



Deals Monitor Europe







Pharma & MedTech

Focus: Consumer Health & OTC Pharma

Edition 12 | Summer 2021



Highlights

2021 H1	2021 H1 vs 2020 H2	2020 vs 2019
Total deal value		
€ 34.4bn	+154%	-83%
Total number of deals		
152	-3%	+22%
Number of megadeals ⁽¹⁾		
7	+75%	-20%

Note: (1) Transactions with deal value > € 1bn

Key messages

- M&A activity in Pharma & MedTech continued to attract high levels of investor interest in the first half of 2021, especially as the COVID-19 pandemic has begun to ease in Europe.
- On top of growing economic optimism in developed economies, many investors continue to see both sectors as highly attractive based on their proven structural stability and superior growth compared to other sectors.
- M&A deal activity and valuations are running high, and we expect this trend to continue for the next 12 to 18 months.
- Along with high valuations, the sector has seen a multitude of deals involving complex deal structures, from special purpose acquisition companies (SPACs) to public-to-private transactions.

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Resilient and profitable prospects: industry poised for continued M&A success stories

152

Total number of deals in 2021 H1

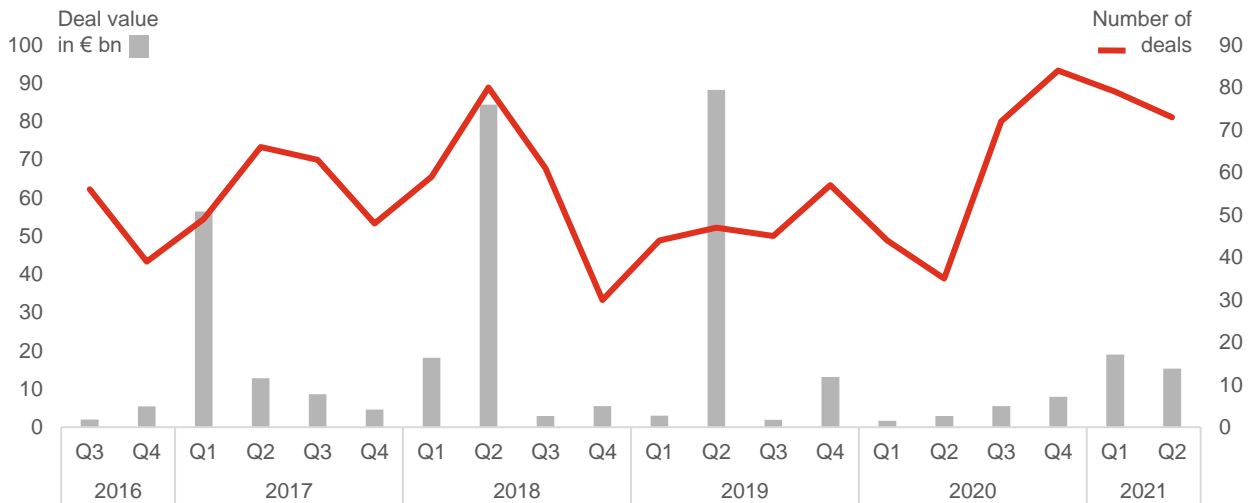
€ 34.4bn

Total value of deals in 2021 H1

€ 5.3bn

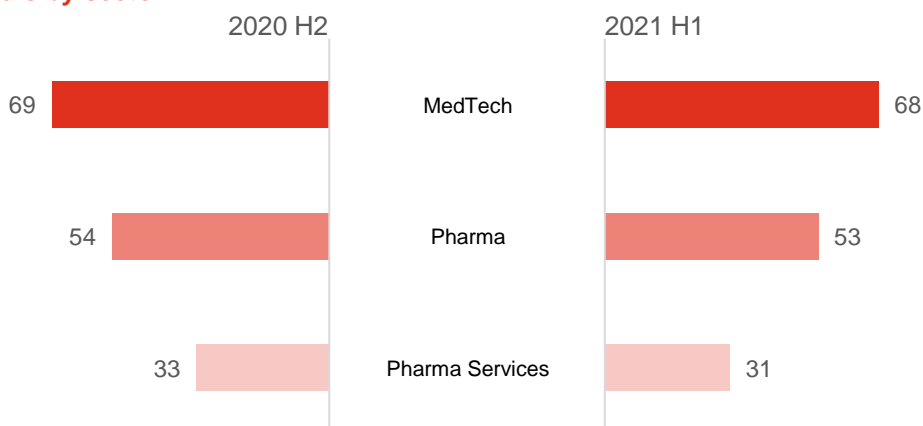
Largest deal value in 2021 H1 ⁽²⁾

Cumulative deal value and number of deals (5-year⁽¹⁾ to date)



- In 2021 H1, 152 deals worth more than € 34bn were announced across the European Pharma & MedTech sector, which is almost on the same level as the record-breaking second half of 2020 with 156 deals.
