

**INNSight article by Peter Wittner, April 2012**

**Peter Wittner** has been in the pharmaceutical industry for 30 years of which the second half has been mainly in the areas of generics. He has worked for the former Evans Medical and then Norton Pharmaceuticals (now part of IVAX) where he was responsible for European Sales & Marketing. After leaving Norton Peter set up his own consultancy in 1993 and operated independently until 1996 when he joined the Indian company Ranbaxy to set up the infrastructure of their new UK subsidiary and spent two years with them. For the last 7 years he has been back doing consultancy and specialising in the field of generics.



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## **Watson-Actavis – birth of a new generic supergiant?**

Those who are still angry at the banks for their role in precipitating the current world financial crisis will probably not be happy at the thought of the banks making hundreds of millions of dollars by financing a possible deal for Watson to acquire Actavis. Reuters reported a few days ago *"Banks are lining up to back Watson Pharmaceuticals' roughly \$6 billion takeover of Swiss drug maker Actavis, keen to participate in one of the largest M&A financing transactions of the year, sources said. ....Bank of America Merrill Lynch is said to be the frontrunner to lead the financing package, though the company is currently being courted by a number of large money-center banks and foreign banks that wish to participate in the financing."*

It is hardly surprising that the banks are salivating at the prospect of the deal – the amounts of money likely to change hands is probably in the region of US\$6-7bn. Now you and I can probably think of lots of other things that we could do if we had \$6bn dollars lying around, but if Watson do go ahead with spending it on buying Actavis, it should turn them into a generic supergiant able to play in the Teva / Sandoz /Mylan league.

Consolidation in the generic industry is nothing new. It has been going on for years since Teva first hit on the idea of growth through acquisition and others followed in their footsteps. There is little reason to think that the Watson-Actavis deal, if it goes through, will be the last of the mega-mergers. The question that I am pondering, though, is – where is it all leading?

Does the future possibly lie in a cluster of global supergiants, swallowing all that lies in their path with the weak falling by the wayside in a demonstration of the Darwinian nature of the industry? This is perhaps an extension of the thoughts that I expressed in my previous article about the tender-issuing bodies possibly aiding the giants in driving the small competitors out of business by leaving them with no market to sell into once the tenders have been awarded to the cheapest bidder.

Actually, I tend to think that this will not happen for a variety of reasons. One is that even the biggest company will not be able, or even want, to do everything by themselves thereby leaving niches that smaller companies can exploit. The mice can live quite comfortably on the crumbs that drop from the rich man's table if they can specialise in eating crumbs.

Another reason is that some countries have become very protectionist, in part to safeguard the local industry and to specifically prevent domination by foreign generic multinationals. Look for example at South Africa's recent announcement as reported in the country's Business Day:

*"SA's biggest drug manufacturer, Aspen Pharmacare, on Friday welcomed the announcement by Trade and Industry Minister Rob Davies that the pharmaceuticals sector had been designated as one in which the government would purchase selected products exclusively from domestic manufacturers.*

*The government expects the development to boost South African drug makers and multinationals those have invested in local manufacturing capacity. The move, however, will hurt importers of finished goods."*

Even though some health authorities are price driven, or perhaps price obsessed, there are still markets where generics are not just a commodity, such as branded generic markets, and where small- and medium-sized generic companies can still make a living. Personally, I think that ultimately all generic markets will become unbranded, but the timescale for it to happen will vary from country to country and in the meantime, the smaller companies will still be able to make a profit.

Nevertheless, life is going to become tougher for the smaller companies that think they can survive by pursuing the "pile it high and sell it cheap" philosophy in commodity markets, but the big boys club (of which Watson seems determined to become one of the members) will continue to thrive. A policy of growth by acquisition and diversification into biologicals plus some original R&D will allow them to morph into hybrids with a foot in both the generic and Big Pharma camps.

In an astronomical footnote, Wikipedia writes about stars that become super giants "*Because of their extreme masses they have short lifespans of 30 million years down to a few hundred thousand years*". I imagine that Watson would be very happy with their deal if it meant that they could continue to stay in business for even as short a time as a few hundred thousand years,

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