AstraZeneca rejects $119 billion offer from Pfizer (Update)

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This Friday May 2, 2014 file photo shows an exterior view of the Two Kingdom Street building which houses the headquarters of AstraZeneca, in the Paddington area of London. The board of AstraZeneca has rejected the improved $119 billion takeover offer from U.S. drugmaker Pfizer, Monday May 19, 2014, a decision that has caused a sharp slide in the U.K. company's share price as investors think it effectively brings an end to the protracted and increasingly bitter takeover saga. (AP Photo/Matt Dunham, File)

The board of AstraZeneca on Monday rejected the improved $119 billion takeover offer from U.S. drugmaker Pfizer, a decision that caused a sharp slide in the U.K. company's share price as many investors think it effectively brings an end to the protracted and increasingly bitter takeover saga.

The board said in a statement that it "reiterates its confidence in AstraZeneca's ability to deliver on its prospects as an independent, science led business."

Pfizer, which is the world's second-biggest drugmaker by revenue, has been courting No. 8 AstraZeneca since January, arguing their businesses are complementary. On Sunday, it raised its stock-and-cash offer by 15 percent to $118.8 billion, or 70.73 billion pounds. That would be the richest acquisition ever among drugmakers and the third-biggest in any industry, according to figures from research firm Dealogic.

AstraZeneca didn't take long to reject the new offer, its board arguing Pfizer is making "an opportunistic attempt to acquire a transformed AstraZeneca, without reflecting the value of its exciting pipeline" of experimental drugs.

Because Pfizer said it won't raise its offer again or launch a hostile takeover bid over the heads of AstraZeneca's board, the prospect of a deal looks increasingly remote unless AstraZeneca shareholders urge a change of mind. Pfizer has said it hopes AstraZeneca's shareholders will push for a deal.

"This has been going on for quite some time and we have been in very deep engagement over the whole of the weekend," AstraZeneca Chairman Leif Johansson told the BBC. "If Pfizer now says this is the final offer I have to believe what they say."

Shareholders in AstraZeneca PLC seemed to think a deal is now unlikely, with the company's share price slumping 11.1 percent to 42.87 pounds.

Johansson said his management team had told Pfizer Inc. over the weekend that it would need to see a 10 percent improvement over the 53.50 pounds-per-share offer that was on the table at that time. He said Pfizer's latest offer represented only a "minor improvement" that fell short of the 10 percent needed.

Though it has said its indicative offer is final, Pfizer has, under U.K. takeover rules, until 5 p.m. local time on May 26 to make a formal bid. If it doesn't, it cannot make another offer for six months.

Pfizer's offer comes amid a surge of other deals as drugmakers look to either grow or eliminate noncore assets to focus on their strengths. Those deals include Switzerland's Novartis AG agreeing to buy GlaxoSmithKline's cancer-drug business for up to $16 billion, to sell most of its vaccines business to GSK for $7.1 billion, plus royalties, and to sell its animal health division to Eli Lilly and Co. of Indianapolis for about $5.4 billion. Canada's Valeant Pharmaceuticals has also made an unsolicited offer of nearly $46 billion for Botox maker Allergan, which has turned it down, so far.

Pfizer's latest offer increased the ratio of cash AstraZeneca shareholders would receive, from 33 percent to 45 percent. The latest offer would give them the equivalent of 55 pounds for each AstraZeneca share, split between 1.747 shares of the new company and 2.476 pence in cash. It said the offer represents a 45 percent premium to AstraZeneca's share price of 37.82 pounds on April 17, before rumors of the deal began circulating.

Pfizer CEO Ian Read said the proposed combination would yield "great benefits to patients and science in the UK and across the globe."

AstraZeneca has insisted Pfizer's offers significantly undervalue the company and its portfolio of experimental drugs. The company and British government officials also have raised concerns about the prospect of job cuts, facility closures and losing some of the science leadership in the U.K., where London-based AstraZeneca is the second-biggest drugmaker, behind GlaxoSmithKline PLC.

Pfizer has assured such cuts would be limited. It's promised to complete AstraZeneca's research and development hub in Cambridge. And it pledged to establish the new company's tax residence, but not headquarters, in England, which would significantly reduce its future tax rate.

But layoffs would be inevitable in such a big merger, analysts say, and Pfizer has a track record of eliminating tens of thousands of jobs as a result of megadeals.

While Pfizer is best known to the public for Viagra, cholesterol fighter Lipitor and other widely used medicines, in the pharmaceutical industry it's known for two other things: marketing muscle and mega mergers, which together have repeatedly propelled it to the top.

Since 2000, it has made three acquisitions that have vaulted the company to No. 1 in revenue. It paid $111.8 billion for Warner-Lambert Co. in 2000 to get the rights to Lipitor, then $59.8 billion for Pharmacia Corp. in 2003 and $68 billion for Wyeth in 2009, according to Dealogic. With this deal, Pfizer would then be the buyer in four of the 10 richest deals ever in the pharmaceutical industry.

Each of those deals resulted in massive layoffs and closures of some medicine factories, research facilities and office buildings, with the cost-cutting boosting Pfizer's bottom line for a few years.

Pfizer now wants to add to its medicine portfolio to boost revenue. The company slipped from No. 1 to No. 2 last year, behind Novartis AG, mainly because Lipitor got generic competition at the end of 2011, wiping out several billion dollars in annual sales. Pfizer also has sold off some units and reorganized as part of preparations to possibly break off another part of the company, something analysts have been urging it to do.