Big pharma deals: Mylan, Teva push on despite rejections

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Suitors in the generic drug industry's big consolidation push signaled Wednesday they would keep fighting for deals, even after Perrigo rejected a sweetened offer from Mylan.

It was the second time in less than a week that Mylan raised its bid, this time to $35.6 billion, to merge the two into a company with $15 billion in annual sales.

And it was the second time Perrigo responded within hours with a flat "no," saying the offer deeply undervalued the company.

Even as that happened, Israel's generics giant Teva restated its interest in buying Mylan despite a blistering rejection from Mylan earlier this week.

Whether either of the unsolicited campaigns will result in a deal soon is anybody's guess.

But analysts say both Mylan and Perrigo are ripe for takeovers in the next five years due to pressures in the global pharmaceutical industry even if they survive the current onslaught.

"The 'who' and 'when' are extremely unclear," said Michael Waterhouse, an equity analyst at Morningstar. "I would say that eventually, a lot of these companies get bought."

Generic drug companies are under pressure to do deals now because there are fewer big-money drugs shifting to generic status compared with a few years ago, when cholesterol medication Lipitor and other blockbusters were available, Waterhouse said.

Waterhouse said the sector also views cost-cutting as a key tool for raising profits as the industry faces rising competition from suppliers in India, a trend which exerts downward pressure on drug prices.

Mylan's latest move offered a combination of cash and Mylan shares that amounts to $232.23 per Perrigo share, Mylan said.

That was $10 a share higher than its April 24 offer, according to Mylan calculations.

Mylan chief executive officer Heather Bresch said a combination with Perrigo would create "a one-of-a-kind global healthcare company" with "complementary businesses and cultures, unmatched scale in its operations and infrastructure, broad and diverse portfolio, and immense reach across distribution channels around the world."

But Perrigo said the newest offer was worth just $202.20 per share, based on Mylan's value on March 10 before speculation of a Teva bid for Mylan lifted its shares. That is below the $205 per share in Mylan's initial offer, Perrigo said.

"Today's announcement from Mylan continues to propose a price lower than the previously rejected proposal," Perrigo said.

Three-way battle

Mylan has kept up its push even while fending off ostensibly unwanted attention from Teva, which made a $40.1 billion offer for it on April 21.

A merger with the Israeli firm would form a $28 billion company that Teva said could generate $2 billion in annual savings, while expanding its specialty pharmaceutical business.

After Teva renewed its interest Monday, Mylan dismissed the offer as both "grossly" low and insincere, "a mere attempt by Teva to frustrate and distract Mylan from its business plan and strategy."

Teva on Wednesday again argued the wisdom of a tie-up with Mylan, calling their assets complementary and saying a deal would not face significant antitrust issues, as Mylan has argued.

"I firmly believe that our respective stakeholders do not support, or benefit from, mudslinging, mischaracterization, rehashing of history or selective presentation of facts," Teva chief executive Erez Vigodman said in a letter to Mylan.

"We are fully committed to pursuing this transaction and we believe the best path forward is constructive, good faith dialogue... We encourage you to put the best interests of your stakeholders first by engaging in productive negotiations with us."

Analyst Waterhouse said the resistance of both Perrigo and Mylan means any deal would likely require a higher price.

Jeff Loo, an analyst at S&P Capital IQ, said it was "pretty likely" either Perrigo or Mylan would ultimately be acquired in the current round of maneuvring.

Both Waterhouse and Loo said a deal would spur close scrutiny from antitrust regulators worried about the potential excessive market power of the combined company.

But they said a deal could probably proceed without major divestitures.