GRAND RAPIDS BUSINESS JOURNAL

O'Perrigo?

Perrigo is not alone in moving its corporate domicile to Ireland.

By: Pete Daly -August 2, 2013

Perrigo is among many other companies when it comes to deciding to change its legal corporate domicile to Ireland. Actavis, a New Jersey drug company, announced in May it was buying a rival company in Ireland — Warner Chilcott PLC — for $5 billion in stock, and the deal will allow Actavis to reincorporate in Ireland.

However, Actavis CEO Paul Bisaro also noted he and the company's other top executives will continue to live and work at the offices in New Jersey.

Bisaro said the U.S. corporate tax rate puts American-based companies at a disadvantage.

When Perrigo's acquisition of Irish drug company Elan Corp. closes later this year, Perrigo will still be called Perrigo but will actually be a new corporate entity legally domiciled in Dublin, where it will pay less in corporate income tax and have a new "hub" from which it can launch new business ventures in Europe.

Perrigo spokesperson Arthur Shannon at the current corporate headquarters in Allegan said senior management will still be located in Allegan after the deal is concluded, but he confirmed it will be a new legal entity based in Ireland.

"The name will be Perrigo going forward, and we will still trade on the NYSE and Tel Aviv Stock Exchange," Shannon said in an email. "We will still pay taxes in Michigan and our operations in Michigan will continue to grow. We have committed to $300 million for operations expansion over the next three years and 650 jobs over the next five years. This is a platform for growth of the company."

However, Perrigo will pay its corporate income tax to Ireland, where the rate is about 12.5 percent, according to Gregg Dimkoff, a professor of finance in the GVSU Seidman School of Business and for years a close observer of publicly held corporations based in West Michigan.

"The U.S. corporate income tax rate is the highest in the world of any developed country," said Dimkoff. He said the very highest U.S. corporate income tax rate is close to 40 percent, although he was not sure how many companies actually pay that rate. The number usually cited is 35 percent.

The news release issued by Perrigo last week states that the combination of Perrigo and Elan is expected to result in saving more than $150 million annually in taxes and operating expenses.

Perrigo’s spokesperson did not respond to an inquiry into how much of the $150 million is tax savings and how much is lower operating expenses after reincorporation in Ireland.

Apple Computer has come under intense criticism in recent months for having changed its corporate domicile to Ireland years ago. A study by Ernst & Young in 2011 indicated that 46 U.S. global companies among the Fortune 500 had relocated their domiciles overseas since 2000.

The Cato Institute released a report last September stating the effective tax rate on new corporate investment in the U.S was 35.6 percent in 2012 — almost double the average rate for 90 countries it had studied. It noted the Obama administration has suggested reducing the federal corporate tax rate from 35 to 28 percent, and when he was running for president last year, Mitt Romney said he would reduce it to 25 percent if elected.

GVSU business professor Brent Felten said it sounds to him like Perrigo is “doing what’s called a corporate inversion.” Felten, an adjunct professor in the Master of Science in Taxation program at Grand Valley State University's Seidman College of Business, also has a day job as director of international taxation at Crowe Horwath in Grand Rapids. Crowe Horwath is a large Midwestern public accounting and consulting firm.

He said Ireland is a “hot spot” for corporate inversions because its corporate tax rates are much lower than average compared to other European countries.

“The United States recently became the highest tax jurisdiction in the world,” said Felten. “Japan and Germany used to be higher, but Germany fell below a couple of years ago, and Japan, I believe in the spring of last year, reduced their (corporate) tax rate. The U.S. has a higher corporate tax rate than the rest of the industrialized world.”

Perrigo has agreed to acquire Elan for $8.6 billion, and the first reason it listed in the news release last week was to establish “a differentiated platform for further international expansion.”

The release states that another major reason is Elan’s assets, which include “a large cash balance and a double-digit royalty claim on Tysabri.”

Perrigo Chairman and CEO Joseph C. Papa described Tysabri as a “blockbuster drug with an escalating royalty stream.” Elan developed Tysabri, which is now produced and marketed by Biogen Idec Inc., but Elan retains a 12 percent royalty on global sales of the drug, which is used to treat multiple sclerosis. Starting May 1, 2014, the royalty paid to Elan increases to 18 percent on sales up to $2 billion, and to 25 percent on sales above $2 billion.

Last year, Tysabri sales totaled $1.6 billion and have been growing for the last four years at an annual compound rate of 19 percent.

At a teleconference with industry analysts July 29, Papa said Perrigo executives expect the company’s effective tax rate “to migrate (downward) to approximately 17 percent in the first 12 to 18 months, post closing” on the Elan deal.

Some analysts on the teleconference call asked if Perrigo is moving away from its long-time focus on over-the-counter medications and is going into the riskier patented pharmaceuticals development industry. One such analyst was Jami Rubin of Goldman Sachs, who said she did not understand “why you want to keep the Tysabri royalty and get into the global R&D business.

That doesn't seem to be your core competency. Why not sell it, take the cash, use the cash to acquire businesses that fit strategically with consumer OTC and generics?"

Papa said in response to a similar question: "There is a diversification of our business, but I don't want anyone to think we're going to start spending billions of dollars on R&D for the next biologic (drug) right now."

"We still feel very good about our core over-the-counter business," he said, a few minutes later.

Near the end of the teleconference, Perrigo Executive Vice President and CFO Judy Brown said the combination of Perrigo and Elan is intended to build the company "and not diverting away. So the key I think you should all walk away with … is the after-tax opportunity for combining forces versus looking at this as somehow Perrigo is diverting away from its core business."

Perrigo was founded in Allegan in 1887 and is said by its management to be the world's largest manufacturer of over-the-counter medications. In its fiscal year ending June 30 last year, Perrigo reported net sales of almost $3.2 billion in FY2012, with operating income of $569 million.