

# US Market Key Growth Driver for Claris

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Recent deals in the space include Pfizer's \$17-billion takeover of Hospira last week. The scramble for companies making injectables is driven by supply constraints, say industry experts.

Domestic players such as Zydus Cadila, Lupin and Cipla, along with multinationals like Amneal Pharmaceuticals, one of the fastest-growing generic pharma companies in the world, and Pfizer have submitted first round bids to buy out the business from the promoters, the Handa family, said multiple sources involved. Barclays and Jefferies are the two investment banks overseeing the sale. Sun Pharma, Dr Reddy's and Novartis (Sandoz) too have been sounded out, according to one of the sources.

Since October 31, Carlsbad-backed Claris Biosciences (CBL) has transferred its specialty injectables business to a wholly owned subsidiary called Claris Injectables Limited (CIL). The listed parent CIL is now a holding company with three business segments — it owns 100% of CIL, has a

20% minority stake in its three-year-old joint venture with Japan's Otsuka and Mitsui for the Infusions business for India and other emerging markets, and carries out cash management functions for the funds in the holding company.

Claris Injectables — among the larger players in the country — manufactures and markets products across multiple delivery systems, markets and therapeutic segments including anaesthesia, blood products, anti-infectives, parenteral, plasma volume expanders and renal care. The business has three facilities in Ahmedabad, all of which have regulated market approvals.

For the 9 months ending September 30, 2014, this business reported revenues of ₹285.4 crore and EBITDA of ₹102 crore (36% EBITDA margin). Assuming annualised EBITDA of ₹155 crore, the promoters are expecting a valuation of Rs 2,500-3,000 crore or an estimated 16-20 times EBITDA multiple. To put this in perspective, this is close to double the current market cap of Rs 1,350 crore for the listed parent.

The US market has been the key growth driver this year for the business and the company has filed 36 ANDAs, of which 13 have been approved and 23 are being processed.

The total addressable market size of these filings is estimated to be close to \$2 billion, of which the market size for approved ANDAs is \$200 million.

The company is reportedly betting big on a Para IV filing on Propofol injection wherein the innovator Fresenius Kabi has filed a suit against it in December 2014 seeking to prevent the company from commercialising its ANDA prior to expiration of its patent on December 1, 2024.

The Claris spokesperson said the company does not comment on market speculation. "Cipla does not comment on any product or partner discussions. As a pharmaceutical company we are constantly in discussions with multiple parties on potential collaboration opportunities — in line with our aspiration to drive access and ensure availability of high-quality, affordable medicines," a spokesperson told ET.

The Pfizer spokesperson also declined comment on market specula-

tion. Mails sent to Lupin and Amneal did not elicit a response till the time of going to press. The Zydus spokesperson, however, denied the development.

Analysts feel Claris' focus on the critical illness therapeutic segment and its wide delivery capabilities make it an attractive asset. Moreover, there are very few injectable businesses left in India that are independently owned after Mylan acquired Agila from Strides ArcoLab for \$1.6 billion in 2013.

"Mylan's takeover of Agila was reportedly valued at 24 times EBITDA and 8 times revenues. Considering paucity of assets available, strategic buyers are willing to pay sizeable premium for regulated market approved injectable assets and multiples are far more than the traditional 12-14 times EBITDA multiples for regulated market solid dosages assets," said an official involved in the ongoing negotiations.

The recent Pfizer-Hospira deal, as per industry sources, was at 20 times EBITDA and 4 times revenue. Pfizer also paid a 38% premium to the prevailing market price, which is a significant premium by global standards.

## GLOBAL SHAREHOLDERS

The total global injectable market is estimated at around \$144 billion with a lion's share being with innovators. The generic injectable sector is estimated at around \$16.5 billion as per various industry estimates and is a very attractive piece going forward.

Hospira — before the Pfizer buyout — was the clear global leader in the generic injectable space. Big pharma giants Fresenius Kabi, Baxter, Sandoz, Pfizer and Mylan are the other leaders in the generic injectable space. From India, Sun Pharma & Dr Reddy's are the other two players, which figure prominently among the powerhouses for this segment with peers like Lupin and Zydus also trying to make a mark by expanding their injectable presence.

Interestingly after the sale, Claris is expected to be a holding company with cash from the sale of the business and a 20% stake in Claris Otsuka Private Limited. The exit from this business would generate sufficient cash to allow the company to undertake a buyback of its stock and potentially pay special dividend, which can facilitate an exit for Carlyle.

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