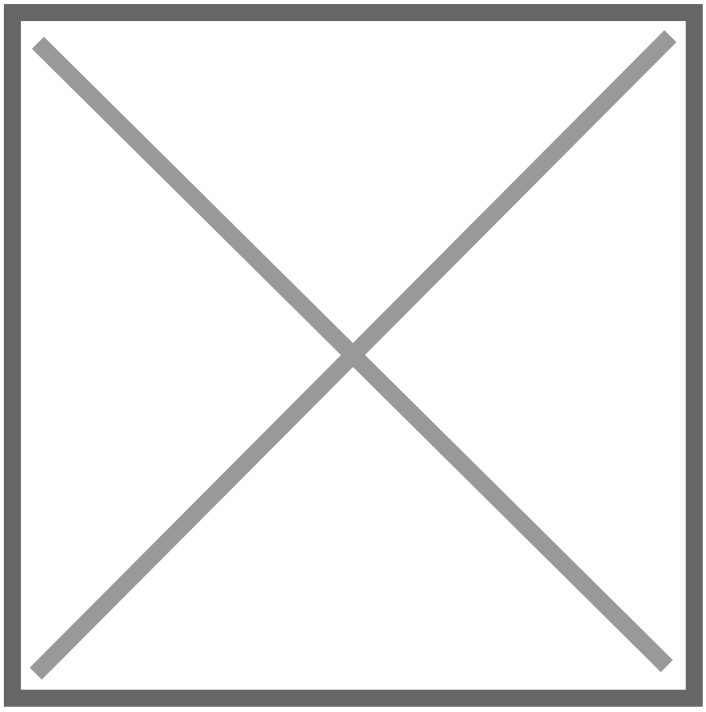
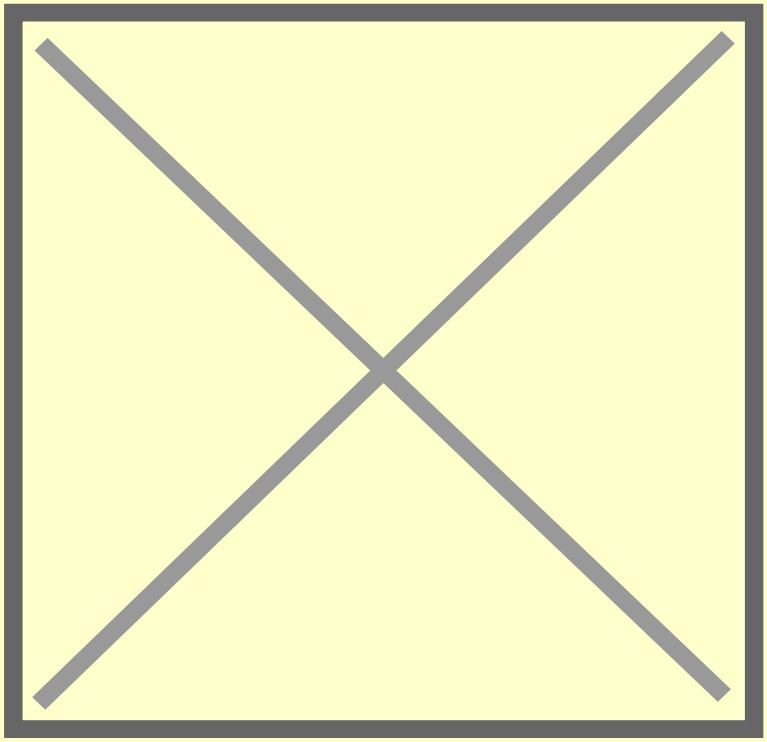
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A win win deal

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A win win deal



-Takashi Shoda, president & CEO, Daiichi Sankyo Company

-Malvinder Mohan Singh, CEO, Ranbaxy

The pharma industry consolidation picks up steam after India's Ranbaxy Laboratories makes a bold move-sells out to Japan's Daiichi Sankyo for $4.6 billion in a first-of-its kind deal

Daichi Sankyo is now Asia's top generics powerhouse. Earlier, in June, when Japan's No 3 pharma company Daiichi Sankyo acquired India's top generics company Ranbaxy laboratories, just about everybody was taken by surprise.

