

# M & A DEAL ANALYSIS : *PFIZER ACQUISITION OF HOSPIRA INC.*

April - 2015

RBSA  
Research Initiative



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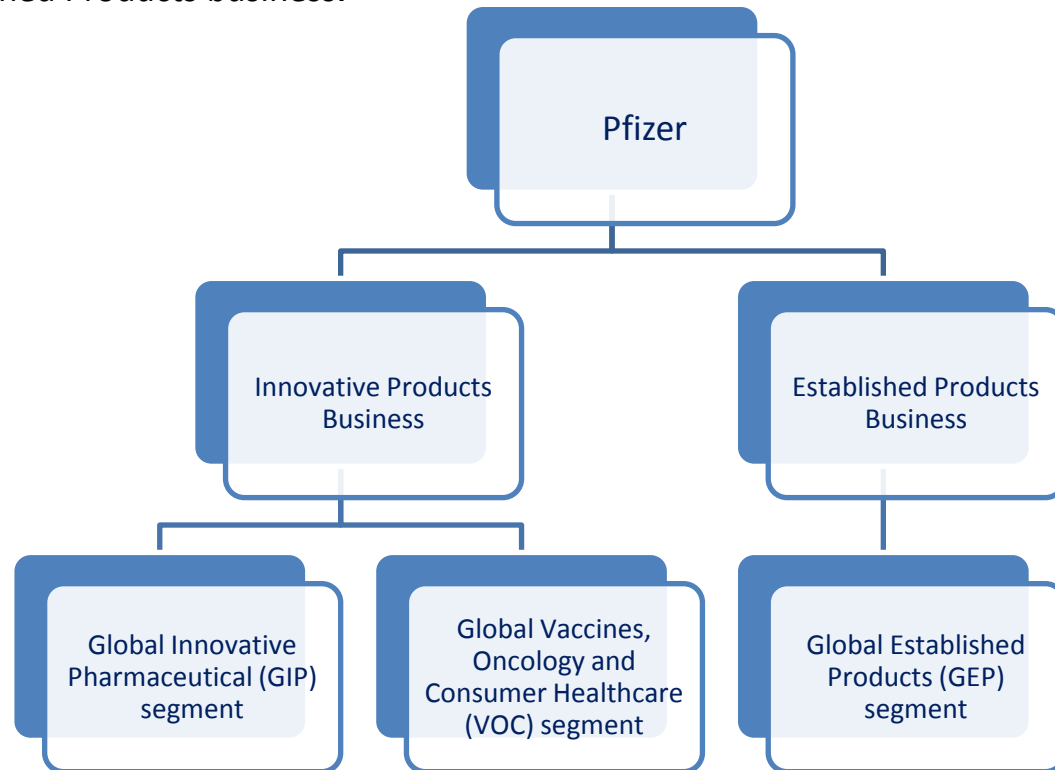
- Global Pharmaceutical giant Pfizer Inc. is set to acquire Hospira Inc. (Hospira), the world's leading provider of injectable drugs and infusion technologies and a global leader in biosimilars for **\$90 a share in cash** for a total enterprise value of approximately **\$17 billion**.
- Pfizer Inc. and Hospira Inc. announced on 5<sup>th</sup> February, 2015 that they have entered into definitive merger agreement under which Pfizer Inc. will acquire Hospira Inc..
- The transaction is to be financed through a combination of cash and debt, with approximately two-thirds of the value financed from cash and one-third from debt.
- The proposed acquisition is seen as an excellent strategic fit for Pfizer's **Global Established Pharmaceutical (GEP)** business (discussed in detail later), which is likely to benefit from a significantly enhanced product portfolio in growing markets.
- The company (Pfizer) expects the transaction to be immediately accretive by **\$0.10- \$0.12 per share** for the first full year following the close of the transaction with additional accretion anticipated thereafter.
- The transaction is also expected to deliver **\$800 million** in annual cost savings by 2018.
- The transaction is subject to customary closing conditions, including regulatory approvals in several jurisdictions and the approval of Hospira's shareholders, and is expected to close in the second half of 2015.



