Impact of Merger and Acquisition on Indian Pharmaceutical Sector (A Case Study of Pfizer and Wyeth Ltd Merger)

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ABSTRACT

In present scenario, merger and acquisition are tool for restructuring the business sector or corporate because of huge level of losses are borne by the entity due to non-recovery of nonperforming assets, doubtful debts and loss debts, huge amount incurred on research and development in case of pharmaceutical industry, which is the highly active as well as organized sector in India. Corporate restructuring consists of merger, acquisition takeover etc. This paper focuses on financial performance of the merger in Indian pharmaceutical industry; a case of ***Pfizer and Wyeth ltd*** *is a sample. Ratio analysis & t-test are also used by the researcher for analyzing the financial performance of selected merger and its impact.*

***Keywords*:** Merger, Acquisition, Pfizer, Wyeth Ltd, Indian pharmaceutical industry, financial performance

I INTRODUCTION TO PHARMA INDUSTRY

In today's competitive world, for the growth of any business, a business firm needs to enhance its business either by internal expansion or by external expansion. The Indian Pharmaceutical sector is one of most innovative as well as organised sector in the hands of Indian economy. High level of competition, oligopolistic nature of market, rules and regulations related to patents, high level of research and development budget and unexpected end result due to various innovation processes. This sector is highly active because of various feasible and technical strategies. Expenditure incurred on research and development is one of the most prominent features of the Indian pharma.

The Indian Pharmaceutical Industry has seen a huge level of growth in last ten years period. This sector has been rising at a growth rate of 23.9 percent every year and projected with a worth of 60 billion US dollar by 2020. Domestic pharmaceutical market has raised by 10 – 12 percent.

It is expected that the domestic pharmaceutical market will grow at 10-12 percent in 2015 as compared to 9 percent in 2014. However, the growth rate of domestic pharmaceutical sector was 11.9 percent during October 2014. During 2014, an aggregated disclosed value of $422.6 billion was recorded, compared to $20.1 billion in 2013 for 674 Indian firms those were involved in M and A activities. Domestic deal activities continued to lead the Indian M and A landscape, accounting for 57 percent of the total number of deals in 2013-2014.

The word Pharmaceutical originates from the Greek word 'pharmaeka and modern transformation is Pharmacia. This industry helps developing, procuring as well as marketing of drugs or licensed drugs which are beneficial for the purpose of medication.

II MERGER AND ACQUISITION

In Asian Region, India is treated as the most appropriate market for merger and acquisition deals which is entirely based on the positive economic as well as demographic circumstances and regulatory framework under which Merger and acquisition deals take place. Merger and acquisition is very prominent strategy for the purpose of attaining long term business interest by amalgamating or acquiring other small entity which in state of financial unsound or loss making concern and for a new company with new name for the purpose of reducing the level of risk and Enjoy the derived benefits, future expansion of business process and diversification in other business format can be attained with help of M & A deals

III INTERNATIONAL REVIEW OF LITERATURE

S.No	Year	Author Name	Title of Paper	Objectives	Findings
1.	2018	Anastasia Step nova, Vladislav Savelyev, Malika Shaikhutdinova	The Anchoring Effect In Mergers And Acquisitions: Evidence From An Emerging Market	To examines the presence of the reference price effect in mergers and acquisitions in Russia,	The findings confirm the presence of the anchoring bias in evaluating the effect of a merger or acquisition announcement by Russian investors.
2.	2017	Robert Anderson and Jeffrey Manns	Engineering Greater Efficiency in Mergers and Acquisitions	to highlight the evolution of merger and acquisition agreements over time and to provide evidence of drafting Inefficiency.	M&A agreements, instead of converging on standard textual forms, rapidly drift away from their ancestors and from one another, potentially undermining the benefits of standardization in market terms.
3.	2017	Gordon M. Phillipsy & Alexei Zhdanov	Venture Capital Investments and Merger and Acquisition Activity around the World	To examine the relation between venture capital (VC) investments and mergers and acquisitions (M&A) activity around the world.	VC activity intensifies after enactment of country-level takeover friendly legislation and decreases following passage of state antitakeover laws in the U.S
4.	2016	Godfred Yaw Koi-Akrofi	Mergers and Acquisitions: Post-Merger and Acquisition Integration Strategies	To various strategies that are employed at this stage of the merger and acquisition process	it was concluded that no one strategy stands tall, and that the appropriate strategy depends on a number of factors such as type of the deal, cultural differences & etc.
5.	2015	Xavier Auguets-Pratsobrerroca, Monica Martinez-Blasco	The Sixth Merger Wave and Wealth Effects of M&A Announcements: An Analysis of Large European Bidding Companies	To investigate short-term market reaction, including stock returns, volatility & trading volumes of bidder firms, during sixth wave	Our results indicate that M&A announcements convey relevant information to investors.

