



# Deal Logic Shire / Takeda

WHU Finance Society

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**After a long bidding phase, the Japanese pharma company Takeda is going to take over the Ireland-based manufacturer and wholesaler of pharmaceutical products Shire PLC. In the fifth attempt, Takeda offered USD 62bn. The acquisition will create a leading provider of drugs for the treatment of rare diseases, cancer, blood clotting disorders, neurological disorders, or gastroenterology. With Shire, Takeda would double the size of their pharmaceutical business to about USD 30bn, making it one of the top ten pharma companies worldwide. The takeover is the second biggest the pharmaceutical industry has seen so far and the largest overseas acquisition by a Japanese company.**

## I. Shire and Takeda

At the end of March, the largest Japanese pharmaceutical company Takeda had declared its interest in Shire. The price for the acquisition was set at USD 59bn, making it one of the most indebted acquisitions. In fact, the purchase, financed by a share issue and debt, is inflating Takeda's debts by USD 30bn. Of the USD 59bn, the company is expected to raise about USD 32bn in new Takeda shares and USD 31bn in bank loans.\*

The acquisition, which is expected to close in January, will add Shire's lucrative rare diseases portfolio to Takeda's pipeline, which lacked big late-development experimental drugs. It will also increase its exposure in the US, the world's largest pharmaceutical market which will account for roughly half of its revenue after integrating Shire.

This deal confirms the general merger trend in the pharmaceutical industry. The background to this is the fact that many large pharmaceutical companies are still struggling with a certain growth slowdown and aim to supplement their product segments. Takeda has also been active in M&A in recent years, but also focused on small and medium-sized acquisitions.

## II. Antitrust

Takeda had already received the green light for the takeover in its home market Japan. Also in the US, Brazil, and China, the group had the necessary clearances for the deal. A biological product developed by Shire for the treatment of inflammatory bowel disease had to be sold to another provider. Upon fulfilling this requirement, the acquisition in Europe will be approved.

## III. Prices and Offers

From March to May 2018, Shire had rejected four previous offers, due to price concerns and the fact that the Japanese company is proposing to pay for much of the acquisition in stock. The most recent bid is again roughly 4% above the previous offer and more than 11% over the first offer from the end of March. Completion of the acquisition is expected in the first half of 2019. The agreement with Shire succeeded almost at the last minute. On December 5<sup>th</sup>, eight months after Takeda said it was interested in buying Shire, shareholders approved the acquisition.

## IV. Synergies and Savings

The acquisition is expected to generate annual savings of at least USD 1.4bn three years after completion of the transaction. The takeover should already have a positive impact on earnings from the first year onwards. The number of employees - together Takeda and Shire count 52,000 - is to be reduced by up to 7%. The companies have a number of commercial, research, and manufacturing overlaps, particularly in the US where both have a large presence in Boston.

## V. Impact on Credit Rating

In December 2018, Moody's cut Takeda's credit rating three notches to Baa2 from A2. Moody's, as well as other ratings agencies, had put Takeda on watch for possible cuts since the agreement to acquire Shire was announced in May. Moody's mentioned the reason for the downgrade being the almost six-fold debt increase, making the company one of the most leveraged pharmaceutical companies. Takeda's gross debt/EBITDA ratio is expected to jump to over 5x, well above the 2-3x range that is typical of global pharmaceutical peers rated A to Baa.

\*Exchange Rate GBP/USD: 1,2738

All values in USDm, except Price, Initial (USD) & Price, Paid (USD)

## Summary

Target	Shire PLC
Acquirer	Takeda Pharmaceutical Co Ltd
Date, Announ.	28.03.2018
Date, Effective	Pending
Deal Attitude	Friendly
Consideration	Stock Swap Scheme of Arrangement, Unsolicited Deal
%Held/%Sought	0.00 / 100.00
Deal Value	60,116.6
Price, Initial	63.62
Price, Paid	63.62
Total Fees	101.76
Premium*, 1d	57.0
Premium*, 1w	56.9
Premium*, 4w	56.8

\*Pre-bid (%)

Sources: Thomson Reuters Eikon

## Synopsis

- Takeda Pharmaceutical Co Ltd (Takeda) agreed to buy the entire share capital of Shire PLC (Shire) for an amended USD 60.117bn, in a stock swap transaction, via a scheme of arrangement
- Takeda offered a choice of USD 30.33 in cash and 1.678 in newly issued Takeda's American Depositary Share per Shire ordinary share or USD 30.33 in cash and 0.839 in Takeda new ordinary shares per Shire ordinary share
- The deal is the biggest overseas acquisition by a Japanese company
- Major global antitrust authorities have already approved the deal

