Valeant to Buy Bausch + Lomb for $8.7B

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Canadian drugmaker Valeant Pharmaceuticals has agreed to pay $8.7 billion to buy Bausch + Lomb, one of the world's best-known makers of contact lenses, in a massive expansion of Valeant's smaller ophthalmology business.

Valeant said Monday that the cash deal will help it capitalize on increasing demand for contact lenses and other products because of aging populations, growing demand in emerging markets and increasing rates of diabetes. Complications of the complex blood sugar disorder can damage the eyes over time.

Investment firm Warburg Pincus, which leads an investment group that owns Bausch + Lomb, will receive $4.5 billion in cash. The remaining $4.2 billion will be used to repay Bausch + Lomb's debt.

Reports that the purchase was in the works surfaced late last week, driving up shares of Valeant on Friday by 13.1 percent, to $84.47.

The deal, which requires approval from regulators and other standard closing conditions, is expected to be completed in the third quarter. It will be financed with debt and about $1.5 billion to $2 billion in new stock.

Valeant expects to achieve at least $800 million in annual cost savings by the end of next year, and said the acquisition will add to its profits immediately.

Rochester, N.Y.-based Bausch + Lomb Holdings Inc. makes contact lenses, eye drugs and ophthalmic surgical devices. It will keep its name and become a division of Valeant Pharmaceuticals International Inc., which is based in Laval, Quebec.

"I am confident that under their stewardship, the Bausch + Lomb brand will continue to stand for excellence and innovation in eye health," Brent Saunders, CEO of Bausch + Lomb, said in a statement.

"Bausch + Lomb has undergone a profound transformation over the last few years," Saunders said. "We introduced innovative new products for patients, built a robust pipeline, expanded into new markets and strengthened our relationships with eye care professionals around the world."

Valeant's ophthalmology business will be folded into the new Bausch + Lomb division. The combined global business would have 2013 revenue topping $3.5 billion on a pro forma basis, meaning the total of sales from both companies' eye care businesses for the full year.

Much of that will come from Bausch + Lomb, which anticipates it will have revenue of about $3.3 billion this year. Bausch + Lomb expects adjusted earnings before

interest, taxes, depreciation and amortization of about $720 million.

The deal cements the combined business as one of the global leaders in eye care.

Switzerland's Novartis AG had about $5 billion in combined 2012 revenue from its sales of Lucentis, a pricey biologic drug for treating the eye condition macular degeneration, and from its Alcon division. Alcon sells contact lenses and solutions, lenses implanted in the eye to treat near-sightedness and cataracts, ophthalmology drugs and surgical equipment.

New Brunswick, N.J.-based Johnson & Johnson's Vistakon eye care division had 2012 revenue of about $3 billion. It sells Acuvue contact lenses, which the company claims are the world's most widely used brand.

Allergan, based in Irvine, Calif., had about $2.7 billion in revenue last year, from its Refresh artificial tears and prescription drugs including Restasis for dry eyes and two medicines for treating glaucoma and excessive fluid pressure within the eye.

After the deal closes, Saunders will become an adviser to Valeant to help with integrating Bausch + Lomb. Other senior Bausch + Lomb executives will join Valeant as well.

The $8.7 billion purchase price is about 2 1/2 times the 2012 revenue of $3.55 billion reported by Valeant, which specializes in dermatology medicines. It also sells a range of brand-name and generic drugs, as well as nonprescription medicines.

Valeant's CEO, J. Michael Pearson, said in a statement that the deal will make his company a world leader in both eye health and dermatology.

"Bausch + Lomb's world-renowned brand, comprehensive portfolio of leading eye care products and promising late-stage pipeline are an ideal strategic fit for our current ophthalmology business," Pearson said.

Bausch + Lomb had been taken private in 2007, when New York-based Warburg Pincus bought the struggling company for $3.67 billion.

That happened after Bausch + Lomb had to recall its ReNu with MoistureLoc contact lens solution because it had been linked to dangerous fungal infections. Bausch + Lomb then paid out about $250 million to settle more than 600 lawsuits blaming the MoistureLoc solution for a potentially blinding infection of the cornea, the clear membrane over the pupil and the colored part of the eye.

Bausch + Lomb has since worked to rebuild, most recently with a series of acquisitions.

Last year, it narrowed its net loss to $68.3 million from $123.9 million in 2011. Revenue rose to $3.04 billion in 2012 from $2.85 billion.

Two months ago, the company said it expected to go public again.

Valeant has about 7,500 employees worldwide, while Bausch + Lomb has more than 11,000. The companies did not indicate whether the combination will result in job cuts.

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