

## Can Indian companies be on Pfizer's next M&A spree?

06 February 2015 | Features | By BioSpectrum Bureau

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Pfizer has approximately \$15 billion of sales at risk from generic/biosimilar competition over the next 5 years, with the biggest losses expected to be suffered by its drugs including Lyrica, Zynov, Viagra and Vfend.

Despite the recent approval of Ibrance (palbociclib), Pfizer's late-stage pipeline is relatively weak, and the move to acquire Hospira will help insulate its top-line from the impact of patent expirations.

Ever since its failed acquisition talks worth \$118 billion with British-drug major AstraZeneca (AZ) in 2014, industry analysts speculated a wide range of possibilities for the pharma giant's next acquisition this New Year. The new announcement from Pfizer has arrived just in time.

Pfizer was fairly subdued since the AstraZeneca deal collapse last year. "Whether this is indicative of the fact it is bidding its time to repeat the attempt to secure AstraZeneca's assets, or rethink its corporate strategy, remains to be seen. The financial benefits of an AstraZeneca deal have been impacted by changes to the US tax laws regarding repatriation of overseas earnings, and the company might therefore look closer to home as far as external investment opportunity goes," predicted analyst Mr Joshua Owide in January 2015, who is GlobalData's director of healthcare industry dynamics.

Hospira is an established biosimilars developer, most notably in Europe, where it already markets three biosimilars - Retacrit (erythropoietin zeta), Nivestim (filgrastim), and Inflectra (infliximab), which was the first biosimilar monoclonal antibody (mAb) to be approved in Europe.

Hospira also has a number of biosimilars in its late-stage pipeline, including trastuzumab (Herceptin), currently in Phase III, which is being evaluated for metastatic breast cancer.

"This complements Pfizer's own foray into biosimilars, with development ongoing for copies of Herceptin, Rituxan and Remicade," added Mr Owide.

## **Biologics vs Biosimilars**

Although biosimilars have been available in Europe and elsewhere for several years, the US Food and Drug Administration (FDA) only recently set out the pathway for the approval of biosimilars, coinciding with both the ramping up of biosimilar development programs and the wave of expirations impacting a number of major established biologic therapeutics.

Mr Owide thus commented, "Pfizer will hope that by adding Hospira's expertise in the field of biosimilars, it will be better positioned to take market share in the lucrative biologics space."

While many big pharma companies pursue a path of smaller-scale biotech acquisitions, Pfizer appears intent on retaining its large-scale M&A model.

Pfizer, in 2009, shelled out a whopping \$68 billion to buy Wyeth, which had a portfolio of biotech drugs.

Analysts conclude that Pfizer will continue to accrue significant value from its acquired assets through cost stripping exercises following consolidation.

"However Pfizer's dependency on inorganic growth has become hugely repetitive and highlights the company's need to more actively invest in external assets earlier on in the product lifecycle and drive greater in-house R&D productivity," said Mr Owide.

Again, biologics will be a key focal point, similar to the Wyeth deal a few years ago, while companies with strong development pipelines will be of particular interest, given Pfizer's own shortcomings in terms of new product developments.

The exponential growth of the biologic segment over the past decade or so has placed a significant burden on the US healthcare economy, given the high price of biologic medicines compared with more conventional small molecule therapies.

While biosimilars are not expected to launch with the same level of price discounting as generic small molecules, the continued move towards cost containment will ensure that there is room for biosimilars in the US.

Furthermore, biosimilars will possess significant revenue-generating capacity for the companies that market them.

Mr Owide comments that Pfizer has struggled to match its size through R&D and is therefore particularly reliant on external innovation to maintain its position as a global pharmaceutical leader.

"Despite Pfizer's historical presence in primary care diseases, the company is shifting increasingly towards specialty diseases, and this will also play a major role in determining its future acquisition targets," explained Mr Owide.

## **India or China?**

What about developing markets like India or China? Will Pfizer cast its shadow on these markets this year? Analysts say that there is always potential for companies to invest in emerging markets, notably in India, where the generics market is thriving.

"Pfizer's commitment to innovative medicines will likely mean its focal point remains in the developed markets with regard to headline M&A deals," remarked Mr Owide.

A number of Pfizer's peers are actively developing biosimilars, and they will be conscious of the benefits that Pfizer's biosimilar proposition will derive from the deal, with Hospira not only active in biosimilars, but also very active in oncology specialty injectables.

This will improve Pfizer's access to the necessary prescribing channels when its oncology biosimilars, namely Herceptin and Rituxan, gain approval.

## **AZ deal resurrected?**

Another question that has been plaguing many minds in the industry is, will Pfizer make a comeback this year on its failed bid with AstraZeneca?

Analysts think it could be feasible. However, the new US tax laws could be a major deterrent, as financial engineering was one of the major drivers behind Pfizer's record bid for AstraZeneca.

Also, is it possible for Pfizer's M&A strategy to backfire at some point? There is an element of repeating the same action and expecting different results.

Mr Ovide opined, "Pfizer's approach has persistently failed to foster innovation and expand its intellectual property libraries in a truly meaningful way, meaning there are doubts as to how sustainable this approach can be."

However, Pfizer will always look to deals with significant synergies, and those will largely be around manufacturing and commercial infrastructure, which is unlikely to change. The knock-on effect of Pfizer's deal-making more directly relates to its acquisition targets and their employees, rather than its own workforce.

The AstraZeneca deal was slightly unique compared to its previous acquisitions, in that a large proportion of value was related to pipeline assets.

So rather than simply strip out costs, it would have had to foster innovation in order to accrue the underlining value from the deal.

### **Pfizer's Split?**

Earlier, Pfizer's senior management had mentioned plans about the company splitting into two. "A separation would undermine Pfizer's mantra of being the world's number one drug company, but could make sense from strategic, financial and operational standpoints," Mr Ovide stated.

Generally speaking, financial engineering has been a fundamental driver behind the upsurge in M&A deals, with companies able to offer significant premiums on the basis of accruing higher future earnings through lower tax rates.

The upsurge in approvals has also been an encouraging force, with companies looking to secure novel compounds at the earliest possible opportunity.

Pfizer's move away from primary care towards specialty care will be helped immensely by the integration of Hospira's specialty injectables business.

The company is unlikely to discontinue any of the product lines it has acquired, and it will rather focus on turning them around to make it profitable.

### **Innovation lost?**

Experts believe that M&As can work in two ways. Acquired companies with a history of innovation are increasingly operated as wholly-owned subsidiaries, rather than simply asset-stripped.

"This is more fruitful in terms of sustained levels of innovation, as these companies and their employees are typically specialized in their fields," notes Mr Ovide.

Perfect examples of this model include Genentech (Roche), Genzyme (Sanofi) and Millennium (Takeda).

However, M&As that is largely focused on asset-stripping and operational synergies are much more damaging in terms of innovation.

The value of these deals, while high, is largely tied to those assets already on the market or in late-stage development.

As with any acquisition on this scale, Pfizer will identify overlapping functions where significant cost savings can be realized and axe employees as per its requirements.