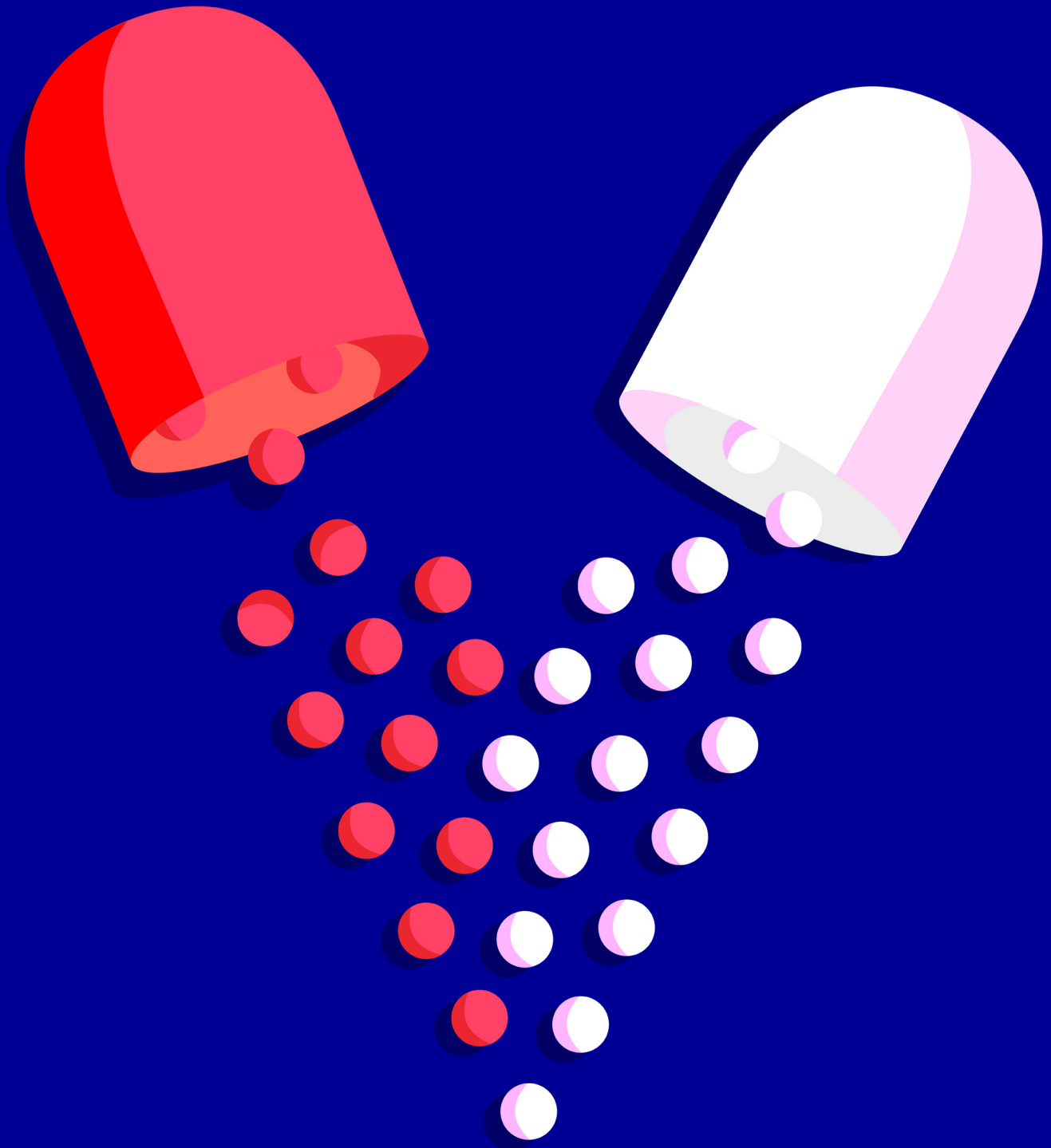


Biotech and Big Pharma: Keys to a Successful M&A



Despite the recent (and largely negative) press around high drug prices, concerns about the possibility of a biotech bubble that could one day (soon?) burst and the autumn 2015 selloff in the health sector that **some called the worst in the past four years**, the biotech and pharmaceutical industries are having a record year when it comes to merger and acquisition (“M&A”) activity. **In the first half of 2015, the total value of pharma M&A was more than \$221 billion; in all of 2014, it was \$162 billion.**

That’s the good news. The bad news is that around 83 percent of mergers do not increase shareholder returns and have a failure rate of between 50 percent and 85 percent. As we all know, deals can go wrong in so many ways, foundering on the rocks of clashing cultures, distracted leadership and other submerged issues.

