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AN EMPIRICAL STUDY ON MERGER AND ACQUISITION OF PFIZER

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Abstract

Merger and Acquisition is a way to survive and succeed in a competitive global environment as a consequence of monetary and regulatory issues. Mergers and acquisitions have emerged as a natural process of business restructuring throughout the world and financial restructuring through mergers and acquisition represents the most dynamic facet of corporate strategy. Merger and Acquisition are being increasingly used by companies for entering new markets, asset growth, increasing the market share, taking the technical advantage of the another firm. This study aimed to focus on the impact of merger and acquisition on shareholder's profitability and wealth. The results suggest that merger and acquisition does have significant impact on the profitability and overall wealth of the shareholders.

Key words: *Merger and acquisition, competitive environment, financial restructuring, market share, technical advantage, shareholder's profitability and wealth*

INTRODUCTION

Pharmaceutical Industry

The unification of research in the 20th century in field such as chemistery and physiology increase the understanding of basic drug – discovery processes.

At the end of the 20th century, most of the pharmaceutical companies were located in North America, Europe, and Japan; many of the largest were multinational, having research, manufacturing, and sales taking place in multiple countries. The industry has also come to be characterized by outsourcing.

Mergers and Acquisitions in Global Pharmaceutical Sector

Since the year 2004 there has been increase in the mergers and acquisitions in the pharmaceutical sector. This was reflective of the increase of the mergers and acquisitions in other industries at the same period. There was 20% increase in the number of deals, which stood at 1808. There were eight deals with the value of more than $1 billion. This was three more than 2003.

LITERATURE REVIEW

Bhaumik and Selarka (2008) suggest that merger and acquisition in India reduce the firm performance. They analyse this by various statistical and technical tools like ratio analysis, t-test, regression analysis, and market perception. They study pre and post merger on ownership and characteristics of acquiring firms. The study acquiring univariate analysis of firm performance.

Rani et al(2013) indicates that merger and acquisition appear to have been beneficial for the acquiring companies in long run with regard to their operating performance. The objective of the study is to compare operating performance of acquirers before and after merger and acquisition in terms of sales as well as assets.

The study analyse financial performance by sector wise sample and also used t-test and cash flows. The finding suggest that profitability of acquiring firms has improved during post merger and acquisition phase.

Kato and Schoenberg (2014) exploratory study revealed primary insights. The same set of factors determined the strength of the customer relationship. The Q-sort data revealed eight antecedents of the customer relationship that were impacted the merger integration period. They mainly focus on customer relationship.

Lee et al (2009) explained the relationship between the variance of two brand images and the dimensions of brand equity after merger and acquisition. The research acquiring samples and univariate F-test, t-test (paired). The study uses the extended version of ANOVA i.e. MANOVA table for further multivariate analysis.

Fornell et al (2006) concludes that through firms with highly satisfied customers usually generate positive abnormal returns, news about changes in customer satisfaction does not have an effect on stock prices. For the research, the use of portfolio studies for market valuation. The study considers market value of equity as well as economic effect of customer satisfaction.

Reinartz et al(2004) contributed to conceptualise and operationalize a measure of the degree to which CRM (Customer Relationship Management) processes have been implemented. A model of the performance outcomes of the CRM (Customer Relationship Management) process includes economic performance.

Rani et al(2011) had motive for acquirers engaging in merger and acquisition are well documented in the literature with the synergy motive associated with positive wealth effect said to be driven by hubris as well as managerialism. The most significant finding of their research is that there are significant positive abnormal returns to shareholders of Indian pharmaceutical companies on their acquisitions of foreign targets.

Lowinski et al (2003) analysed empirically the wealth creation of merger and acquisition in the Swiss capital market, placing special emphasis n the particularities of cross-border transactions. Their results support the hypothesis that the Swiss and the international capital markets are highly integrated. The research study found evidence that the inclusion of a top tier investment bank is not especially beneficial in international mergers indicating that the costs associated with hiring a top tier investment bank might outweigh the potential benefits.