# Companies involved in the merger:

## **Pfizer Inc.**

- Pfizer is a research-based, global biopharmaceutical company. Its global portfolio includes medicines and vaccines, as well as many of the world's best-known consumer healthcare products. Pfizer works across developed and emerging markets to advance wellness, prevention, treatments and cures that challenge the most feared diseases. Pfizer's common stock is listed on the NYSE under the symbol "PFE."
- The commercial operations of Pfizer are managed through two distinct businesses: Innovative Products business and Established Products business.



Source: Pfizer Annual Report



## Companies involved in the merger:

- **Innovative Products Business:**

Under this business, there are two segments:

- **Global Innovative Pharmaceutical segment:** GIP is focused on developing , registering and commercializing novel, value creating medicines that significantly improve patients lives.
- **Global Vaccines, Oncology and Consumer Healthcare segment:** VOC focuses on the development and commercialization of vaccines and products for oncology(treatment of tumors) and consumer healthcare.

The GIP and VOC portfolio contains innovative, largely patent-protected and highly differentiated products characterized by high growth.

- **Established Products Business:**

Under this business, there is one segment:

- **Global Established Products segment:** GEP includes brands that have lost exclusivity and patent-protected products that are likely to lose exclusivity in near future as well as generic products.

The GEP segment is characterized by slow growth and strong cash flows by providing low-cost, high value treatment to patients across the world.



## Companies involved in the merger:

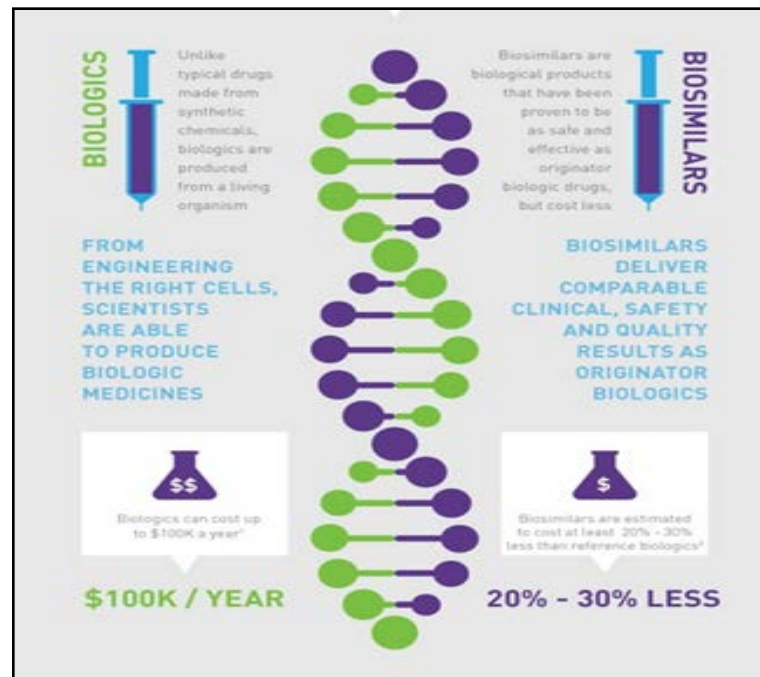
### **Hospira Inc.**

- Hospira is the world's leading provider of injectable drugs and infusion technologies, and a global leader in biosimilars. Hospira's portfolio includes generic acute-care and oncology injectables, biosimilars, and integrated infusion therapy and medication management products. Its portfolio of products is used by hospitals and alternate site providers, such as clinics, home healthcare providers and long-term care facilities.
- Hospira was incorporated in Delaware on September 16, 2003, as a wholly owned subsidiary of Abbott Laboratories. Hospira's business first began operation as part of Abbott in the 1930s. On April 30, 2004, Abbott distributed its common stock to Abbott's shareholders. On that date, it began operating as an independent company. Hospira's common stock is listed traded on the NYSE under the symbol "HSP."
- Hospira was the first US company to launch a biosimilar in Europe last year with its version of the Remicade arthritis treatment shared by Johnson & Johnson and Merck & Co. Europe is ahead of the US in adopting biosimilars, but Hospira's product is being reviewed by the US FDA as the regulator moves closer to its first approvals.
- Health systems around the world are keen to embrace biosimilars as a way to contain the rising cost of medicines. But some regulators and medics have been wary about swapping proven drugs for similar, but not identical, alternatives.
- Sterile injectables and biosimilars are high-growth areas, and the addressable market for both products is expected to reach \$90 billion by 2020.



