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Tax U-turn means Shaxalta is a go


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Once Shire's chief executive, Flemming Ornskov, dug in his heels he wasn't about to let something like a 27% share price slide deter him from acquiring Baxter's biopharmaceuticals spin-off Baxalta.

And, amid a barage of admittedly mediocre company updates, Shire managed to steal the limelight on the first day of the JP Morgan conference by finally hammering out a takeover. While the groups have voiced "shared excitement" about the deal, central to today's announcement is Shire's U-turn on the tax status of paying for Baxalta in cash.

The lack of a cash element had been a stumbling block to getting a deal done; that much was clear last August, when Shire first disclosed that it had made a preliminary all-stock approach to Baxalta and been rebuffed (*Why Shaxalta could run and run, August 4, 2015*).

The problem was that on the one hand, with Shire's stock plummeting, Baxalta did not want to accept an all-share deal. But on the other paying in cash was not an option because – crucially – Shire had determined that to preserve the tax-free status of Baxalta's spin-out from Baxter it could only offer a deal 100%-funded in equity.

All change

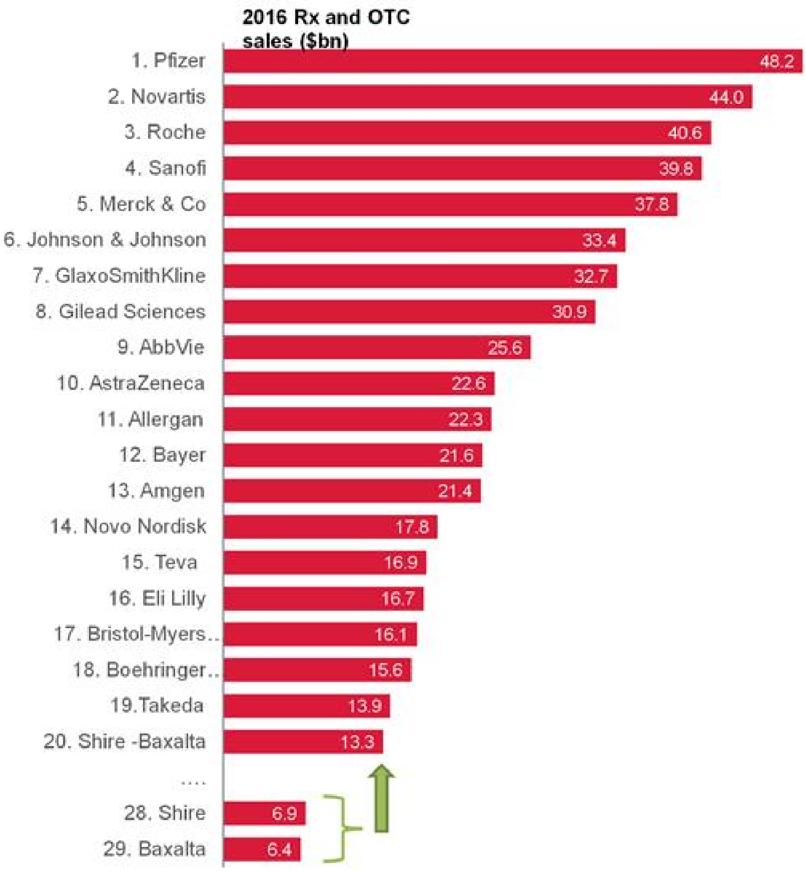
This has now changed. Mr Ornskov today said that, after carrying out additional tax due diligence, Shire had determined that paying $18 per Baxalta share in cash would, after all, maintain the tax-free status.

The remaining consideration will be 0.1482 of a Shire American depositary receipt per share – equivalent to about $27.50 per Baxalta share as per Shire's closing price on Friday. This values Baxalta at about $32bn, which is roughly a 14% premium to the group's market cap last week, or 37% above where the group was trading before Shire signalled its interest last year.

It will not go unnoticed that $32bn is only slightly above the $29bn value of Shire's initial, all-stock, approach, so cash really was the sticking point. Shire has also promised operational cost savings of over $500m within three years, in addition to "revenue synergies" – meaning increased selling power of the combined entity – and a 16-17% tax rate.

The rationale behind the acquisition is unaltered. On today's call Mr Ornskov repeatedly highlighted the combined company's leading position in rare diseases, saying that with Baxalta Shire became the "clear partner of choice" in this lucrative area.

According to *EvaluatePharma* data Baxalta will provide three of Shire's new top five sellers – Advate in first place, Gammagard Liquid in third and FEIBA VH in fifth. The move will also take Shire up the global pharma rankings from 28th to 20th spot.



Operationally the takeover is a bet on the resilience of Baxalta's haemophilia portfolio, and some investors will be interested in Shire's embrace of Baxalta's recent moves into oncology. This includes pacritinib, licensed from CTI Biopharma, which Mr Ornskov highlighted as part of a haematology and oncology franchise.

Not impressed

None of this changes the fact that the market remains deeply unimpressed by Shire's pursuit of its quarry; Shire stock, down 27% since its interest came to light in August, slipped another 5% in early trade today.

True, confidence has ebbed away from the whole of biopharma since last summer, so Shire's poor performance is not entirely down to Baxalta. But, far from using this to pause for thought, Shire has continued its pursuit, and has now come back with a sweetened bid.

Little wonder Baxalta said yes.

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