

SCOUTING FOR DEALS

Pfizer \$33 bn question remains after Teva, Actavis feelers

By CYNTHIA KOONS
feedback@livemint.com

NEW YORK

Pfizer Inc. has \$33 billion in cash and a million potential ways to use it.

That total on the balance sheet has been the focus of speculation among investors ever since the New York-based pharmaceutical company walked away from an almost \$120 billion deal to acquire UK drug maker AstraZeneca Plc last year.

The use of that cash is likely to be a topic of discussion after the biggest US drug maker reports fourth-quarter earnings on Tuesday. In October, executives announced an \$11 billion buy-back over an undefined time-frame, not enough to keep the company from doing deals, according to analysts.

Chief executive officer Ian Read's search for an acquisition target has been far and wide. After the AstraZeneca deal fell apart, Pfizer approached Actavis Plc, people familiar with the matter said last year. That company announced a deal to buy Allergan Inc in November. Pfizer also reached out to Teva Pharmaceutical Industries Ltd. last year, but the Israeli drug maker quickly rejected the overture, Bloomberg reported on Friday, citing other people with knowledge of the encounter.

The AstraZeneca deal was attractive to Pfizer in part because of the UK company's oncology pipeline. The proposed deal would also have let Pfizer relocate its legal address overseas, lowering its US tax bills. Months after Pfizer dropped its pursuit, the US Treasury Department imposed rules to limit the tax benefits of so-called inversion deals.



Spending power: The use of Pfizer's cash pile likely to be a topic of discussion after the firm reports fourth-quarter earnings on Tuesday.

Pfizer hasn't ruled out doing an inversion in the wake of those changes. Still, there could be political hurdles to an overseas deal from both domestic and foreign governments, just as Pfizer met resistance in the UK after proposing to buy AstraZeneca.

Pfizer's management is also going to be careful about how much it pays for its next target, which could make it hard to strike a deal at all, according to David Heupel, senior healthcare analyst at Thrivent Financial, which holds Pfizer shares.

"They're looking for strategic assets and they're taking a pretty broad stroke as to what they're looking at," he said. "But I think they're going to take a diligent and disciplined financial approach, and I don't think that's going to equate to a lot of opportunity for them."

In recent months, Pfizer's name has been linked to a range of companies. Analyst Jeffrey Holford at Jefferies laid out a range of scenarios for Pfizer, including deals with the likes of Mylan Inc, Actavis, Valeant Pharmaceuticals International

Inc and GlaxoSmithKline Plc.

A Pfizer press representative declined to comment on market speculation.

In November 2014, Pfizer announced a partnership with Germany's Merck KGaA, boosting its foothold in oncology by giving it rights to an experimental drug that's part of an emerging class of cancer therapies. That deal makes it less likely that Pfizer renews its pursuit of AstraZeneca, analysts have said, since the UK company's oncology products under development were a large part of its appeal for Pfizer. Pfizer also has its own drugs under development, such as palbociclib, which has shown promise in treating a form of breast cancer.

The company could seek to bolster its established-product business, which includes medicine with expired or expiring patents, in order to spin off that division later, Holford said in a December note to clients. "Investors overwhelmingly want Pfizer to take some sort of corporate action to unlock value," said the analyst, who advises buying the shares. BLOOMBERG