



Is Valeant's Big Offer for Allergan Big Enough?

Description

On April 22, 2014, **Valeant Pharmaceuticals** (TSX: VRX)(NYSE: VRX) [made an unsolicited offer of around \\$46 billion](#) to the shareholders of **Allergan** (NYSE: AGN), a top-tier pharmaceutical company. The cash and share offer, which amounted to around \$154 per Allergan share, represented a substantial premium compared to the \$115-\$125 price prevailing in the weeks before the offer was made.

After the Allergan board's rejection of the initial offer, the Valeant board improved the offer further on two occasions. On May 28, 2014, the cash component of the offer was increased to \$58.30 per share from \$48.30 per share, and again to \$73 per share two days later. The 0.83 share exchange ratio remained unchanged but Valeant also included a contingent value right linked to future sales of a drug that is still under development.

Based on the current share price of Valeant, the offer is worth around \$183 per Allergan share, excluding the speculative component of the contingent value right. The offer values Allergan at a 2014 EV/EBITDA ratio of 21 times; this is considerably higher than the valuation of a representative peer group, which trades on an estimated multiple of 12 times. Based on Valeant's calculation of \$2.7 billion in savings through a business combination, the offer multiple could drop to an estimated 14.5 times, which would still represent a considerable premium to the peer group valuation.

Will Valeant increase the offer a third time?

The offer on the table is, in my view, already a full price for Allergan. In addition, Valeant has limited options to further increase the cash component of the offer given its already stretched balance sheet and limitations on the issue of additional shares. Apart from marginal tweaking, it is therefore unlikely that the offer will be further materially improved.

What will Allergan's shareholders do?

Apart from the two bidding parties (Valeant and Pershing Square, which combined hold 9.7% of Allergan's shares), the other shareholders are mainly investment funds. Although this battle may continue for much longer with interesting twists and turns, one could imagine that these shareholders

would look to optimize the windfall profit brought about by the Valeant offer.

Given the rich offer already on the table, the considerable execution risks to Allergan's shareholders, and perceptions of an inflated Valeant share price and unsustainable business model, current Allergan shareholders may be tempted to sell their stock in the market to lock in the considerable gains they have already experienced.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)

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