

Aspirin maker Bayer seeks to flex muscles in OTC sector

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As French rival Sanofi seeks to become the world leader in the market for non-prescription or over-the-counter drugs, Bayer, the German inventor of Aspirin, is also on the look-out for acquisitions to hold on to its position in the sector.

"I'm always interested in acquisitions. (...) If we want to continue to stay a leader, we need to be ready to do the strategic acquisitions that fit into our business," the head of Bayer's OTC business, Erica Mann, told journalists on a visit to the group's site in Basel, Switzerland.

"This market is highly fragmented. (It) will continue to consolidate," Mann said.

The global market for self-medication drugs amounted to 112 billion euros (\$122 billion) in 2014, with the top 10 biggest players accounting for only 30 percent of that.

Earlier this week, Sanofi unveiled a deal to swap its animal health business with the prescription-free division of Germany's second-biggest pharmaceuticals group Boehringer Ingelheim in a bid to become the world leader in the sector.

Self-medication products cover a whole range of everyday pills and creams, from skincare and painkillers to cold treatments, vitamins and antacid tablets.

"It's a business that is a lot more stable than prescription drugs, where sales can fall sharply once the patent on a drug has expired" and generic copy-cat medicines can be produced, explained Societe Generale analyst Florent Cespedes.

Sanofi chief Olivier Brandicourt is a former Bayer executive and he is looking to restack the cards in the sector, which has already seen a flurry of deals recently.

British group GSK and Swiss rival Novartis have teamed up to become the industry's number one.

Bayer follows in second place after it spent more than 10 billion euros in 2014 to buy the OTC business of US group Merck & Co.

Bayer's own range of prescription-free products include Aspirin and the antacid Rennie, but also the ointment Bepanthen, and the antihistamine Claritin and suncreams such as Coppertone, which is acquired from Merck & Co.

'Smaller deals'

But following the deal with Merck & Co, the second-biggest acquisition in Bayer's history, the Germany company might need to "slow down a bit" in view of its huge debt mountain of 19.3 billion euros, said Societe Generale's Cespedes.

"They can't make any further major acquisitions, but they could look at smaller deals," he said.

Bayer's OTC chief Mann—who joins the company's overall executive board on January 1—said her goal "is certainly to pay off the debt as soon as we can. It's one of the priorities."

She declined to name any potential takeover targets, but said the division "needs to continue to expand our footprint more aggressively in the Asia-Pacific region," where Bayer is not among the top three in the sector.

Bayer, nevertheless, acquired Chinese group Dihon in 2014 to become the leading company in the sector in China.

"Scale and scope in this industry are very important. You need to be in that top three in all categories" in the OTC market, Mann said.

Cespedes at Societe Generale agreed.

"Size matters a lot in the sector if you want to be able to negotiate the best prices among distributors. You have to have a certain volume of business," the analyst said.

Sanofi's expansion plans would not "change the focus we have for our business. It may change the size of my competitors but not my own strategy," Mann said, adding that Bayer aimed to grow faster than the market, which is expected to expand by 4.0 percent each year until 2018.

In order to achieve its ambitions, Bayer is looking to market the brands it bought from Merck & Co outside the US as well.

The Coppertone range of sunscreen products, for example, had "significant potential" in other markets, she said.

But the Dr Scholl's brand of orthopedic sandals would prove more difficult.

It accounts for around 30 percent of the OTC business acquired from Merck & Co, according to John O'Mullane, head of innovation at Bayer Consumer Care.

But Dr Scholl's sold off its non-US operations in the 1970s and the European [business](#) now belongs to British group Reckitt Benckiser.

Bayer is therefore looking to incorporate Dr Scholl's into one of its own brands or set up a brand new one.

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