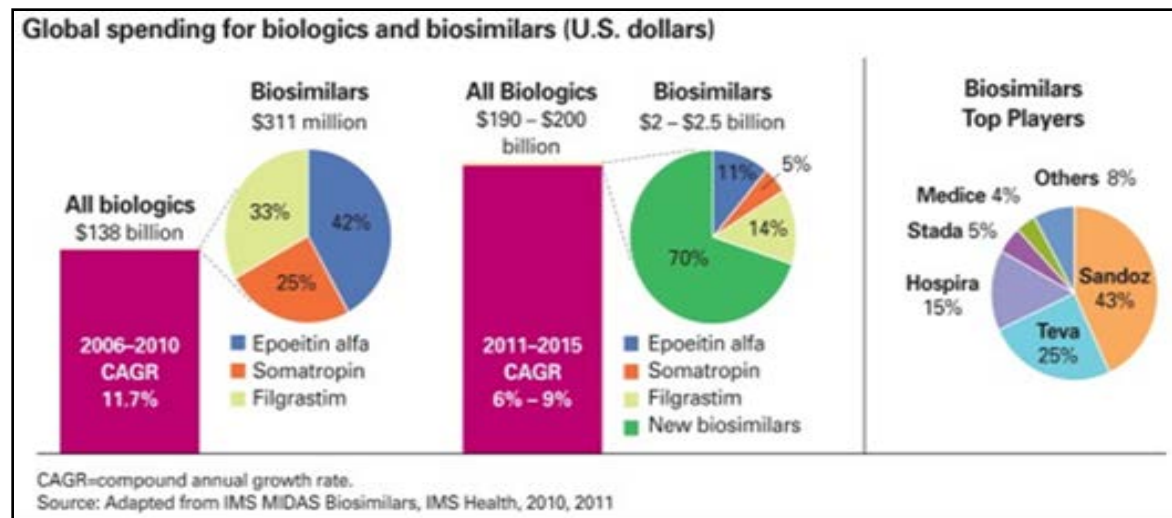
# What are bio-similars and interchangeable biological products?

- Many of today's important medications are biological products. Biological products are made from living organisms. The material they are made from can come from many sources, including humans, animals and microorganisms such as bacteria or yeast. Biological products are manufactured through biotechnology, derived from natural sources or, in some cases, produced synthetically.
- Biological products are among the medications used to treat conditions such as rheumatoid arthritis, anemia, low white blood cell counts, inflammatory bowel disease, skin conditions such as psoriasis and various forms of cancer
- Biosimilars cost 20-30% less than biological drugs.



