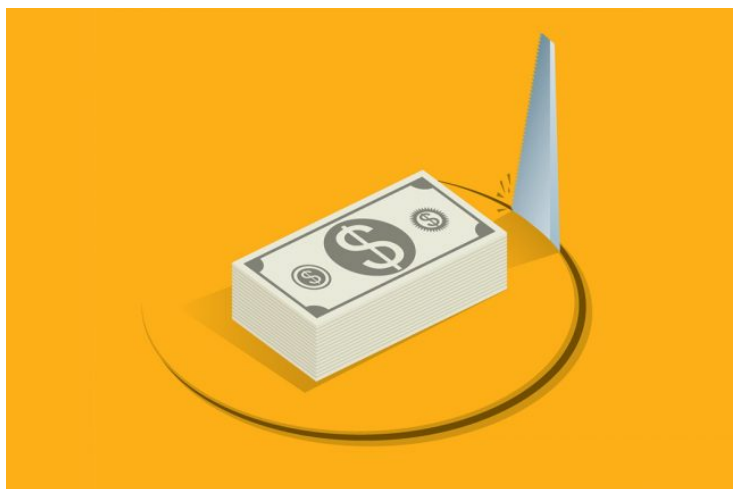


Takeda eyes Shire, will it be 2018's biggest deal?

24 April 2018 | Analysis | By Aishwarya Venkatesh

Japan's Takeda in negotiations to acquire Irish drugmaker Shire, a global rare disease drug giant. A successful acquisition will generate a global pharmaceutical powerhouse worth over \$80bn with \$30 bn in annual sales. The deal will also position Takeda among the ranks of top 10 global pharmaceutical companies and would be the third biggest acquisition of a UK-traded company in history.



Takeda Pharmaceuticals is all set to rewrite history! The deal, is touted to be one of the biggest Japanese take-over of a western rival. Rare diseases drug giant Shire recently rejected the third bid a \$61 billion cash-and-stock acquisition offer made by Japan's Takeda Pharmaceuticals. Takeda is in no mood of giving up and has sweetened its proposal making a fourth bid recently, a little over the third bids offer at \$62bn. A successful mega-deal will generate a global pharmaceutical powerhouse with \$30 bn in annual sales. The deal will position Takeda among the ranks of top 10 global pharmaceutical companies, replenish its drying pipelines with promising drug candidates, boost its position in the United States and make it a leader in the fields of oncology, gastrointestinal diseases and neuroscience.

Takeda has made three offers to buy Shire since March 28, when the company said it was eyeing a takeover of the Irish-based firm, which has most of its operations in Lexington. So far, Takeda has made three unsuccessful offers to Shire. Its first was for about \$58 billion and its third was for about \$61 billion. But Shire rejected all three. As per laws Takeda has until April 25 to make a definitive bid or walk away empty handed.

The latest proposal is 7 percent above Takeda's first offer and 58 percent above London-listed Shire's share price prior to any takeover speculation, the Japanese firm said. Shire's board said in a statement that it rejected the third offer unanimously because it "continues to significantly undervalue the company and Shire's growth prospects and pipeline." The board added that it was considering the fourth offer and "will issue a further announcement in due course."

Why is Shire so important for Takeda?

Shire's pipeline was the clear draw for Takeda. The Irish drugmaker focuses on developing and selling medicines that treat

rare diseases and cancers. Its main markets are in the United States, China and Japan. Though headquartered in Ireland, most of its employees are in the United States. Shire markets over 40 products and that raked up \$14.4 billion in 2017, up 8% from 2016. In longer term, Shire believes its sales could reach between \$17 billion and \$18 billion in 2020. The company recently sold its oncology unit to unlisted French drugmaker Servier for \$2.4 billion.

Shire is a global leader orphan drug development and commercialization. Its recent \$32 billion acquisition of Baxalta has further expanded its position as a leader in rare diseases. That deal landed Shire with Baxalta's top-selling hemophilia product lineup; as a result, Shire's hematology drug sales were \$3.8 billion in 2017.

As per The Motley Fool, a global leading investments analyst firm, Shire has well-established immunology and neurosciences businesses that generate billions of dollars in annual revenue. Last year, immunology contributed \$4.4 billion to sales, and neurosciences, which includes top-selling ADHD medications such as Vyvanse, added \$2.7 billion to the top line. Products for internal medicine, including gastrointestinal drugs, added \$1.7 billion to revenue last year, too.

