

PFIZER-ALLERGAN MERGER

# The Big Deal with Drugs



Vikas Dandekar

Pfizer, best known as the producer of Viagra, has quite a history of stitching up mega deals under its belt. In the middle of rising speculation, the multinational pharmaceutical corporation has notched up yet another merger by scooping up fellow drug-maker Allergan in a record-breaking \$160 billion deal on Monday. Together, the combined company will lord over its peers with annual revenues estimated at over \$60 billion.

Pfizer's fondness and success of acquiring companies is quite remarkable, especially over the last two decades when the healthcare industry has been forced out of its cocooned markets such as the US, Europe and Japan. The Allergan deal is no less emblematic of the pharma giant's well-known aggression. But the Allergan merger is an exception.

The Manhattan-based Pfizer asserted that combining with Allergan, the manufacturer of Botox, will help the company access new medicines and reach new markets. But along with this would come the significant benefit of a lower corporate tax. This is seen by many as a primary motivation behind the mega deal. (See 'Move to Slash US Tax Bill Sparks Political Backlash' overleaf on World View.)

Pfizer has not shied away from admitting its intent to switch its domicile status from the US to Ireland — where Allergan, a US firm, is located — and thereby save itself from the heavy corporate taxes levied per the US laws.

Reports suggest Pfizer's current tax rate in the US is about 25%. This figure may go down to well below 20% following the completion of the agreement. Pfizer Inc will, thus, become

Pfizer plc, a change that is bound to hurt the pride of America Inc.

Allergan is, in some ways, a substitution for Pfizer's failed courtship of AstraZeneca. Last year, Pfizer made a desperate but futile bid to wrest control of the Anglo-Swedish drug-maker, again with the predominant view of saving taxes. The Allergan deal, termed as a 'tax inversion' mechanism, has, therefore, come under fire from the Democrats and Republicans alike.

Republican front-runner Donald Trump junked the deal as being "distasteful", while his Democrat counterpart Hillary Clinton has stated that powerful corporations have exploited loopholes that allow them to hide earnings abroad to lower their taxes. Now Pfizer is trying to reduce its tax bill even further. "This proposed merger," said Democratic presidential front-runner Clinton, "and so-called inversions by other companies, will leave US taxpayers holding the bag."

For its part, in a last-ditch attempt, the US treasury department last week notified a set of rules that could make it tougher for local companies to domicile abroad and avoid the US tax structures. But that may not be sufficient to jettison the Pfizer-Allergan deal.

Although it may be seen as an ideal

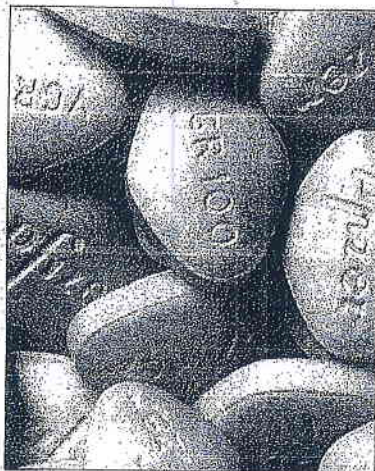
political plank to raise the pitch in the build-up to the US presidential elections, sceptics see reason in such outbursts. Like any other global player, Pfizer, too, has primarily acquired Allergan to add punch to its operations, enrich research capabilities, expand operations and simply gain marketing synergies through complementary portfolios. Tax avoidance was never cited, or even hinted at, as a reason for the merger. Keeping this, as it were, behind the curtains, led to its intentions being brought under the spotlight.

Pfizer has, nonetheless, historically benefited in expanding sales from its many big deals. However, those may not have helped it put too many new research products in the market. In 2000, it forked over \$100 billion to buy Warner-Lambert mainly aimed at accessing rights to Lipitor, the marquee cholesterol-cutting brand that went on to be crowned as the highest ever selling pharmaceutical product notching annual sales of \$12 billion.

Later in 2002, Pfizer acquired Pharmacia for \$60 billion, again to gain access to its big product Celebrex, a drug that at that time was seen as a benchmark to treat inflammation. A few years on, Pfizer acquired Wyeth for a similar value that enabled its entry into a growing portfolio of preventive vaccines, consumer health and women's healthcare products.

Now, given the amplified political situation, a closer scrutiny of Pfizer's Allergan deal by the US Congress is not ruled out. It may kick up another political firestorm.

Lately, Big Pharma, Pfizer included, has drawn flak from civil society and politicians alike on charging high prices of essential medicines. The frequent debate of drug value versus drug pricing has fuelled criticism and harmed Big Pharma's reputation. The drug industry is perhaps seeing a new low. Pfizer's so-called 'tax inversion' deal with Allergan can only add to this list of woes.



Pfizer needed a lift

vikas.dandekar@timesgroup.com

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