IV NATIONAL REVIEWS

S.No	Year	Author Name	Title of Paper	Objectives	Findings
1.	2018	N. M. Leepsa & B. P. Bijay Sankar	Payment Methods in Mergers and Acquisitions: A Theoretical Framework	To find out various determinants of the payment methods of M&As that affects the decision of payment methods in M&As.	The study reveals that positive as well as negative results in relation to company performance relating to cash, stock and mixed payment method.
2.	2017	Sachin Sharma & Dr. Priyanka Verma	Indian Telecom Sector: Pros & Cons of Merger and Acquisition for different players of Telecom Sector	To explore the possibilities and risks for different key players such as Users, Telecom Service Providers (TSP) & Govt Regulatory body	It can conclude that there is the possibility of large number of M&A in Indian Telecom Market and if it happens only 3 or 4 Telecom Company will survive .
3.	2016	Harpreet Singh Bedi	Merger& Acquisition In India: An Analytical Study	(i)To examine the presence of trends and progress of M&As in Indian corporation. (ii) To analyze year-wise and industry-wise variance in number and amount of M&A deals.	A study reveals that mergers and acquisitions in India are favourable government policies, buoyancy in economy, and dynamic attitudes of the Indian entrepreneurs are the key factors behind the changing trends of mergers and acquisitions in India.
4.	2015	Dr.D.Seethanaik	Merger & Acquisitions In Telecom Industry	To examines the trend of telecom industry	This study shows highly significant positive changes in favours of both target and acquiring companies.

V NEED OF THE STUDY

M&A's is very common mode of entering into other business sector for the benefit of attaining Long term business interest. It is done amalgamating or acquiring other business entity which not in the state of financial unsound and make a new business unit with new name for the benefit of risk minimization. It is a highly active as well as organized sector of Indian business industry. This paper examines pre and post-merger performance of selected companies as well as impact of on merger and acquisition in Indian pharmaceutical sector

VI OBJECTIVES OF STUDY

(a) To analyze the financial performance of Pfizer and Wyeth Ltd.

(b) To know the impact of merger on Pfizer and Wyeth Ltd.

VII HYPOTHESIS

H0: There is no significant difference Between the Net worth of Pfizer and Wyeth Ltd. in pre and post-merger time.

H0: There is no significant difference between Net Profit Margin Pfizer and Wyeth Ltd.
in pre and post-merger time

VIII RESEARCH METHODOLOGY

(a) Sample size-A merger in Indian pharmaceutical has been taken into consideration Pfizer and Wyeth Ltd.

(b) Type of data- The study has been based on secondary data which is collected from annual reports and journals, websites of selected pharmaceutical companies and R.B.I.

(c) Tool for analyzing data
- (i) (a).Ratio analysis
- (ii) (b).t-test

(d) Duration of study- For the purpose of analysis of data, period of three years has been taken into consideration.