Sangwan (2015) talked about different act affected to takeover deal in India such as Industrial Development and Regulation Act 1951, MRTP Act, FERA Act etc. made hostile takeover almost impossible. There have been consistent new legal developments such as – The Competition Act 2002 and New Companies Act 2013.

Gugler et al. (2003) have analysed the effects of mergers around the world by using a large panel of over the past 15 years They have observed similar post-merger patterns across countries. They have not traced differences between mergers in the manufacturing and the service sectors, and between domestic and cross-border mergers.

Ghosh and Jain (2000) investigated whether merging firms increase their financial leverage after merges. Their results shows that the mean financial leverage increases by 17 per cent compared to the pre-merger financial leverage of the combined firms. Studies of mergers in India are very few.

Ravenscraft and scherer (1989) examined financial performance of target firms during 1957-1977 in US. They have investigated 2792 lines of business by US manufacturing companies. They have observed that mergers have substantial negative impact on the post-merger profitability.

RESEARCH METHODOLOGY

Objective of study

The study has been undertaken to contribute towards the following broad Objectives:

- To have an empirical knowledge about the merger and acquisition of Pfizer
- To make a comparative analysis of the impact of merger and acquisition on shareholder's profitability of Pfizer

Scope of study

The researcher has made an attempt to study the impact of Mergers on earning per share of Pfizer by using the available information for the period of 2005-06 to 2017-18.

Data Collection

After defining the objectives we need to look at the type and sources of data and other specific information needed to attain the said objectives. The present study is mainly based on secondary data which have been collected through annual reports of the company, books & journals, news papers& magazines and websites etc. The data of just preceding years of the year the merger took place has been considered for pre-merger study and the data for the years has been used for post merger study.

Analysis

Pfizer

Pfizer continued to buy property to expand its lab and factory on the block bounded by Bartlett Street, Harrison Avenue, Gerry Street, and Flushing Avenue.

Mergers and Acquisitions in Pfizer

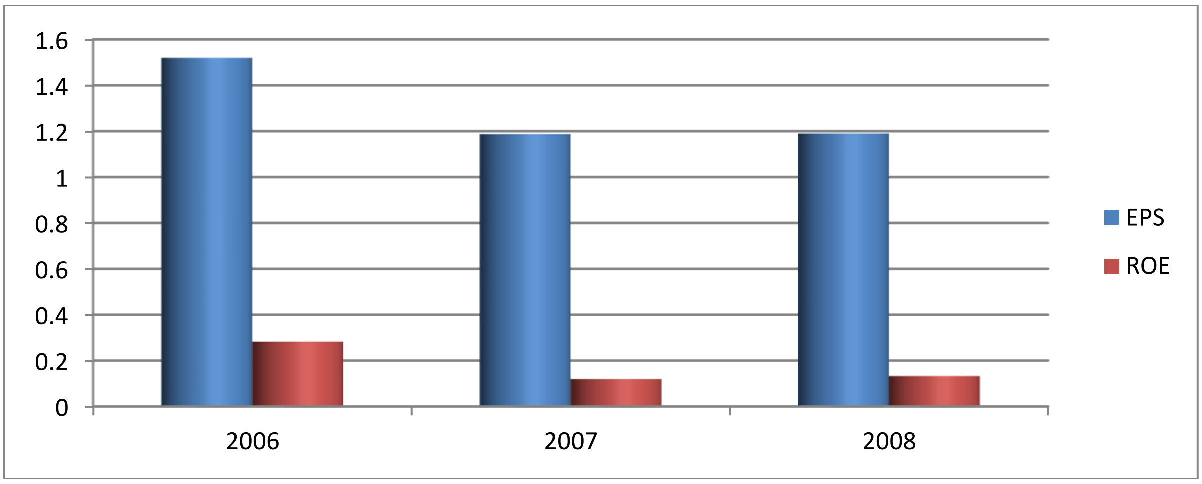
Lipitor alone was not implicated in the results, but Pfizer lost nearly$1 billion developing the failed drug and the market value of the company plummeted afterwards.

