

Section: Mergers & Acquisitions

Watson to Become World's Third Largest Generics Company with US\$5.9 B Actavis Buyout

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After much speculation, Watson Pharmaceuticals has announced that it is to acquire fellow generics company Actavis Group for €4.25 B (US\$5.6 B) upfront and €250 M (US\$329 M) in future Watson common stock. The purchase will create the third largest global generics company, behind Teva Pharmaceutical Industries and Novartis, with pro forma 2012 revenues of approximately US\$8 B. It will also significantly enhance Watson's global presence, particularly in established European markets and emerging markets in Central and Eastern Europe.

Watson Pharmaceuticals has finally put an end to the rumours and speculation surrounding its interest in the Actavis Group by confirming that it is to acquire the company for an upfront payment of €4.25 B (US\$5.6 B) in what is by far its biggest deal to date (Deal no. 46604). The total consideration will include a cash payment of approximately €4.15 B (US\$5.5 B) as well as the assumption of a maximum of €100 M (US\$132 M) in revolver debt, which is to be repaid at closing. Actavis stakeholders are also eligible to receive additional consideration, which is contingent upon the company achieving negotiated levels of certain 2012 performance targets. The contingent payment, if fully earned, would result in the delivery of up to 5.5 million shares of Watson common stock in 2013 and was valued at €250 M (US\$329 M) during the companies' negotiations, based on a per share price of US\$60 (€45.55). The deal, which prompted shares of the US generics company to climb 7%, is expected to close in the fourth quarter of 2012, subject to customary conditions.

Actavis, which has a commercial presence in over 40 countries, markets more than 1000 products globally and has approximately 300 products in its development pipeline. The company manufactured more than 22 billion pharmaceutical doses in 2011. Among its many products are generic versions of the attention deficit hyperactivity disorder drug Ritalin® (methylphenidate hydrochloride) and the sedative Ambien® (zolpidem tartrate). In March 2012, the company partnered with QRxPharma to commercialise MoxDuo® IR (morphine and oxycodone) in the US for the acute management of moderate-to-severe pain (Deal no. 44613). MoxDuo IR is considered the company's flagship product in its growing pain management franchise.

The acquisition will transform Watson from the third largest generic pharmaceutical company in the US into the third largest generics company in the world, ahead of Mylan and behind Teva Pharmaceutical Industries and Novartis, with anticipated 2012 pro forma revenue of approximately US\$8 B in 2012. It will also accelerate Watson's top and bottom-line growth profile for the foreseeable future and will be immediately accretive to non-GAAP earnings before synergies. Watson estimates that annual synergies of more

than US\$300 M can be achieved within 3 years. Moreover, the deal will diversify the company's portfolio, which currently includes modified-release, solid oral dosage and transdermal products, adding semi-solids, liquids and injectables.

The takeover will also complete Watson's global commercial expansion plans. The two companies share a geographical presence in only six markets – the US, the UK, Australia, France, the Nordic countries and China – and the transaction will strengthen Watson's commercial position in key established European markets and in emerging markets in Central and Eastern Europe and Russia. As a result of the acquisition, Watson, whose recent US sales have been boosted following the launch of its authorised generic version of Pfizer's cholesterol lowering drug Lipitor® (atorvastatin) in November 2011, will now see approximately 40% of its generics revenues come from markets outside the US, up from around 16%. Watson established its European footprint in 2009 with the US\$1.75 B purchase of Arrow Group (Deal no. 33505) and went on to acquire the Greek generic drug developer Specifar Pharmaceuticals in 2011 for €400 M (US\$563 M) (Deal no. 40937). More recently, it acquired Ascent Pharmahealth, the Australia and Southeast Asia generic pharmaceutical business of Strides Arcolab, for AUS\$375 M (US\$394 M) in cash (Deal no. 45001).