## LTM Transaction Multiples

	Target	Acquirer	Industry†
<b>EV/Sales</b>	4.2x	2.8x	3.8x
<b>EV/EBITDA</b>	10.0x	7.5x	4.1x
<b>EV/EBIT</b>	10.8x	n/a	n/a
<b>P/B</b>	1.4x	1.4x	2.8x
<b>P/E</b>	11.2x	19.6x	-1.8x

†Of Target, Pharmaceutical Preparations: 2834

## Rationale

- The purpose of the transaction is for Takeda to create a global, values-based, R&D-driven biopharmaceutical leader headquartered in Japan, with an attractive geographic footprint
- Takeda will be joining the ranks of the world's top 10 drug makers and gaining expertise in rare diseases through the deal
- The acquisition will provide Takeda the scale to drive future development, to take leading positions in rare diseases and plasma-derived therapies to complement strength in oncology and focused efforts in vaccines, to create a highly complementary, robust, modality-diverse pipeline and a strengthened R&D engine focused on breakthrough innovation

## Financial Advisors

Target	Fees	Acquirer	Fees
Citi	21.0	Evercore Partners	12.9
Goldman Sachs & Co	21.0	JP Morgan	12.9
Morgan Stanley	21.0	Nomura International	12.9

All values in USDbn, except EPS

## Recent News\*

- **2018/09** Shire acquires sanaplasma AG boosting Plasma Collection Network for Immunology franchise
- **2018/06** Shire receives US FDA approval for new state-of-the-art plasma manufacturing facility near Covington, Georgia to support growing Immunology franchise
- **2018/04** Shire announces sale of Oncology business to Servier S.A.S. for USD 2.4bn
- **2018/03** Thomas Dittrich assumes his role as Chief Financial Officer, and becomes an Executive member of the Board of Directors and a member of the Executive Committee
- **2018/02** Shire, Microsoft and EURORDIS form global commission to accelerate time to diagnosis for children with rare diseases

\*Prior to Deal  
Sources: Thomson Reuters Eikon, [Shire PLC Investor Relations](#)

## Company Description

- Shire PLC is a globally operating biotechnology company focused on serving people with rare diseases
- The company was founded in 1986 and is headquartered in Saint Helier, Jersey
- At the end of 2017, Shire PLC employed approximately 23,000 people in 70 countries
- Operations are divided into the segments Immunology, Hematology, Neuroscience, Internal Medicine, Genetic Diseases, Oncology and Ophthalmics

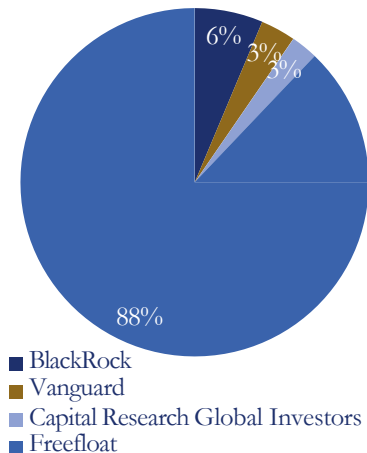
## Key Management & Ownership Structure



Flemming Ornskov  
CEO  
Since 2013



Thomas Dittrich  
CFO  
Since 2018

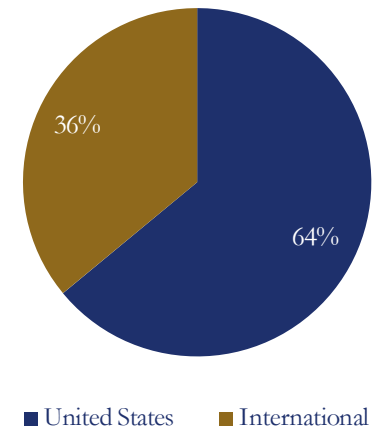
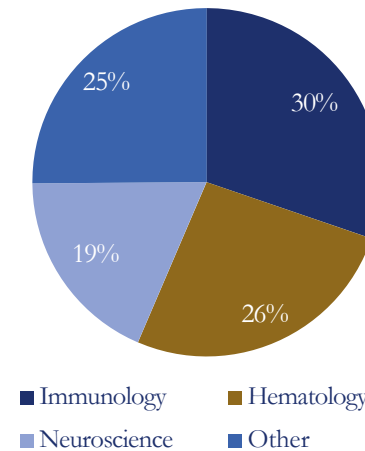


