

BIC Securities

M&A in Pharmaceutical Industry: Latest Trends

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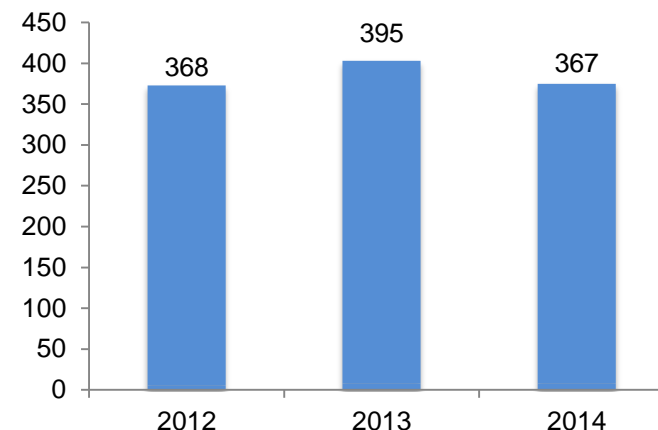
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M&A in global pharmaceutical market: latest developments

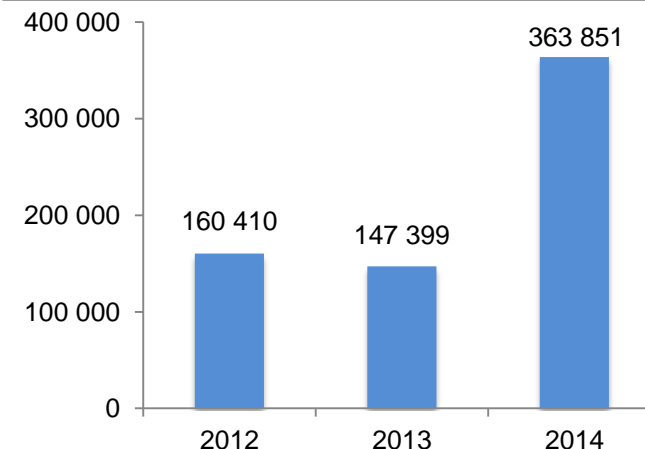
- 2014 was one of the strongest years in terms of agreed M&A deals in pharmaceutical and biotech industry (364bn USD). 2014 recorded the following MEGA deals:
 - Actavis/Allergan (66bn USD)
 - Medtronic/Covidien (46bn USD)
 - Actavis/Forest Laboratories (25bn USD)
 - Novartis/GSK oncology portfolio swap (14.5bn USD)
 - Bayer/Merck&Co Consumer care business (14.2bn USD)
- A number of other important deals that received high attention, but did not materialize were Pfizer/AstraZeneca, Valeant/Allergan. Already in 2015 Valeant announced the acquisition of Salix for more than 10bn USD and Pfizer is looking for new targets
- Besides classical motives we have seen the following rationales for the M&A last year
 - Significant accumulated cash on the balance sheets
 - Tax inversion
 - Pressure from investors to deliver growth
 - Willingness to rationalise product portfolios/business lines (e.g. Novartis/GSK multiple product swaps, sale of mature portfolios of Sanofi, Merck)

Deal count dynamics 2012-2014



Source: Mergermarket, BIC Securities analysis

Deal value dynamics 2012-2014, USD m

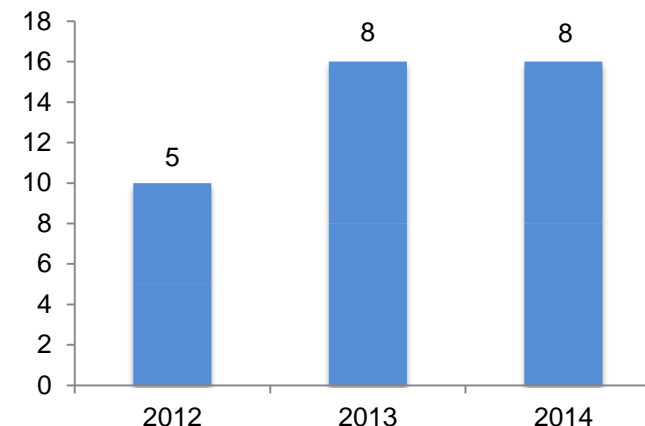


Source: Mergermarket, BIC Securities analysis

M&A in Russian pharmaceutical market: latest developments

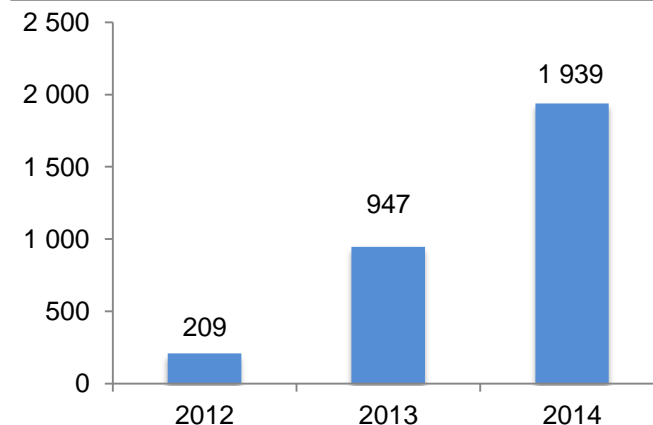
- Despite political turbulence and economic slowdown 2014 demonstrated strong results pushing total announced deal value close to 2bn USD. **Pharma sector has been resilient until now, will it prove the same in 2015?**
- **The market saw really large deals:** sale of Veropharm to Abbott (630m USD), sale of Biocad to Millhouse and Pharmstandard (733m USD), Aqualor sale to Stada (180m USD), Petrovax sale to Interros, **BUT there are also some setbacks** – JV between Binnopharm and Fresenius Kabi Russia was cancelled and a number of deals placed on hold
- **Pharmaceutical market has traditionally been a place for strategic investors**, who know all ins and outs, industry specifics, regulation and other important risk/value drivers, but...
- Current economic environment could open more opportunities for private equity firms. They already actively engage in deals : Gazprombank/UFG acquisition of OBL Pharm and Interros acquisition of Petrovax. Appeal of high sector margins and potentially high returns will foster **more interest from private equity firms**. We just need to breed qualitative platforms to attract these players. Modernization rationale may also play a more important role
- **Growing government stimulus** (preferences, protective measures for state procurement) **increases the localization rationale. Moreover, weaker rouble is making it more economically feasible to manufacture products in Russia**