Pfizer and Wyeth

Pre

Merger with Wyeth is the most popular merger after 2000. The pre scenario of the study represents that the EPS of the firm i.e. Earning Per Share of the firm is in growing tendency, which actually represents the positive side.

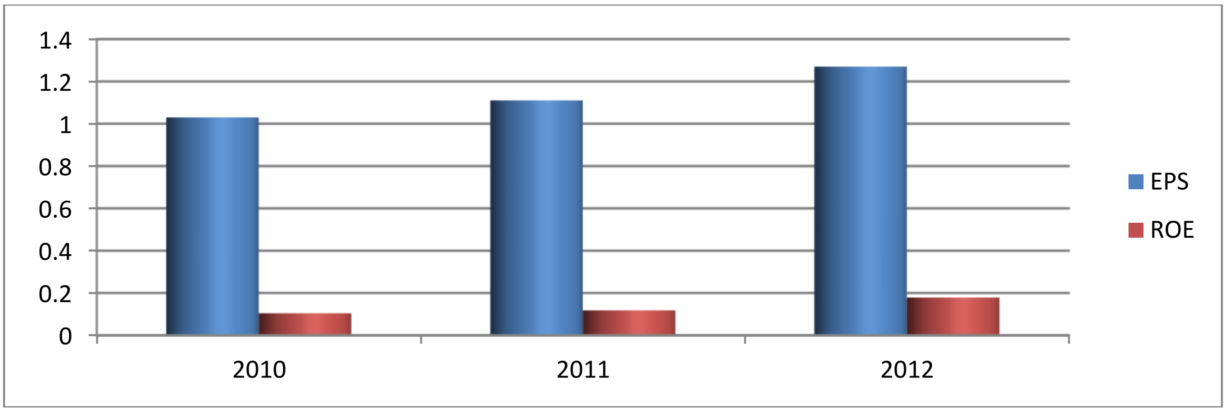
Years	EPS	ROE
2006	1.52	28.20%
2007	1.187	11.94%
2008	1.19	13.22%



Post

Post scenario of the study concludes that the merger and acquisition with the Wyeth doesn't reacted on the EPS i.e. Earning Per Share. This merger does not have effect on the financial strength of the company.

Years	EPS	ROE
2010	1.03	10.39%
2011	1.11	11.78%
2012	1.27	17.83%

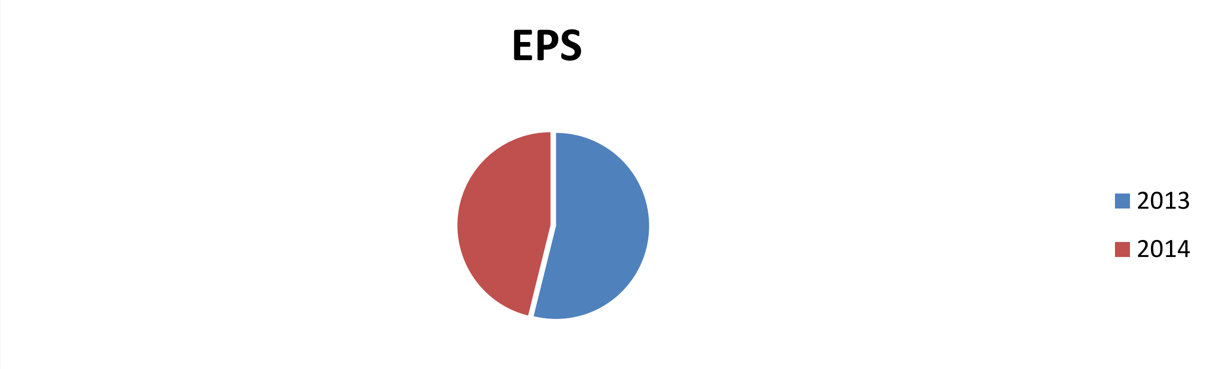


Pfizer and Hospira

Pre

The before merger scenario is quite interesting for the shareholders. It indicates that the EPS is constant for the years. It is good sign for the investors and company also.