For Pre-merger – 2011-2012, 2012 -2013 & 2013-2014

For post-merger- 2014-2015, 2015-2016 & 2016- 2017

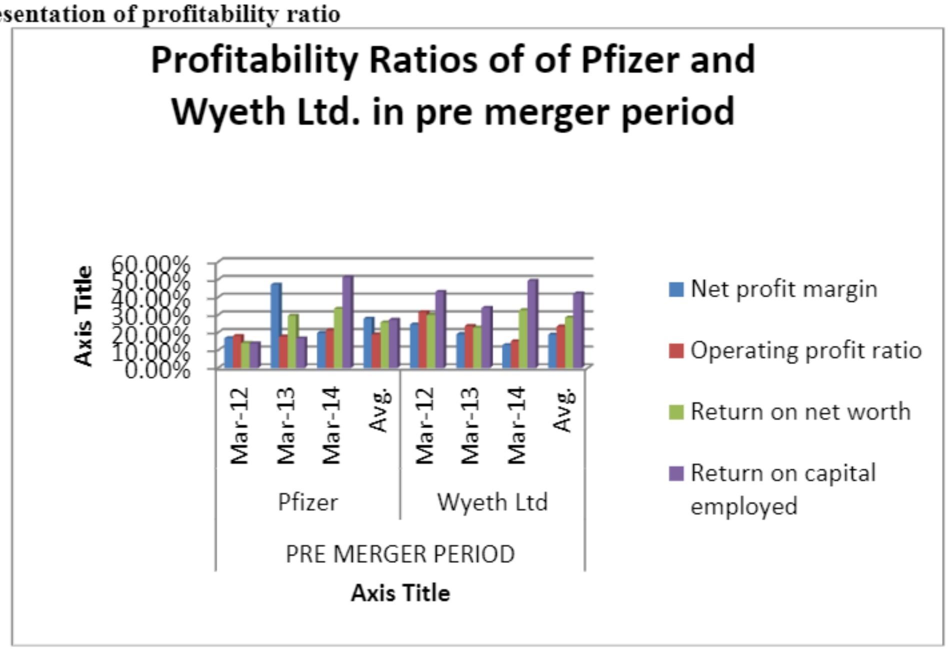
IX ANALYSIS & INTERPRETATION

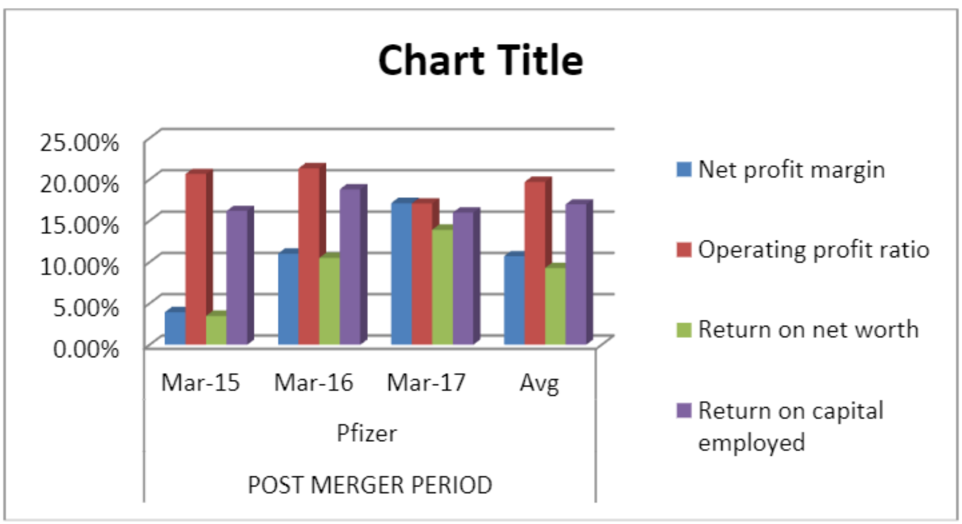
Ratios	Pre Merger Period								Post Merger Period			
	Pfizer				Wyeth Ltd				Pfizer			
Profitability Ratios	**Mar 2012**	**Mar 2013**	**Mar 2014**	**Avg.**	**Mar 2012**	**Mar 2013**	**Mar 2014**	**Avg.**	**Mar 2015**	**Mar 2016**	**Mar 2017**	**Avg**
Net profit margin	16.83 %	47.14 %	19.86 %	27.94 %	24.60 %	19.06 %	12.94 %	18.86 %	3.96 %	11.04 %	17.14 %	10.71 %
Operating profit ratio	18.10 %	17.75 %	21.25 %	19.03 %	31.54 %	23.76 %	15.10 %	23.46 %	20.66 %	21.36 %	17.09 %	19.70 %
Return on net worth	14.14 %	29.50 %	33.50 %	25.71 %	30.02 %	22.80 %	32.64 %	28.48 %	3.50 %	10.50	13.92 %	9.30 %
Return on capital employed	13.85 %	16.70 %	51.30 %	27.28 %	43.03 %	34.00 %	49.27 %	42.1%	16.20 %	18.80 %	15.99 %	16.99 %
Efficiency Ratios	**Mar 2012**	**Mar 2013**	**Mar 2014**	**Avg**	**Mar 2012**	**Mar 2013**	**Mar 2014**	**Avg**	**Mar 2015**	**Mar 2016**	**Mar 2017**	**Avg**
Stock turnover ratio	5.98	6.80	7.20	5.40	5.20	3.60	4.40	4.40	4.80	5.80	6.40	5.66
Debtor turnover ratio	7.70	7.50	7.60	7.60	13.30	13.50	14.50	13.76	11.00	13.20	15.60	13.26
Investment turnover ratio	5.98	6.80	7.20	5.40	5.20	3.60	4.40	4.40	4.80	5.80	6.40	5.66
Liquidity Ratios	**Mar 2012**	**Mar 2013**	**Mar 2014**	**Avg**	**Marc 2012**	**Mar 2013**	**Mar 2014**	**Avg**	**Mar 2015**	**Mar 2016**	**Mar 2017**	**Avg**

