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AbbVie wants Shire’s spreadsheets as M&A clock ticks


Jonathan Gardner

AbbVie is almost certain to raise its bid for Shire in the coming days – that much is clear from the stance it took yesterday as it touted its existing £27bn ($46bn) offer for the speciality drugmaker. What AbbVie hopes to do next is draw Shire into more detailed discussions about how the target can meet ambitious sales goals, and this means that the next bid needs to be carefully calibrated.

Analysts now believe that the deal could be profitable for AbbVie at a price above $50m. However, the fact that the US group's chief executive, Richard Gonzalez, is challenging Shire’s forecasts for its gastrointestinal franchise and pipeline assets suggests that the US suitor is not prepared to go all-in just yet – and he has three weeks to let the dealmaking mature.

Great but not so good

It was a remarkable display from Mr Gonzalez that he could simultaneously call AbbVie “even more interested” in the Shire acquisition after hearing its defensive presentation on Monday and simultaneously call into question the target’s forecasts. But there are good reasons to examine these, not least of which is that even taking into account their non-risk-adjusted nature Shire’s forecasts still look optimistic.

In his own investor call yesterday, Mr Gonzalez said the group was looking for clarification of Shire’s forecasts for its gastrointestinal franchise – the ulcerative colitis drugs Lialda and Pentasa – as well as those of “certain pipeline assets”. This would seem to be a prudent position; Shire’s non-risk-adjusted value of the pipeline was $2.7bn, compared with the EvaluatePharma forecast of $718m (*Shire puts on rose-coloured glasses and outlines defence, June 23, 2014*)

In an environment where both parties are keen to make a deal, this is the sort of difference that can be resolved through an offer that includes payouts based on achievement of sales milestones, an approach that most prominently helped Sanofi snare Genzyme in 2011. It is notable, however, that in the current turbocharged M&A environment these have fallen out of fashion.

Pfizer proposed none in a similar situation with its abortive AstraZeneca takeout, while Actavis did not win that concession in its $25bn acquisition of Forest Laboratories.

Shire has been thought to be in play with multiple parties, with Allergan named as one potential suitor and a small list of other possible US buyers who could benefit from inverting tax status to a UK domicile; as such it could be in a stronger position when negotiating such points as the value of future revenue.

Inversion conversion

AbbVie tipped its hand on dealmaking flexibility when executives revealed that the Illinois-based group expected to achieve a 13% tax rate by 2016 thanks to incorporating the merged company in the UK; Shire itself has an Irish domicile but is headquartered in Great Britain. This would represent a substantial reduction on the 22.6% rate it paid in 2013.

Following this disclosure, UBS analyst Guillaume van Renterghem estimated that AbbVie could bid more than £50 a share, up from the current offer of £46.26, without the bid losing its accretive nature. Shire surely realises this now, and should be able to use the knowledge to its advantage when the negotiating hots up.

Mr van Renterghem added that a tax inversion of this scale would only amplify pressure to reform the US tax code. Today, Auxilium Pharmaceuticals succeeded in securing yet another deal that will shift a company's domicile out of the US (*Auxilium joins inversion rush with bid for Canada’s QLT, June 26, 2014*).

If he means to win Shire, Mr Gonzalez wants a negotiated deal – although he did not rule out the possibility of going hostile, an unsolicited tender offer would complicate matters. One of the lessons of Pfizer’s AstraZeneca try is that UK takeover law favours a target willing to run out the clock, which expires on July 18. AbbVie needs constructive talks to begin sooner rather than later.

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