

Deals from PwC

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Global Pharma & Life Sciences Deals Insights

Q2 2019

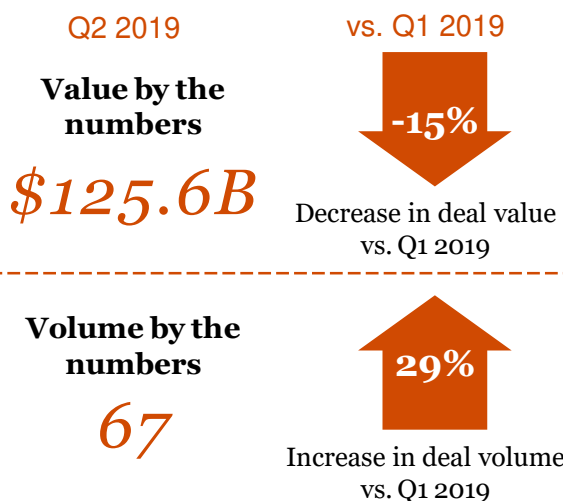
Executive summary

Following a busy start to the year, PLS deal activity remained strong through the second quarter. A total of seven megadeals were announced in the first half of 2019, including four in the second quarter. This brings us just one shy of the total number of megadeals in all of 2018. Second quarter deal activity was highlighted by AbbVie's announced acquisition of Allergan for \$86.0B. Aside from this megadeal for the Ireland-based Allergan, each of the top ten largest transactions during the quarter had targets based in the U.S.



"The strength we saw during the first quarter continued through the second quarter of 2019, and we expect to see an active deal market for the remainder of the year and into 2020. As some of the uncertainties that had kept buyers from completing deals have continued to diminish, companies are looking to drive growth and achieve greater economies of scale. The growth in deal volumes in each of the four sub-sectors relative to prior quarters signals broad strength and a continued desire for companies throughout the sector to proactively execute on their inorganic growth strategies."

— Glenn Hunzinger, US PLS Deals Leader, PwC



Sub-sectors		
	Recent Trends	Outlook
Pharmaceutical	↑	↗
Biotechnology	→	↑
Medical Devices	↗	↗
Other/Services	→	→

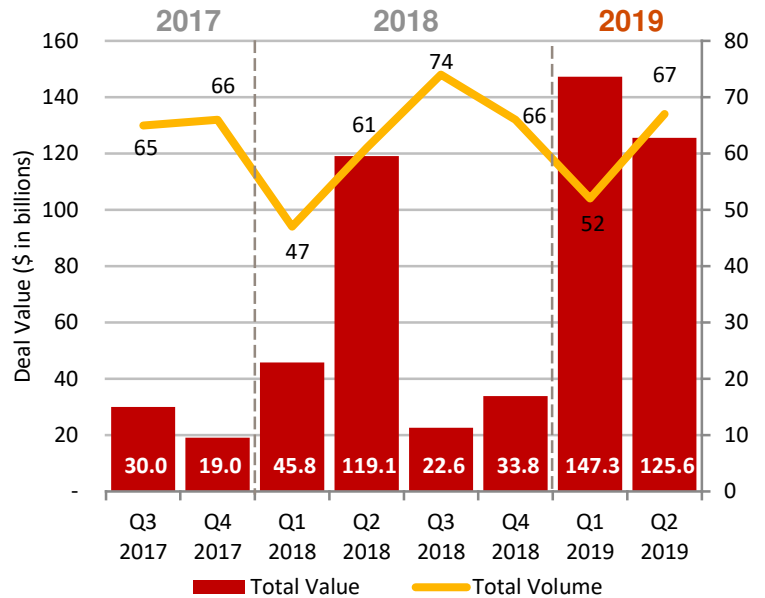
High level trends and highlights Q2 2019 (vs. previous quarter Q1 2019)

- **Pharma** maintained its leading position with the highest deal volume among the sub-sectors, which it has held since Q2 2018. Deal value spiked during the quarter, driven primarily by AbbVie's acquisition of Allergan, along with Novartis' acquisition of Xiidra from Takeda for \$5.3B.
- **Biotech** experienced a decline in deal value, primarily due to a lack of megadeals following the \$99.6B acquisition of Celgene in Q1 2019. However, excluding this large Q1 transaction, deal value slightly increased for the quarter.
- **Medical Devices** quarterly activity was highlighted by 3M's acquisition of Acelity for \$6.7B. Aside from this megadeal, the sub-sector has continued the recent trend of primarily smaller, tuck-in acquisitions rather than larger, transformational deals.
- **Other/Services** followed a jump in deal value during Q1 2019 by returning to the lower deal values experienced during most of 2017 and 2018. The sub-sector only had one of the top 10 largest deals during Q2 2019.

