Salix Pharma scuttles Cosmo Technologies merger

October 3 2014, by Tom Murphy

Salix Pharmaceuticals is scrapping its merger with the subsidiary of an Italian drugmaker after the U.S. created new limitations on the tax benefits of incorporating overseas.

Shares of the Raleigh, North Carolina, drugmaker jumped almost 6 percent Friday morning before markets opened and after Salix said that a transformed political environment has created more uncertainty about the benefits they had expected to achieve from the deal, first announced in July.

Salix would have combined with Cosmo Technologies Ltd., a subsidiary of Cosmo Pharmaceuticals, in an all-stock deal. That could have lowered its long-term tax rate from the 30 percent range, to a low 20 percent span.

Salix executives would have run the combined company, and its shareholders would have held a majority stake.

Last month, the U.S. Treasury Department announced new regulations designed to limit the benefits of these corporate maneuvers, known as inversions. That included barring certain techniques that companies use to lower their tax bill and tightening ownership requirements that must be met for such deals to occur.

The U.S. government took action after a spate of companies pursued inversions, some of them quite large. In June, U.S. medical device maker

Medtronic Inc. said that it would buy its Irish rival Covidien for $42.9 billion in cash and stock. The pharmaceutical company AbbVie, based in North Chicago, Illinois, reached an agreement in July to buy Shire, based in Dublin, for roughly $55 billion.

The growing number of corporate inversions led to a public and political backlash, with critics saying that U.S. companies were creating a larger tax burden for everyone else by incorporating overseas, while still benefiting from the massive U.S. market.

In August, the nation's largest drugstore chain, Walgreen Co., said it would not pursue an overseas reorganization with European health and beauty retailer Alliance Boots. Walgreen said it wasn't sure the deal would pass IRS scrutiny, and it also acknowledged feeling pressure to not pursue the move.

Salix, which specializes in gastrointestinal disorder treatments, will pay Cosmo $25 million to get out of its deal.

Shares of Salix Pharmaceutical Ltd. climbed $8.92, to $160.01 Friday in premarket trading. Investors also had sent the stock on a temporary plunge in July after the Cosmo combination was announced.

The collapse of the Cosmo deal revives for Salix shareholders the prospect that another drugmaker could pay a premium for their company, WBB Securities President Steve Brozak said.

Salix stock had soared 68 percent so far this year, as of Thursday's market close.

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