Table -1
Showing the Profitability, Efficiency ratios, Liquidity ratios & Market test ratio of Pfizer and Wyeth Ltd.

Current ratio	6.20	5.50	3.50	5.06	3.80	3.40	4.60	3.93	2.60	2.40	2.80	2.60
Quick ratio	5.40	4.70	2.80	4.30	2.90	2.50	1.50	2.30	1.80.	1.90	2.40	2.03
Market Test Ratio	**Mar 2012**	**Mar 2013**	**Mar 2014**	**Avg**	**Mar 2012**	**Mar 2013**	**Mar 2014**	**Avg**	**Mar 2015**	**Mar 2016**	**Mar 2017**	**Avg**
Dividend per share	12.50	32.50	36.50	27.16	18.00	17.50	14.50	16.67	15.00	12.00	20.00	15.67

(a) Bar presentation of profitability ratio





(b) Interpretation of Profitability ratio

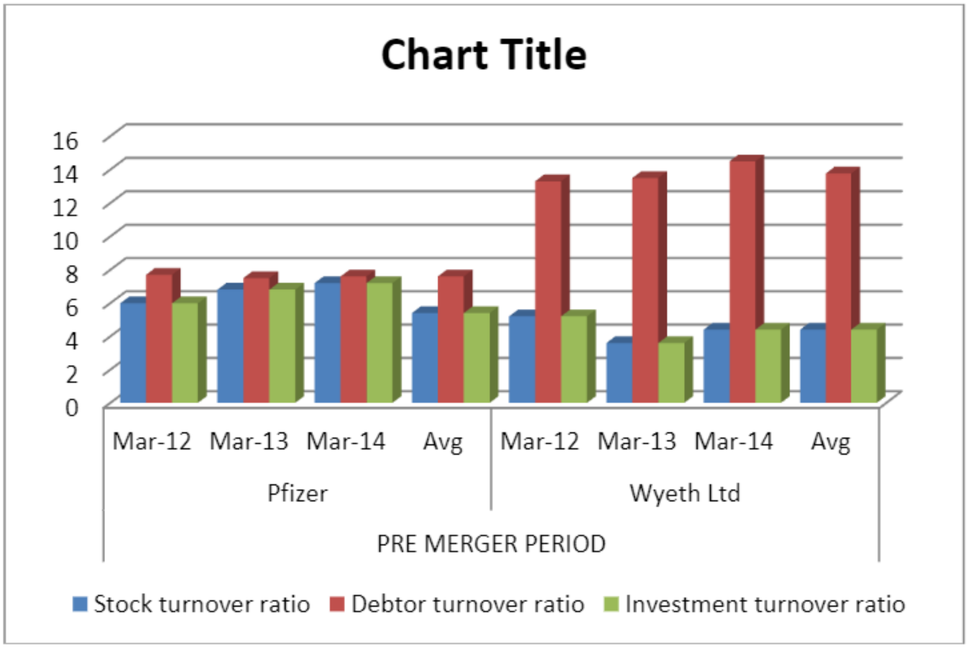
(i) Net profit ratio which is 27.94 % for Pfizer in pre-merger where as it is 18.86% in case of Wyeth ltd. Post-merger net profit ratio is 10.71 % which clearly indicates less rise in level of earnings because Pfizer paid high integration cost in the merger period.

