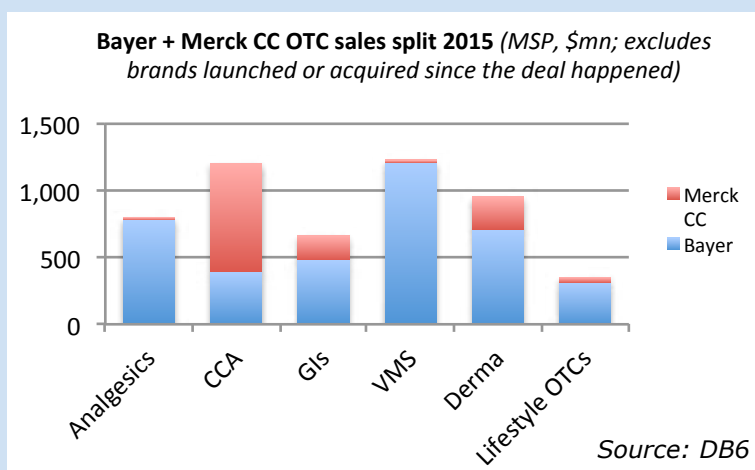


## Global M&A round-up 2014

- The global megadeals continued into 2014, with Bayer acquiring Merck Consumer Care from MSD, and GSK and Novartis agreeing a CHC j-v (*finalised in 2015*)

### Bayer ups the stakes with acquisition of Merck Consumer Care

- Bayer's** acquisition of Merck CC for \$14.2bn cash established the company as a Top 5 global player in all 6 major OTC categories
- The Merck CC portfolio brings more balance to Bayer's OTC category split, providing notable extra strength in CCA, derma and GIs
- It provided the biggest boost in CCA, adding key brands such as Claritin, Afrin, Coricidin and Aerius to Bayer's existing strengths in the category, notably cold & flu presentations of Alka-Seltzer and Aspirin
- Other key Merck CC brands that now form part of Bayer's portfolio are Lotrimin and Tinactin (which gave Bayer entry into the US antifungals category) and key laxative brand Miralax
- Geographically, Bayer's OTC presence in North America was significantly boosted by the deal, while Merck CC also brought particular strength in Latin America and C&E Europe
- The two largest brands the Merck CC portfolio brings Bayer in Latin America are Afrin and Desenfriol, although sales in key market Mexico have underperformed since the 2006-07 ban on former key ingredient PSE
- Aerius and Claritin are key brands Merck CC brings in C&EE, particularly in Russia, where they are the No.4 and No.5 respectively in allergy remedies
- However, Bayer is still absent from the Japanese OTC market
- Bayer stated it would keep Merck CC's Dr Scholl's and Coppertone brands despite interest from other parties, with Bayer stating "we intend to keep the portfolio acquired from Merck & Co as a core business"

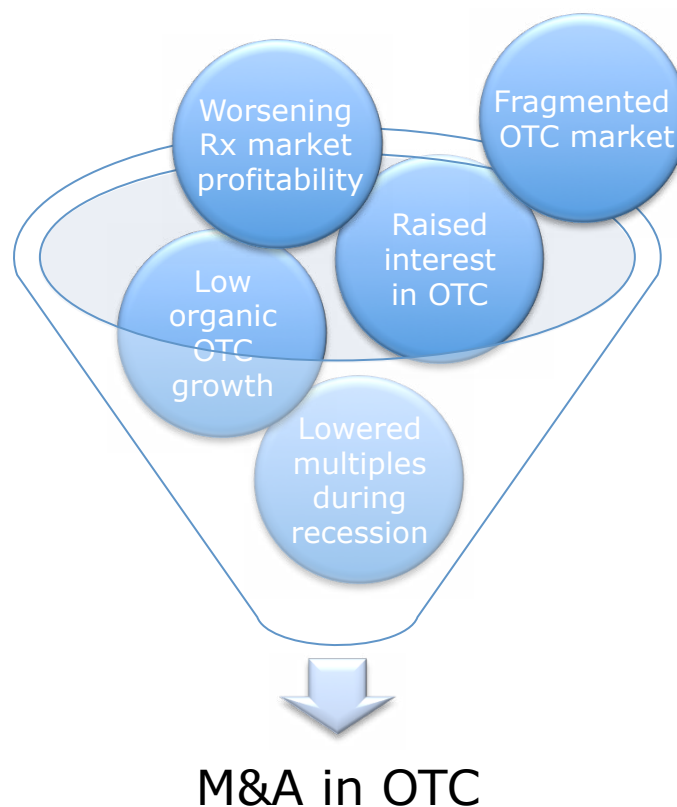


- In future Bayer expects "strong growth in key countries outside the US where our superior commercial presence will drive sales of the combined business"

