

Section: Mergers & Acquisitions

Pfizer Acquires King and Expands Pain Management Portfolio

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Pfizer Inc and King Pharmaceuticals Inc have signed an acquisition and merger agreement worth USD 3.6 B with King's shares being valued at a 40 % premium. King's pain management portfolio, Meridian auto- injector, and animal health care businesses would complement Pfizer's existing business lines.

Pfizer will acquire King Pharmaceuticals Inc along with its animal health subsidiary Alpharma LLC paying USD 14.25 per share, with the deal valued as a total at USD 3.6 B (Deal no. 37764). The share price offered is at a 40% premium to the closing price on October 11, 2010 and would make the deal Pfizer's biggest acquisition since the Wyeth deal last year (Deal no. 32282). The transaction is expected to be accretive to Pfizer's diluted earnings per share by 2 cents annually in 2011 and 2012 and between 3 to 4 cents from 2013 – 2015. The agreement also includes a USD110 M breakup fee payable by King to Pfizer if the deal is terminated under certain circumstances. The companies expect to close the transaction by the end of this year or latest by March 2011 after completing the tender process and receiving regulatory clearances.

Pfizer will get King's pain management portfolio, the Meridian auto- injector business for emergency drug delivery and the animal health business. These are fully complementary to Pfizer's Primary Care, Established Products and Animal Health business units and will help it to fulfill one of its identified strategic areas of unmet medical need. Over the long term, the pain management portfolio will see the maximum gains from this deal. Prominent additions for Pfizer are King's Avinza® (morphine sulphate ER), a once daily capsule for adult pain treatment, the Flector Patch (diclofenac epolamine) for treatment of acute pain from sprains and bruises, and Embeda®, the first approved opioid pain drug designed to discourage drug abuse secured by King when it acquired Alpharma Inc in 2008 (Deal no. 31128). Through this deal Pfizer will also be partnered with other pain management drug producers like Acura Pharmaceuticals Inc and Pain Therapeutics Inc.

King began focusing on pain management after the patent for its blood pressure drug Altace expired in 2007. Embeda® received approval from the US FDA in 2009. Within Pain Therapeutics Inc, Remoxy, a tamper resistant, long acting oxycodone capsule is being developed, with data to be re-filed before the FDA by the end of this year. An anticipated increase in King's share value and bargaining powers if Remoxy received approval was also one of the triggers for Pfizer's early

signing of this agreement. King's other partner is Acura Pharmaceuticals Inc. (Deal no. 28817), who is producing the drug Acurox (oxycodone HCl and niacin). This is designed to be ineffective if abused. However, the drug is still under data review with the FDA due to potential side effects. King's pain pipeline also has AL-02, a drug entering Phase III and AL-04, which is in Phase II. All these complement Pfizer's COX 2 inhibitor Celebrex (celecoxib) prescribed for arthritis and Lyrica (pregabalin), which is for treating fibromyalgia, diabetic nerve pain and shingles- related pain. These two drugs bring Pfizer up to USD 5 B in annual revenue.

King's share value and profits had taken a hit due to generic competition and this deal with Pfizer has given it the required boost. It entered the pain arena with an aim to deal with products that prevent or deter abuse and benefit from long term patent protection for these products. This is a somewhat tricky proposition as it is difficult to prove the extent to which a drug can prevent or resist its own abuse. The parameters for this are also not clearly laid down and drugs like Embeda are not permitted to be advertised for their deterrence or anti tampering properties. As a result, the drug's forecasted market potential is yet to be achieved.

The market for pain relief drugs is increasing and is currently estimated at USD 20 B. Pfizer will use its existing pain drugs sales force to promote the products received from King, while some of its products can be sold by King's specialist sales pain drugs force. The revenue will partly offset the drop expected when Pfizer's main revenue earner Lipitor® goes off patent next year. The cholesterol drug has sales exceeding USD 11 B yearly. Although Pfizer has not advertised it, the savings in operating expenses would also be substantial due to complementary business lines. The savings are expected to reach USD 200 M by end 2013. Pfizer has reaffirmed its earnings for 2012.