

# Stronger yen may power more Japanese takeovers in pharma

## Cash-rich cos looking for potential medicines, tech for future growth

**Bloomberg**

March 3

Daiichi Sankyo Co and Kyowa Hako Kirin Co, which announced acquisitions totalling \$1.4 billion in the past nine days, may signal more overseas purchases by Japanese drugmakers, spurred by a stronger yen and flat sales in their home market.

The yen, up 8.5 per cent against the dollar in the past 12 months, is bolstering the buying power of Japanese companies scouting for the US and European targets with promising drugs in development. Daiichi Sankyo said on Wednesday its buying of Berkeley, California-based Plexikon Inc for as much as \$935 million.

Kyowa Hako announced plans to buy ProStrakan Group Plc for £292 million (\$475 million) last week. The buyouts will add new experimental cancer medicines, the companies said.

Demand for potential new products fuelled a 30 per cent jump in the number of overseas deals by Japanese com-

panies in the pharmaceutical and biotechnology industries during the past 12 months compared with a year earlier, according to data compiled by Bloomberg. Premiums on the transactions surged 72 per cent.

### RISEING M&A

"Overseas mergers and acquisitions will definitely accelerate in the pharmaceutical industry in Japan," said Mr Koji Hirai, Chief Executive of Kachitas Corp, which advises companies on deals.

They are all cash-rich looking for potential medicines and technologies for future growth. The stronger yen will definitely help.

### TOUGH COMPETITION

Japanese companies announced 34 overseas pharmaceutical and biotechnology deals and paid an average premium of 43 per cent in the year ended March 1, Bloomberg data show.

That compares with an av-

erage premium of 25 per cent on 26 deals in the previous 12 months.

"The competition is tough," said Mr Reed Maurer, president of International Alliance, a Tokyo-based pharmaceutical industry advisory firm.

Everybody is looking for pipeline.

Fujifilm Holdings Corp, seeking new avenues of growth outside cameras and film, said on February 28 that it will buy two units of Merck & Co that make biopharmaceuticals.

The Tokyo-based maker of imaging equipment and digital cameras did not say how much it will pay for the US and UK assets, which make vaccines and protein-based drugs to fight diseases such as cancer.

These two most recent deals are a further signal of the continued commitment of the Japanese industry to oncology drug development and wider opportunities in biotechnology, said Mr Joshua Owidie, a senior analyst at

London-based researcher Datamonitor Group Plc.

### SALES SLOWDOWN

"An anticipated slowdown in prescription drug sales in the Japanese market is helping drive mergers and acquisitions," Mr Owidie said. "Revenue from the domestic market will increase at an average of 1.6 per cent a year over the next six years for Japan's eight largest drugmakers," he added. At the same time, their US sales will decline by an average of 3.6 per cent annually as mainstream products face competition from cheaper generic drugs, Mr Owidie said.

In contrast, cancer-drug sales will expand 12 to 15 per cent annually, reaching as much as \$80 billion by 2012, according to IMS Health Inc, a Norwalk, Connecticut-based research firm.

"The average debt of Japan's largest eight pharmaceutical companies is about \$500 million, compared with an average of debt of \$6.7 billion for the remaining

companies that make up the top 50 prescription drugmakers worldwide, according to Datamonitor. That gives Japanese companies an advantage," Mr Owidie said.

It crucially highlights their relative position of strength compared with the rest of the global drug industry, which has already undertaken significant debt-driven M&A growth, he said. Japan's drugmakers are much better positioned to carry out increasingly costly M&A deals.

"Daiichi Sankyo, Japan's third-largest drugmaker, was one of several bidders for closely held Plexikon," said Mr Alan Mendelson, a partner at law firm Latham & Watkins in Menlo Park, California, which advised Plexikon on the deal.

"We just negotiated with each and tried to get the price as high as we could," Mr Mendelson said in an interview on Wednesday. Needless to say Daiichi was very desirous of buying the company and they agreed to pay a very fair price.

Industry