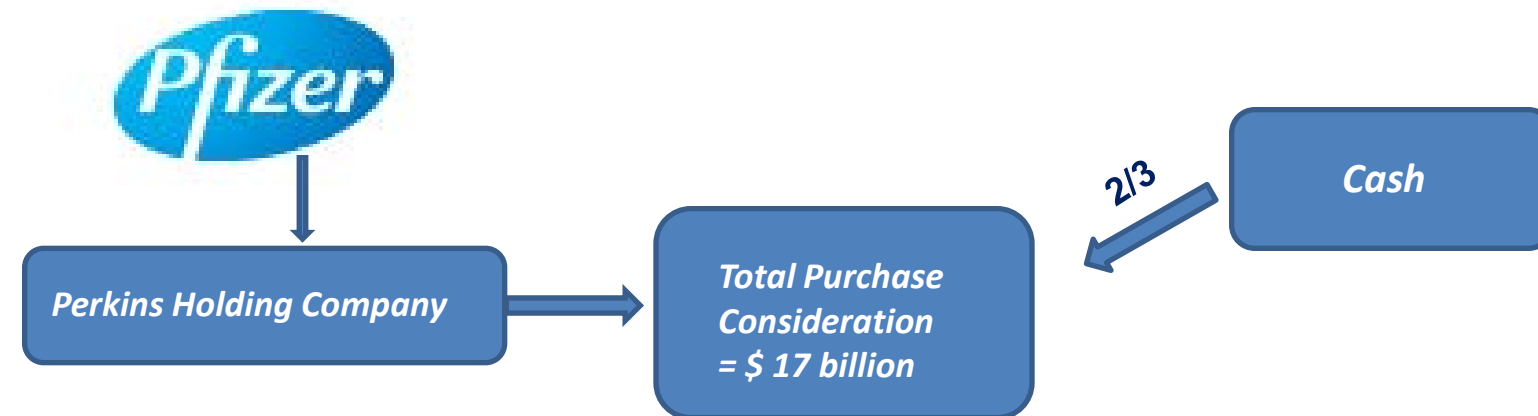
# What are bio-similars and interchangeable biological products? 2

- Most biological products are more complex in structure and have larger molecules or mixtures of molecules than conventional drugs (also called small molecule drugs). Conventional drugs are made of pure chemical substances and their structures can be identified. Most biologics, however, are complex mixtures that are more difficult to identify or characterize.
- There are two new types of biological products- biosimilar and interchangeable. Biosimilars are a type of biological product that are licensed (approved) by FDA because they are highly similar to an already FDA-approved biological product, known as the biological reference product (reference product), and have been shown to have no clinically meaningful differences from the reference product.
- An interchangeable biological product, in addition to meeting the biosimilarity standard, is expected to produce the same clinical result as the reference product in any given patient.
- ***Biological drugs are complex to manufacture and are difficult to replicate. Hence, they are able to maintain monopoly and retain high prices even after patents begin to expire.***

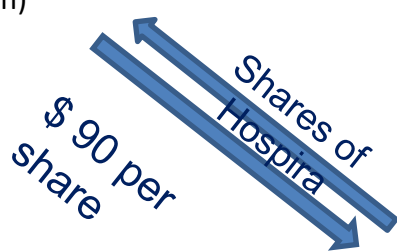


# Proposed Deal Structure

- For the purpose of executing the transaction, Perkins Holding Company, a 100% subsidiary of Pfizer has been created. The proposed deal structure is as below:



(A wholly owned subsidiary of Pfizer, incorporated on 2<sup>nd</sup> Feb 2015 for the purpose of entering in the merger agreement and completing the transaction)



- Post the completion of the transaction, Perkins Holding company would merge with Hospira, with Hospira continuing as the surviving corporation and a wholly owned subsidiary of Pfizer



Source: [www.sec.gov](http://www.sec.gov)





# Rationale for the Acquisition

- Pfizer's acquisition of Hospira aligns with Pfizer's strategic priorities and is expected to significantly enhance key growth areas of its GEP business

## Pfizer's Strategic Priorities

- Create meaningful shareholder value
- Near-term revenue earnings growth
- Strengthen individual capabilities and key assets
- Enhance leadership position in innovative products

## GEP business- Key focus areas

- Sterile Injectable
- Biosimilars
- Optimization of Emerging Markets
- Peri-LOE (Loss of Exclusivity) Products



Source: [www.pfizer.com](http://www.pfizer.com)



