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How the numbers look for rival Shire bids

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When Shire called Takeda's bluff yesterday this takeover battle moved beyond the who-blinks-first stage. But investors still have the thrill of a tight deadline to look forward to: thanks to UK takeover law, by close of play next Wednesday either Shire will have agreed to a sweetened Takeda bid or its Japanese suitor will have walked away.

Expect deal bankers to be busy this weekend putting the finishing touches on rival takeover pitches, with analysts casting their eyes over spreadsheets to see how the numbers add up (see table below). But should a white knight bid immediately or wait until Thursday?

That largely depends on any rival's desperation to secure Shire, on its view of Shire's willingness to accept a fourth Takeda approach revealed today and, failing that, on Takeda's ability to come up with an even richer proposal. Any bidder waiting until after the deadline risks Shire falling to Takeda, though it is abundantly clear that the Japanese group cannot stretch itself much further.

And so far there has been little to suggest that rival companies are falling over themselves to buy Shire – notwithstanding the exuberance of a sellside relentlessly trumpeting the undervalued nature of Shire's market cap and the breadth and resilience of its portfolio.

The brief emergence into the fray of Allergan is a case in point. The US group was yesterday forced to admit that it was mulling a bid for Shire, but shortly afterwards – presumably prompted by a hostile market reaction – it issued a definitive statement that it "does not intend to make an offer".

$60bn clincher?

Any company mulling a bid will be well aware of the market view that Takeda's $198-per-ADR offer, valuing Shire at around $60bn, is mighty close to a level Shire would accept – were it not for the fact that Takeda's limited firepower necessitates that 55% of this is in equity.

Some Shire holders might be desperate for a getout at the first decent opportunity, but should they accept $33bn of stock in a Japanese company for their troubles? A survey by Bernstein suggested that 50% was the maximum they would accept in shares.

As such, the scenarios below, looking at acquisitions by Takeda and four other groups rumoured by analysts to be interested, assume a $60bn Shire takeout, split 50/50 between cash and equity. A quick glance at the pro forma combinations shows one problem very clearly: many of these groups already carry a lot of debt.

Adding up the numbers: five potential Shire bid scenarios ($bn)				
"Company"	**Sales**	**Net profit**	**Net debt post deal***	**Overlaps?**
Shizer	67.7	25.6	(72.5)	Some complementary assets in CNS and GI
Shabbvie	43.4	9.6	(76.6)	Complementary imunology assets, some overlap in GI
Shanofi	54.8	13.8	(69.0)**	Big overlap in haemophilia and other blood assets
Shaxo	54.1	6.2	(79.6)^	Complementary blood and CNS assets, overlap in immunology
Shikeda^^	30.9	6.6	(56.1)	Some complementary blood and GI assets
*Notes: *assumes $60bn takeout price, half in cash and the rest in stock, and excludes Shire's proposed oncology divestment; **includes Sanofi's purchases of Bioverativ ($11.6bn) and Ablynx ($4.8bn), and sale of generics biz ($2.4bn); ^includes Glaxo's $13bn buyout of Novartis consumer health JV; ^^Takeda has yet to report fiscal 2017, so numbers comprise consensus estimates.*				
Source: EvaluatePharma "merge companies" tool.				

Indeed, this is one reason why on Wednesday Shire might still stand alone: it scarcely seems conceivable that Takeda, capitalised at $37bn, can launch a bid that would leave it carrying $56bn or more of net debt. Even Glaxo – market cap $95bn – might struggle after its recent $13bn consumer health foray.

Surely the most logical buyer by therapy area interest is Sanofi, but the French group bought Bioverativ in January and might not want to own competing haemophilia products, as well as this potentially risking antitrust issues. That leaves Abbvie and Pfizer, the former having declared its interest in Shire in 2014, and the latter likely needing more clout in oncology – Bristol-Myers Squibb is an oft-rumoured target – than blood and rare diseases.

Shire's chief executive, Flemming Ornskov, is fighting to salvage his reputation (*Takeda ups bid, but Shikeda will be a difficult birth, April 19, 2018*). If anything, the numbers suggest that he might not be clearing out his desk just yet.

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