

Novartis Pays \$38.5 Billion To Swallow Up Alcon

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BASEL, Switzerland (AP) — Drug maker Novartis AG said Monday it plans to take over Alcon Inc. by paying \$38.5 billion for the 77 percent stake it does not already own in a deal that would make it one of the biggest players in the global market for eye-care products.

The Swiss pharmaceutical company will purchase Nestle SA's 52 percent stake for \$28 billion before carrying out a merger with Alcon that would give it control of the remaining 23 percent held by minority shareholders.

The Basel-based drug maker had already purchased 25 percent of Alcon from Nestle in April 2008 for \$11 billion, with the option of buying the food and drinks company's remaining stake at a later date.

Novartis will finance the deal using a combination of cash reserves, loans of up to \$16 billion, and by issuing 98 million new shares in its own stock — a move that will require approval at an extraordinary shareholders meeting.

If successful, the takeover will have cost about \$50 billion in all, making it the biggest in Swiss corporate history.

"This is the right time to simplify Alcon's ownership to eliminate uncertainties for employees and shareholders," said Novartis chairman and chief executive Daniel Vasella.

"It will also allow us to strengthen innovation power by combining R&D efforts and grow our global market presence thanks to our complementary product portfolios," he said in a statement.

Vasella told reporters in a conference call Monday that the takeover represents a "great strategic fit."

Novartis shares were down 1.3 percent at 55.75 Swiss francs (\$53.97) on the Zurich exchange.

Analysts at Zuercher Kantonalbank welcomed the announcement but said Novartis might have to raise its offer to win over Alcon minority shareholders. Andrew Woods of Sanford C. Bernstein said Novartis' decision to exercise its option "probably has to do with its strategy of bidding for the remaining 23 percent of the shares outstanding."

Under the terms of the merger proposal, minority shareholders would receive 2.8 Novartis shares for each Alcon share. Based on the Novartis share price and exchange rates prior to the announcement, this would value each publicly traded

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share of Alcon at approximately \$153, Alcon said. This is significantly less than the \$180 per share Novartis is offering for Nestle's remaining 52 percent.

Alcon said a committee composed of its three independent board members has engaged financial and legal counsel to evaluate the proposed merger. The deal also requires regulatory approval.

Alcon is based in Huenenberg, Switzerland, and has its U.S. headquarters in Fort Worth, Texas. The company employs some 15,000 people worldwide and specializes in surgical equipment and devices, contacts lens solutions and other consumer eye-care products. It posted a net profit of \$515 million, or \$1.71 per share, in the third quarter.

By merging Alcon into its existing eye-care portfolio, which includes the Ciba Vision brand, Novartis said it would reach 70 percent of the world market.

Vasella said Novartis would save an additional \$100 million on top of \$200 million savings it had already predicted within three years of the merger. Novartis doesn't plan to cut any jobs, Vasella said.

Nestle purchased Alcon in 1977 for \$280 million. In total, the Vevey-based company has earned over \$40 billion from the sale of Alcon.

In a separate announcement Monday, Nestle said it would buy back about \$10 billion francs (\$9.67 billion) of its own stock over the coming two years.

Nestle shares trade 1.9 percent higher at 51.15 francs (\$49.52) on Monday.

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