

Merger Means Billions for Biotechnology?



In March 2009, we asked the question “Where Might Genentech Investors Redeploy \$47 Billion?” in response to the news that Roche Holding AG (ROG.VX) would acquire the outstanding publicly held interest in Genentech for a total payment of approximately \$47 billion in cash. We hypothesized that investors seeking biotechnology companies of comparable size and liquidity would gravitate towards the 30 largest companies within the NASDAQ Biotech Index (NBI), which we divided into the following three groups:

- **Tier 1:** market capitalization in excess of \$10 billion
- **Tier 2:** market capitalization greater than \$2 billion but less than \$10 billion
- **Tier 3:** market capitalization of at least \$1 billion but less than \$2 billion

At that time, the 30 companies in these three groups had a collective market capitalization of approximately \$240 billion. Assuming that investors reinvested the entire \$47 billion in cash they received from the Roche/Genentech transaction into these groups, it would have represented nearly 20% of the total value. While some of the money

may have been reinvested in Roche, such an imbalance between supply and demand could have resulted in relative outperformance from members of the three groups.

Following today’s news that Sanofi-aventis (SNY) is acquiring Genzyme Corporation (GENZ) for approximately \$20 billion in cash [plus a contingent value right], we reviewed the performance of our three tiers to determine which companies, if any, benefited the most from the reinvestment of \$47 billion following the Roche/Genentech transaction.

From the date that the Roche/Genentech transition was announced [March 12, 2009] through February 15, 2011, the NASDAQ Composite (COMP) was up approximately +97%. In contrast, the NBI only increased +50% during the period. Recall that the NBI is calculated under a modified capitalization-weighted methodology, taking into account the total market value of the companies it tracks and not just their share prices. Accordingly, companies with the largest market capitalization have the highest weighting in the index – making the NBI a good proxy for the performance of larger capitalization biotechnology companies.

Contrary to expectations, the largest biotechnology companies did

Table 1: Tier 1 Group

Company	3/12/09 close	2/15/11 close	% Change
Amgen, Inc. (AMGN)	\$50.27	\$53.84	7.10%
Biogen Idec, Inc. (BIIB)	\$48.88	\$67.09	37.25%
Celgene Corporation (CELG)	\$47.16	\$53.14	12.68%
Genzyme Corporation (GENZ)	\$55.63	\$74.30	33.56%
Gilead Sciences, Inc. (GILD)	\$44.43	\$38.99	-12.24%
Teva Pharmaceutical Industries Ltd. (TEVA)	\$43.10	\$51.70	19.95%
Average			16.38%



“Contrary to expectations, the largest biotechnology companies did not appear to benefit from a reallocation of funds...”

not appear to benefit from a reallocation of funds from the Roche/Genentech transaction and posted the worst overall performance during the period. In fact, all six members of the Tier 1 group underperformed the NBI, which includes Genzyme [see Table 1]. The companies in Tier 1 should have been the closest to Genentech with regard to their risk/return profile.

With market capitalizations greater than \$2 billion but less than \$10 billion around the time that the Roche/Genentech transaction was announced, Tier 2 represented the best performing group. While Tier 2 contained both winners and losers, more than half of the Tier 2 companies outperformed the NBI, including four with triple-digit gains during the period [see Table 2].

Tier 3 was the second best performing group. Half of the Tier 3 companies outperformed the NBI, including four with triple-digit gains during the period [see Table 3].

In conclusion, the reallocation of funds following a significant merger & acquisition [M&A] transaction for cash doesn't appear to benefit larger biotechnology companies with similar risk/reward profiles in terms of relative stock performance [Tier 1]. While a comprehensive analysis of the data is beyond the scope of this article, this could result from the reallocation of capital into the acquiring company, sufficient liquidity from larger biotechnology companies to withstand the increased demand, and/or other factors. However, using history as a guide, those companies with a market capitalization between \$2 and \$10 billion appear most likely to benefit from reinvestment following the recent Sanofi/Genzyme transaction. ♦

Table 2: Tier 2 Group

Company	3/12/09 close	2/15/11 close	% Change
Alexion Pharmaceuticals, Inc. (ALXN)	\$34.71	\$90.08	159.52%
Cephalon, Inc. (CEPH)	\$64.40	\$58.99	-8.40%
Gen-Probe, Inc. (GPRO)	\$43.65	\$62.74	43.73%
Illumina, Inc. (ILMN)	\$36.35	\$71.88	97.74%
Life Technologies Corporation (LIFE)	\$28.82	\$54.30	88.41%
Myriad Genetics, Inc. (MYGN)	\$37.48	\$19.39	-48.27%
OSI Pharmaceuticals (OSIP)*	\$38.26	\$57.50	50.29%
Perrigo Company (PRGO)	\$21.66	\$73.55	239.57%
Qiagen N.V. (QGEN)	\$16.19	\$19.77	22.11%
Shire plc (SHPGY)	\$34.25	\$82.85	141.90%
Vertex Pharmaceuticals, Inc. (VRTX)	\$29.26	\$39.49	34.96%
Warner Chilcott plc (WCRX)	\$7.26	\$24.74	240.77%
Average			88.53%

* Acquired by Astellas Pharma in May 2010, price as of 3/31/2009 and the acquisition price, respectively

Table 3: Tier 3 Group

Company	3/12/09 close	2/15/11 close	% Change
Acorda Therapeutics, Inc. (ACOR)	\$26.00	\$22.99	-11.58%
Amylin Pharmaceuticals, Inc. (AMLN)	\$10.06	\$15.52	54.27%
Auxilium Pharmaceuticals, Inc. (AUXL)	\$28.99	\$22.14	-23.63%
BioMarin Pharmaceutical, Inc. (BMRN)	\$11.00	\$26.94	144.91%
CV Therapeutics (CVTX)*	\$19.88	\$20.00	0.60%
Endo Pharmaceuticals Holdings, Inc. (ENDP)	\$16.80	\$34.92	107.86%
Isis Pharmaceuticals, Inc. (ISIS)	\$13.18	\$8.69	-34.07%
ONYX Pharmaceuticals, Inc. (ONXX)	\$28.72	\$36.56	27.30%
Regeneron Pharmaceuticals, Inc. (REGN)	\$13.33	\$37.11	178.39%
Sepracor (SEPR)**	\$14.66	\$23.00	56.89%
Techne Corp (TECH)	\$50.00	\$68.51	37.02%
United Therapeutics Corp (UTHR)	\$31.27	\$67.02	114.33%
Average			54.36%

* Acquired by Gilead in March 2009, price as of 3/31/2009 and the acquisition price, respectively

** Acquired by Dainippon Sumitomo Pharma in September 2009, price as of 3/31/2009 and the acquisition price, respectively