

AbbVie, Shire agree on \$55B combination

July 18 2014, by Tom Murphy

The drugmaker AbbVie has reached a deal worth roughly \$55 billion to combine with British counterpart Shire and become the latest U.S. company to seek an overseas haven from tax rates back home.

The companies said Friday they will create a new company that is incorporated on the British island of Jersey, where Shire currently is incorporated. But the new company will be controlled by shareholders of North Chicago, Illinois-based AbbVie, who will own about 75 percent of the new company's stock.

Shire shareholders will receive cash and stock valued at about 53.19 pounds (\$91.07) for each of their shares. They will then hold the remaining 25 percent stake in the new company.

U.S.-based companies looking to grow through acquisitions have been searching more fervently in recent years for these overseas combinations known as inversions. But the deals are drawing growing concern from President Barack Obama and members of Congress because they cost the United States billions of dollars in tax revenue.

At 35 percent, the United States has the highest corporate income tax rate in the industrialized world, and it also taxes income that is earned in another country and then brought home. That causes some companies to park millions of dollars in overseas accounts.

"Companies like ours need access to our global cash flows," AbbVie Chairman and CEO Richard A. Gonzalez told analysts on Friday, adding

that they need to invest globally and in the United States. "Today, we're at a disadvantage versus many of our foreign competitors."

AbbVie executives forecast a tax rate of about 13 percent by 2016 for the new company. AbbVie has said its current rate amounts to roughly 22 percent.

Gonzalez added that AbbVie, which sells the blockbuster anti-inflammatory drug Humira, pursued this deal mainly because it was compelling financially and strategically.

"We wouldn't be doing it if it was just for the tax impact," Gonzalez said.

AbbVie, which pulled in \$18.8 billion in sales last year, started researching Shire last fall. Shire makes the attention deficit hyperactivity disorder medication Vyvanse as well as rare disease and gastrointestinal treatments.

Shire rejected several unsolicited takeover bids before the two companies started talking about a possible deal earlier this month. Shire said Friday its board recommends that shareholders vote for the latest offer, and the deal will create "a well-positioned and focused specialty biopharmaceutical company."

The companies expect the deal to close in the fourth quarter.

U.S.-traded shares of Shire PLC climbed 72 cents to \$254.16 in late-morning trading Friday. Shares of AbbVie Inc. slipped 2 cents to \$53.50, while broader U.S. trading indexes climbed less than 1 percent.

Inversions like AbbVie's are a prime debate topic in Washington. U.S. Treasury Secretary Jacob Lew told House and Senate leaders earlier this

week that Congress should immediately enact legislation retroactive to May that stops the practice while the government works on more comprehensive tax reform.

But Utah Republican Sen. Orrin Hatch said in response that while he agrees on the need for reform, such a move—essentially "constructing a wall around U.S. multinational companies"—carries risks. Those include making the companies more attractive targets for foreign takeovers.

Inversions can take place if shareholders of the foreign entity involved retain more than a 20 percent ownership in the newly merged business. Legally, the foreign company might acquire the U.S. business or the two create a new entity. But the U.S. company often maintains both its corporate headquarters and control of the company.

This overseas move has grown more common among health care companies. Last month, U.S. medical device maker Medtronic Inc. said that it had agreed to buy Ireland-based competitor Covidien for \$42.9 billion in cash and stock. The combined company would have executive offices in Ireland, which has a 12.5 percent corporate income tax rate.

The largest drugstore chain in the United States, Walgreen Co., also is considering a similar move with Swiss health and beauty retailer Alliance Boots. Walgreen bought a 45 percent stake in Alliance Boots a few years ago and has an option to buy the rest of the company. Walgreen has said it will discuss its decision later this month or in August.

© 2014 The Associated Press. All rights reserved.

Citation: AbbVie, Shire agree on \$55B combination (2014, July 18) retrieved 23 May 2024 from <https://medicalxpress.com/news/2014-07-abbvie-shire-55b-combination.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private

study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.