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Teva to buy Allergan Generics; Mylan off the hook but Perrigo still wriggling

by **Sukaina Virji**

Teva Pharmaceutical Industries is to acquire Allergan Generics in a transaction valued at \$40.5bn. The news is the culmination of a weekend of rumors that the deal was in the offing. Teva said that as a result of the agreement, it is dropping its pursuit of Mylan. The origin of the majority of Allergan's generic pharmaceuticals is the company formerly known as Actavis.

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"Teva is looking to cushion itself from considerable losses to Copaxone, and augment market share in generics through the scale it will acquired with Allergan's generic division. This is part of an industry wide trend to strengthen core areas and particularly for generics, to increase bargaining leverage with customers," Ali Al-Bazergan, lead analyst at Datamonitor Healthcare, told *Scrip*.

Allergan will receive \$33.75bn in cash and shares of Teva valued at \$6.75bn (on 27 July), representing just less than a 10% stake in Teva. The number of shares will depend on the volume weighted average trading prices for Teva's stock during the 15 trading days prior to the news and five trading days after.

Teva believes the acquisition will be significantly accretive to non-GAAP EPS, including expected double-digit non-GAAP EPS accretion in 2016 and more than 20% accretion in year two and year three following the close of the transaction. The transaction has been unanimously approved by

the boards of both Teva and Allergan, and is expected to close in the first quarter of 2016.

"This transaction delivers on Teva's strategic objectives in both generics and specialty," said Erez Vigodman, president and CEO of Teva. "Given our in-depth knowledge and understanding of Allergan's world-class generics business, we are confident we can realize the projected synergies and accretion inherent in this acquisition for our stockholders and integrate Allergan Generics quickly into Teva. With pro forma revenues of approximately \$26bn and combined EBITDA of approximately \$9.5bn anticipated in 2016, this acquisition reinforces our strategy, accelerates growth and diversifies revenues both by product and geographically, supporting our new business model."

Teva believes benefits include highly diversified revenues and profits, and substantial cost synergies and tax savings. Teva expects Allergan Generics to contribute approximately \$2.7bn in EBITDA in 2016, excluding synergies. Cost synergies and tax savings of approximately \$1.4bn annually are anticipated within three years.

Teva is acquiring Allergan Generics on a cash free and debt free basis.

Mylan escapes

The acquisition price is the same as the unwelcome offer Teva had made for Mylan. Mylan's management, unlike Allergan's, was *very critical of a potential deal*, citing "gross undervaluation" among other concerns.

"We continue to believe that a combination of Teva and Mylan would have made sense for our companies, our respective stockholders and the healthcare industry as a whole," said Mr Vigodman. "However, despite our clear commitment to consummating a transaction, and our conviction that we ultimately would have succeeded in acquiring Mylan, we believe we have an even greater opportunity to create compelling, sustainable value for Teva's stockholders through our transaction with Allergan – and we acted quickly to seize the opportunity."

The speed that this deal was conducted was reiterated by Allergan's CEO and president Brett Saunders, who said in an interview that it took just three weeks to negotiate. Selling the generics business had not been on the agenda, but a recognition that consolidation in the generics sector was becoming increasingly necessary, and an attractive offer from Teva, led to a speedy affirmative decision.

Teva will now review its options with respect to its 4.6% stake in Mylan.

Meanwhile, Mylan continues to force its own unwelcome attentions on another generics firm, Perrigo, for which it made a \$29bn offer in April. "We congratulate Teva on their agreement to

acquire Allergan's generics business," said Mylan's executive chairman Robert Coury. "As Teva continues to move forward with their strategy, Mylan's strategic focus remains unchanged...Our offer to acquire Perrigo continues to be the next natural step in this strategy."

In an effort to keep Mylan at bay, Perrigo is taking any and all steps to make it undesirable to its unwelcome acquirer. Its *latest move* was the acquisition of a small German dietary supplements company.

Origins of Allergan Generics

According to Allergan, Teva is acquiring its "legacy Actavis global generics business," which includes its US and international generic commercial units, third-party supplier Medis, global generic manufacturing operations, the global generic R&D unit, the international over-the-counter (OTC) commercial unit (excluding OTC eye care products) and some established international brands.

Actavis acquired Forest Laboratories in a \$25bn deal last year. It then bought Allergan for around \$70bn earlier this year, *out of the jaws of* Valeant Pharmaceuticals, and changed its name to Allergan. However, its US and Canadian generics business continues to operate under the Actavis name.

Allergan will retain its global branded pharmaceutical and medical aesthetic businesses, as well as its biosimilars development programs and the Anda distribution business.

"This transaction will accelerate Allergan's evolution into a branded growth pharma leader, enable a sharpened focus on expanding and enhancing our global branded pharmaceutical business and strengthen our financial position to build on our proven track-record of value creation led by effective capital deployment," said Mr Saunders.

Allergan expects to have 2015 pro forma sales of around \$15.5bn, a simplified operating model and a strong position in seven therapeutic areas, including eye care, gastroenterology (GI), aesthetics, women's health, CNS, urology and anti-infectives. It will have a simplified manufacturing network of 12 plants globally, a mid-to-late-stage R&D pipeline with 70 projects and a global commercial operating model.

"We intend to deploy [\$36bn in net proceeds] to further accelerate the robust growth prospects of our branded business. We will have the potential to add scale in existing therapeutic areas, expand into new therapeutic areas and geographies and evaluate strategic transformational deals," added Mr Saunders.

Allergan announced over the weekend that it *agreed to pay* \$560m plus undisclosed milestone

fees for novel depression drug developer Naurex.

Also of interest:

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