The merger of ranbaxy and daiichi

Business, Industries

A REPORT ON Ranbaxy-Daiichi Deal 1/26/2012 Ranbaxy-Daiichi Deal Introduction: Daiichi Sankyo bought Ranbaxy for $4. 6 billion in June 2008. This report studies the implications of the merger between Ranbaxy and Daiichi Sankyo, from an intellectual property as well as a market point of view. There are many critical events happening in international pharma market including the growing preference for generics, increasing dominance of emerging markets such as India, fast approaching patent expiry etc. Also, this deal involves 2 major players who are the largest among their respective markets.

Background: Daiichi Sankyo Co. Ltd. acquired 34. 8% of Ranbaxy Laboratories Ltd. from its promoters and increased its stake through preferential allotment, public offer and preferential issue of warrants to acquire a majority in Ranbaxy, i. e. at least 50. 1%. After the acquisition, Ranbaxy operates as Daiichi Sankyo’s subsidiary but supposed to manage independently under theleadershipof its current CEO & Managing Director Malvinder Singh. Mr. Singh left the company in 2009 with a 4. 5 billion rupees severance package. Why:

Daiichi Sankyo wanted to acquire a drug maker that specialized in generics after Japan eased its laws allowing sales of these cheaper versions of expensive drugs. The deal was a trendsetter in Indian market for future M&A deals. India'sfamily-owned companies realized that it was not shameful to sell and profit from their businesses. Benefits Expected: Operational: The main benefit for Daiichi Sankyo from the merger was Ranbaxy’s low-cost manufacturing infrastructure and supply chain strengths. Ranbaxy gained access to Daiichi Sankyo’s research and development expertise to advance its branded drugs business.

Expansion: Daiichi Sankyo’s strength in proprietary medicine complements Ranbaxy’s leadership in the generics segment and both companies acquire a broader product base, therapeutic focus areas and well distributed risks. Ranbaxy gains smoother access to and a strong foothold in the Japanese drug market. Financial: The immediate benefit for Ranbaxy was that the deal freed up its debt. Also, Ranbaxy’s addition elevated Daiichi Sankyo’s position from #22 to #15 by market capitalization in the global pharmaceutical market. Synergies: . A complementary business combination that provides sustainable growth by diversification that ps the full spectrum of the pharmaceutica l business. 2. An expanded global reach that enables leading market positions in both mature and emerging markets with proprietary and non-proprietary products. 3. Strong growth potential by effectively managing opportunities across the full pharmaceutical life-cycle. 4. Cost competitiveness by optimizing usage of R and manufacturing facilities of both companies, especially in India. " 5.

Respective presence of Daiichi Sankyo and Ranbaxy in the developed and emerging markets 6. Ranbaxy’s strengths in the 21 emerging generic drug markets allow Daiichi Sankyo to tap the potential of the generics business. 7. Ranbaxy’s branded drug development initiatives for the developed markets significantly boosted through this relationship. 8. Daiichi Sankyo able to reduce its reliance on only branded drugs and margin risks in mature markets and benefit from Ranbaxy’s strengths in generics to introduce generic versions of patent expired drugs, particularly in the Japanese market. Post-acquisition objectives: Daiichi Sankyo’s focus was to develop new drugs to fill the gaps and take advantage of Ranbaxy’s strong areas ? To overcome its current challenges in cost structure and supply chain ? To establish a management framework that would expedite synergies ? To reduce its exposure to branded drugs in a way that it can cover the impact of margin pressures on the business, especially in Japan ? In a global pharmaceutical industry making a shift towards generics and emerging market opportunities, Daiichi Sankyo’s acquisition of Ranbaxy signalled a move on the lines of its global counterparts Novartis and local competitors Astellas Pharma.

Post acquisition challenges: Post acquisition challenges included managing the different working and business cultures of the two organizations, undertaking minimal and essential integration and retaining the management independence of Ranbaxy without hampering synergies. Ranbaxy and Daiichi Sankyo also needed to consolidate their intellectual capital and acquire an edge over their foreign counterparts. What went wrong? A lack of proper due diligence In its eagerness to tap the expertise of a generic drug maker, Daiichi took the risk of buying Ranbaxy for top dollar.

Three weeks later, the USFoodand Drug Administration banned imports of 30 of Ranbaxy's generic drugs, and later determined that the company was selling adulterated or misbranded medicine. It blacklisted two of the company's manufacturing units, limiting the company's ability to sell drugs made in those facilities. Ranbaxy then reported currency-exchange losses of nine billion rupees in 2008. This made Ranbaxy post losses in the same year.

Ranbaxy Laboratories Cash Flow ------------------- in Rs. Cr. ------------------Dec '10 Dec '09 Dec '08 Dec '07 Dec '06 12 mths 12 mths 12 mths 12 mths 12 mths

Net Profit Before Tax Net Cash From Operating Activities Net Cash (used in)/from Investing Activities Net Cash (used in)/from Financing Activities Net (decrease)/increase In Cash and Cash Equivalents Opening Cash & Cash Equivalents Closing Cash & Cash Equivalents 1565. 25 1168. 89 -2067. 8 991. 48 92. 57 69. 26 161. 83 1061. 92 -1619. 08 -665. 43 -599. 22 86. 12 -462. 91 -214. 14 2817. 2 -793. 46 1755. 07 862. 39 172. 14 68. 93 1927. 21 774. 41 442. 98 685. 77 315. 49 -708. 18 -2103. 74 132. 19 1739. 65 109. 78 -48. 6 62. 36 110. 96 172. 14 62. 36

What worked? Mr. Singh timed the sale of his family silver perfectly - he got a huge premium for the stake before U. S. regulatory concerns came to light. Daiichi, after the initial stumbles, seems to now be heading in the right direction and in the past year has integrated Ranbaxy's R&D unit in an effort to gain synergies. Daiichi also launched a generic version of Pfizer Inc. 's cholesterol drug, Lipitor in US recently. The verdict: Fail This is a classic example of an acquirer paying top price without looking too closely at the quality of the goods.

Daiichi continues to pay for the huge risk it took in the deal. U. S. regulatory problems have slowed down the integration of Daiichi and Ranbaxy a lot more than expected. We can see that Daiichi is having similar level of operating expenses and yet to achieve anything special from Ranbaxy. US FDA said that, Ranbaxy had 'numerous problems' at its facilities in US and India. The US DOJ has also filed the consent decree against Ranbaxy in the

US district court of Maryland on 26th January 2012, which would further put pressure on the margins. " Daiichi is yet to realize anything concrete from this deal. "