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Despite repeated rebuffs, Teva woos Cipla with $6 billion offer

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MUMBAI

It's the season for pharma deals, and the world's largest maker of off-patent drugs, Israel's Teva Pharmaceutical Industries Ltd, is wooing Cipla Ltd with an offer that is as high as $6 billion, people familiar with the matter said.

The Israeli company, which is targeting revenue of $31 billion by 2015 (it also wants to reduce costs by $2 billion in the next two to three years) has since 2012 twice made approaches to the Indian drugmaker. It was rebuffed both times.

Now, it is making a third attempt to take over the Indian firm, said two persons familiar with the matter, one of them a consultant and the other a merchant banker. Both declined to be named.

"We do not want to comment on market rumours," Teva's spokesperson Denise Bradley said in an email last week.

"Cipla has no plans to sell the company, so hasn't considered any of the proposals," Cipla's global spokesperson

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said on Tuesday.

The banker cited above said Teva made its latest offer in November, adding that it was "very attractive".

"Teva always prefers to buy a controlling stake in a targeted company, and will potentially buy the entire 36.8% promoter stake in Cipla, in addition to making the mandatory open offer to pick up another 20% stake from the public, at a premium of at least 20% on the existing market value," this person said.

On the basis of the closing price of its shares on Wednesday (₹382.85 on the BSE), Cipla has a market value of ₹30,739 crore, and could be valued at close to ₹36,000 crore (around $6 billion), including the premium, the banker said.

The price is high because Teva considers Cipla an ideal fit. Teva's senior management had picked Cipla as the best option for a strategic acquisition several times in the past, said the consultant cited above.

The Indian company's large manufacturing base in India, the world's cheapest location for generic drug manufacturing, and its strong market presence in emerging markets, including India, offer the best synergy for Teva, the consultant said.

Cipla's strong presence in the global market for respiratory drugs is also a key attraction for Teva. Its 2015 revenue target includes a potential contribution of $2.4 billion from this segment alone. That makes it imperative that the company explores the option of acquisition, targeting companies such as Cipla, the consultant said.

Despite repeated denials from Cipla, which is now restructuring its business model to have a direct market presence and a strong global footprint, Teva hasn't given up.

"Cipla may accept the offer as it faces growth challenges and succession issues," said the banker.

Cipla is headed by the iconic entrepreneur Yusuf K. Hamied, now 78, and there have been questions as to who will run the company after him.

The company has said it is making the transformation to being a professionally-managed, board-driven company.

Cipla's spokesperson said succession was no longer an issue.

"We have consistently denied it (the rumours about selling the company) in the past and continue to do so," the spokesperson said.

India is an obvious market and manufacturing base for Teva, according to a pharma analyst with a foreign brokerage.

"Teva, which has already set up a research centre for active pharma ingredients (API) and a manufacturing facility for over-the-counter (OTC) drugs in India, misses the key formulation manufacturing base in India," the analyst said, requesting anonymity.

In 2005, Teva set up its API research centre at Greater Noida near Delhi. In 2012, it set up a factory to make consumer health and nutritional products at Sanand in Gujarat through a joint venture with US-based consumer products maker **Procter and Gamble Co.**

Although the Israeli firm established an India subsidiary called **Teva API India Ltd** in the mid-2000s, it has always had its sights set on a large acquisition in India that will give it a larger footprint in the growing local market.

That hasn't worked out largely because Indian pharma companies are quite expensive.

Globally, Teva has acquired several firms since 2005, including Germany's largest generic drugmaker Ratiopharm, US drugmakers Barr Pharmaceuticals Inc. and Ivax Corp., Cephalon Inc. and Japanese generic drug maker Taiyo Pharmaceutical Industry Co. Ltd, as part of an effort to expand its presence across various regions and therapeutic segments.

Teva, if successful in the local acquisition, can leverage Cipla's significantly large manufacturing base in India to shift a major portion of production activity to this cheaper location, saving costs. Its global rival **Mylan Inc.** has already made multiple acquisitions in India since 2006. Mylan, which currently has more than half of its 20,000 odd workforce placed in India, has made the country its largest products sourcing base.

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