- Despite the occurrence of seven mega deals, a variety of factors such as intensified review activities by antitrust authorities in the Pharma & MedTech sector have limited the number of large, transformational deals at this point in the year.

Number of deals by sector



- In the second half of the year, we expect M&A activity to continue to be a focus for the sector. Large pharmaceutical companies have strong balance sheets and capital continues to be readily available. Biotech funding continues to trend well, pushing valuations up.
- As the pandemic continues, the market for consumer health products improving overall health and well-being should continue to grow. Armed with direct-to-consumer and digital marketing expertise, new entrants like FMCGs have the potential to unleash respective growth.

Note: (1) 5-year period includes the time frame 2016 H2-2021 H1; (2) Acquisition of GW Pharmaceutical by Jazz Pharmaceuticals

Stock valuations have benefitted from the strong interest in the Pharma value chain

11.9x

Median EV/EBITDA
Pharma (2021E)

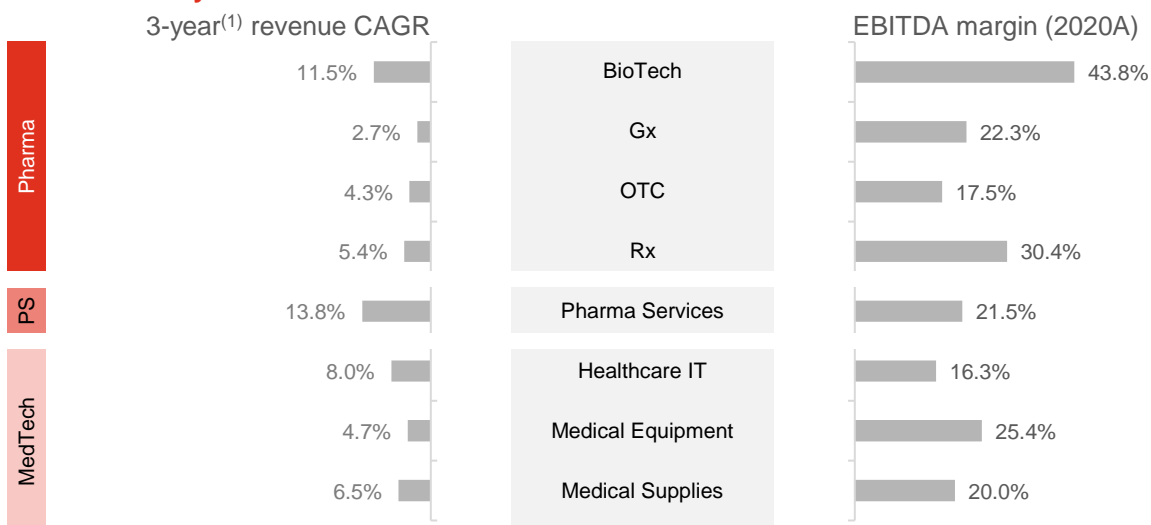
22.8x

Median EV/EBITDA
Pharma Services (2021E)

20.5x

Median EV/EBITDA
MedTech (2021E)

Performance by subsector



- Sales of COVID-19 vaccines are expected to reach between € 10bn to € 15bn in 2021, with BNT162b2 (BioNTech/Pfizer) forecasted as the top seller, however, mRNA-1273 (Moderna) is expected to be the market leader by 2026.
- If the theme of the first quarter of 2021 was worry about a stock market correction, the second quarter was all about a resurgence on the back of Alzheimer's optimism. It seems the FDA, with the controversial approval of Biogen's Aduhelm, has come to the rescue of Pharma companies.

