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SPAIN'S GRIFOLS BUYS TALECRIS

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In the summer of 2010 Grifols, the Catalonian pharmaceutical company, specialized in plasma-derived biological products, announced the acquisition of its U.S competitor Talecris Biotherapeutics by 3,300 million euros, creating, if we add to the 1,500 million euros revenue from the American company, the 900 euros revenue from the Spanish, the third world's largest blood-based infusions company.

Talecris was created in 2005 when Bayer decided to sell its blood division to two investment funds. Within this market segment, Talecris had become the third largest company worldwide, with sales of 1,533 billion dollars in 2009, only behind the U.S. Baxter and Australian CSL.

The transaction was approved by U.S. antitrust authorities in early May 2011. Although the participants did not question this decision favorable to their interests, there was the precedent of the prohibition that the U.S administration had given to CSL attempt to buy Talecris in 2008. Then the authorities argued that the purchase would have reduced to two the competitors in the segment, when at least three rivals were necessary to ensure free competition. Condition accomplished in this operation.

According to published conditions, Grifols bought all Talecris shares by 2,800 million euros (plus the assumption of an estimated debt of $500 million) paying 19 euros and 0.64 shares for each share of Talecris, which meant a premium of almost 50% of their stock market price in the preceding months. In the operation, Nomura and BBVA were the investment banks.

To cope with the cash payment, Grifols has closed a five-year syndicated loan of about 1,500 million euros with Deutsche Bank, BNP Paribas, HSBC and Morgan Stanley, plus an emission of long term bonds for another 1,200 million euros. With these operations, its debt level is greatly increased reaching up to 3,750 million euros (five times EBITDA) expected to be reduced rapidly due to the financial synergies between the companies, estimated in 190 million euros per year. Maybe because the high debt level, the operation was not well received in the stock market, and Grifols shares closed down 8% the day after its announcement.

Initially, the operation was viewed with some suspicion by the markets due to its risk and the strict conditions imposed by the U.S. administration, which forced them to get rid of several production centers in the United States. However, in the light of the results, it has been successful. At the end of 2012, the most optimistic predictions were met and expected synergies with Talecris paid off as they managed to improve sales by 15.2%, increase benefits by 0.5%, reduce inventories and process more product at lower cost. As a result, Grifols' shares were revalued by 72% and debt levels were significantly reduced to the point that most financial analysts considered that, probably in 2013, the company would be able to pay dividends again.

All of this has enabled Grifols to reorganize its debt, revise interest rates and ultimately negotiate more favorable conditions for future growth that will allow them to continue with the launch of new fractionation plants in Barcelona (2014) and North Carolina (2015) and make the leap to South America, where they hope to enhance their activities.