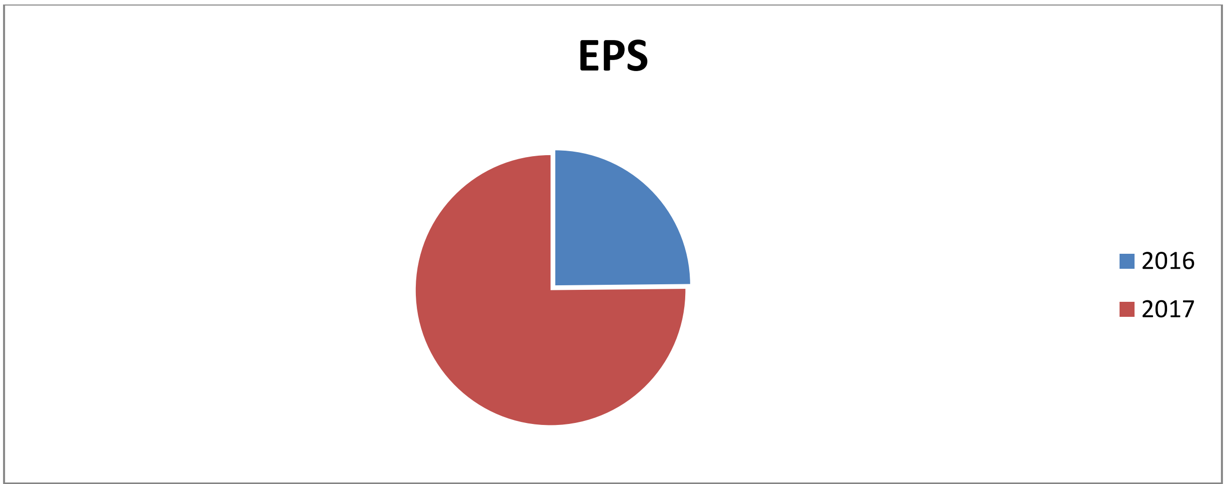
years	EPS
2013	1.67
2014	1.43



Post

After the merger with the Hospira the company's EPS was increased. This merger with Hospira is indicating the growth in the company. This merger can be the successful one and it is.

YEARS	EPS
2016	1.18
2017	3.57



LIMITATIONS OF THE STUDY

Though researchers have made a humble attempt to encompass the pre and post merger performance of the selected sample merger case, it is difficult to narrate all incidents and changes brought up due to mergers and acquisitions and therefore necessary inferences are inserted wherever required.

Secondly, the study is based purely on secondary data which are taken from the financial statements of the case through internet only and therefore can't be denied for any ambiguity in data used for the analysis.

The research is only limited to specific company. It cannot go for the overall analysis of the merger and acquisitions of the pharmaceutical industry.

FINDINGS AND CONCLUSIONS

The merger and acquisition in the pharmaceutical sector has much more relevant effect on the growth of the economy. The pharmaceutical companies have the merger and acquisitions on large scale basis. This merger and acquisitions analysis the fact of the market conditions. This particular research analyse the merger and acquisition in the Pfizer company from 2005. Pfizer is the biggest US based pharmaceutical company.

The objective of the study is to have an empirical knowledge about the merger and acquisition of Pfizer and to make a comparative analysis of the impact of merger and acquisition on shareholder's profitability of Pfizer. The source of data is secondary one which has been collected through annual reports of the company, books & journals, news papers& magazines and websites etc. The two main mergers of the Pfizer companies was with Wyeth and Hospira in 2009 and 2015 respectively. The earning per share and the return on equity both are referred as the analytical tools or financial variables for the research study. This indicates that the tools were identified from the annual reports only. The market condition or the real position of the company can be finalised through the study. This study concludes that the mergers and acquisitions are highly affecting the Shareholder's profitability in both of the cases.

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