Trading multiples over time

EV/EBITDA	Median		
	2021E	Last 3-year NTM	Last 5-year NTM
BioTech	12.5x	12.4x	12.6x
Gx	10.5x	9.6x	10.8x
OTC	12.3x	12.2x	12.5x
Rx	11.6x	10.9x	10.8x
Pharma	11.9x	11.5x	11.7x
Pharma Services	22.8x	17.3x	15.9x
Healthcare IT	21.2x	15.7x	15.0x
Medical Equipment	20.5x	16.4x	15.8x
Medical Supplies	20.5x	17.8x	17.5x
MedTech	20.5x	16.4x	15.8x

- Contract development and manufacturing organisations (CDMOs) can command higher valuations with a differentiated offering or specialised capability set such as in mRNA technology or cell and gene therapy.
- BioTech valuations in 2021 got off to a strong start – European BioTech indices peaked in early February before falling off and soon thereafter being resuscitated, largely influenced by Biogen's Alzheimer's drug Aduhelm approval.

Note: (1) 3-year period includes the time frame 2018 H2-2021 H1

Appetite among PEs is rife and expected to continue with newly focussed funds joining

44.7%

Share of PE-driven buy-outs
(2020 H1)

28.9%

Share of PE-driven exits
(2020 H1)

€ 3.2bn

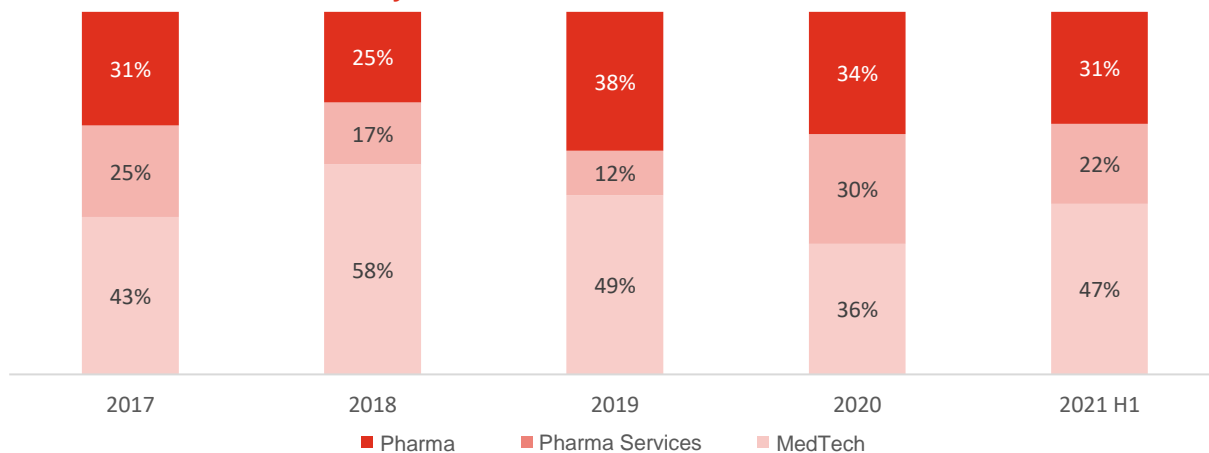
Largest PE takeover
(2020 H1) ⁽¹⁾

Notable PE-driven deals by sector (2021 H1; PE-house; target; deal value)