The acquisition will add to Takeda's rare-disease drug portfolio that often face little competition and command premium prices. Last year, Shire's rare-disease drug sales were \$1.4 billion, thanks to demand for its enzyme-replacement drugs Elaprase, Replagal, and Vpriv.

Takeda has only two new drugs with blockbuster potential in late-stage clinical trials: a vaccine for dengue fever and a therapy for Crohn's disease. Shire's late-stage pipeline contains more than a dozen treatments for rare diseases.

Takeda's aims to go global

With a market value of over \$41bn Takeda has been actively seeking for growth in overseas markets to transform the company into a global player. Currently, the 233 year old company, has sales in nearly 70 countries. Under the leadership of its first non-Japanese CEO Mr Christophe Weber, Takeda has made some strategic acquisitions and finalized some big deals including the latest acquisition of US oncology group Ariad Pharmaceuticals for over \$5bn.

Apart from Shire, Takeda made a slew of deals in 2018. It announced an offer to acquire TiGenix NV, a Belgian maker of stem-cell therapies, for €520 million (\$645 million) in January, as well as a \$150 million initial payment to Denali Therapeutics Inc. for a partnership to develop drugs for neurodegenerative diseases. In February, Takeda promised another \$230 million to Wave Life Sciences for a pact on treatments for disorders of the central nervous system.

Earlier in an interview with BioSpectrum Asia Magazine, Takeda's Vice President for Asia-Pacific Area, Emerging Markets, Mr Gordon Cameron, said, "From a globalization perspective, we have made some acquisitions in recent years, giving us a footprint that spans across the world. We need to be very dynamic in the current business landscape. Our leadership understands emerging markets very well. It is a long-term play: we have to be patient, ride out the ups and downs, and just keep investing as per our strategy."

Takeda's best sellers include drugs that treat metabolic diseases, cancers and cardiovascular problems. It has three leading drugs in its kitty that makes around 100 billion yen each per year. This deal with Shire will help the Japanese giant beef up its product portfolio and offer operating leverage and cross-selling opportunities within its core indications. Also, more than two thirds (nearly 60 percent) of Shire's sales come from the US. Buying Shire will give Takeda a broader portfolio in the US, propel its presence in the world's biggest market, and open its gateways to the hemophilia market.

Falling sales at home!

Takeda is ramping up its takeover ambitions under Weber, who's seeking growth overseas as patent expirations and a shrinking domestic sales limit opportunities at home. Changing policies and pricing pressures have prompted Japanese giants to look for growth overseas. In Japan, the government plays a key role in prices because it covers about 40 percent of the country's health spending via the national insurance scheme. The health ministry is trying to cut back its outlays on drugs and is promoting the use of generic drugs and pushing down prices. With the annual price review in place, the sector's sales in Japan, the world's third-largest drug market, are estimated to fall by 30 percent to about \$62 billion through 2025, according to a study by Pharmaceutical Research and Manufacturers of America (PhRMA). With huge pricing pressures and slashing of prices on blockbuster drugs, Japan runs the risk of multinational companies redirecting their investment in drug development elsewhere. For domestic and international companies, which have long seen Japan as a source of steady profits, the new price cuts are a blow. The government has said in recent months that it will overhaul the 2010 rule and

introduce a new pricing system that evaluates innovation and how cost effective drugs are. Some pharmaceutical companies are already seeing a hit to their profits.

Shire too big to swallow?

While an acquisition of Shire might make strategic sense, the potential size of the deal will make Shire difficult for Takeda to swallow, opine analysts. Judge by market capitalization, both companies have a nearly similar market share. But it would be a big financial stretch for Takeda since Shire, with a market value of more than 36.6 billion pounds (\$51.5 billion), is worth a lot more than Japanese drugmaker, which has a market capitalization of \$41 billion. And since Shire owes \$19 billion in debt following its Baxalta acquisition, its enterprise value is approaching \$70 billion, which is about \$25 billion bigger than Takeda's. The similarity in size has raised questions on whether the damage to Takeda's finances would be worth the boost to its portfolio and pipeline. Analysts think Takeda will need to substantially raise the cash component to make the offer attractive to Shire shareholders. Investors in Takeda are also cautious. The takeover news has sent the company's shares diving and the Japanese firm lost almost 5 percent of their value recently as investors fretted over the record breaking deal in Japan's pharma history.

Whether the deal happens or not is to be seen, but undoubtedly, this deal would be Weber's boldest move so far, significantly boosting Takeda's position in rare diseases, including a blockbuster haemophilia franchise, ADHD drug, gastrointestinal disorders and neuroscience.