BUSINESS

Copycat consolidation

As more blockbuster drugs come off patent, generic drugmakers face a changing landscape.

Meredith Wadman looks at their strategies for survival.

One year ago, Mylan Laboratories was the world's ninth-largest generic drugmaker, a thoroughly American company with American clientele and American operations.

Today, on the heels of two major acquisitions, the Pennsylvania-based company has vaulted into the ranks of the top three global generics players. In January, Mylan bought a controlling interest in Matrix Laboratories, an Indian company that makes a huge range of the active ingredients in generic drugs. Then in May it agreed to spend a cool US\$6.7 billion to buy the generics division of Germany's Merck KGaA, which sells copycat pills in more than 90 countries. Once the deal closes on 1 October, Mylan will become the world's third-largest generics maker by sales, after Teva Pharmaceutical Industries in Israel, and Sandoz, the generic unit of Swiss brand-name drugmaker Novartis.

In the process, Mylan will have built for itself "one of the most global platforms there is," says Tommy Erdei, executive director of the global health-care group at UBS Investment Bank in London. "This is the kind of structure that the generic pharmaceutical industry is going towards."

Indeed, seven major mergers in the past two years alone have marked a wave of consolidation in the generics industry — companies that make and sell cheaper copies of off-patent pills. That wave is reshaping the industry as a highly competitive battleground with scores of Davids, a handful of emerging Goliaths and numerous mid-sized companies caught in between.

Going global

Last year, Teva's acquisition of Ivax in Florida created an uncontested global leader that now controls 20% of the US generics business. Last October, Barr Pharmaceuticals in New York shelled out \$2.5 billion for the Croatian generics maker Pliva in Zagreb, giving it instant access to sales outlets in 30 countries — and to Pliva's low-cost manufacturing facilities in Croatia and Poland. Meanwhile, Actavis,

Mylan Laboratories is about to become the third-largest generic-drug company.

which a decade ago was an obscure Icelandic company, has acquired more than 25 companies in seven years, in the process extending, amoeba-like, into 40 countries — and becoming the sixth-place global player last year.

Even before the acquisitions by Barr and Mylan, the wave of consolidation had had a palpable effect in the United States. Last December, the top four generics companies controlled 56% of the market, compared with 35% ten years ago, according to the industry information firm IMS Health in Connecticut. And it's a bigger pie they're controlling: a groundswell of patent expirations has pushed up the generic share of prescriptions in the United States from 47% to 63% since 2000.

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Driving the consolidation is the major players' desire to have a global presence in an industry in which the competition has become brutal. In the United States, it's not uncommon for 15–20 companies to start marketing generic versions of a drug once patent protection has expired. Many of them are small players, scrabbling for tiny slices of a market dominated by Teva and other giants. But because they're small, they're often willing to slash prices to recoup their investment, driving prices down much further and faster than the major players would do if left to their own devices.

"To compensate for all the price erosions and to keep growing, it's not sufficient to launch [a new product] in two or three countries," Robert Wessman, the chief executive of Actavis,

told a conference of the Generic Pharmaceuticals Association in Washington DC this month. "It's obvious that you have to launch it into all the key markets in the world." And since some of those markets — in countries such as Italy, Spain and France — aren't yet as well penetrated as the United States, the impetus to get bigger and more global makes mergers an obvious strategy.

Still, some, including Wessman, say that the merger mania is driving companies to overpay for acquisitions: he fingers both the Mylan–Merck and Barr–Pliva price tags as too high — but then, he was outbid by Barr in the chase

for Pliva. Bruce Downey, Barr's chief executive, says he has no regrets. "We got great value because of all the assets we acquired in the acquisition," he says. "I would do it again."

A fast-moving industry

Not to be left behind, some Indian companies are turning the tables and acquiring US makers of generic drugs. "Indian players are really building up a presence in the United States," says Doug Long, vice-president of industry relations at IMS Health. For instance, Mumbai-based Wockhardt, already the largest Indian player in Europe, was last week reported to be bidding for one of the companies bidding for New Jersey-based Par Pharmaceutical. Others are going global: consider, for example, the Indian firm Ranbaxy Laboratories, which acquired generics companies in Italy, Romania and Belgium all in one week early last year.

So will the natural selection of the business world leave only a few generic giants standing in 10 or 15 years time? "That's what a lot of people believe," says Long.

Erdei reckons that small players in highly targeted niche markets such as oncology and dermatology will survive. "The middle is the group we're most worried about," he says, because they're too big to make a niche strategy work for them but too small to compete with the likes of Teva and Mylan. These middle companies need to think about how to transform themselves into Goliaths, he says: "Because if they don't do it proactively, someone else will do it for them."