Sector	PE-house	Target	Deal value
Pharma	CVC Capital Avista Capital	Cooper Consumer Health	€ 2,000m
	Nordic Capital	LEO Pharma	€ 450m
Pharma Services	Bpifrance	Vectura	n.a.
	Keensight Capital	Symeres	n.a.
	TA Associates	Elos Medtech	€ 173m
	Abenex Capital	EDL	€ 100m
MedTech	Miura	Proclinic	€ 100m
	Aksia	MIR	€ 36m

- Given the favourable deal environment combined with attractive valuation levels within the Pharma & MedTech sector, PEs take the opportunity to free up funds by exiting mature assets resulting in higher PE-driven deal activity.
- With a broad set of PE investors participating in the bidding rounds, one of the most notable PE-driven exits thus far in 2021 included Charterhouse Capital Partners' sale of Cooper Consumer Health to a CVC and Avista-led investor consortium for approx. € 2 bn.

Distribution of PE-driven deals by sector



- Special purpose acquisition companies (SPACs) have continued to move towards mainstream as a viable alternative to traditional M&A and IPOs, while these continue to be hotspots for investors and companies looking for the growth capital.
- The European Pharma & MedTech space also yielded notable SPAC deals: the reverse merger of Switzerland-based Roivant Science into Montes Archimedes Acquisition Corp (€ 5.2bn) and the acquisition of UK-based LumiraDx by CA Healthcare Acquisition Corp (€ 4.2bn).

