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# Lights, camera … auction? Query $63B showstopper in Abbvie's Allergan grab

*By Randy Osborne, Staff Writer*

Abbvie Inc.'s agreement to take over Allergan plc in a cash and stock deal worth about $63 billion jarred Wall Street and set pundits mulling the price tag – seen by some as too low – along with the prospects for a satisfying marriage as pipelines are sorted out.

The value of the pact is based on the closing price of Abbvie shares (NYSE:ABBV) of $78.45 Monday. Dublin-based Allergan shareholders will receive 0.8660 Abbvie shares and $120.30 in cash for each Allergan share they hold, for a consideration of $188.24 per Allergan share. The payout represents a 45% premium to Allergan's previous close. The firm' stock (NYSE:AGN) closed Tuesday at $162.43, up $32.86, or 25.4%. Abbvie ended at $65.70, down $12.75, or 16.3%.

SVB Leerink's Marc Goodman, covering Allergan, said that "given the multiyear stock weakness, we are not surprised that one of the large pharma companies has made a bid" on the firm, but he found $188 per share "too low. We can't believe that Allergan is not being taken out at least at $200," he wrote in a report, asking rhetorically whether the deal "was [the result of] a process or is Abbvie opportunistically pursuing a wounded stock." If the latter, other suitors could surface. "Either way, it looks as though the Allergan shareholders will be finally be rewarded for their patience," he said.

Piper Jaffray's David Amsellem saw it differently. "We will start by saying that this was certainly not the ending that we had envisioned for Allergan," he wrote in a report. "At the risk of raining on the parade, we would add that the fact that this senior leadership team managed to find a way to exit gracefully should not and does not obscure years of questionable acquisitions, poor capital allocation (particularly the heavy emphasis on buybacks) and an overall lack of strategic direction." He said Abbvie, for its part, gains "a veritable mixed bag: a durable, consumer-facing, cash pay business (still high-quality, warts and all), but also a pharma business that is brimming with uncertainty (i.e., losses of exclusivities; competitive/payer headwinds)." Amsellem maintained his neutral rating on Allergan, deeming the arrangement "the lifeline to end all lifelines."

Evercore ISI held a webinar for investors, during which analyst Joshua Schimmer went down the middle with his opinion on price, saying that the arrangement "doesn't seem like an obviously cheap deal [and it] doesn't look like an obviously expensive deal" and that Abbvie needs to execute properly with assets the company is acquiring. "Clearly, it's not the deal that any of us were looking for – we were hoping to see more of a pipeline upgrade as opposed to a larger-scale transaction like this," he said. "Sentiment on Abbvie was already extremely poor; it just got even worse." Regarding Allergan, he found it "interesting that there's hyper-focus on Botox [onabotulinumtoxinA] competition and hyper-focus on the opioid-litigation concern, which doesn't really seem to be much of a big deal."

Schimmer conceded that the move "strategically fits with Abbvie's effort to always have the best and first-in-class assets," even if the buyout gets the firm into "all sorts of other verticals that they're not used to. But if you're going to get into other verticals, this is certainly the way to do it."

North Chicago-based Abbvie painted a bright picture, saying it expects the buyout to provide annual pre-tax synergies and other cost reductions of at least $2 billion in the third year, while leaving investments in key growth franchises untouched. The company plans to optimize the research and early stage portfolio and reduce overlapping R&D resources by about 50%, which should mean more efficiencies in driving efficiencies in selling, general and administrative expenses, including sales and marketing and central support function costs, for about a 40% improvement, while getting rid of redundancies in the manufacturing and supply chain, and leveraging procurement spend to reach about a 10% upside. "Significant" annual operating cash flow is expected by Abbvie, too, for a debt reduction target of $15 billion to $18 billion before the end of 2021.

## Humira independence day

During a conference call with investors, Abbvie CEO Richard Gonzalez said his firm had "worked on this strategy with our board for about a year," examining options, "one of which was a larger transaction like this. And when we made the decision [on] the best path to go forward, then we spent a large amount of time analyzing product-by-product the Allergan portfolio to ensure that it fit the objectives that we had. Certainly, one of the things that we looked at carefully is Botox, from the perspective of both what was the risk of a biosimilar coming to the market and what was the risk of other branded competitive alternatives entering the market," some of which already have arrived. "If you look carefully at how Allergan has performed, I'd say they've done a good very good job of protecting Botox. They've lost some share, but it's relatively modest."

Laura Schumacher, chief legal officer, said Abbvie is "very familiar with this [opioid] litigation," which, as the opioid epidemic spread, also has targeted other companies. "It's important to note that Allergan had a very small and declining market share in branded opioid for the past 20 years. Our view is that this litigation is in early stages and the legal theories have not been challenged through the legal process yet. In the one case that has proceeded to trial, all but one of the plaintiff's legal theories were dropped before trial, and there are two state courts already that have rejected the plaintiff's theories. It will be important to see how the trial plays out, and also how the appellate process plays out. We're confident in our ability to handle complex litigation, and we have a long track record of achieving both favorable trial verdicts as well as settlements."

When the takeover deal is done – early next year, the companies hope – Abbvie shareholders will own about 83% of Abbvie on a fully diluted basis, with Allergan having the remainder. Abbvie will continue to be incorporated in Delaware and keep its executive offices in North Chicago, with Gonzalez remaining in place. Two members of Allergan's board, including chairman and CEO Brent Saunders, will join Abbvie's.

Leerink's Geoffrey Porges said in a report that the Allergan buy surprised him but "is consistent with Abbvie's intention to diversify away from their dependence" on Humira (adalimumab), its human IgGl monoclonal antibody specific for human tumor necrosis factor that was first approved for rheumatoid arthritis in late 2002. "The transaction takes advantage of Abbvie's dividend yield, discounted multiple and low borrowing cost, and significantly reduces [the company's] future dependence on their immunology franchise." To him, the paired entity seems "likely to be able to maintain Abbvie's impressive track record of dividend growth," with "even modest efficiencies" helping to drive pro forma earnings per share growth "above the pharmaceutical industry average, which should be attractive to some investors."

At the same time, he called the deal "yet another transaction driven by diversification, scale and low borrowing costs, rather than portfolio or top-line synergies" and predicted Abbvie would "trade poorly on this announcement, and then be dependent on investors' expectations for counter-offers or other risks" to the agreement. He noted that Allergan "has been dogged by disappointing R&D performance and unrealistic expectations for pipeline programs, and Abbvie has suffered from some of the same issues."

On the subject of counter-offers, RBC's Randall Stanicky said analysts at his firm "do not expect anyone coming in over the top." New York-based Pfizer Inc. and Johnson & Johnson, of New Brunswick, N.J., "have come up as potential suitors" but neither seems a solid candidate, "and this deal price appears fair, based on our $191 break-up valuation. While this take-out is not a 'win' for Allergan holders per se, we think it's the best option given persisting earnings pressures and what would likely be a drawn-out break-up process." ♦