# M&A Trends

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- Bayer's M&A activities in 2014-15 point to this, with the acquisition of Merck Consumer Care and Chinese OTC player Dihon clearly indicative of a focus on self-care
- Sanofi's acquisition of Chattem, and Reckitt Benckiser's of SSL International, Paras Pharmaceutical and Schiff, were also driven by consumer healthcare concerns
- In addition, low- to medium-scale M&A activity has always retained a healthy interest in OTC
  
- Historic low organic growth rates in the OTC industry have been one driver of M&A activity in the past
- Likewise, the fragmented nature of the OTC market, where the Top 3 players hold less than a 15% share, makes efficiencies of scale difficult to achieve
- When organic growth is low and the market is highly fragmented, M&A is seen as a necessary strategy of business development
- Another M&A driver since 2008 has been marketers seeking deals while multiples were depressed during the global recession
- While there is a heap of money around at near zero interest, consolidation will continue at an alarming pace



# M&A at the OTC Top Table

## Overview

- Companies gathered around the OTC top table have experienced a significant amount of upheaval in recent years, with the biggest players jostling for position, dynamic players jumping in to take the place of slower ones, and some leaving the table seemingly for good
- M&A has been a driving force of change, with much of the jockeying for position impacted by market-changing mega deals
- 2014 and 2015 in particular saw arguably some of the biggest deals in OTC history, with Bayer's acquisition of Merck Consumer Care and GSK's j-v with Novartis two such game-changers
- The asset swap of Sanofi and BI in 2016 looks set to continue this trend

Global Top 20 OTC Marketers 2015 (MSP, \$mn)					
	Marketer	\$mn	2015 / 2014	CAGR 15/11	% share
1	<b>Bayer</b>	<b>5,339.9</b>	+4%	+4%	4.5
2	<b>GlaxoSmithKline</b>	<b>5,225.8</b>	+11%	+1%	4.4
3	<b>Johnson &amp; Johnson</b>	<b>4,967.8</b>	+5%	+4%	4.2
4	<b>Pfizer</b>	<b>4,189.8</b>	+8%	+6%	3.5
5	<b>Sanofi</b>	<b>3,584.2</b>	+5%	+6%	3.0
6	<b>RB</b>	<b>2,932.3</b>	+5%	+6%	2.5
7	<b>Procter &amp; Gamble</b>	<b>2,310.0</b>	+3%	+3%	2.0
8	<b>Boehringer Ingelheim</b>	<b>1,654.4</b>	+6%	+4%	1.4
9	<b>Takeda</b>	<b>1,245.8</b>	+6%	+5%	1.1
10	<b>Taisho</b>	<b>1,176.1</b>	-2%	-2%	1.0
11	<b>Novartis</b>	<b>953.8</b>	+3%	+4%	0.8
12	<b>NBTY</b>	<b>853.9</b>	+0%	+2%	0.7
13	<b>Mondelez</b>	<b>845.4</b>	+5%	+4%	0.7
14	<b>Otsuka</b>	<b>843.0</b>	+3%	+1%	0.7
15	<b>China Resources 999</b>	<b>794.2</b>	+9%	+8%	0.7
16	<b>Valeant</b>	<b>728.3</b>	+2%	+2%	0.6
17	<b>Prestige Brands</b>	<b>691.5</b>	+3%	+1%	0.6
18	<b>Perrigo</b>	<b>612.9</b>	+0%	-1%	0.5
19	<b>Merck</b>	<b>604.1</b>	+9%	+5%	0.5
20	<b>Rohto</b>	<b>532.2</b>	+5%	+3%	0.4

# RB

*"There are a number of qualities to admire about RB: its megabranding strategy, enviable track record of acquisitions and focused decision-making. RB is expected to be at the forefront in the OTC consolidation movement, and is well-placed to invest in the next mega deal."*

