iceberg. There are still a number of other pharma companies with a fair amount of cash on their balance sheets, and M&A is a logical path to pursue, as it's often cheaper to buy than build. You also don't want to be left out of the game—more companies will join forces to ensure they stay competitive.

Pricing pressures and healthcare reform will impact where pharma companies invest their money. Blockbuster drugs and primary-care products are likely to be under the most pricing pressure, forcing companies to diversify. This has already started to happen, as pharmas have started to move from big categories such as cardiovascular and lifestyle products into cancer, Alzheimer's, and obesity, where the needs are not well met. Even more important, real product differentiation in terms of meaningful safety and efficacy advantages will be the best defense against pricing pressure. "Me too" products will be the most vulnerable, even if they have strong patents.

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## A SEASON IN FINANCIAL HELL



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