

DEAL PROFILE

BAYER ANIMAL HEALTH | ELANCO

VALUES

\$7.6b

19.4x

4.5x

TRANSACTION VALUE

LTM EBITDA MULTIPLE

LTM REVENUE MULTIPLE

**BAYER AKTIENGESELLSCHAFT (DB: BAYN)**

Bayer Aktiengesellschaft ("Bayer") is a life science company that operates in the pharmaceutical, consumer health, crop science, and animal health segments. The company was founded in 1863 and is headquartered in Leverkusen, Germany.

TEV: \$112.1bn

LTM Revenue: \$50.4bn

LTM EBITDA: \$10.3bn

ELANCO ANIMAL HEALTH INCORPORATED (NYSE: ELAN)

Elanco Animal Health Incorporated ("Elanco") is an animal health company that develops, manufactures, and markets products for companion and livestock animals. The company was founded in 1954 and is headquartered in Greenfield, Indiana.

TEV: \$13.2bn

LTM Revenue: \$3.1bn

LTM EBITDA: \$732.3m

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OVERVIEW

Elanco, the animal health unit spun out of Eli Lilly in 2018, announced its acquisition of Bayer's pet and livestock medications business for \$7.6 billion. The transaction will make Elanco the second-largest company in the animal health category behind Zoetis, the former animal health business of Pfizer.

HIGHLIGHTS

With the leading companies in the category concentrated among big pharma / spin-outs (Zoetis / Pfizer, Boehringer Ingelheim, Merck, Elanco / Eli Lilly – and previously – Bayer), this transaction was a rare opportunity for Elanco to add meaningful scale. The deal also supports Elanco's margin expansion story, with the company now targeting gross margins of 60% (from 59%) and EBITDA margins of 31% (from 28%).

The acquisition will increase Elanco's exposure to China, Japan, and Mexico with almost half of the company's business now coming from the companion animals segment (up from 37%). The combination creates access to new segments of the dairy and flea/tick/worm parasiticides market for Elanco, while also propelling the company into the expanding e-commerce and retail spaces.

Elanco's pipeline will grow with the addition of 8 new development projects and more than 30 lifecycle products. The company will also have improved R&D capabilities in key areas including innovative dosing and delivery technology platforms.

While strategically the deal makes sense for Elanco and is expected to be accretive in 2021 with total expense synergies of \$275-300 million, all of this has come at a cost. Bayer was a motivated seller as the company wrestles with managing its debt burden along with the significant legal liability related to cancer-causing claims of Roundup, but the transaction value of roughly 19x EBITDA is at the high end of street estimates for the business unit (15-20x EBITDA) and Elanco investors will also be impacted by the company issuing additional shares to help pay for the acquisition.