**Status:** Public

**Business sectors:** Household products, Rx & OTC medicines, personal care

**Total sales 2015:** \$13.1bn

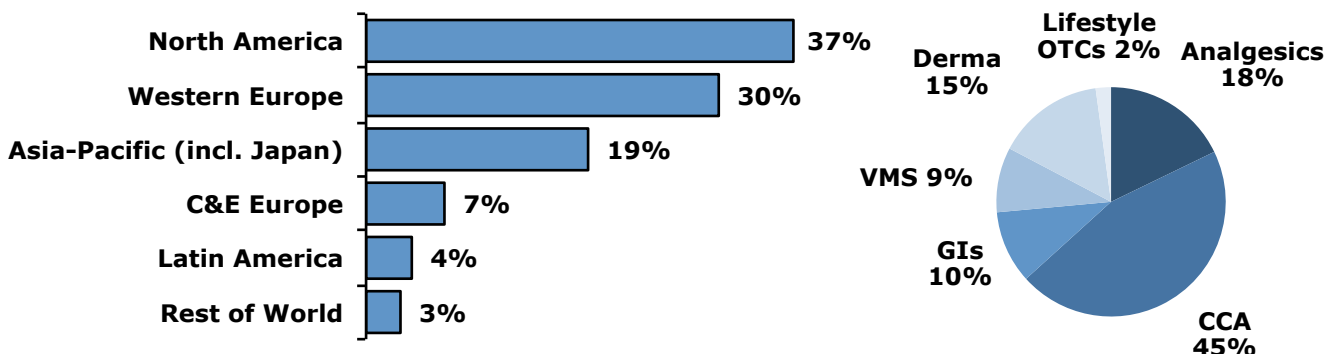
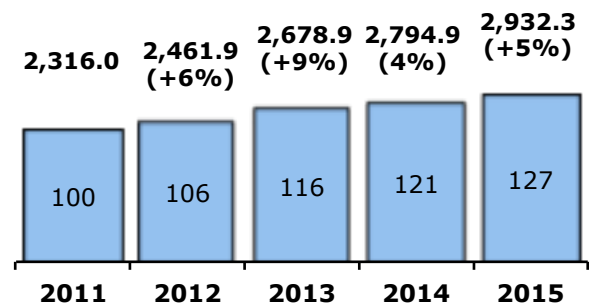
**OTC sales 2015:** \$2.9bn

**OTC rank (global):** 6

**OTC rank (USA):** 6

**Top markets:** USA (36% of sales), UK (16%), China (6%), Australia (5%)

**RB OTC sales 2011-15**  
(MSP, \$mn)



## Acquisition strategy

- M&A has played an important part in RB's strong growth, with well-considered options successfully expanding its portfolio and geographic presence
- RB has historically been willing to pay high multiples (e.g. Paras at 8.2x sales, Schiff at 5.4x sales); however, it pulled out of the running for Merck Consumer Care (subsequently acquired by Bayer) in 2014, claiming that bidding had "gotten out of hand"
- One of the marketer's acquisition strategies is to acquire options with strong growth potential, generally through global expansion; acquisition of US-based Schiff, and subsequent global roll out of key brand MegaRed, is a strong example
- Another strategy is to shift investment to the emerging markets; in relation to M&A, this is particularly apparent in its interest in LatAm (where RB only started to roll out some of its Powerbrands in 2010)
- RB is filling in the gaps in its geographical profile with small acquisitions, as can be seen with the BMS brands in Latin America

# Leading M&A Targets

- The 100 companies profiled in this chapter represent a wealth of different opportunities spread across categories, geographies and specialisations
- They are a solid mixture of players from around the globe, some strong regionally, others locally, some outright acquisition targets or potential j-v partners and others with an OTC portfolio ripe for purchase
- In some instances the acquisition or j-v opportunity may involve the whole company, the OTC business, part of a portfolio or individual brands
- Acquisition or j-v may act as the best entry point to a particular region or country; local knowledge / infrastructure are often valuable assets
- Many of these are growing their OTC sales fast (either organically or via acquisition themselves), but high growth is not the only requirement for a solid investment opportunity and some profiled companies are currently seeing OTC sales decline
- In some instances it is not the established OTC portfolio that is the draw but the local knowledge, sales & marketing infrastructure or switch pipeline
- Below is a list of all 100 companies profiled in this chapter (*click on a name to jump straight to that profile*)

OTC M&A Targets				
Company	OTC sales 2015 (\$mn)	2015 / 2014	CAGR 15/11	Main OTC market(s)
<b>Abbott</b>	<b>494.9</b>	+13%	+9%	India, USA, Russia
<b>Abdi Ibrahim</b>	<b>80.0</b>	+9%	-6%	Turkey
<b>Aboca</b>	<b>60.3</b>	+12%	+15%	Italy, Spain, Portugal
<b>Aché</b>	<b>88.7</b>	+19%	+14%	Brazil
<b>AFT Pharma</b>	<b>3.9</b>	+20%	+10%	New Zealand, Australia
<b>Akorn</b>	<b>44.3</b>	+0%	+2%	USA, Canada
<b>Amrutanjan</b>	<b>20.2</b>	+11%	+3%	India
<b>Angelini</b>	<b>277.1</b>	+4%	+1%	Italy, Spain, Russia
<b>APR</b>	n/a			Switzerland, Italy
<b>Arkopharma</b>	<b>77.5</b>	-2%	-1%	France, Spain, Belgium
<b>Atrium Innovations</b>	<b>41.5</b>	+11%	+5%	Germany, Russia, USA
<b>A&amp;Z</b>	<b>299.9</b>	+12%	+16%	China
<b>Beiersdorf</b>	<b>247.4</b>	+1%	+4%	USA, Germany, France
<b>Biocodex</b>	<b>79.7</b>	+8%	+7%	France, USA, Russia
<b>Bionorica</b>	<b>183.0</b>	+14%	+13%	Germany, Russia, Ukraine
<b>Biostime</b>	<b>295.5</b>	+14%	+18%	Australia, China, USA

# Heel

"A homeopathic and natural medicine specialist that has remained buoyant in the face of an increasingly challenging regulatory environment, Heel brings both international R&D and marketing experience and a strong domestic manufacturing infrastructure."

