

Allergan gets its happyish ending



[Elizabeth Cairns](#)

Bigger than AbbVie, bigger than Lilly, bigger than Bristol Myers-Squibb. With its purchase of Allergan for \$66bn Actavis has beaten its own record to pull off the richest deal of the year, and by 2020 the new company will be the ninth-biggest prescription drug seller in the world (see table).

Allergan has always maintained that it wanted to remain independent, but the offer from Actavis was far more tempting than the hostile bid from Valeant it has spent the past seven months trying to dodge. Not only is it vastly more in dollar terms – Valeant offered at most \$50bn – Actavis has promised to make smaller cuts to R&D and focus on organic growth, a far cry from Valeant's reputation for asset-stripping.

The transaction will see investors get \$129.22 in cash and 0.37 Actavis shares for each share of Allergan they hold – roughly \$219 per share based on the closing price of Actavis on November 14. At eight times Allergan's estimated 2015 sales, the deal looks expensive, but Actavis believes that the cost savings it can make justify the price.

While not nearly as swingeing as Valeant would have been, Actavis has come up with \$1.8bn in savings: \$400m will be cut from R&D, \$400m from marketing and \$350m from admin in 2016, followed, it says, by \$200m savings from gross margins. On a conference call Actavis management declined to say exactly what programmes or units would be cut, but said the company would not be exiting the generics business.

Aspirational

And no deal is complete without a tax advantage. Actavis performed its inversion last year thanks to a move on Warner Chilcott, and bringing Allergan into the Dublin-headquartered firm will cut its tax rate from 27% to 15%. This translates to \$450m of savings that will “come quickly”, according to analysts from UBS; 2015 tax savings are more likely to be around \$300m.

Actavis also makes much of being the fastest-growing company in the top 10, and this is borne out by *EvaluatePharma* data, which forecasts an 11% growth rate for the combined company to 2020. But a large part of Actavis's expansion is inorganic, resulting from the acquisition of Forest Laboratories, which closed in July ([Huge second quarter for M&A sets 2014 on track for record year, July 9, 2014](#)).

The world's biggest drug makers in 2020

Company	Prescription sales (\$bn)			Rank	
	2013	2020	CAGR	2013	2020
Novartis	46.0	57.8	3%	1	1
Sanofi	37.7	48.9	4%	4	2
Roche	39.1	48.6	3%	3	3
Pfizer	45.0	44.4	0%	2	4
Merck & Co	37.5	40.0	1%	5	5
Johnson & Johnson	26.5	38.2	5%	7	6
GlaxoSmithKline	33.1	37.7	2%	6	7
AstraZeneca	24.5	27.7	2%	8	8
Actavis-Allergan	12.6	27.0	11%	17	9
Novo Nordisk	14.9	24.9	8%	14	10
<i>Actavis</i>	<i>7.2</i>	<i>17.0</i>	<i>13%</i>	<i>24</i>	<i>17</i>
<i>Allergan</i>	<i>5.4</i>	<i>10.0</i>	<i>9%</i>	<i>29</i>	<i>26</i>
<i>Valeant</i>	<i>4.2</i>	<i>6.5</i>	<i>6%</i>	<i>34</i>	<i>34</i>

Undeterred, Actavis management has set an “aspirational” target for earnings per share higher than even sellside forecasts. By 2017 the company says EPS could reach \$25 - this compares with a forecast \$23.27 from Leerink Swann and \$24.40 from UBS.

Wince, Valeant

The deal is no doubt additionally satisfying for Allergan’s leaders in that Valeant and the activist investor Bill Ackman, whose Pershing Square Capital fund worked in concert with Valeant, have been decisively frozen out.

But even in defeat Mr Ackman is a winner: the stake he holds in Allergan has almost doubled in value to about \$6bn thanks to the Actavis deal. The fund manager could end up with a \$2.5bn gain after he pays Valeant a promised 15% of the profits on his investment.

And in a move that perhaps points to Valeant’s next acquisition, Mr Ackman’s fund Pershing Square last week acquired an 8.5% stake in the animal health company Zoetis, spun out from Pfizer last year. Zoetis promptly implemented a poison pill plan that will stay in place for a year.

Consolidation, a fact of life in both biopharma and medtech, is also getting under way in the animal health sector. In April, Novartis sold its animal health unit to Lilly for \$5.4bn, and yesterday Zoetis itself acquired the animal health unit of Abbott Laboratories for \$255m.

Smart acquisition have served Actavis well. It will be intriguing to see whether it continues with its merger strategy and climbs even higher in the top 10.

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