No one could have imagined that this is how the pharma segment consolidation story will play out. Not even Ranbaxy CEO, Malvinder Mohan Singh, who himself was pursuing a very aggressive acquisition strategy since early 2006. Under Singh's leadership Ranbaxy clocked about eight highly valued acquisitions apart from spending dollars on acquiring brands and defining the company's drug discovery focus.

Singh had set his sights on generating $5 billion revenues by 2012 but had missed reaching the $2 billion landmark in 2007 and was looking for ways to boost growth. In fact, according to BioSpectrum's first pan Asia survey of life science companies, Ranbaxy, in 2007, in India slipped to No. 2 position, growing only by 19 percent. Whereas its closest competitor in the country Dr Reddy's Laboratories grew by 58 percent over its 2006 revenues to overtake Ranbaxy for No 1 position by the margin of just about $150 million.

For Ranbaxy, the timing of this deal couldn't have been better. According to Singh, Daiichi Sankyo is strong on the innovator side of the business and Ranbaxy has strengths in the generics space and the coming together of both Ranbaxy and Daiichi Sankyo, enhances the scope and scale of business in marketing, manufacturing and research areas and will result in creating a powerful pan-global presence.

Looking at the core strengths of both the companies Ranbaxy-Daiichi Sankyo combined will be in a far stronger position to create a wider value chain and basket of branded, innovative, generics and OTC products in India and other markets across the world.

The deal catapulted Daiichi-Sankyo to No. 15, globally, from its pre-acquistion rank of No. 22. Also, this at once gives Daiichi a ground presence in 60 countries and generics capabilities that the company lacked. India pharmaceutical market had been on Daiichi's radar for some years now, admits Takashi Shoda, president and CEO of Daiichi Sankyo Company.

Earlier in 2008, the company had set up its subsidiary Daiichi SankyoIndia in the country with a view to capitalize on India market potential. The India subsidiary, focused on cardiology and diabetology, even signed a marketing alliance with GSK India to launch its hypertension drug in India.

Ranbaxy's cool calculation

Only a young CEO with a lifetime of business ahead of him could have made this move. Ranbaxy's Singh took the challenge of growth head on and in the process showcased what globalization can mean for the industry. According to industry analysts, this deal will trigger greater interest in India market and is likely to spur more such deals with the highest impact being felt by mid-size companies.

"This is a path breaking deal and will be a trendsetter in many ways," states Singh. He elaborates that Ranbaxy will operate as an independent and autonomous company and will closely cooperate with Daiichi Sankyo to explore opportunities and drive growth across the entire pharmaceutical value chain in India and globally. Under the deal, there will be a cash infusion of about $1 billion, which will be utilized to retire debt and to aggressively explore options for organic and inorganic growth.

What's in it for Daiichi Sankyo?

Daiichi Sankyo's acquisition of the majority stake in India's largest drug maker Ranbaxy Laboratories is a continuation of the ongoing merger and acquisition process in the global generics market. The global market for generics is expected to be $100 billion by December 2010. With combined revenues of over $9 billion, Daiichi-Ranbaxy combine will be one of the Top 15 companies in the global generics market.

Daiichi Sankyo Company acquisition will help Ranbaxy expand its presence in the Japanese pharmaceutical market. Japan is the world's second largest pharmaceutical market. However, it continues to have a predominantly low generics penetration. The ageing Japanese population and increasing healthcare expenditure has prompted the Japanese government to take remedial steps in promoting the use of generic drugs. This augurs well for generic manufacturers and will support Ranbaxy's business expansion plans in Japan. The deal will also benefit Daiichi Sankyo as they will get access to over 49 markets around the world and 11 manufacturing plants.