**Status:** Private

**Business sectors:** Homeopathy, natural medicines

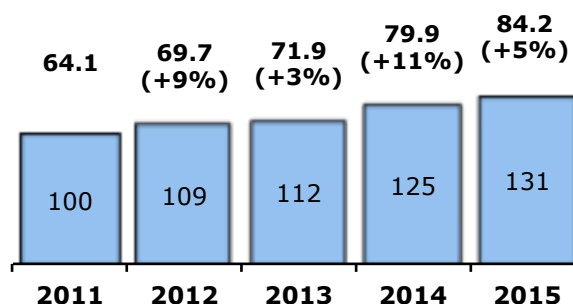
**OTC sales 2015:** \$84.2mn

**OTC rank (global):** 147

**OTC rank (Germany):** 22

**Top markets:** Germany (60% of sales), Russia (18%), Ukraine (7%), Poland (6%)

**Heel OTC sales 2011-15**  
(MSP, \$mn)



- Homeopathic specialist Heel has a diverse portfolio of natural, homeopathic and non-medicated brands marketed across Europe, with its strong reputation for clinical excellence helping it sustain growth even as homeopathy faces increasing scrutiny
- It is currently owned by Delton AG, a holding company specialising in pharma and logistics; a future divestiture may be possible in the medium to long term if the European OTC market becomes more hostile to homeopathy
- It has a strong R&D infrastructure and NPD channel, and actively enters research partnerships with other natural medicine specialists
- Its marketing strategy also encompasses close ties with healthcare professionals, although its manufacturing facilities are primarily based in Germany
- Online information about its key brands such as Traumeel focuses on clinical studies to prove their efficacy
- It also fields Germany's leading natural sedative, Neurexan, which has grown ahead of a declining topline thanks to visible consumer A+P

**Heel leading OTC brands 2015** (MSP, \$mn)

	Brand	Category	\$mn	2015 / 2014	CAGR 15/11
1	<b>Traumeel</b>	analgesics range	<b>27.9</b>	+3%	+10%
2	<b>Neurexan</b>	sedatives & sleep aids	<b>17.7</b>	+4%	+11%
3	<b>Vertigoheel</b>	antinauseants	<b>8.6</b>	+5%	+3%
4	<b>Euphorbium</b>	topical decongestants	<b>8.3</b>	+0%	+2%
5	<b>Viburcol</b>	systemic cold & flu	<b>5.7</b>	+22%	+13%
	Others		<b>16.1</b>	+8%	+3%

# M&A Register - 2014

## 2014's key OTC deals

- 2014 saw the OTC landscape shaken up by Bayer's blockbuster purchase of MSD / Merck's Consumer Care business and Meda's acquisition of Rottapharm | Madaus
- Jamieson and Arkopharma were both purchased by private equity companies
- Nestlé increased its OTC presence via the acquisition of 100% ownership of Galderma alongside the rights to various aesthetic dermatology products from Valeant
- Top-tier marketers continued to expand their presence in the emerging markets via tactical acquisitions, such as Bayer's purchase of Dihon and Abbott's acquisition of CFR
- Genomma Lab expanded its presence outside of Mexico with the purchase of Brazilian brands from McNeil / J&J and Hypermarcas

<b>Company</b>	<b>Activity</b>
Abbott	acquired CFR Pharmaceuticals (Chile)
Actavis	acquired Forest Labs (global) acquired Silom Medical (Thailand)
Akorn	acquired High-Tech Pharmcal (US)
Alliance Pharma	acquired UK and Ireland rights to Lypsyl from Novartis
Alphaeon Corporation	acquired Physician Recommended Nutraceuticals (US)
Aurelius	acquired RB's Scholl Footwear division (EU)
Aurobindo	acquired Actavis' generics business (W Europe) acquired Natrol (US)
Bayer	acquired Dihon (China) acquired Merck Consumer Care from MSD / Merck (global) acquired Dicoflor and Floridor probiotics from Vitis Pharma and BLF100 from Dicofarm (Poland)
Boehringer Ingelheim	acquired Pharmetique from La Santé (Colombia)
Carlyle Group	acquired J&J's Ortho-Clinical diagnostics unit (global)
CCMP Capital Advisors	acquired Jamieson (Canada)
Church & Dwight	acquired several women's health brands from Lil' Drug Store Products including RepHresh and Replens (US)