

Pfizer opens a window of opportunity for deal bankers



Jacob Plieth

The markets are down, and with interest rates still at record lows debt is cheap, so mergers and acquisitions are back on the agenda. And now Allergan has shown that the talk is not just hot air, confirming today that it has been approached by Pfizer.

A takeover would form a company with pro forma 2020 sales of \$67bn and a market cap of \$330bn (see table below). The key lies in a window of opportunity that has opened up before next year's US presidential and congressional elections, and bankers will be hoping that Pfizer could be the start of a new dealmaking bonanza.

Other companies that should acquire – some to prevent being taken out themselves – include GlaxoSmithKline, Gilead, Biogen and Shire, but deal bankers will have to act quickly. Few big companies want to be embroiled in moves to avoid taxes and slash jobs at a time when presidential elections have moved such issues to the top of the political agenda.

The present Congress

Pfizer is a case in point. Just this week, on its third-quarter call, its chief executive, Ian Read, was asked about doing an acquisition with a tax inversion element. He said: "If there was a deal to be done, I'd prefer it to be done under the present Congress. Given the proposed [tax reform] by the Treasury ... one needs to be very careful."

And make no mistake that an Allergan acquisition would primarily be about tax; the target company is domiciled in Ireland, and pays tax at an average rate of some 15%, whereas Pfizer is taxed at 20-25%.

Yesterday Leerink's Seamus Fernandez picked up the theme, writing that the most obvious acquisitions for Pfizer were Allergan, Astra, Glaxo and Shire, but that "only Allergan could satisfy a full Pfizer inversion". Once the [Wall Street Journal broke news](#) of Pfizer's approach [Allergan had to confirm this today](#) under Irish takeover law.

Pfizer's top 10 products in 2020

Product	Source	2020e sales (\$m)	Patent expiry
Pprevnar 13	Pfizer	6,953	Dec 2026
Botox	Allergan	3,895	Jul 2020
Ibrance	Pfizer	3,038	Jan 2023
Lyrica	Pfizer	2,367	Dec 2018
Lipitor	Pfizer	1,857	Nov 2011
Enbrel	Pfizer	1,795	Nov 2028
Restasis	Allergan	1,793	Aug 2024
Xeljanz	Pfizer	1,387	Dec 2020
Linzess	Allergan	1,103	Jan 2024
Premarin	Pfizer	1,063	n/a

Source: EvaluatePharma consensus forecasts.

Whether the parties can agree over a valuation of Allergan is a separate question. Before this morning's 9% rise on the Pfizer news the group was 15% off July's highs.

Other biopharma companies have fared even less well, which has suddenly made them more affordable – though this might just be theory. Mr Read has his doubts: “I think it's been a readjustment in stock prices; I'm not sure yet there's been a readjustment in what investors and the leaders of these companies believe their company may be worth in a transactional situation.”

Precisely the same point was made last week by Flemming Ornskov, the chief executive of Shire, which wants to buy Baxalta, likely as a defensive move. On Shire's third-quarter call Mr Ornskov stated: “Asset prices, yes, they have changed, but I'm not sure the mentality of many of the sellers has already changed.”

Either way Pfizer will have to contend with pulling off a takeover bigger than its ultimately unsuccessful \$106bn attempt last year to buy Astra; that, of course, had signalled to everyone just how much the US group wanted to do a tax inversion.

At least Pfizer can be confident of the ready availability of cheap cash to fund part of the purchase. Last month Gilead, Biogen and Sanofi completed debt issues totalling \$18bn.

With drug pricing making pharma increasingly unpopular with politicians, and the prospect of real US tax reform coming after 2016, the deals need to get done now, even if sellers' expectations have yet to catch up with the new reality.

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