Given the premiums placed on today’s deal valuations, it clearly is more important than ever that companies execute effectively on their mergers, specifically the integration work upon which so much value rests.

Accordingly, FTI Consulting brought together three executives with deep experience in successfully navigating the choppy waters of life sciences M&As to discuss what works, what doesn’t, and what challenges and opportunities lie ahead.

Our panelists included:

Deborah Dunsire, M.D.

CEO of FORUM Pharmaceuticals, Dr. Dunsire was CEO of Millennium Pharmaceuticals in 2008 when it was acquired for \$8.8 billion by Takeda, the largest pharmaceutical company in Japan and Asia. She also led the subsequent integration effort in the Boston, Mass., area.

Jane Osbourn, Ph.D.

Dr. Osbourn is Senior Vice President and Head of Biosuperiors at MedImmune, which was acquired in 2007 for \$15.6 billion by AstraZeneca, a multinational pharmaceutical company. She led research and development (“R&D”) at the Cambridge, UK, MedImmune location and became Site Leader in 2008, a role she continues in today.

Andre Turenne

Andre Turenne is Managing Director of Sanofi-Genzyme for Australia and New Zealand. He served as Global Head of Strategy and Business Development at Genzyme, playing a leadership role in the integration effort that followed Sanofi’s \$20.1 billion acquisition of Genzyme in 2011.

John Capodanno

Our panel was moderated by John Capodanno, a Managing Director with the Strategic Communications segment of FTI Consulting.

JOHN CAPODANNO: We all recognize that getting integration right is critical, and we all know that a number of situations can lead to integration going wrong. So if a deal is done between biotech and pharma, what works, what

can go wrong and how can potential pitfalls be avoided?

Deborah, you were CEO at Millennium Pharmaceuticals at the time it was acquired by Takeda. When a deal is announced, everyone is focused on price, valuation and the rationale for the deal, but how much was continuity of processes and culture part of the conversation between Millennium and Takeda in the early days?

DEBORAH DUNSIRE: Our initial talks with Takeda were about the feasibility of collaborating in research. Takeda wanted to heighten its focus on oncology, and it was looking for opportunities not only in Japan. We looked to see if there was a possibility of doing something together, particularly in the basic research area. In those discussions, you could see the root question: Will our cultures be compatible? That wasn’t explicit in those early meetings, but once we moved into talks about the acquisition, it definitely was more front and center. Establishing trust and determining compatible values are incredibly important.

JOHN CAPODANNO: You mentioned trust and culture. After a deal, if Big Pharma wants to be nimble, I presume it wants to adopt some of the acquired company’s culture. What functions or processes do you think Big Pharma

needs to keep in place to make a deal successful?

JANE OSBOURN: I think there probably are three elements. The first is to be absolutely clear about the goals of the acquired biotech. Often, you're inheriting a team that is highly motivated. Certainly, that was the case at MedImmune when we were acquired by AstraZeneca. The second piece is respecting each other's values. At MedImmune, we feel strongly that science is at the core of what we're doing. So does AstraZeneca. I think AstraZeneca respected that, as well as our differences — including our approach to entrepreneurialism and a hands-on way of getting things done.

One final piece that's of utmost importance for both the acquirer and the acquiree is that you can't overcommunicate or overeducate. There's a tendency to think that because you've been acquired by a Big Pharma company, everyone in that organization knows what you do and the value you bring. Making that assumption is a mistake. You have to be very smart about going out and meeting your new teams, talking with individuals at every level in the organization, and making sure you unveil the value you bring with your capabilities, expertise and assets. You also need to be prepared to listen to what your new partner has to offer in terms of synergies. When MedImmune was acquired, we went out and conducted internal road shows and hosted biologics education sessions to ensure that everyone understood our business and what we brought to the table.

ANDRE TURENNE: The pre-deal questions about where value is going to be created, what's unique about the competencies and the operating model of the acquired company, and whether those will become part of the new, combined entity are quite relevant. At Genzyme, we operated under an fully integrated business model where R&D and business made decisions jointly throughout our 30-year history. Sanofi utilizes a more centralized R&D model. So it's about how you marry the two. We found very practical solutions where we now work in a centralized R&D organization, but we still meet as an executive leadership team

with R&D as an integral part of that group. It's about preserving what's important for success, but these things have to be flagged from the start to have a real chance to be preserved.

JOHN CAPODANNO: Dr. Osbourn, as head of an R&D site, how do you see biotech and Big Pharma coexisting, particularly within R&D, to make the merger successful?

