Teva offers to buy Mylan in $40.1B cash-and-stock deal

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In this Oct. 16, 2013 file photo, trucks run past Teva Pharmaceutical Logistic Center in the town of Shoam, Israel. On Tuesday, April 21, 2015, Teva has offered to buy Mylan for about $40.1 billion in cash and stock in a deal that would create a powerhouse of generic drug development. (AP Photo/Dan Balilty, File)

Generic drug giant Teva formally offered to buy fellow drugmaker Mylan for about $40.1 billion in cash and stock on Tuesday, despite

Mylan's cold shoulder and the certainty the proposed acquisition will bring intense scrutiny by antitrust regulators.

If Israel-based Teva Pharmaceutical Industries Ltd. succeeded, the combination would dominate the global generic drug market, be a major contender in some other specialty drug categories—and have the leverage to try to raise generic drugs prices.

After years of stability, generic medicine prices recently have risen several percent a year on average. Some have skyrocketed by up to 1,000 percent, generally when competition vanishes due to consolidation or shortages caused by manufacturing quality problems.

A tie-up wouldn't just increase Teva's scale, allowing it to boost profitability by cutting jobs and other costs. It would increase its leverage in negotiating drug prices with insurers and other payers, noted Les Funtleyder, health care portfolio manager at E Squared Asset Management.

"That's going to feed into regulators' interest," he said.

That's particularly true in the U.S., where seven of eight prescriptions filled are for generics and employers, insurers and government health programs encourage their use to hold down costs.

"It doesn't mean the deal can't be done," because the companies could divest some assets, Funtleyder said, but he noted Mylan's reluctance.

A Mylan spokeswoman did not immediately return a call seeking comment Tuesday.

On Friday, the Dutch company said antitrust regulators probably wouldn't approve a deal and said it prefers to remain a stand-alone company and instead buy generic drug and ingredients maker Perrigo Co. PLC. However Perrigo rejected Mylan's offer Tuesday afternoon. The Irish company said the bid, which values Perrigo at $205 per share, or almost $29 billion, is too low.

Teva's bid for Mylan, part of the latest cycle of drugmaker consolidation, would be one of the biggest in the last couple years, below Actavis PLC's recent $66 billion purchase of Allergan Inc., based on figures from market research firm EvaluatePharma.

Mylan's shares surged $6.03, or 8.9 percent, to $74.07 and reached an all-time high of $74.90. Teva shares gained 87 cents, or 1.4 percent, to $64.16.

Teva offered $82 per share, a 21 percent premium over Mylan's Monday closing price, and said it could complete the deal by year's end. Teva's board has unanimously approved the offer.

Teva gets half its revenue from generic drugs and another fifth from its top brand-name medicine, multiple sclerosis drug Copaxone. Last Thursday, U.S. regulators approved a generic version of Copaxone, which could hit pharmacies around September, endangering $4.2 billion of Teva's $20 billion in annual revenue.

That means Teva, which also makes respiratory, cancer and nonprescription medicines, needs new revenue sources. In March it agreed to buy Auspex Pharmaceuticals Inc., which is developing central nervous system disorder treatments, for $3.2 billion.

Mylan last year earned $929.4 million on $7.72 billion in revenue, nearly 85 percent of that from the more than 1,400 generic drugs it sells. Its specialty segment sells the EpiPen allergic reactions treatment, which brought in $1.19 billion in 2014.