Highlights of Q2 2019 deal activity

Deal value and volume overview

- While down slightly from Q1 2019, Q2 2019 is still the second highest deal value the sector has seen in the past eight quarters.
- Deal volume is up from Q1 2019, and the number of deals was the second highest the sector has seen in the last two years.
- The sector saw four megadeals this quarter, totaling approximately \$110B in value, compared to Q1 2018 which had 3 megadeals with a combined total of \$129B in value.
- Large spikes in deal value during Q2 2018, Q1 2019, and Q2 2019 were driven by significant megadeal activity.



Largest transaction

The largest announced transaction of the quarter was AbbVie's acquisition of Allergan. The American biotech giant agreed to purchase Allergan for \$86.0B in one of the largest deals in recent years.

\$86.0B



Megadeals (\$5B and over)

Q2 2019 saw four megadeals over the quarter with a combined value of \$110B, driving the second highest deal value seen in the sector over the past two years.

4 mega deals



Q2 2019 PLS megadeals

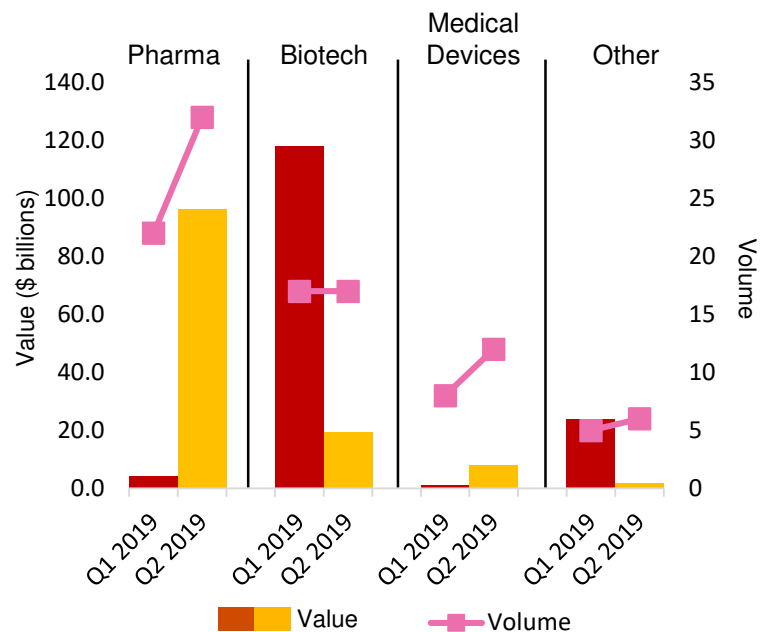
Announced	Target name	Target nation	Acquirer name	Acquirer nation	Value (\$MM)	Segment
6/25/2019	Allergan	Ireland	AbbVie	United States	86,011	Pharma
6/17/2019	Array BioPharma	United States	Pfizer	United States	11,499	Biotech
5/2/2019	Acelity	United States	3M Company	United States	6,725	Medical Devices
5/8/2019	Xiidra assets	United States	Novartis AG	Switzerland	5,300	Pharma

Sub-sector deal trends for Q2 2019

Announced deal volume and value by sub-sector

- Pharma experienced a substantial increase in deal volume in Q2 2019 compared to Q1 2019. Deal value in the sub-sector also saw a strong increase this quarter with several large deals in addition to AbbVie's acquisition of Allergan.
- Biotech saw a significant decrease in deal value as there was only one megadeal in the sub-sector in Q2 2019, following the \$99.6B acquisition of Celgene in Q1 2019. However, the sub-sector maintained the same deal volume and its position as the second highest deal volume among the sub-sectors.
- The Medical Devices sub-sector experienced a relatively sizable increase in both deal value and volume, with 12 deals and \$8.1B in deal value.
- The Other/Services sub-sector experienced a decrease in deal value, while deal volume trended slightly upwards.