Note: (1) Acquisition of UDG Healthcare by Clayton, Dubilier & Rice

OTC M&A activity has been triggered by Big Pharma's growing focus on Rx medicine

€ 1.9bn

Largest OTC deal value in 2020

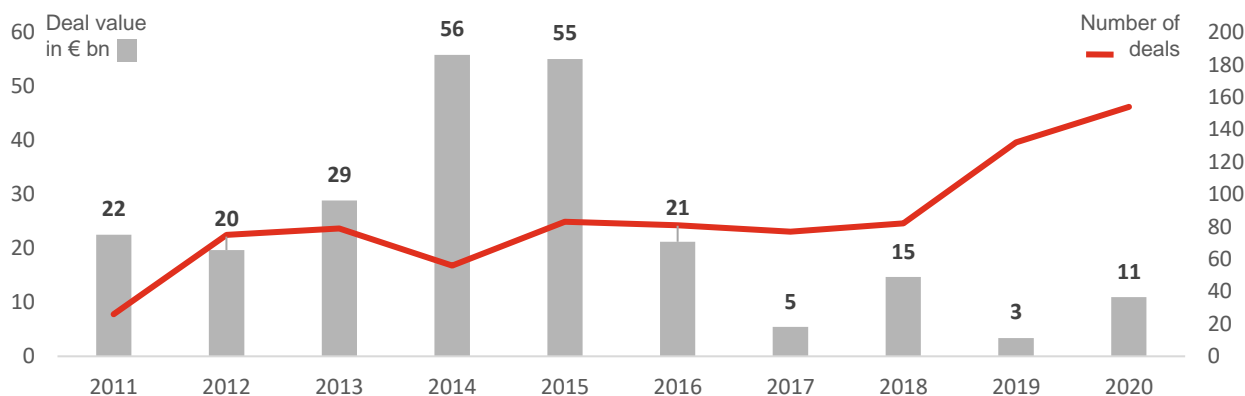
€ 6.1bn

Total value of top 10 OTC deals in 2020

+34

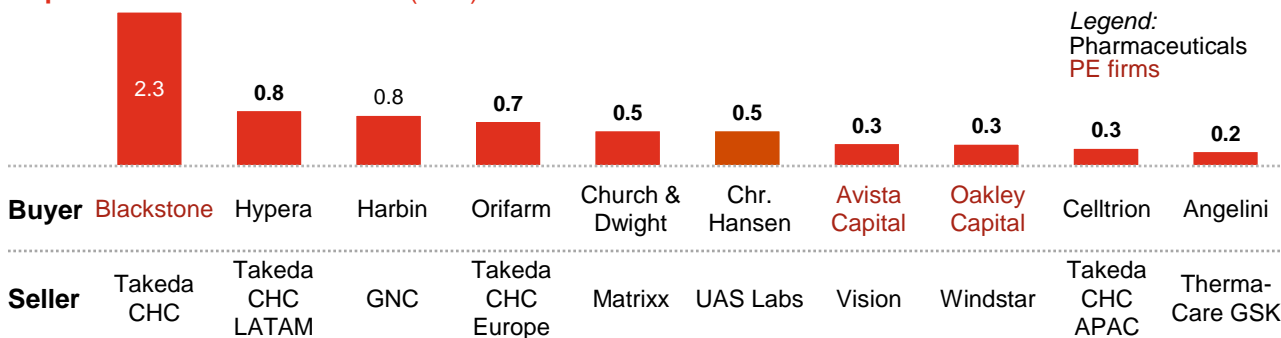
OTC Deals in 2020 compared to 2019

Cumulative deal value and number of deals within OTC



- The general trends driving OTC M&A deals are: large players restructuring portfolios following consumer behaviour; strategy of offloading non-core brands and continued interest in private-equity investment of consumer health.
- Growth of dietary supplements and probiotics product sales as a result of the pandemic – drive M&A deals.
- Offloading trend of OTC business allows companies to focus on core business, as OTC products offer smaller margins than Rx products.
- Additionally, consolidation trend drives up OTC asset valuation – making offloading entire business units (e.g. OTC business) attractive to seller and protects margins for buyers.
- OTC offers the possibility to improve EBITDA margin by operating servings from COGS margin and reducing unnecessary fixed-cost.
- Of the top 10 OTC deals, three involved a PE firm as the buyer – demonstrating the clear interest of PE in the Pharmaceutical industry.

Top 10 OTC M&A deals in 2020 (€ bn)



- Takeda was involved in four of the top 20 M&A deals of 2020 as a consequence of the firm choosing to exit the OTC market with the aim of reducing company debt.
- GSK and J&J were two of the large players part of the trend of unloading non-core brands.
- GSK was one of the most active companies in 2020, selling 15 EU OTC brands and the rights to the ThermaCare pain-relief brand in all non-US markets (deal n. 10).
- EU OTC market is viewed as highly attractive, hosting nine out of the top 20 M&A deals in 2020.

The OTC market post crisis is driven by consumer centricity and digitalisation

+4.3%

Annual Market Growth rate
(CAGR 2021-25)

€ 72 per capita

Swiss spending on OTC
Pharmaceuticals in 2020

-4.0%

Decrease of expected
revenue value due to
COVID-19

Drivers in the OTC market



**COVID-19:
Pro-active HC**

- According to the National Institute of Health **93% of adults** in the US **prefer** to treat **minor illnesses** with **OTC before seeking professional help**
- **Uncertainty** of the virus outbreak has lead to a **surge in cold, flu and vitamin products** as a preventive method
- The **4% difference** between the **expected revenue** value of 2020 is attributable to the **closing of shops and manufacturing plants** and shipping being negatively affected



**Rx to OTC
conversion**

- Over the last 30 years over **700 Rx products** have been **converted** to OTC status by the FDA
- **Consumer demands** and **global accessibility** are key **drivers** advancing the **Rx to OTC switch**, as there is medication available without prescriptions in some regions and not others
- **52% of consumers** who regularly take medication were **concerned** about **receiving** their **prescription** during the **pandemic**



**Access to
Healthcare**

- In developing countries, access to healthcare translates to accessible medical products – an area which is largely driven by OTC products
- **OTC treatment eliminates costs** involved with doctor or expert visits making it the more **cost-effective option**
- **Shift in sales** channel mix incorporating more e-commerce sales **direct to customer** – reducing reliance on stores and increase margin of direct-to-consumer sales



**Industry
Players**

- **Industry consolidation:** industry is consolidating at the top with **major players concentrating** on less business areas – e.g. OTC
- Innovation trend: **developing of new products** focussed on **consumer trends** and wants; e.g. Use of natural or plant-based ingredients, development of customisable health technology

