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Ep. 3: A Lifetime in Consumer Health with Chris Harley-Martin

Rusty Ray (00:06):

Hi, I'm Rusty Ray with Alantra. I head up the US Healthcare Investment Banking team here in New York, and you are listening to Crossroads, our podcast that focuses on interesting technologies, products, and services in healthcare segment, all with an eye towards M&A.

(00:20):

We're joined here today by Chris Harley-Martin. Chris was the former Head of Business Development at GSK within their consumer division. Chris was at GSK for 30 plus years, he brings a wealth of M&A experience as well as operating experience, and we are lucky to talk to him today a little bit about the evolution of M&A within the consumer health space, how companies think about acquiring, keeping, and divesting brands, when the right time might be, how to keep and maintain the most value, where the M&A priorities lie today, and what the big themes in the market are. In addition, how the role of private equity has shifted within the consumer health space, investment in the space over the last five to 10 years, and what's been driving such a frothy environment of recent activity.

(01:11):

The consumer health space is now being established as an industry, you could say, because of all the spin outs and new platforms, whereas it's one of the older industries, for 100 plus years, but really has operated within the shadows of their larger pharma ownerships. Chris, over to you.

Chris Harley-Martin (01:29):

Well, thanks Rusty, and nice to be here. I started working in this industry in the late 1980s, so I guess I've been around a very long time. Yes, I've had operational roles as well as M&A and BD, but the real strong thread in my career has been M&A for the last 10 years, the head of M&A at GSK consumer now Haleon since July of '22.

(01:52):

I think the prospects for M&A in consumer healthcare are strong. But to give that some color, I think we have to look backwards a little bit to the history. It seems to me that M&A, or more broadly transactions, have always played a significant role in the industry. I've personally experienced huge changes through M&A and transactions from in-licensing technology to supplementing in-house R&D, the whole evolution of open innovation - which was new when I started work - to simple brand divestment, carve out acquisitions, joint ventures.

(02:22):

And in fact, the portfolio of Haleon is deliberately curated from lots of transactions that happened over the previous decade. The industry has some attractive market dynamics. Tailwinds behind consumer healthcare or more accurately, self-care, are strong. It's not surprising that it's been a dynamic environment for M&A.

(02:40):

There's a clear opportunity for market players to drive steady growth, strong margins, especially for products that work, and show some insight into the consumer's needs and behavior. Brands in this industry are very robust. Some of them are hundreds of years old. But the industry's also been very fragmented, which has been the source of many transactions. No company has really stood out over the last few years as having the lion’s share of either products or brands. And so unlike say, cold beverages where there are only a few players and it's a more consolidated picture, there are also very few truly global brands. What you see is hundreds, possibly even thousands of regional and local franchises, many of which have not only not been in the market for a long time, but don't travel particularly well because they reflect local habit and practice in self-care such as Ayurveda or traditional Chinese medicine.

(03:36):

Real opportunities have existed over time for players to pick up unloved local brands that sat in other people's portfolios and leveraged that latent equity. But for a long time, many of the larger companies who owned consumer brands or consumer healthcare brands were focused on other parts of their portfolios. They held on to those assets, in most cases either unable or unwilling to divest, or invest for that matter. Consumer healthcare businesses in those portfolios are well known for delivering regular cash flow, relative stability. They played that role in portfolios, almost as an annuity I suppose. And it took time for those assets to become available as priorities changed.

(04:18):

Many businesses, many of the larger businesses who were in the industry 10 years ago have sold their assets on. Opportunities for M&A occur partly because these assets were likely to be worth more in other people's hands than they were in the owner's. I mean, look, there are other dynamics that have driven M&A in the past.

(04:39):

I think one of the things I noticed about the industry is it has very permeable boundaries. In other words, it's always changing, constantly evolving. And there are some segments of the market like vitamins, minerals, and supplements, let's say, where the barriers to entry are a bit lower. And that has expanded hugely to embrace new, different types of products. There's other drivers as well, like Rx to OTC switches, which brings new products to market.

(05:06):

A great example of those dynamics from my point of view was Sanofi's acquisition of Chattem in 2010. I went back the other day to read the press releases. It was clearly positioned by Sanofi as a consumer platform in the US to help convert some of their prescription products to OTC brands, which they did very well with a number of different products.

(05:27):

Equally in more recent times, we've seen a lot of M&A in vitamins, minerals and supplements where brands are being created regularly by innovators and entrepreneurs and then sold on to larger companies.

This be particularly prevalent in the US in the last few years and even sold on to companies who haven't traditionally played in the consumer healthcare space, companies like Unilever and Nestle.

(05:49):

Look, the history has been a large fragmented market constantly evolving. A market with good tailwinds, where historically some brands were underleveraged and under invested, undervalued by their owners. A market with plenty of incentive to innovate behind changing consumer attitudes to self-care, creating new segments and opportunities. All of that drove a fair amount of M&A.

(06:12):

In the most recent times, sales from larger players of their consumer healthcare brands and businesses has driven some of the bigger transactions. For example, Boehringer and Novartis both exiting the market. However, the other big theme has been the emerging interest of financial sponsors in the market, which has really changed over time. And I'd be curious actually, of your view of how the motivation, the financing, the strategies of private equity have really driven M&A in the consumer market.