Complementary therapy areas for Daiichi & Ranbaxy		
Therapy Area	Daiichi Sankyo	Ranbaxy
Autoimmune & Inflammation	6 marketed products, one in phase III, and four candidates in phase II-major products are Alesion, Hirudoid, Loxonin, LX-A, Mobilat and Zyrtec	15 marketed products an major products are Alerid Dolamide and Laura
Blood & Lymphatic System	2 marketed products and 1 pending approval--major products: Bosmin and Venofer	8 marketed products--ma TR, Pravator and Ultiron
Cardiovascular & Circulatory System	20 marketed products, 1 pending approval, two candidates in phase III, two in phase II and one in phase I-major products are: Benicar, Bepricor, Lopresor and Mevalotin	46 marketed products an major products are: Amlo Caritec, Nifedipine and V
Central Nervous System	3 marketed products, two candidates in phase III, one each in phase I & II-major products: CS1401E, DL404 and Falzy	44 marketed products an major products are: Doxe Pentazocine, Naloxone a
Infections	11 marketed products and 1 approved-major products are: Banan, Feron, Tarivid and Cravit	More than 60 marketed p and 3 pending approvals Acyclovir, Azostat, Cifran Raniclor, Suprimox, Statu

Creating value

In April 2008, Ranbaxy received authorization from Ministry of Health and Labor Welfare (MHLW-Japan) for marketing the generic version of Amlodipine tablets 2.5mg and 5mg. Amlodipine tablets has a market size of around $2 billion (Jan-Dec 2007-IMS Japan). The product is currently the largest molecule that has gone off patent in Japan and represents the biggest generic opportunity so far in the Japanese generic market. The favorable trends towards generic products in the Japanese market give enough reason for Daiichi to acquire leading generic companies like Ranbaxy. The Japanese government initiatives are now being formulated to encourage generic prescribing as a cost containment measure. Under the new program, generic companies are being incentivized such that the first generic to market is rewarded at a price equivalent to 70 percent of the original branded price; subsequent generics are priced at a level analogous to the cheapest generic price.

Daiichi Sankyo holds the marketing rights to Mevalotin (Pravastatin), a genericized statin, for Japan, South Korea, Taiwan and Thailand, with Bristol-Myers Squibb holding exclusive rights for all other markets. The Japanese Dyslipidemia market has witnessed tough competition in recent years, with Daiichi Sankyo going head-to-head with Astellas,

the marketers of Lipitor (Atorvastatin) in Japan, and also with generic versions of Simvastatin. Since the expiry of Pravastatin patent in 2002, competition from other direct generic competition has significantly eroded Daiichi Sankyo's share of the lucrative high cholesterol market.

Sales of its generic drug Mevalotin declined from a peak of $1,852 million in 2003 to just $804 million in 2006. Datamonitor forecasts that Mevalotin will continue losing sales momentum at a CAGR of -8.3 percent during the period 2006Ã¢â?¬â??12. This acquisition of Ranbaxy will help Daiichi gain considerable market share in the lucrative generic cholesterol lowering drug

market, as the Indian company holds the 180-day market exclusivity for the generic version of Lipitor, a rival of Mevalotin recording sales of just under $13 billion in 2007.

In addition, Ranbaxy, as a subsidiary, will help it gain strong foothold in the most lucrative US market as well. Daiichi derives less than a quarter of its total sales from the US markets. At present, the company drives US sales through either direct promotion by its US subsidiaries or collaborative partnerships with US-based pharmaceutical players. One such collaboration is with Forest Laboratories for the commercialization of its complete olmesartan franchise, comprising Benicar, Benicar HCT and the recent addition, Azor.

Ranbaxy's low cost talent pool, workforce and manufacturing units and its presence in 49 countries are certainly a bonus to the Japanese parent, as the combined entity's sales will be more than $9 billion.

