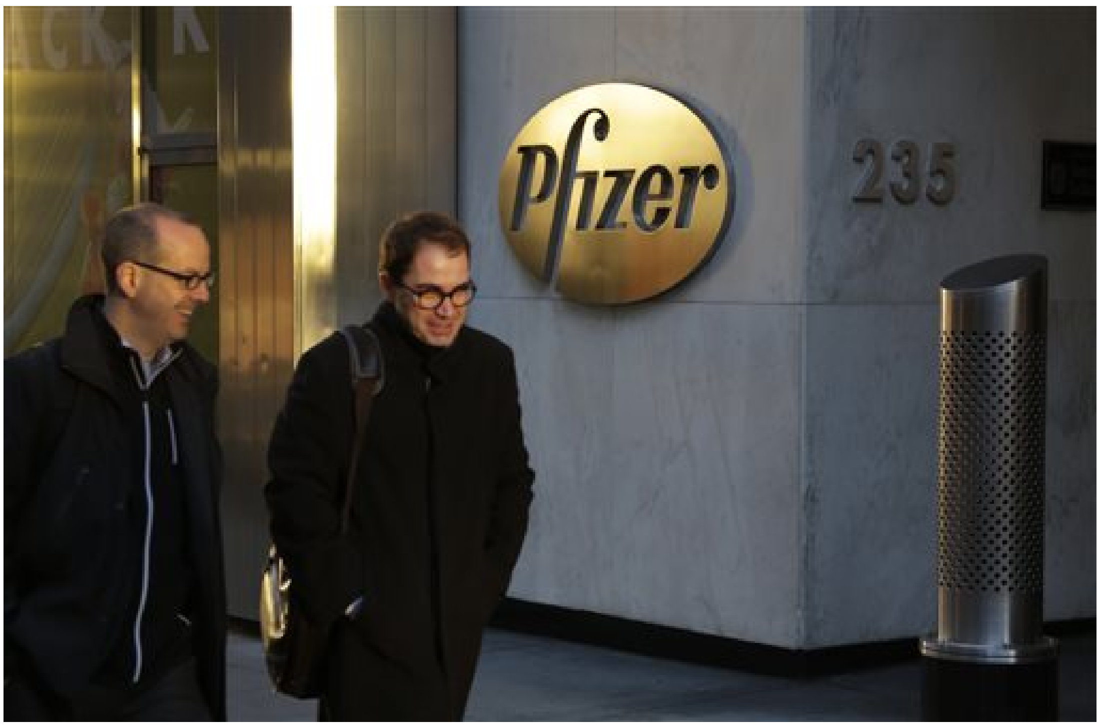
$160B deal to combine Pfizer and Allergan raises outcry

November 23 2015, byLinda A. Johnson And Tom Murphy



Men pass Pfizer's world headquarters, Monday, Nov. 23, 2015, in New York. Pfizer and Allergan will join in a $160 billion deal to create the world's largest drugmaker. (AP Photo/Mark Lennihan)

A $160 billion deal announced Monday to merge Pfizer and Allergan and create the world's biggest drug company renewed the outcry in Washington over "inversions," in which U.S. corporations combine with companies overseas to lower their tax bill.

The combination—the second-largest merger in history—could have ramifications around the globe, pushing up drug prices and spurring more such deals in the fast-consolidating health care sector and other fields.

It is also increasing the election-year backlash from U.S. politicians who have been blasting drugmakers recently over medicine prices that can exceed $100,000 a year.

In what would be the biggest inversion ever, Pfizer could save hundreds of millions in U.S. taxes annually because it would move its tax headquarters from America to Ireland, where Allergan is based. Pfizer, now headquartered in New York, would slash its tax rate from around 25 percent this year to about 18 percent.

Inversions have long been attacked by some politicians as a tax dodge, and Hillary Rodham Clinton and Bernie Sanders, the leading Democratic presidential contenders, criticized the deal.

