FINANCIAL TIMES

Last updated: April 24, 2012 11:56 am

Watson set to buy Actavis for €4.5bn

By Anousha Sakoui and Andrew Jack

Deutsche Bank is close to clearing its books of the largest loan it has been saddled with as a legacy of the credit crisis, with a deal to sell Actavis to US generic drugmaker Watson Pharmaceuticals set to be announced as soon as Wednesday.

The still to be signed deal is expected to value the company at about €4.5bn and would create one of the world's largest businesses selling off-patent medicines, according to people familiar with the talks.

The proceeds, which should be delivered to the Frankfurt-based bank towards the end of 2012, when the deal is estimated to close, are set to reduce its portfolio of non-core corporate legacy assets by about a third to about €8bn.

The unsolicited offer from Watson would involve €4.25bn payable upfront and up to a further €250m if Actavis meets financial targets agreed for 2012, one of the people said.

The deal, which is set to be announced before Deutsche Bank's first-quarter results on Thursday, will repay a majority of what the bank was owed from the original deal. It made about €4bn of loans to fund the buyout of Actavis in 2007.

The bank has already taken impairments in previous quarters, however, and the sale is likely to result in another impairment in its first quarter of about €300m.

Deutsche Bank also owns Cosmopolitan, a Las Vegas resort and casino scheme that went into foreclosure in 2008, and Maher Terminals, the terminal operator it acquired in 2007.

However, the bank is unlikely to pursue a sale of those companies before 2013 because of difficult conditions for mergers and acquisitions.

The fact that the fortunes of Cosmopolitan and Maher Terminals are strongly tied to the state of global trade and the health of the economy will stall any sales, people familiar with the situation said.

The news is still expected to provide a boost to the bank, freeing about €400m in capital and resources that had been tied against the position earlier than it had expected.

A restructuring of the company's debts in recent years gave Deutsche Bank representation on Actavis's board.

Watson is the third-largest US generic drugs group, with global sales of $3.4bn last year. Just 16 per cent of net revenues came from outside the US.

Paul Bisaro, Watson's chief executive, has frequently talked about his appetite for acquisitions in an effort to expand the US group internationally and into biological generic medicines.

Thimo Sommerfeld, head of Abolon, a healthcare strategy consultancy, said: "The companies' positioning is highly complementary, offering numerous sales synergies.

"Watson has branded niche products and many global brands, Actavis has a presence in generics markets where generic products branding is still possible and justifies a price premium."

While resources-linked companies still dominated mergers and acquisitions volumes this year, consolidation in the pharmaceutical sector had seen a flurry of activity in recent weeks, with GlaxoSmithKline bidding for Human Genome Sciences, and Roche's pursuit of Illumina earlier this year.

All parties declined to comment.