Deal count dynamics 2012 – 2014



Source: Mergermarket, BIC Securities analysis

Deal value dynamics 2012-2014, USD m



Source: Mergermarket, BIC Securities analysis

Russian pharmaceutical market: deal statistics

Date	Target	Buyer	Buyer country	Sell side advisor	Deal value, USD mln	EV/Revenue	EV/EBITDA	Revenue, USD mln	EBITDA, USD mln
2014									
29-Oct	SIA International Ltd	R-Pharm	Russia	No	est 550-600	n/a	n/a	n/a	n/a
23-Jun	OJSC Veropharm	Abbott Laboratories	USA	No	631	3.9	17.8	161	36
22-May	CJSC Biocad (70% stake)	Pharmstandart	Russia	William Blair & Co	733	10	n/a	100	n/a
20-May	OJSC Biokhimik	Pofla S.A.	Poland	No	n/a	n/a	n/a	46	n/a
25-Apr	CJSC Binnofarm	Fresenius Kabi AG / AFK Sistema OAO / Zenitco Finance Management (Joint Venture)	Germany	No	n/a	n/a	n/a	104	21
7-Apr	LLC Segmenta Pharmaceuticals	Alvansa Limited	Russia	No	n/a	n/a	n/a	5	n/a
12-Feb	LLC MedKontrastSintez	TONAP Venture	Russia	No	n/a	n/a	n/a	n/a	n/a
Sum / Median					1,939	n/a	n/a		
2013									
13-Dec	Nearmedic Pharma	Niarmedic plus	Russia	No	70	2.1	n/a	98	n/a
6-Dec	Zio Zdorovie	Irvin 2	Russia	No	50	2.5	n/a	20	n/a
21-Nov	NPO Petrovax Pharm	Interros	Russia	No	est. 200-300	n/a	n/a	n/a	n/a
18-Oct	Aqualor	STADA CIS	Germany	BIC Securities	179	4.8	n/a	37	n/a
3-Oct	OBL Pharm	UFG Private Equity, Gazprombank	Russia	No	est. 34	n/a	n/a	31	n/a
29-Aug	Veropharm	GardenHills LLC	Russia	Olympia Capital	151	2.0	6.8	178	51
9-May	Ekiomir Pharma	Valeant	Canada	French butique	50	n/a	n/a	n/a	n/a
1-Feb	Natur Product	Valeant	Canada	Rotschild	163	2.9	7.3	56	22
Sum / Median					947	2.5	7.1		
2012									
10-Dec	AVVA RUS (Portfolio of four products)	OJSC Pharmstandard	Russia	No	30	1.9	6.0	27	8
16-Nov	Akvion	Recordati SpA	Italy	BIC Securities	87	2.8	n/a	31	n/a
25-Sep	Makiz Pharma, Skopin Pharma (facilities)	DMN Invest LLC	Russia	No	est. 10	n/a	n/a	n/a	n/a
11-Jul	Lekko	Pharmstandard	Russia	No	25	1.2	n/a	21	n/a
27-Feb	Biomed, Pharmapark	OJSC Pharmstandard	Russia	No	57	2.6	n/a	44	n/a
Sum / Median					209	2.2	6.0		

Source: Mergermarket, BIC Securities analysis

Market tendencies: current environment may unlock more opportunities for motivated investors/business owners

PERSPECTIVE OF INTERNATIONAL COMPANIES

- Russia oriented investors' universe has decreased, but still remains strong. We distinguish the following groups that stay interested in M&A in Russia:
 - (1) Companies with proven profitable track record that know how to work in Russia, normally from TOP 30: **interested in buying successful brands/products, usually larger size (starting 50m USD in revenue)**
 - (2) Companies that need to substitute fall of "currency denominated revenue" due to weaker rouble, normally mid-sized international companies: **interested in buying successful brands/products (up to 50m USD in revenue)**
 - (3) Companies that need to find a "localization" solution: **interested in qualitative manufacturing facilities (around 1bn solid forms annually)**
 - (4) **There is a growing interest from Asian companies:** Indian companies are already strong and want to strengthen even further, while Chinese firms are still gathering market intelligence, activity of other Asian players depend more on their positions in Russia (see points (1)-(3))
 - (5) Companies whose business in Russia lacks scale. Current economic environment makes them consider more actively whether to continue business in Russia or reorganize it: **they are possible sellers or out-licensors**

PERSPECTIVE OF LOCAL COMPANIES

- Companies in un-regulated segments with higher pricing flexibility and local manufacturing will most likely gain the most from the current market environment
- Owners of leading Russian companies are more open for M&A discussions: **interested both to discuss sale of their business or acquisition of smaller players/products**

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