Allergan, Pfizer call off proposed $160B merger

April 6 2016, by Linda A. Johnson

The Pfizer logo appears on a screen above its trading post on the floor of the New York Stock Exchange, Wednesday, April 6, 2016. The biggest U.S.-based drugmaker, Pfizer Inc., will stay put thanks to aggressive new Treasury Department rules that succeeded in blocking Pfizer from acquiring rival Allergan and moving to Ireland, on paper, to reduce its tax bill. (AP Photo/Richard Drew)

Top U.S. drugmaker Pfizer and Irish rival Allergan are charting independent futures after scrapping a record $160 billion deal torpedoed by new Treasury Department rules meant to block American companies from moving their corporate addresses overseas—on paper—to avoid U.S. taxes.

The rules issued Monday, aimed at stopping the companies' "tax inversion" deal, wiped out its financial incentives and rationale for Pfizer Inc., though they had no impact on Allergan PLC.

That led Pfizer and Allergan to walk away "by mutual agreement" on Wednesday. Pfizer, which is based in New York, will pay Allergan $150 million as reimbursement for its deal-related expenses.

It was Pfizer's third, and most expensive, failed attempt at an inversion, leaving analysts to speculate Pfizer will drop the strategy for good. The merger would have moved Pfizer's address, but not its operations or headquarters, to Ireland, where it would have paid hundreds of millions of dollars less in annual U.S. corporate taxes.

Tax inversions, in which a big U.S. company buys a smaller one in another country with a lower tax rate, and then moves the combined company's address there on paper, are a hot issue in the presidential race. President Obama on Tuesday called them "one of the most insidious tax loopholes out there," adding that Treasury's new rules are meant to make wealthy corporations shoulder their tax responsibility like working-class Americans.

Allegan logos appears on screens above its trading post on the floor of the New York Stock Exchange, Wednesday, April 6, 2016. The biggest U.S.-based drugmaker, Pfizer Inc., will stay put thanks to aggressive new Treasury Department rules that succeeded in blocking Pfizer from acquiring rival Allergan and moving to Ireland, on paper, to reduce its tax bill. (AP Photo/Richard Drew)

Pfizer and Allergan regrouped Wednesday and began touting their prospects as solo companies. They are far from being in dire straits as they contemplate their next moves: Both are highly profitable, have multiple lucrative medicine franchises and strong pipelines of experimental drugs, and each have enough cash to quickly do another deal.

Shares of Pfizer rose 4.8 percent to $32.87, while Allergan shares jumped 7.7 percent to $244.20 Wednesday afternoon.

"We can pivot very quickly from combination planning to independent planning," Allergan CEO Brent Saunders told The Associated Press, adding that both companies were prepared for a Treasury move to block their deal but considered it a small risk.

Saunders already is focused on closing Allergan's $40.5 billion deal to sell its generic drug business to Israel's Teva Pharmacueticals Industries Ltd., the world's top generic drugmaker. He expects that to close by the end of June, bringing Allergan about $36 billion after taxes to invest in "opportunities."

Those include mergers and acquisitions, buying rights to experimental drugs, share repurchases and paying down part of Allergan's $40 billion in debt, Saunders told The AP.

In this Nov. 23, 2015, file photo, the Allergan logo appears above a trading post on the floor of the New York Stock Exchange. Allergan and Pfizer called off Wednesday, April 6, 2016, a record $160 billion merger after the Treasury issued new rules to make "tax inversions" less lucrative. (AP Photo/Richard Drew, File)

Best known for its Botox anti-wrinkle injections and Restasis drops for dry eye disease, Allergan had a profit of $3.7 billion on revenue of $15 billion last year. The company is the result of multiple inversions, and despite its Dublin address operates from offices in Parsippany, New Jersey.

"Allergan will continue to invest in the United States," Saunders said, with a focus on jobs creation, expanding factories and research facilities, and doing research on cures for diseases with huge unmet need.

Nomura analyst Shibani Malhotra wrote that Allergan's share price underestimates its stand-alone value, adding that "Allergan offers some of the best, most durable assets in the sector."

It is currently launching several new drugs: Vraylar for schizophrenia and bipolar disorder, Viberzi for irritable bowel syndrome and Kybella for reducing double chins. It's also in the final stage of patient testing of Rapastinel, a new type of depression drug.

Pfizer, the maker of Viagra, pain treatment Lyrica and pneumonia vaccine Prevnar-13, said in a statement that its "late-stage pipeline has several attractive commercial opportunities" in multiple disease areas.

In this Nov. 23, 2015 file photo, traders James Matthews, left, and John Panin work at the post that handles Pfizer, on the floor of the New York Stock Exchange. Allergan and Pfizer called off Wednesday, April 6, 2016, a record $160 billion merger after the Treasury issued new rules to make "tax inversions" less lucrative. (AP Photo/Richard Drew, File)

"We also maintain the financial strength and flexibility to pursue attractive business development," CEO Ian Read said in a statement. He declined interview requests.

Pfizer's statement said it will decide by year's end whether to separate its established products business, which sells older, mostly off-patent drugs and accounted for nearly half of Pfizer's sales and profit last year.

That could indicate Pfizer has given up on inversions and is "back to usual business once again," Bernstein analyst Dr. Timothy Anderson wrote to investors Wednesday. He kept his "Buy" recommendation on

Pfizer, adding, "We need a clearer vision of what 'Plan B' might be."

Pfizer has endured years of relentless pressure from Anderson and other analysts to break up the company so growth and profits could accelerate. That's easier said than done, given Pfizer's huge scale, increasing pressure from insurers for bigger medicine discounts and revenue that's been declining for several years as multiple blockbusters such as cholesterol drug Lipitor have lost billions in annual sales to much-cheaper generic copycats.

Pfizer had $23.3 billion in cash, cash equivalents and short-term investments available at the end of 2015, when it posted a profit of $9.1 billion on revenue of $49.6 billion.

It's made several mega-acquisitions over the past two decades that allowed it to cut costs and increase sales to boost profits quickly. Deals like last year's purchase of injected drug maker Hospira have kept Pfizer among the top global drugmakers but haven't pleased investors enough, ultimately triggering the 2010 ouster of Read's predecessor.

The Allergan deal's demise could deter other tax inversions in the works—exactly the impact the Obama administration is seeking.

Other health care companies have recently done or are planning inversions, including fellow drugmakers Baxalta Inc. of Bannockburn, Illinois, and Shire PLC of Ireland, which are planning a $32 billion inversion deal. Meanwhile, Medtronic PLC, which relocated from Minnesota to Dublin in January 2015 after buying fellow medical device maker Covidien for $42.9 billion, said in a statement that it had done a preliminary review of the new Treasury rules and concluded they wouldn't have a material effect on the company.

Read has said the deal was needed because U.S.-based drugmakers are at a major disadvantage to their multinational rivals based in Europe and elsewhere, who face lower corporate tax rates. Other U.S. companies likewise have complained about the top U.S. tax rate of 35 percent—which few ever pay—and the U.S. taxing them on profits made overseas. As a result, Pfizer and other companies are keeping billions in overseas profits outside the U.S. to avoid a big tax bill if they "repatriate" those profits.