Pharmaceutical company Allergan to lay off 1,500 workers

David Brown
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Allergan, the pharmaceutical company that makes Botox, said Monday that it plans to lay off 1,500 workers, mostly in Southern California. The announcement comes only days after software maker Microsoft announced plans to lay off 18,000 employees.

Allergan has beaten market expectations and reported second quarter earnings of $417.2 million. In 2007 its stock traded at around $65, but it has more than doubled since and closed Monday at $171 per share. Despite its consistent profitability, the company announced plans to lay off 13 percent of its 10,500 employees at the demand of major shareholders, cutting expenses by an estimated $475 million a year.

The mass layoffs at Allergan and Microsoft upend any illusion that high-tech companies with skilled workforces are immune from the type of predatory Wall Street cost-cutting demands that have ravaged more traditional companies in the United States over decades.

In addition to Botox, an anti-spasm medication most commonly known for its cosmetic use in removing wrinkles, the Irvine, California-based company produces a host of eye-drops, anti-glaucoma medication, and weight-loss products.

The layoffs are an effort to raise profitability to prevent an attempted takeover by Valeant Pharmaceuticals International Inc. Valeant claims that Allergan is underperforming and that by cutting the research department by 70 percent the company can increase revenue per share by 20 percent. Valeant has a long history of acquisitions in which it purchases a company, guts its research department, and sells its products internationally.

Most of Allergan's job cuts will take place in Southern California, with 650 layoffs at its Irvine campus, the closure of a 300-employee facility in Santa Barbara and 100 layoffs in Carlsbad. According to Allergan CEO David Pyott, these are small measures compared to the 5,000 layoffs the company could expect if acquired by Valeant. Before the layoffs, Allergan spent nearly 17 percent of its annual revenue on research and development, which will now drop to 13 percent. In comparison Valeant spends as little as 3 percent on research.

In 2012, Valeant bought 14 companies, with the largest being skin-care company Medicis Pharmaceutical, which it purchased for $2.6 billion. At Medicis, Valeant proceeded to cut research and development funding by $225 million. In 2013, its main acquisition was Bausch & Lomb for $8.57 billion, where it then cut $800 million from yearly expenses, mostly from research.

Valeant's aggressive mergers and acquisitions strategy is directly tied to the company’s executive compensation practices. Current CEO Michael Pearson has worked for Valeant for six years and been rewarded with 10.6 million shares, worth about $1.3 billion. His compensation is tied to annual earnings increases of between 15 and 60 percent.

In order to meet those goals, Pearson has decimated Valeant's research-and-development to focus on acquisitions. In six years, Valeant's stock has increased 800 percent through the acquisition and dismemberment of around 100 companies alongside the use of tax havens.

In 2009, Pearson merged the California-based Valeant with Biovail, a Canadian company, in order to make use of its Barbados tax shelter under looser Canadian laws.

With an offer valued at $53 billion, the acquisition of Allergan would be the largest in Valeant's history.

Fundamentally there is no difference between the layoffs being carried out by Allergan and those sought by Valeant: it is only a matter of scale and pace. With or without a merger, additional layoffs can be expected.

Following Valeant's initial offer in April, Allergan's major investors brought increased pressure to cut jobs. Pyott told *Dow Jones Business News* “When we went out to investors, they said, 'look, we appreciate all the value you created, we appreciate the numbers you put up, but we're not sure we could vote for you relevant to the Valeant offer, and you need to put more value on the table.'”

As the broader economy shows increasing signs of slowing down, the returns demanded by billionaire investors and the Wall Street firms that own huge swaths of corporate stock can only be met through job cuts, speedups, and the dismantling of production.