JANE OSBOURN: Having very clear accountability for what the biotech's there for is critical — and that's the biologics. Once you know your role, it makes it easy to have a conversation with the broader organization about how you can collaborate, how you can co-create and how you can accomplish that on a strategic level. We're doing that around how we can combine small molecules with large molecules to drive patient value. We're also having grassroots conversations among scientists to encourage best practices, idea sharing and troubleshooting as needed. I think having separate entities adds value to problem solving through diversity of thought. There are many challenges in the healthcare business, and sometimes having different approaches to thinking through those problems is quite beneficial.

Why You Don't Want to Rush Integration

JOHN CAPODANNO: We've been talking a lot about what works and where things go right. How do you identify and avoid pitfalls?

ANDRE TURENNE: There's a risk in being too clever during the integration process. It's easy to have a couple of data points and think, "Oh, I see where that's heading." What has worked well for us has been to stay true to the principles that were established from the beginning. An integration of a 10,000-person company into an 110,000-person entity is going to be messy. It's essential to figure out what we need to fix and what's not worth spending energy on.

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DEBORAH DUNSIRE: One of the things that is important is to recognize what various objectives underlie the full spectrum of opinion about decisions or direction. When I think about culture, I keep in mind our experience with the Japanese culture. Takeda is the oldest pharmaceutical company in Japan. It has been successful for 238 years; Millennium was a small company that was in existence only 17 years. The differences were vast. We did manage to get on the same page in the majority of instances, but it took time and careful listening to understand the underlying objectives of each organization.

JOHN CAPODANNO: Can you describe any of the specific challenges with which you had to deal and, ultimately, did work through?

DEBORAH DUNSIRE: One of the issues I remember vividly from the beginning of the interaction with Takeda was that our company was closely integrated among functions, and we were used to making decisions quickly. Speed of development was a high priority for us. For Takeda, we found speed was valued, certainly, but was not of overriding importance. It also was essential to include people who could share knowledge and learn even though that took more time. No one will argue with the benefit of speed in product development, but if it's to the exclusion of inclusion, then that's not productive, either. It was an adjustment to involve all the people necessary and to give decision making more time, but it was critical to get to the same place at the end of the

day and accomplish a broader set of objectives.

JANE OSBOURN: I think not rushing to make things fit is important. What you really want to do is think through the elements of the organization that you're integrating to make sure you're doing it in a way that has value for the business. And by the business, I mean, fundamentally, the science. It's about making it easier for the scientists. I think there's a danger in rushing the integration so that things look good, but you're not necessarily adding value. It's essential to have discipline. For example, maybe there's a third way of approaching an issue that neither party is using, and it might be a better method. You have to have the discipline to take the time to assess that alternative and think it through.

Reaping the Benefits of Collaboration

JOHN CAPODANNO: In your experience, do you believe innovation and R&D productivity speed up after an acquisition? Slow down? Maintain the same pace?

JANE OSBOURN: For MedImmune, it clearly sped up as biologics make up approximately 50 percent of AstraZeneca's overall pipeline right now. We defined various milestones along the way and made sure we achieved them in terms of R&D and, ultimately, drugs. I think the reason we managed to meet those targets ahead of schedule was because we operated as a group, and we let the science drive our decisions. We made the determination to close certain areas down when it made sense. But we employed strong, hard-nosed, data-driven decision making, and we put a huge amount of time and energy into collaboration. That's been a key driver in acceleration because we've gone out and looked for people we could work with and partner with in very creative ways.

DEBORAH DUNSIRE: I think we saw acceleration in the development space post-merger due to the greater availability of resources, enabling us

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to process areas in parallel. A smaller company could not have done that. Current launches from the Millennium pipeline are demonstrating that benefit. Having sat on the board of Takeda and been involved in evaluating the metrics, I'm glad to say the price paid for Millennium has been justified by the value delivered. This includes products like Entyvio that could not have been launched without Takeda's investment and global reach.

In terms of innovation on the Cambridge, Mass., side, we were able to proceed pretty much on track because the organization fundamentally was not changed. When people work together over many years, you get — if you have the right people on board — a good cadence of innovation. Looking at the oncology research orientation in the Japan site, it took longer to coordinate the strategy with Cambridge, but it's moving in a positive direction.

ANDRE TURENNE: We probably did have a slowdown in our productivity right after the merger. There are just so many activities that go on with a company reassessing a portfolio in the context of a broader one. I think we accomplished some needed attrition in the pipeline by employing a more systematic way to pick programs that would bring higher value. But that took some time. My sense is that in the short term, there is a productivity cost, but now Sanofi and Genzyme are focusing on the right projects. It's unquestionable that we're moving things faster and that we have better programs in our pipeline.