- **Growth in GEP revenue:** Pfizer's acquisition of Hospira is likely to add a growing revenue stream and a platform for growth for Pfizer's GEP business. The expanded portfolio of sterile injectable pharmaceuticals, composed of Hospira's broad generic sterile injectables product line, with a number of differentiated presentations, as well as its biosimilars portfolio is likely to create a leading global sterile injectables business.
- **Addition of biosimilars to portfolio :**The combination also reinforces GEP's growth strategy to build a broad portfolio of biosimilars in Pfizer's therapeutic areas of strength through the addition of Hospira's portfolio that includes several marketed biosimilars.
- **Economies of scale :** Pfizer will be able to use its existing commercial capabilities, global scale, scientific expertise and world class development capabilities to significantly expand the reach of Hospira's products, which are currently distributed primarily in the United States, to Europe and key emerging markets, where GEP has a significant presence.
- **Spin-off of GEP business:** Pfizer's acquisition of Hospira is also seen as an important step towards the break-up of Pfizer- by spin-off of the Global Established Products (GEP) segment as a separate company
- **Benefit to shareholders :** The GEP unit could offer shareholders more value on its own as a cash-generating company that pays a strong dividend. The remaining company could then focus on buying and developing drugs with growth potential.



## Management Speak



“The proposed acquisition of Hospira demonstrates our commitment to prudently deploy capital to create shareholder value and deliver incremental revenue and EPS growth in the near-term. In addition, Hospira’s business aligns well with our new commercial structure and is an excellent strategic fit for our Global Established Pharmaceutical business, which will benefit from a significantly enhanced product portfolio in growing markets. Coupled with Pfizer’s global reach, Hospira is expected to drive greater sustainability for our Global Established Pharmaceutical business over the long term.”

**- Ian Read (Chairman & CEO, Pfizer)**



“The addition of Hospira has the potential to fundamentally improve the growth trajectory of the Global Established Pharmaceutical business, vault it into a leadership position in the large and growing off-patent sterile injectables marketplace by combining the specialized talent and capabilities of both companies, including enhanced manufacturing, and advance its goal to be among the world’s most preeminent biosimilars providers”

**- John Young (Group President, Pfizer GEP Business)**



“The Pfizer-Hospira combination is an excellent strategic fit, presenting a unique opportunity to leverage the complementary strengths of our robust portfolios and rich pipelines”

**- F. Michael Ball (CEO, Hospira)**



# Financial and Other Implications

## Purchase consideration

- Pfizer is to acquire the shares of Hospira at \$ 90 per share, which will be funded through a combination of cash and debt
- The purchase price represents 39% premium over the closing price of Hospira as on 4<sup>th</sup> February, 2015

## Synergy Benefits

- The transaction is expected to deliver \$800m in annual cost savings by 2018.
- More than 50% of the savings are expected from SI&A expenses, remainder from COGS and R&D

## Immediate Accretion to EPS

- The transaction is expected to be immediately accretive to EPS upon closing by \$ 0.10 to \$0.12. The addition of Hospira is likely to enhance Pfizer's GEP business growth profile and cash flow generation with an immediate incremental revenue source

## Leader in SI segment

- Together with Hospira, Pfizer is expected to be a leader in global sterile injectables segment, which is projected to grow from \$38 billion in 2013 to \$70 billion in 2020, at a CAGR of 10%

Source: [www.pfizer.com](http://www.pfizer.com)

# Share Price Movement of Pfizer Inc. in last 1 year

## PFE : (US NYSE)



Prices in USD

Source: Reuters



# Share Price Movement of Hospira Inc. in last 1 year

## HSP : (US NYSE)



Prices in USD

Source: Reuters



## Glossary of Terms

<b>Terms</b>	<b>Definition</b>
Deal /Transaction	Acquisition of 100% shares of Hospira Inc. by Pfizer by way of scheme of merger
NYSE	New York Stock Exchange
US FDA	US Food and Drug Administration
LOE	Abbreviated Loss of Exclusivity Right
Peri- LOE products	Drugs that are to lose exclusivity in near future
Abbott	Abbott Laboratories Limited
EPS	Earnings per share
SI&A	Selling, Informational and administrative expenses
COGS	Cost of Goods Sold
R&D	Research and Development
CAGR	Compounded Annual Growth Rate



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## **Disclaimer**

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