CSL’s reality check sinks Talecris deal

The saying that “a week is a long time in politics” could be adapted to “two weeks is a long time in M&A activity”. Just two weeks ago CSL was determined to challenge the FTC’s attempts to block their $3.1bn acquisition of Talecris Biotherapeutics on antitrust concerns (CSL and the FTC draw battle lines, May 28, 2009). Today it seems the harsh reality of the scale of this challenge proved too much with news that CSL has abandoned its plan to buy Talecris.

Whilst CSL’s shareholders will naturally be disappointed, they were appeased to some extent by CSL’s $1.3bn share buy-back plans to return the bulk of the cash the Australian group raised from investors to help fund the deal; CSL’s shares rose 5% to A$30.49 today. As for Talecris, the collapsed deal scuppers a second major attempt by the group’s private equity owners to orchestrate an exit following an aborted IPO last year. Those IPO documents may now need to be taken off the shelf and dusted down.

Not worth the effort

CSL’s original intention to challenge the FTC’s legal action to block the deal came before the company had seen the full details of the FTC’s complaint. Although CSL reiterated its opinion that the Talecris deal was pro-competitive and in the interest of the consumer, it seems that CSL was not completely confident of winning a long and costly legal battle with the FTC.

The FTC claimed that the transaction would be a consolidation step too far in the blood plasma sector, giving CSL and Baxter International a combined market share greater than 80% in certain important sub-markets such as immune globulins (Ig). In addition the FTC claimed the sector was already showing worrying signs of collusion and that a CSL-Talecris tie-up could increase the risk of collusion and coordination, claims strongly rejected by CSL.

Nevertheless, it seems the prospect of a protracted and potentially vicious battle with the FTC was only going to be a massive distraction for the company from running its businesses and a significant overhang on CSL’s already depressed share price. As CSL’s chief executive officer, Brian McNamee, put it the company had no other option but to “bite the bullet” and accept defeat.

Cash returned but options open

As indicated by Mr McNamee a couple of weeks ago, the company has now taken the conciliatory decision to return the bulk of the $1.5bn it raised from its shareholders through an equity sale last year.

CSL will buy back 54.9m shares over the next 12 months, equating to approximately 9% of the company’s total shares outstanding and the maximum amount CSL is allowed to purchase without seeking additional shareholder approval.

Having sold the shares last year at A$36.75, CSL’s current share price of around A$30 suggests the company may seek to acquire as many shares as possible if the share price remains at this level when the buy-back program starts on June 23.

However, some investors have expressed disappointment that the buy-back could last 12 months, meaning a drawn out process for getting their cash back, compared to the almost instant process of raising the funds in the first place.

As for the group’s future strategy, the buyback will make CSL virtually debt-free and as such in a relatively strong position should it wish to seek additional finance in the future to fund any acquisition opportunity.

Mr McNamee confirmed on a conference call with analysts today that the company remains open to a bolt-on acquisition that would compliment CSL’s core franchises of blood plasma and immunology products. Mr McNamee is also comfortable with a deal of a similar magnitude to the attempted Talecris transaction.
Back to Plan A for Talecris

As previously suggested by EP Vantage when the CSL-Talecris deal looked to be heading off the rails (CSL-Talecris about to hit the rails, May 27, 2009), Talecris’ owners, Cerberus Capital and Ampersand Ventures, may have to revert back to their IPO plans to generate the exit they clearly desire.

Although other potential suitors to step into CSL’s shoes may already exist and could be found, the voracity of the FTC’s objection to consolidation in the blood plasma sector may well have put serious doubts into the minds of these prospective partners. Clearly, only a company with minimal or no current involvement in the field would be acceptable to the FTC, but persuading such a partner to make the plunge in this most specialist of sectors is going to be a tough ask.

As such, an IPO may now represent Talecris’ best exit option. Although it is generally accepted that the IPO window is firmly shut for risky biotechs with unproven technologies or products, there is an increasing sense that as the markets show signs of recovery an IPO may be possible by the end of this year for a company with solid and sustainable revenues and earnings.

Talecris would certainly fit this bill, as would other more mature companies like Nycomed who have strongly suggested an IPO could be possible this year. Talecris could therefore provide the first real indicator of how much appetite for IPOs, and general confidence, has returned to the investor community.