US Basic Product Patent	
Drug	Expiration Yea
Aricept	2010
Lipitor	2010
Xalatan	2011
Viagra	2012
Detrol	2012
Celebrex	2014
Zyvox	2015
Chantix	2018
Lyrica	2018
Sutent	2021

Source: Datamonitor and Pfizer,
10-K Form 2007

Will Pfizer make a hostile bid on Ranbaxy?

In late 1999, Pfizer successfully launched an aggressive bid to acquire Warner-Lambert and prevented it from being bought by American Home Products. Pfizer made an $82 billion hostile bid for Warner-Lambert and ended up paying around $20 billion more than what American Home Products offered. The primary reason for this bid was Lipitor-the jewel in Warner Lambert's crown.

Lipitor, the best selling cholesterol lowering drug in the world, contributed approximately $13 billion to the company's top-line growth in 2007. However, the product sales declined by more that $200 million compared to its sales in 2006 due to generic

competition. Especially in the US, Lipitor sales recorded a decline of eight percent in 2007.

Since 2003 Ranbaxy aggressively challenged the patent protection on Lipitor and won favorable judgments in many countries including the US, and currently owns the 180-day generic version exclusivity for Lipitor in the US. The company was likely to launch the generic version before 2010. This would have impacted Pfizer significantly in terms of sales as Lipitor currently contributes over $13 billion to its annual sales. By taking over Ranbaxy, Pfizer will control the marketing and launch of the generic version of Lipitor after 2010.

However, Ranbaxy Laboratories and Pfizer have entered into an agreement to settle most of the patent litigation worldwide involving Lipitor (Atorvastatin). This decision will allow for an earlier introduction of a generic formulation that will benefit patients and many healthcare systems throughout the world. Under the terms of the agreement, Ranbaxy will have a license to sell generic versions of Atorvastatin and the fixed-dose combination of Atorvastatin-Amlodipine besylate in the US effective November 30, 2011.

According to Ranbaxy CEO, Singh, "The agreement comprehensively settles outstanding issues between Ranbaxy and Pfizer bringing to closure a number of ongoing patent disputes. It also provides certainty and visibility to the launch of Ranbaxy's Generic Atorvastatin, with180 day market exclusivity in the US and an early entry in other markets. This will make the worlds largest selling drug more accessible to patients who will gain from the timely availability of an affordable quality option."

In addition, the lawsuits between Pfizer and Ranbaxy regarding Atorvastatin will be dismissed in select countries and the lawsuits between Pfizer and Ranbaxy regarding the fixed dose combination product containing Atorvastatin and amlodipine will be dismissed in the US and Ranbaxy will no longer contest the validity of Pfizer's patents in such countries.

Litigation between Ranbaxy and Pfizer relating to Lipitor will continue in five other European countries-Finland, Spain, Portugal, Denmark and Romania.

Despite stellar performance over 2001Ã¢â?¬â??07, Pfizer will face significant commercial challenges over the period 2007Ã¢â?¬â??12 that will threaten its status as the world's largest pharmaceutical company. In particular, the high value end of Pfizer's product portfolio faces considerable exposure to patent expiry and subsequent generic erosion, with Lipitor expected to be the highest profile casualty (See Table). Ethical pharmaceutical sales are forecast to decline at a negative CAGR of -4.2 percent over the period 2006Ã¢â?¬â??12, compared to an average sales CAGR of 4.4 percent forecast across the other players within the Big Pharma peer set. Anticipated loss of US patent exclusivity for Lipitor (in 2010) is forecast to act as the overriding driver on Pfizer's commercial performance over the period 2006Ã¢â?¬â??12. These are reasons good enough for Pfizer to make a hostile bid.

Nandita Singh & Ramchandra Naik

(Ramchandra Naik is the project manager-company profiles at Datamonitor India; Inputs: Shalini Gupta, New Delhi)