PGDM(IB) 2014-16

Mergers, Acquisitions and Corporate Restructuring

IB-502

Trimester – V, End-Term Examination: December 2015

Time allowed: 2 hrs 30 min — Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** In case of rough work please use answer sheet.

Section A (3*5)

(Answer any 3 questions. Short and to the point answers are expected)

1. Distinguish between Strategic Alliance and JV giving international examples.
2. Poison Pills are ineffective in M&A. Comment.
3. Timely disinvestment keeps big organizations healthy. Is the statement right? If yes, why if not, why not?
4. Why and when should organizations resort to demerger? Illustrate with examples.
5. Can corporate restructuring be used to turnaround sick companies? If yes, how? If no, why not?

Section B (2*10)

(Answer any 3 questions. Detailed answers are expected)

1. With trillion $ M&A market, the organic growth seems to have become irrelevant. Analyze the statement in depth and advice any of the multinationals for cross border acquisition for growth.
2. Globalization and liberalization has made strategic Alliance and joint venture irrelevant. Write a detailed essay on the topic giving your viewpoint.
3. It is better to sell or close the firm rather than attempting to 'Turn it Around.' Discuss giving the details of the process of Turnaround.

Section C (3*5)

Read the case carefully and answer the following question:

1. Is it a case of acquisition or merger? In this case which company is acquirer? Could it not be done the other way?
2. What is the rationale of Pfizer-Allergen tying knot? Why was Pfizer in such haste for this deal?
3. What is reverse merger? Where from the synergies come in M&A? Work out details of proposed $ 2 bn synergy in case of Pfizer-Allergen.

Viagra and Botox tie the knot

The US-based Pfizer Inc (Turnover: $ 48 bn) and Allergan Plc (Turnover: $ 16 bn), headquartered in Dublin (Ireland), on November 23, 2015 agreed to merge in a deal estimated at approximately $160 billion, considered to be the biggest ever deal in healthcare sector. Pfizer's innovative businesses will be significantly enhanced by the addition of a growing revenue stream from Allergan's durable and innovative flagship brands in desirable therapeutic areas such as aesthetics and dermatology, eye care, gastrointestinal, neuroscience and urology. The combined company is expected to benefit from a broader innovative portfolio of leading medicines in key categories and a platform for sustainable growth with diversified payer groups.

"The proposed combination of Pfizer and Allergan will create a leading global pharmaceutical company with the strength to research, discover and deliver more medicines and therapies to more people around the world. Allergan's businesses align with and enhance Pfizer's businesses, creating best-in-class, sustainable, innovative and established businesses that are poised for growth. Through this combination, Pfizer will have greater financial flexibility that will facilitate our continued discovery and development of new innovative medicines for patients, direct return of capital to shareholders, and continued investment in the US, while also enabling our pursuit of business development opportunities on a more competitive footing within our industry," stated Ian Read, chairman and chief executive officer, Pfizer.

Under the terms of the proposed transaction, the businesses of Pfizer and Allergan will be combined under Allergan Plc, which will be renamed Pfizer Plc. "The combination of Allergan and Pfizer is a highly strategic, value-enhancing transaction that brings together two biopharma powerhouses to change lives for the better. Joining forces with Pfizer matches our leading products in seven high growth therapeutic areas and our robust R&D pipeline with Pfizer's leading innovative and established businesses, vast global footprint and strength in discovery and development research to create a new biopharma leader," said Brent Saunders, chief executive officer, Allergan.

With the addition of Allergan, Pfizer will enhance its R&D capabilities in both new molecular entities and product line extensions. A combined pipeline of more than 100 mid-to-late stage programs in development and greater resources to invest in R&D and manufacturing is expected to sustain the growth of the innovative business over the long term. Through product approvals, launches and inline performance the combined company aspires to be a leader in growth.

The combination of Pfizer and Allergan will significantly increase the scale of Pfizer's established business, and their complementary capabilities will maximise the combined established portfolio. The addition of Allergan's women's health and anti-infectives portfolio will add depth to Pfizer's established business, and Pfizer will expand the reach of Allergan's established portfolio using its existing commercial capabilities, infrastructure and global scale. In addition, Allergan brings topical formulation, manufacturing and its ANDA distribution capabilities to the combined company.

As a result of the combination with Allergan and subsequent integration of the two companies, Pfizer now expects to make a decision about a potential separation of the combined company's innovative and established businesses by no later than the end of 2018.

Pfizer anticipates the transaction will deliver more than $2 billion in operational synergies over the first three years after closing. The combined company is expected to generate annual operating cash flow in excess of $25 billion beginning in 2018.

The completion of the transaction, which is expected in the second half of 2016, is subject to certain conditions, including receipt of regulatory approval in certain jurisdictions, including the US and European Union, the receipt of necessary approvals from both Pfizer and Allergan shareholders, and the completion of Allergan's pending divestiture of its generics business to Teva Pharmaceuticals Ltd, which Allergan expects will close in the first quarter of 2016.

Tax Implication

A key reason - probably the main reason - for the merger: Avoiding taxes. Ireland is one of several small European countries that have set themselves up as tax havens by adopting taxation laws that are extremely advantageous for corporations. As a result, whilst Ireland has few major industries operating production facilities on the island, it has numerous corporate headquarters - at least in legal terms, even if the operational headquarters remain elsewhere.

Agence France Presse (AFP) reported that according to a source close to the deal, Pfizer wanted to get ahead of the upcoming implementation of new US Treasury regulations that will make it harder for US corporations to escape taxes through mergers with foreign companies. Such mergers involve moving US corporations' legal headquarters, for tax-domicile purposes, to a lower-tax jurisdiction.

This procedure is such a common practice in corporate America that it has its own technical term in corporate finance jargon. It's called a "tax inversion," and it's a dodge that has cost the US Treasury untold billions in revenues.

US-based Pfizer has accumulated a huge war-chest of retained earnings from profits in foreign jurisdictions - and it doesn't want to repatriate those to the US, where it would have to pay taxes on those earnings nominally set at 35 percent, albeit before tax accountants work through the country's myriad tax loopholes to reduce the effective tax rate. Ireland's corporate tax rates are much lower, at a nominal 12.5 percent.

"Pfizer will have greater financial flexibility..." said Pfizer chief Ian Read.

Synergies

The companies also claimed they would be able to save about $2 billion in "operational synergies" over the first three years after the merger closes.

Often, corporate mergers involve one tribe of corporate chieftains pushing out the other - since in the merged company, two CEOs, CFOs, and so on, won't be necessary. But at least at the very top levels, the Pfizer-Allergan merger seems to have been negotiated such that both chieftains will retain a senior C-suite position. Ian Read will become chief executive of the new Pfizer PLC, whilst Brent Saunders will become chief operating officer, with oversight of the companies' combined commercial businesses, manufacturing and strategy.

Pfizer said it intended to continue with its existing dividend policy, and would also continue with its planned $5 billion share buyback in the first half of 2016.