Key takeaways

- New digital possibilities are affecting the overall value chain; introducing personalised digital, self-care services and allowing e-commerce platforms to grow – Amazon is a leader in this shift
- Expected that OTC and pharmacies will grow in importance in the value chain, seen by the increased acquisition volume of retail health companies
- Companies are bringing more focus to their e-commerce offering by investing additional resources towards its marketing and development – Bayer grew by double digits its e-commerce sector 2020

Rx: Prescription; HC: Healthcare

Market consolidation and shift of consumer behaviour create new OTC value stories



Customer centricity key driver









Product innovation and concept developing







Health and lifestyle products – market opportunities



The OTC market – post-Covid – holds new growth opportunities

-  A **value offering** for basic products has the potential to create a high-volume offering for large customer groups
-  **Premiumisation** is an attractive growth lever as a healthy, young looking body becomes the ultimate status symbol
-  **Product concepts** that work from the shelf can drive innovation
-  **Value chain flexibility** can be tailored to retail partner needs
-  **Customer centricity** can be maximised by completing the experience through digital channels
-  **Global expansion** is an option by partnering i.e. with retailers (food)

The value story can be realised, if OTC companies build key enabling capabilities

-  **Product innovation** and concept development are key growth enablers for OTC
-  **White label manufacturing** enables value offerings and margin improvement in key categories
-  Customer-centric **category management** drives value in select customer groups
-  **Integrated, flexible supply chains** improve supplier relationships and value capture
-  **360° retail partnerships** create an end-to-end customer experience and associated service
-  **Consumer data and analytics** is directly linked to customer experience and value creation

As a future trajectory for OTC there are four scenarios for PE and strategic buyers



Potential value from CHC portfolio



4 potential deal scenarios



Focus on consolidation of OTC business

Options for potential buyers (PE and strategic) of OTC businesses:



Private Equity investor

Deal Drivers

- Operational enhancement
- Split business into core parts and sell to specialty players

Challenges

- Finding the right strategic buyers for mid-term exit
- Ability to realise, operational efficiencies

Strategic player options:



Large medical OTC player

- Achieve scale or leading position
- Complimentary products and/or geographies

- Non-complementary overlaps in portfolios
- Fit to the overarching corporate strategy and financials



Consumer goods focussed FMCG giant

- Establish or expand in medical OTC
- Leverage existing marketing, distribution and productions

- Limited overlap with current portfolios
- Lack of experience with medical OTC



Specialty nutritional supplement player

- Establish presence and capabilities in medical OTC
- Diversifying with adjacent product portfolio

- Limited overlap with medical OTC with current portfolio
- Lack of medical OTC experience and lack of financial capacity

Congratulations to the shareholders on the sale of Bio-K International to Kerry Group



Virtual deal execution

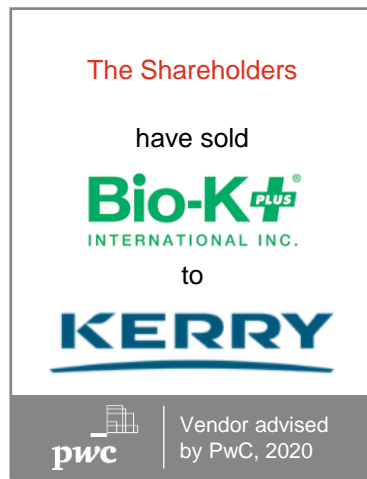


Closing in November 2020



Family-owned business

PwC acted as exclusive financial advisor to the shareholders of Bio-K International



Bio-K is a family-owned company and a pioneer in the research, manufacturing and distribution of premium-quality probiotics. By investing in research, the Company developed probiotic fermented beverages and supplements containing three proprietary and clinically validated strains of probiotics, which have confirmed efficacy for a range of therapeutic benefits. Bio-K employs more than 130 people throughout North America.

Kerry is the global leader in the development of taste and nutrition solutions for the food, beverage and pharmaceutical markets. Kerry's global presence extends across 148 manufacturing facilities in 32 countries, with over 26,000 employees.