Clinton said it will leave "U.S. taxpayers holding the bag," while Sanders said it will be a "disaster" for Americans already paying high prescription drug costs.

Asked if the deal was designed to avoid taxes, Pfizer CEO Ian Read said only that company executives' obligation is to shareholders and patients.

The merger is subject to approval from regulators in the U.S., European Union and elsewhere. It also needs the go-ahead from shareholders of both companies.

Pfizer makes such drugs as Viagra, cholesterol-lowering Lipitor and the clot-preventer Eliquis. Allergan produces the wrinkle treatment Botox and Restasis for dry eyes, and also has a superior pipeline of medicines in development.

If it goes through, the merger will return Pfizer to the top spot in the pharmaceutical industry, after years in which competition from cheaper generics cut into its revenue from some of its blockbuster drugs.

People pass Pfizer's world headquarters, Monday, Nov. 23, 2015, in New York. Pfizer and Allergan will join in a $160 billion deal to create the world's largest drugmaker. (AP Photo/Mark Lennihan)

The combination will essentially be Pfizer "but with a lower tax rate," wrote Bernstein analyst Tim Anderson.

Despite attempts by Congress and the Treasury Department to thwart the practice, about 50 U.S. companies have inverted in the past decade, and more are considering it, according to the nonpartisan Congressional Research Service. Treasury said it had no comment Monday.

Ireland's lower corporate tax rate would have saved Pfizer nearly $1 billion of the $3.1 billion in U.S. taxes it paid in 2014.

Sen. Charles Schumer, D-N.Y., a member of the Senate Finance Committee, called Pfizer's move "truly disturbing," given how the company has benefited from federally funded research and infrastructure. He and other politicians said Congress needs to reform tax laws, such as by lowering corporate rates, to prevent more inversions.

The health care sector has been the hottest in U.S. mergers this year and last, with deals worth $451 billion, according to Dealogic.

Drugmakers, insurers and pharmacy chains are combining to boost revenue, cut costs and increase their clout in negotiating prices and contracts. Each new deal puts pressure on smaller rivals to bulk up.

John Colley, a professor at Warwick Business School in Britain, predicted even bigger deals as "industry players become concerned about being left behind in the race for scale."

For consumers, however, such combinations could lead to higher drug prices, as well as higher taxes to cover the lost tax revenue, said Jerry Reisman, a New York merger expert.

"We're all going to feel this," he said.

The deal will enable the combined company to pour around $9 billion a year into research on new treatments, Read said in an interview. That includes work on cures for Alzheimer's disease, Parkinson's, cancer and other difficult-to-treat illnesses. It costs upwards of $1.5 billion to get a new drug approved.

"The impact for patients is great, both short term and long term," said Read, who will be chairman and CEO of the combined company, to be called Pfizer Plc.

Executives wouldn't discuss any layoffs, but they are considered inevitable, given that the companies predict annual savings of about $2 billion within three years of closing the deal. Pfizer has about 95,000 employees, Allergan 15,000.

Investors didn't much like the deal. Allergan stock fell 3.4 percent, to $301.72, while Pfizer dropped 2.6 percent, to $31.33.

Currently No. 2 among drugmakers globally, Pfizer posted revenue of $49.6 billion in 2014, when Allergan reported $13.1 billion. Switzerland's Novartis, the No. 1 drugmaker for the last few years, reported $58 billion in 2014 revenue.

Several U.S. drugmakers have performed inversions through acquisitions in the past several years, including generic drugmaker Mylan. Allergan itself is the product of an inversion.

Last year, the Treasury Department issued new regulations to curb the financial benefits of inversions. Amid political backlash over the looming Pfizer-Allergan announcement, Treasury rushed out new rules Thursday, but they focus on deals in which the overseas company's shareholders end up with 20 to 40 percent of the combined corporation.

Under the agreement announced Monday, Allergan's shareholders will own 44 percent of the stock, and Pfizer's 56 percent.