## Key Financials

	2016A	2017A	2018E	2019F	2020F
Sales	11.4	15.2	15.6	15.7	16.2
% growth	77.6	33.0	2.6	0.9	3.0
EBITDA	4.7	6.5	6.5	6.8	7.2
% margin	41.3	42.8	42.0	43.6	44.5
Net Inc.	3.3	4.6	4.7	4.9	5.3
% margin	28.9	30.4	30.1	30.9	32.5
EPS	4.24	5.05	5.05	5.32	5.80

## Sales Split

FY2017



All values in USDbn, except EPS

## Recent News\*

- **2018/12** Takeda shareholders approve resolutions in connection with planned takeover of Shire PLC
- **2018/12** Takeda announces listing of American depository shares on the New York Stock Exchange
- **2018/12** GARDP, Eisai and Takeda announce partnership in the search for new antibiotics
- **2018/11** Takeda receives clearance from the European Commission for the proposed acquisition of Shire PLC
- **2018/09** Takeda selected by the Dow Jones Sustainability Asia Pacific Index for the 9th consecutive year
- **2018/07** Takeda completes its acquisition of TiGenix
- **2018/07** Takeda global headquarters grand opening

\*Prior to Deal

Sources: Thomson Reuters Eikon, [Takeda Pharmaceutical Company Limited Investor Relations](#)

## Company Description

- Takeda Pharmaceutical Company Limited is a globally operating pharmaceutical company with a focus on prescription drugs
- The company was founded in 1781 and is headquartered in Tokyo, Japan
- The firm's global R&D Operations are headquartered in Lincolnshire, USA
- Takeda has a global presence in over 70 countries and regions across Japan, the United States, Europe, Latin America, Russia- CIS, the Middle East, and Asia Pacific
- The company currently employs around 30,000 people globally

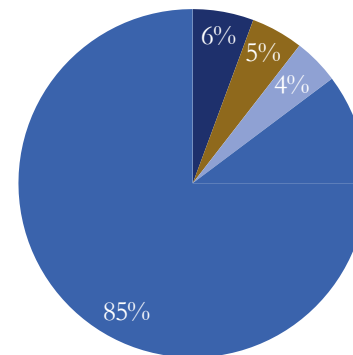
## Key Management & Ownership Structure



Christophe Weber  
CEO  
Since 2015



Costa Saroukos  
CFO  
Since 2018



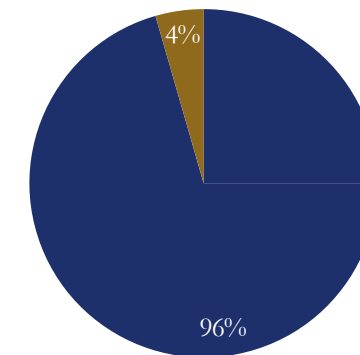
■ Nippon Life  
■ Sumitomo Mitsui Bank  
■ Vanguard

## Key Financials

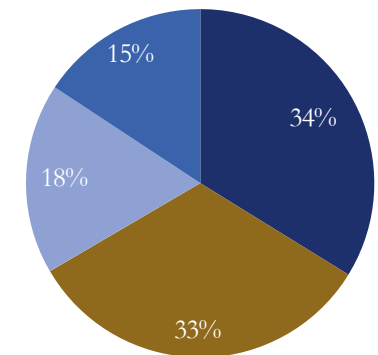
	2016A	2017A	2018E	2019F	2020F
Sales	15.0	16.0	16.0	15.9	31.5
% growth	(6.9)	6.2	0.0	(0.2)	97.5
EBITDA	2.7	3.5	3.9	4.4	7.9
% margin	18.2	21.9	24.7	27.8	25.1
Net Inc.	0.7	1.1	1.7	1.5	0.4
% margin	4.4	6.6	10.6	9.4	1.4
EPS	0.85	1.36	2.16	1.68	0.12

## Sales Split

FY2017



■ Prescription Drug  
■ Consumer Healthcare and Other



■ United States  
■ Japan  
■ Europe & Canada  
■ Emerging Markets

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