

PHARMA ACQUISITION

Actavis agrees to buy Forest Labs for \$25 bn

The deal, which is a win for investor Carl Icahn, will transform Actavis into a developer of brand-name drugs

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TEL AVIV/NEW YORK

Actavis Plc, the world's second-largest generic drug maker by market value, agreed to buy **Forest Laboratories Inc.** for about \$25 billion in a deal that will transform it into a developer of brand-name drugs.

"Forest stockholders will receive cash and stock valued at \$89.48 a share," the companies said in a statement on Tuesday. That's 25% above closing price on 14 February. The deal is a win for billionaire investor Carl Icahn, who gained a board seat at Forest in 2012 and is the second-largest shareholder.

Actavis was the most active buyer of drug companies over the past three years, making \$14.4 billion of purchases, according to data compiled by *Bloomberg*.

"The company depends on mergers and acquisitions (M&As) to sustain earnings growth, since developing drugs through research and development (R&D) is so costly," said Ori HersHKovitz, a partner at **Sphera Funds Management Ltd.**

"They have promised the market that they would do a large amount of deals to keep the accretion alive," said HersHKovitz, who's based in Tel Aviv and does not own Forest or Actavis shares. "If you can't do a large amount of R&D, there's only one way to grow and that's through M&A."

Actavis, which is based in Dublin and run from Parsippany, New Jersey, rose 0.1% to close at \$191.88 on 14 February in New York Stock Exchange trading, giving the company a market value of \$33.4 billion. Forest climbed 1.5% to \$71.39. The US markets were closed on Monday for a holiday.

With a purchase of Forest, Actavis will add the Alzheimer's drug Namenda and blood-pressure pill Bystolic to its product line-up. The acquisition will add to earnings immediately, Actavis said.

"The purchase fits with Actavis's desire to expand in branded pharmaceuticals and become less focused on generics, and investors probably will look favourably on it given the deal frenzy environment," said David Maris, an analyst at BMO Capital Markets in New York. Still, he's not convinced the purchase makes strategic sense because Actavis's financial outlook is already solid and overseeing the integration will be difficult, Maris said.

"We don't want to be the grown-ups at the party, but we wonder why Actavis would

seek to complete such a large deal when near- and intermediate-term earnings are, in our view, already in a good position," he wrote in a report before announcement.

Actavis was formerly known as **Watson Pharmaceuticals Inc.** The company in 2012 acquired Zug, Switzerland-based Actavis and took on the Actavis name.

Last year, it purchased **Warner Chilcott Plc** for \$9.2 billion including net debt in a deal that enabled the company to expand in women's health and urology. That purchase gave the company an Irish corporate domicile that lowered its tax rate to 17% from 37%.

Forest Laboratories chief executive officer Brent Saunders will join the Actavis board, the companies said. Paul Bisaro, Actavis's chairman and CEO, will lead the combined operation, they said. "Saunders has agreed to work with me following the close to build a world-class company," Bisaro said in the statement.

Saunders, the former CEO of **Bausch and Lomb Inc.**, took over leadership of Forest in September with support from Icahn. Forest said last month it reached an agreement to buy **Aptalis Pharma Inc.** for \$2.9 billion to add treatments for gastro-intestinal ailments and cystic fibrosis.

Greenhill and Co. advised Actavis, while **JPMorgan Chase & Co.** advised Forest. **BLOOMBERG** feedback@livemint.com