

# Actavis buying Warner Chilcott in \$8.5B deal

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Actavis is buying Warner Chilcott in an all-stock deal valued at about \$8.5 billion that would create the third-biggest specialty pharmaceutical company in the U.S. market.

The announcement Monday comes after the companies said earlier this month that they were in talks about a possible pairing of one of the world's largest generic drugmakers, Actavis Inc., with an Irish company that has a portfolio of established, branded drugs.

The combined company will be incorporated in Ireland, and analysts say that country's lower tax rate is a key to making the deal work. Actavis said it expects about \$400 million in after-tax savings and cost cuts from the combination, counting the lower tax rate.

Generic drugmakers like Parsippany, New Jersey-based Actavis have benefited the past couple years from the expiration of patents protecting top-selling drugs like the cholesterol fighter Lipitor. But many companies are competing for that revenue source, and analysts expect it to start drying up over the next few years.

The Warner Chilcott PLC deal will give Actavis an earnings jolt starting next year, Susquehanna Financial Group analyst Andrew Finkelstein said in a research note. But he added that he expects revenue from Warner Chilcott's product portfolio to decline modestly.

Morningstar analyst Michael Waterhouse said Warner Chilcott's pipeline of products under development also is weak, and he thought both

companies were a bit overvalued heading into the deal.

"I would say we're probably not as enthusiastic as the market has been (about the acquisition)," Waterhouse said.

Actavis was formed last fall through a \$5.6 billion combination of generic drugmaker Watson Pharmaceuticals of New Jersey and Actavis of Switzerland. It sells inexpensive generic versions of Lipitor, attention deficit hyperactivity disorder drugs Adderall XR and Concerta, Lovenox for preventing or breaking up dangerous blood clots and many other products. Actavis also has a U.S. pharmaceutical distribution business called Anda.

Warner Chilcott's products include the ulcerative colitis treatment Asacol, which is its top-selling drug, and Delzicol, another ulcerative colitis medication approved in February. Its revenue has been hurt the past couple years in part because low-cost generic versions of its osteoporosis drug Actonel went on sale in Western Europe and Canada in 2010, and U.S. sales have slipped as well.

In the deal announced Monday, Warner Chilcott shareholders will receive 0.160 shares of the new company for each share they own. This equals \$20.08 per share, which is a 34 percent premium to the stock's closing price on May 9, the day before the companies said they were talking about a deal.

Warner Chilcott shareholders would then own a 23 percent stake in the new company.

Actavis Inc. shareholders will receive one share of the new company for each share they own.

Actavis CEO Paul Bisaro said in a statement that the deal will provide

support for the launch of new women's health products over the next several years, including Minastrin 24 Fe birth-control pills, a progestin-only contraceptive patch and metronidazole gel for treating vaginal infections. Bisaro said it also gives Actavis a broader portfolio of specialty products that have sales potential outside North America.

Both companies' boards unanimously approved the deal, which is expected to close by year's end. It still needs the approval of the majority of shareholders of both companies.

The new company will be called Actavis PLC, and its U.S.-traded shares are expected to trade under the "ACT" ticker symbol on the New York Stock Exchange.

Monday's announcement follows reports that Actavis had rebuffed takeover bids from generic drugmaker Mylan Inc. and Canada's Valeant Pharmaceuticals International Inc. and that Novartis AG was considering a bid, something the Swiss drugmaker later denied. Analysts say any companies interested in Actavis could still step in with a fresh offer before the Warner Chilcott deal is completed.

Shares of Actavis climbed 2.6 percent, or \$3211, to \$128.71 in midday trading, while the Standard & Poor's 500 index was flat. The stock price has spiked 20 percent since the companies said on May 10 that they were in talks about a combination.

U.S.-traded shares of Warner Chilcott climbed more than 3 percent, or 59 cents, to \$19.80. That price has climbed 32 percent since closing at \$15.01 on May 9.

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