Deal value and volume by sub-sector



Sub-sector highlights and outlook

Pharma once again led the sector in deal volume. The acquisition of Allergan by AbbVie represents the largest deal within the sub-sector in the last three years, followed by Takeda's acquisition of Shire in Q2 2018. We expect this activity to continue as the sub-sector looks to improve upon innovative R&D capabilities as a series of blockbuster drugs begins to lose exclusivity across the globe.

Biotechnology continues to consolidate as some of the sub-sector's larger participants look to diversify their product portfolio by acquiring innovative companies with clinical and pre-clinical assets. Unlike trends seen in other sub-sectors, the five largest transactions within Biotech were domestic.

Activity within both the Pharma and Biotech sub-sectors has been impacted in recent years by public focus on product pricing in these sub-sectors. Complexity within the broader healthcare system has driven many industry participants, across both specialty and generics, to focus on product value through development of new pricing strategies.

Following a multi-year low in Q1 2019, the **Medical Devices** sub-sector saw increases in both deal value and deal volume. Despite lower deal activity than other sub-sectors, Medical Devices companies remain attractive targets, particularly for financial buyers looking to utilize their stockpiles of cash. Relative to the other sub-sectors, participants face additional cyber-security challenges that require attention to maintain product safety and compliance with new FDA regulations.

Within the **Other/Services** sub-sector, the consolidation trend in the CDMO space continued with Catalent's acquisition of Paragon, following the acquisition of Brammer by ThermoFisher in Q1 2019. We expect consolidation to continue throughout 2019 given the focus on cell and gene therapy products. Further, as the entire PLS sector plans ahead for significant patent cliffs, increased focus on efficient and pioneering R&D capabilities could put a renewed focus on CROs.

After a quarter without any **Animal Health** deal activity, the only deal during Q2 saw the newly public Elanco announce the acquisition of Aratana Therapeutics. While the animal health space remains attractive due to lower regulatory hurdles compared to the rest of the sector, risks related to changing consumer preferences towards organic meats could be keeping some potential acquirers on the sidelines.