Deal specifics

Early 2020, the Company received several unsolicited offers from various interested parties. In June 2020, Bio-K retained PwC as financial advisor to manage the sale process. Following PwC's involvement, four additional potential buyers including Kerry Group, were introduced to the process, yielding two final offers.

Exclusivity was granted to Kerry at the end of July 2020. The transaction was concluded in two months following agreement on the final LOI, marking the end of a 100% virtual process in the COVID-19 era.

PwC's value-add

In a 100% virtual auction process, PwC was able to conclude the transaction in less than five months, whereby Kerry had not physically visited facilities or met with management prior to closing.

After extensive negotiations, the purchase price was significantly increased over initial offers received due to PwC's ability to successfully articulate and monetise the revenue and cost synergies available to the buyer.

Despite high investor appetite, M&A deal multiples do not reach stock markets levels

16.8x

Median EV/EBITDA
Pharma (2021 H1)

15.3x

Median EV/EBITDA
Pharma Services (2021 H1)

10.4x

Median EV/EBITDA
MedTech (2021 H1)

Selection of announced Pharma & MedTech deals (2021 H1)

Non-Exhaustive

	Ann. Date	Buyer	Target	Country	Target description	Deal value € m	EV/ Rev.	EV/ EBITDA
Pharma	Mar-21	CVC/Avista-led consortium	Cooper Consumer Health		Pharmaceuticals producer and distributor of over-the-counter drugs	2,000	4.00x	13.3x
	Feb-21	Pharmaron Beijing	Allergan Biologics		Clinical research and development centre	98	2.10x	n.a.
	Feb-21	Jazz Pharmaceuticals	GW Pharmaceuticals		Researcher and developer of a range of cannabinoid prescription medicines	5,336	n.a.	n.a.
	Jan-21	Nordic Capital	ADVANZ PHARMA		Involved in specialty pharmaceuticals with a focus on complex medicines	1,671	3.99x	31.9x
	Jan-21	Sanofi	Kymab		Researcher and developer of human monoclonal antibody therapeutics	904	n.a.	n.a.
Pharma Services	May-21	Clayton, Dubilier & Rice	UDG Healthcare		Provider of healthcare advisory, clinical and packaging services	3,169	3.00x	18.6x
	Mar-21	SK Holdings	Yposkesi (70% stake)		Contract manufacturer for gene therapy viral vector manufacturing	n.a.	n.a.	n.a.
	Feb-21	Catalent	Delphi Genetics		Customised GMP plasmid DNA manufacturing solutions	45	n.a.	n.a.
	Jan-21	Thermo Fisher Scientific	Henogen		Biotechnology and Viral vector manufacturing business of Novasep	725	9.06x	n.a.
	Jan-21	AmeriSource-Bergen	Walgreens Boots Alliance		Majority of Alliance Healthcare wholesaling & distribution businesses	5,255	0.34x	12.0x
MedTech	May-21	GE Healthcare	Zionexa		Developer of molecular imaging technology for breast cancer	n.a.	n.a.	n.a.
	Apr-21	AddLife	Vision Ophthalmology		Manufacturer and distributor of ophthalmic products	154	2.20x	11.9x
	Mar-21	DCC	Woerner Medizinprodukte		Supplier of medical and laboratory products to the primary care sector	80	1.14x	n.a.
	Mar-21	Lohmann & Rauscher	Angiokard Medizintechnik		Producer of customised medical kits for therapies and diagnoses	n.a.	n.a.	n.a.
	Jan-21	PerkinElmer	Oxford Immunotec Global		Developer of T-Cell-based diagnostic test products and services	377	6.29x	n.a.

Deal advised by pwc

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Our key takeaways



Resilient and profitable prospects: industry poised for continued M&A success stories



Stock valuations have benefitted from the strong interest in the Pharma value chain



Appetite among PEs is rife and expected to continue with newly focussed funds joining



Many Pharma companies believe in the value proposed by OTC driving deals involving strategic buyers



Despite high investor appetite, M&A deal multiples do not reach stock markets levels

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