

Matrix Laboratories Ltd

Mylan's acquisition of Merck's generic business to benefit Matrix - ALERT

- Mylan (Matrix's 71.5% majority shareholder), has acquired Merck KGaA's generic business for \$6.7bn, valuing the company at 14.6x 2006 EBITDA and 2.7x sales. Mylan expects the acquisition to be earnings neutral from the second year and expects synergies of \$250mn from the third year.

Impact for Matrix

- Mylan has stated that it expects to generate significant savings by leveraging Matrix's API capabilities. Hence Matrix will be a likely beneficiary of this transaction.
- We note that any product transfers and site transfers to Matrix will take at least 3-4 years to complete. While it is difficult to ascertain the quantum of business which Mylan expects to transfer to Matrix, we estimate that Matrix will contribute significantly to the \$250mn savings expected from the transaction. Even assuming a 50% contribution from Matrix, Matrix could generate revenues of \$100-130mn from this transaction. Further, assuming 20% margins (from tax-free locations), Matrix could add \$20-25m to profits over 3-5 years. The actual benefit would depend on quantum of debt (if any) Mylan takes on Matrix's books. Our profit estimate for FY09 is \$53m.

Neutral

Rs198.85

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Pharmaceuticals

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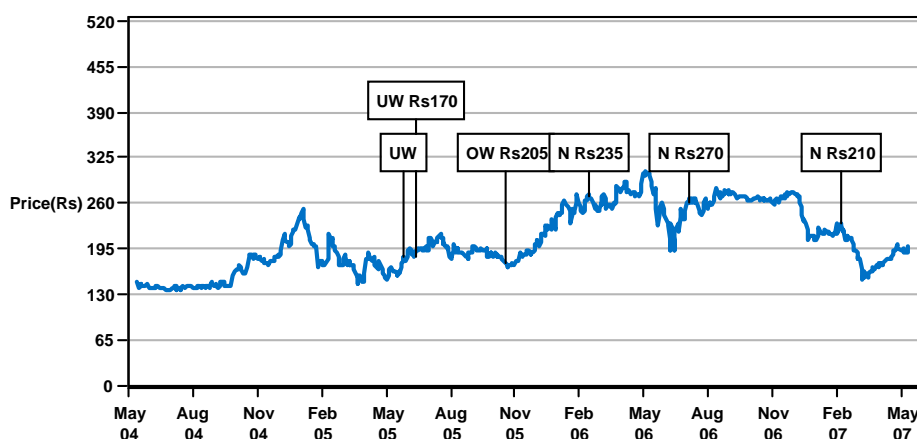
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Matrix Laboratories Ltd (MAXL.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
27-May-05	UW	182.55	-
13-Jun-05	UW	184.65	170.00
18-Oct-05	OW	174.80	205.00
13-Feb-06	N	268.70	235.00
05-Jul-06	N	260.40	270.00
04-Feb-07	N	231.35	210.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
 Initiated coverage May 27, 2005. This chart shows JPMorgan’s continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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