

David Pyott: The battle for Allergan (A)

On 22 April 2014 Bill Ackman, CEO of Pershing Square Capital Management, announced that he had partnered with Canada's Valeant Pharmaceuticals to buy US-based Allergan. Valeant was a serial acquirer of specialty drug-makers. It planned to cut jobs and Allergan's R&D budget and relocate its domicile to Canada to increase earnings through lower tax rates.

The first that Allergan's CEO, David Pyott, knew about the bid was at 1.30 pm in California when a journalist from *The Wall Street Journal* called to ask Allergan's opinion of it. Although surprised at the bid, Pyott had heard rumours that Valeant wanted to acquire Allergan. Without more concrete substantiation, he hadn't taken them seriously, considering Valeant a roll-up company not effectively able to swallow Allergan. Valeant was stretched because it had recently purchased Bausch & Lomb for approximately US\$8 billion and its bonds were classed as junk. Financing the acquisition themselves would have been virtually impossible for Valeant, given that Allergan was worth US\$37 billion at the time – the debt Valeant would have had to take on was unthinkable. What Pyott did not know, however, was that Valeant was working with Pershing Square, a hedge fund.

It appeared that Bill Ackman, known as an activist investor, had begun buying Allergan shares on February 25, switching to over-the-counter call options in March. After a two-day hiatus on April 9 and 10, when the share price dipped, he resumed purchasing on April 11, amassing almost 10% in total. According to one report, Valeant was open to Ackman's purchasing strategy as Pershing was a hedge fund and could accumulate more shares before having to disclose what it was up to¹. Allergan's market capitalisation was approximately US\$37 billion when Ackman started to purchase shares. Six days before the bid announcement, the share price soared 22%. Valeant offered US\$48.3 in cash and 0.83 of its shares for each Allergan share, or US\$45.7 billion based on the closing share price of April 21. By April 22 afternoon's trading in New York, the bid had a market value of US\$47 billion.

For Pyott, this was all-out war. It would be, he thought, the greatest test of his leadership to steer the company through the many individual battles and win this war.

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