

# Pfizer, Allergan to merge in \$160 bn tax-saving deal (Update 3)

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The Pfizer flag flies in front of 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)

US-based Pfizer announced Monday a \$160 billion merger with Ireland-based Allergan to create the world's biggest pharmaceutical group and shift to a lower-tax jurisdiction despite government policies discouraging

such deals.

The deal, the biggest merger announced this year and, if completed, the second largest takeover ever, combines Pfizer's vast portfolio of drugs and vaccines addressing cancer, rheumatoid arthritis and other ailments, with smaller rival Allergan's holdings that include anti-wrinkle treatment Botox as well as treatments for eye care, dermatology and urology.

Executives emphasized the benefits of marrying the two companies' drug portfolios and research departments and achieving some \$2 billion in operational savings.

The companies also said the transaction would lower Pfizer's tax rate to the Irish levy of 17-18 percent. Pfizer executives said they were confident the deal would not flout US rules discouraging so-called inversions, including new measures announced last week by the Treasury Department. Pfizer's tax rate in the US is currently about 25 percent.

"The proposed combination of Pfizer and Allergan will create a leading global pharmaceutical company with the strength to research, discover and deliver more medicines and therapies to more people around the world," Pfizer's chief executive Ian Read said in a statement.

Just last Thursday, the Treasury Department announced further steps to block companies from undertaking transactions based on "a desire to shift the tax residence of a parent entity to a low-tax jurisdiction simply to avoid US taxes."

A Treasury spokesman said Monday the department does not comment on specific transactions.

## **'Reverse merger'**

Under the terms of Monday's deal, Allergan shareholders will hold 44 percent of the combined company at completion, while Pfizer will have 56 percent.

While Pfizer investors will own a majority of the company, the deal is technically structured as a "reverse merger," designating smaller Allergan the parent of the combined group, with plans to rename the entity Pfizer plc after the transaction closes, which the companies expect will occur in the second half of 2016.

Allergan investors will receive 11.3 shares of the new company for each Allergan share for a total currently valued at \$363.63 per share, more than a 30 percent premium prior to news reports of the tie-up talks.

Pfizer shareholders will receive one share of the combined company for each Pfizer share and will be eligible to receive at least some of their shares in cash.

The board will have 15 members, with 11 from Pfizer and four from Allergan.

Read expressed confidence the deal will pass muster with US regulators.

"We've been engaged for the last year and a half with leaders in Congress," he told CNBC in an interview. "We see this as very positive for the US."

The deal is a victory for Read, who in 2014 sought an inversion transaction with AstraZeneca, but was repeatedly rebuffed by the British company, which said Pfizer had undervalued its business.

But the mega-deal could spark a "major political backlash," predicted Gustav Ando, an analyst at consultancy IHS, who cited rising scrutiny of

high drug prices and pharmaceutical industry profits.

Democratic presidential hopeful Hillary Clinton said inversion deals like Pfizer's "will leave US taxpayers holding the bag" and called on Washington to "make sure the biggest corporations pay their fair share."

Clinton's rival, Senator Bernie Sanders, said the deal "would be a disaster for American consumers and would "allow another major American corporation to hide its profits overseas."

Provided the deal receives approval from shareholders and regulators, the merged company will be listed on the New York Stock Exchange and trade under Pfizer's current PFE ticker.

Pfizer plc will have its global operational headquarters in New York and its principal executive offices in Ireland.

Read will become the chief executive of the new Pfizer plc, while Allergan chief executive Brent Saunders will become chief operating officer with oversight of all Pfizer and Allergan's combined commercial businesses, manufacturing and strategy functions.

The merger is the biggest announced this year, beating the \$121 billion combination of top brewers Anheuser-Busch InBev and SAB Miller clinched earlier this month.

It could end up being the world's second-largest merger following British telecom company Vodafone's purchase of Germany's Mannesmann for \$172 billion, including debt, in 1999.

The deal comes on the heels of a record-setting run of mergers in global pharmaceuticals, lifting the 2015 total to \$455 billion. It would be the sector's biggest deal, topping Pfizer's 1999 acquisition of Warner-

Lambert for \$111.8 billion.

In afternoon trade, shares of Pfizer dropped 2.5 percent to \$31.38 and Allergan fell 2.8 percent to \$303.62.

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