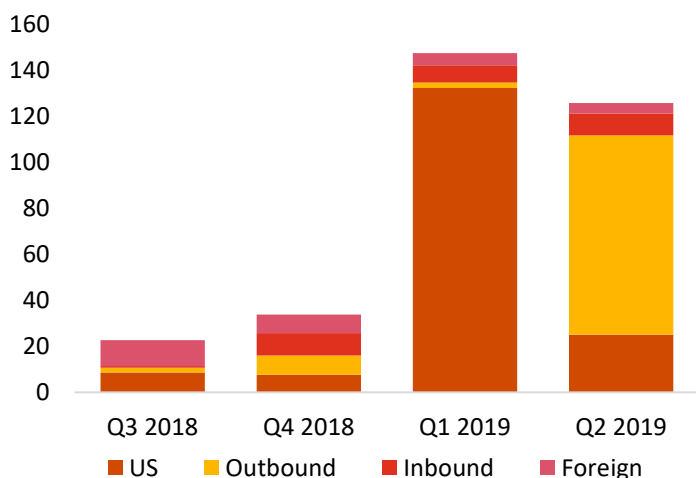
Q2 deal trends in 2019

Top 10 deals for Q2 2019

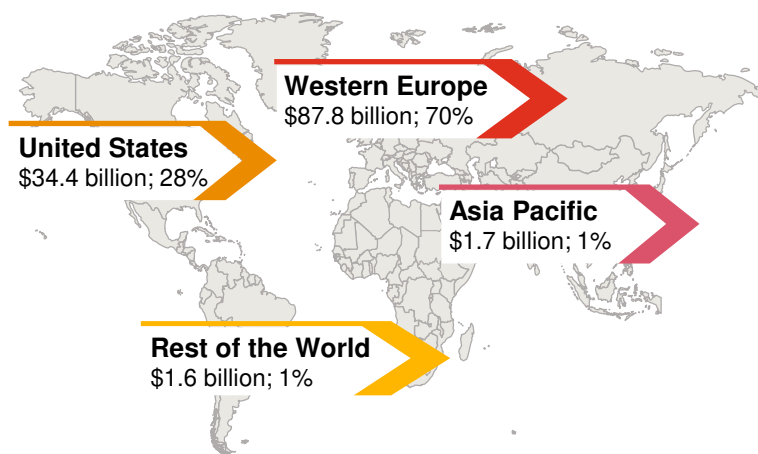
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5/21/2019	Peloton Therapeutics	United States	Merck & Co., Inc.	United States	2,203	Biotech
4/1/2019	IFM Tre	United States	Novartis AG	Switzerland	1,575	Biotech
4/15/2019	Paragon Bioservices	United States	Catalent Pharma Solutions, Inc.	United States	1,200	Other
5/1/2019	Cura Partners	United States	Curaleaf Holdings	Canada	1,148	Pharma
6/6/2019	Exonics Therapeutics	United States	Vertex Pharmaceuticals	United States	1,000	Biotech
6/10/2019	Tilos Therapeutics	United States	Merck & Co., Inc.	United States	773	Biotech

Geographic analysis for past four quarters

Cross border deals by value



Deals by target geography



Cross border insights

- Outbound transactions made up 70% of deal value in Q2 2019. The largest deal of the quarter was AbbVie's acquisition of Allergan, which accounted for virtually all of the outbound value.
- Foreign deal value has decreased over the past year, while deal value involving domestic companies has grown, primarily due to large mega deals.

Target geography insights

- While Western Europe was the dominant target region in terms of value for Q2 2019, the region had only 11 targets this quarter.
- The US made up 28% of deal value for targets in Q2 2019. The number of US targets was higher than the other regions with 34 targets for the quarter.
- Targets in the Asia Pacific region made up 1% of the sector's deal value this quarter, which is consistent with Q1 2019.
- The Rest of the World also had targets reflecting only 1% of deal value for the quarter, which is down from 3% in Q1 2019.

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PwC's Deals professionals help clients understand the risks in transactions so they can be confident that they are making informed strategic decisions. From deal negotiations to capturing synergies during integration, we help clients gain value and ultimately deliver this value to stakeholders. For companies in distressed situations, we advise on crisis avoidance, financial and operational restructuring, and bankruptcy.

PwC's Deals Practice can advise pharmaceutical and life sciences companies and PLS-focused private equity firms on a range of M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, through developing strategies for capturing post-deal profits, to exiting a deal through a sale, carve-out, or IPO. Our seasoned deals teams combine deep pharmaceutical and life sciences industry skills with local market knowledge. With more than 20,000 deals practitioners worldwide, we can deploy seasoned teams that combine deep health services industry skills with local market knowledge virtually anywhere your company operates or executes transactions.

Although each deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services. In short, we offer integrated solutions tailored to your particular deal situation and designed to help you complete and extract peak value within your risk profile, whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divestiture process.

For more information about M&A and related services in the pharmaceutical and life sciences industry, please visit www.pwc.com/us/pharmadeals, www.pwc.com/us/pharma or www.pwc.com/us/medtech.

For our views on the health industries sector, refer to the Global Pharma & Life Sciences Deals Insights reports on the deals section of our website.

About the data

We define M&A activity as mergers and acquisitions in which targets are US-based companies acquired by US or foreign buyers, or foreign targets acquired by US or foreign pharmaceutical and life sciences companies. We define divestitures as the sale of a portion of a company (not a whole entity) by a US-based or foreign seller. We have based our findings on data provided by industry-recognized sources. Specifically, values and volumes used throughout this report are based on announcement date for transactions with a disclosed deal value greater than \$15.0 million, as provided by Capital IQ, as of July 9, 2019, and supplemented by additional independent research.

Information related to previous periods is updated periodically based on new data collected by Capital IQ for deals closed during previous periods but not reflected in previous data sets. Deal information was sourced from Capital IQ and includes deals for which buyers or targets fall into one of the PLS industry sub-sectors: biotechnology, medical devices, pharmaceuticals, or other (such as contract manufacturing organizations). Certain adjustments have been made to the information to exclude transactions that are not specific to the PLS industry. Capital market and equity return information is sourced from Capital IQ.