The Trouble with Silos

JOHN CAPODANNO: You've all talked about communicating, respecting values and building a culture of trust. That said, did you see silos early on? And if so, how — other than through communication — did you go about breaking them down?

ANDRE TURENNE: It's a bit of a paradox in my view because you try to have a niche that's recognized within the Big Pharma company, but, at the same time, you don't want to operate in a silo. There's nothing good that can happen if you're perceived to be functioning on the side. So you need to achieve a good amount of independence. But once you have that, you must expend energy to build bridges so the rest of the organization will work with you. If you merely try to defend your niche — the space for which you were bought — a harmonious, long-term integration built on communication, values and trust probably won't happen.

DEBORAH DUNSIRE: I agree. Transparency is absolutely critical because the acquiring company does things differently. If you're in a niche, some people in the parent company will ask, "Why not incorporate that niche within the parent company?" The only way to address that is to be completely transparent, communicate frequently, be respectful of what's been accomplished by the acquiring company and share learnings both ways.

I do sometimes hear Big Pharma spoken of as if it's somehow incapable of innovation, but that's simply not true. Those companies are big because they've been built on success, and we all have to respect that, identify how that success came about and learn from it.

JANE OSBOURN: That's a very important point: You have to value the achievements of both the parent company and the acquired biotech. Having a physical presence, and building relations, is very valuable in breaking down the silos.

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Looking toward the M&A Future

JOHN CAPODANNO: Let's talk about the shifting landscape in biotech and pharma. Biotech used to be largely small companies, but now the likes of Alexion, Biogen, Celgene and so on are replacing Big Pharma in terms of market cap. As this line blurs, how does that affect deal negotiations and post-merger integration?

ANDRE TURENNE: When Genzyme was acquired by Sanofi, Genzyme was eight or 10 times smaller — depending on what metrics you use. As you think about what could happen with biotech companies worth \$50 billion or \$100 billion in market cap being acquired by Big Pharma, you're starting to look more at a merger of equals. In the past, what fueled the economics of mergers of equals were primarily the cost synergies you could get out of the transaction. But when you acquire a company that's highly valued because of its future growth prospects, the M&A no longer is about realizing value by cutting and synergizing but by translating some of the successful practices. That's a different equation and a different way to create value.

JOHN CAPODANNO: Acquired entities usually absorb the culture of their larger

parent organization. But in the evolving pharma world, where innovation and disruptive science are highly valued and more associated with biotech, do you see that changing?

DEBORAH DUNSIRE: As an acquired company, you can only do what your acquirer mandates. So if the company says, "We're integrating, and everybody is going to be working in the A, B, C way," then that's what you're going to do. If you don't like it, you can leave. But in our case, we had a CEO in Japan, Yasu Hasegawa, who wanted to buy something of value beyond the products in the pipeline. He wanted to acquire the practices, people and culture. Of course, some things at Millennium had to change because the company today is not the same as it was the day before the acquisition, and we have adjusted. By the way, it was tremendous to see some of Millennium's practices get adopted into the bigger company. There was a leavening, if you like, from the smaller company into the bigger one, that also was beneficial to Takeda's way of operating, even on a global scale.

JANE OSBOURN: The general approach to collaboration has become more aligned across biotech and pharma. Big companies are working together creatively in a lot of novel ways that weren't happening five or seven years ago.

JOHN CAPODANNO: As we look at the current deal landscape, it's extremely high intensity. What do you see as the key drivers of the M&A setting? Is it by therapeutic category, region or something else?

JANE OSBOURN: It's about looking for growth opportunities and building growth platforms.

ANDRE TURENNE: In our case, Sanofi's acquisition of Genzyme was driven in part by the desire to access the U.S. research scene, but I agree completely with Jane. It all starts with growth. I think therapeutic area leadership and geographic leadership also are important drivers for acquisition. Right now, we still have a supporting financing environment — low interest rates — that enables M&A. If that goes away, it will put a damper on activity levels.

JOHN CAPODANNO: Considering the recent pullback in the industry, what do you think of the current risk appetite for deals? Do you think Big Pharma will become more selective?

DEBORAH DUNSIRE: Given that valuations were so high in the public markets, some acquisitions were price prohibitive. So from a strategic perspective, there may be even greater activity if valuations pull back some.

ANDRE TURENNE: If the financing environment remains adequate for raising the needed capital, I agree completely. There are a number of potential buyers that have not been spending as much as, perhaps, they might have wanted to because of the valuations that we've seen.

JOHN CAPODANNO: Thank you all. ■