Rusty Ray (06:44):

Well, I want to answer that question, but first, I have a question for you because you said something I thought that was quite interesting and plays into financial sponsor participants in the M&A market - that it’s a large, fragmented market. When you think of consumer health companies, you think of Johnson and Johnson, Glaxo, just a few months ago, Bayer, et cetera.

(07:08):

But these are really pharmaceutical companies. Do you think that the industry is changing? Do you think that the consumer healthcare landscape is becoming more established even though it's very, very old? Is it ready to become established as its own separate industry once the Haleons and the new J&J platform come out from under their pharmaceutical parents? Do you think that's a driver for how the industry's perceived, the consolidation of brands and categories?

Chris Harley-Martin (07:40):

I think it's always been difficult to talk about a consumer healthcare industry. In fact, if anything, it hasn't really existed in anything other than the portfolios of products that sit within pharma. The fact that we do now have the demerger of GSK's business into Haleon, the promise of J&J coming to market in 2023. And a number of other businesses where there's an expectation, but not yet a promise like Sanofi I think may well come to market.

(08:06):

There are a few others that I think that sit on the fringes that could be considered part of that overall consumer healthcare market. Sandoz to a degree, Teva, even Bausch + Lomb, all of whom have a consumer orientation franchise. And add that to record Reckitt, Nestle, et cetera. Yeah, I think you're seeing the emergence of a new industry with its own dynamics, its own metrics and its own strategies.

(08:30):

The one thing that strikes me about today is that all of those companies emerging from big pharma in particular are changing their orientation from reliable cash flow alone and being an annuity to focusing on growth. Different investment profiles, in some cases, different portfolios. You see a few of them changing their portfolios ahead of a demerger. A few of them, a little bit less willing to, or even frankly, need to do that so they're more stable and try to create a stable P&L. I think the fact that each of them is finding their own identity now will drive a very different attitude to M&A and to the way people run their portfolios. That is a big change in the industry.

Rusty Ray (09:17):

It's an interesting case study because you have an industry that is hundreds of years old, yet now newly reestablished or established for the first time, if you think about it. Not in the way that they have before. I think that disruption, if you will, has driven a lot of deal-making across strategics as well as financial sponsors that have looked to enter the space through the acquisition of brands, or platforms. But if you go back and you think about the financial sponsors as acquirers of consumer healthcare businesses, and when I say consumer healthcare, I'm thinking more traditional OTC, something that's highly regulated but still relies on a brand. The channels used to be brick and mortar, food, drug mass. And it's been interesting because there were only a handful of folks that ventured into the area because it is so highly regulated. I know going back to the early 2000s, people that were interested in the space, they almost seemed to be interested because they saw low-hanging fruit within some of the larger pharmaceutical companies.

(10:25):

They would see a brand, a brand that has 50, 70 years of heritage that everybody knows, everybody's grown up with, that has become non-core to the owner, and as a result, gets little or no support, has declined in sales, but it's felt that with even a modest degree of support / focus that these brands can be revitalized and produce tremendous amounts of cash flow. From a financial sponsor perspective, that's a great outcome.

(10:57):

I think that's what drove some of the interest back in the day, just the idea that there was some light lifting that could be done to revitalize, dust off some of these brands and get them back into the consumer's hands, make them relevant again, and foster growth.

Chris Harley-Martin (11:13):

Do you think that thesis still holds for private equity or has it got a little bit more difficult in recent times?

Rusty Ray (11:19):

I think everyone would like for it to hold. The idea of finding the diamond in the rough, the brand with 70 years of heritage that has been unloved but still has tremendous consumer awareness, and all you need to do is turn on the promotion and it goes off like a rocket ship - yes, they still exist, but everyone's chasing them. The idea or success of you peeling one of those out of pharmaceutical companies or some other consumer health business that owns them is getting harder and harder. I think the idea that consumer health companies are just going to let these go at modest valuations is gone. That scenario no longer exists.

(11:58):

It's really been a situation where multiples have gone up and up and up. There's just so many more buyers out there, very competitive buyers. They're all looking for ways to differentiate themselves. One is just having a platform, having a few brands, having experience, going to the seller and showing, "Hey, we have capability. We can make your life easier. We're going to take these brands and we're going to give them the love and attention that they deserve, and we're all going to look good in the process."

(12:28):

That's no longer enough. Then I think the thesis was, "Well, maybe it's just cash. I pay the biggest price, I win the day." For a while, that worked. But I think as the strategies around acquiring brands, growing consumer health platforms, especially in the OTC space - it's not just cash. It's not just a good management team because there are many folks out there that meet those criteria. I think it's having a different perspective. It's trying to understand what the seller needs to achieve through divestment, how you're simplifying their lives, making their lives easier, and how it becomes a bit more of a collaborative process and hence maybe a more structured deal than a straight acquisition.

(13:16):

Well, that was fun talking with Chris, getting his 30 years experience within the consumer health market and trends we're going to likely see in the future. As we think about the consumer health space and how many clients we've worked with in helping them acquire and divest assets over the years, it really is instructive to have someone like Chris help us think through how larger corporates think about their portfolio and optimize growth around that portfolio, and optimize cash flow as it relates to products that are considered tail or no longer core to the business.

(13:57):

It's been a very instructive conversation for me to hear where his thoughts on the M&A priorities today and what the big themes in the market are. Of course, if you ever want to hear more about our thoughts on, where we're headed within the consumer health space and some of the work we've done there, please reach out to us.