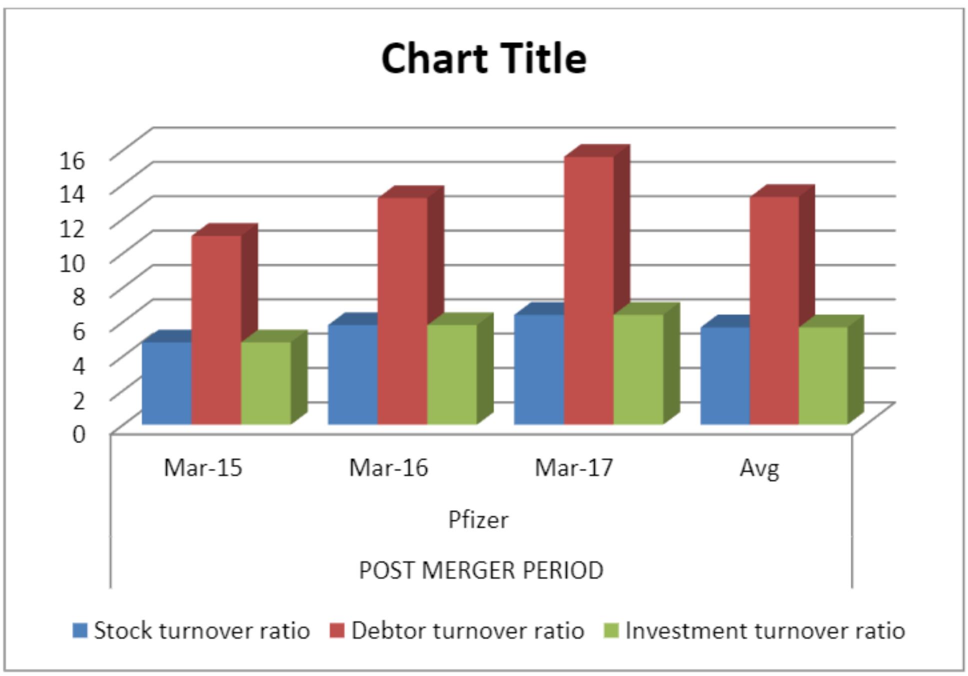
(ii) Operating profit ratio is 19.03 % for Pfizer pre merger where as it is 23.46 % in case of Wyeth ltd. Post-merger ratio is 19.70 %, which shows that company has paid expenses which were incurred during the merger period.

(iii) Return on net worth is 25.71 % for Pfizer pre merger where as it is 28.48 % in case of Wyeth ltd. Post-merger ratio is 9.30 % which indicates that when there is high chance of bankruptcy, then the firm are not in state to pay back the debt.

(iv) Return on capital employed is 27.28 % for Pfizer pre merger where as it is 42.10 % in case of Wyeth ltd. Post-merger ratio is Post merger ratio is 16.99 % which shows how effectively assets are being utilized for the purpose of long-term financing and investment decisions..

(c) **Bar presentation of Efficiency ratios**





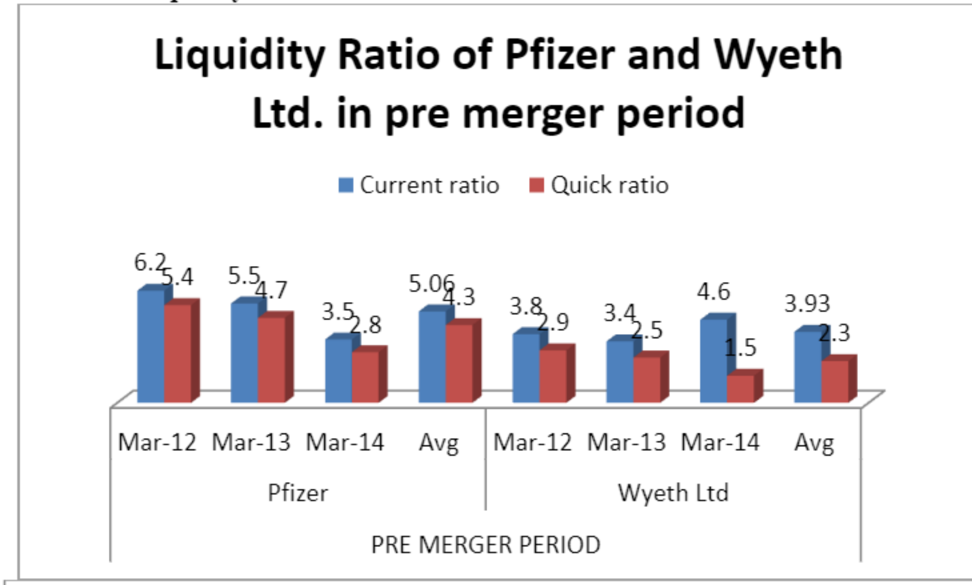
(d) Interpretation of Efficiency Ratios

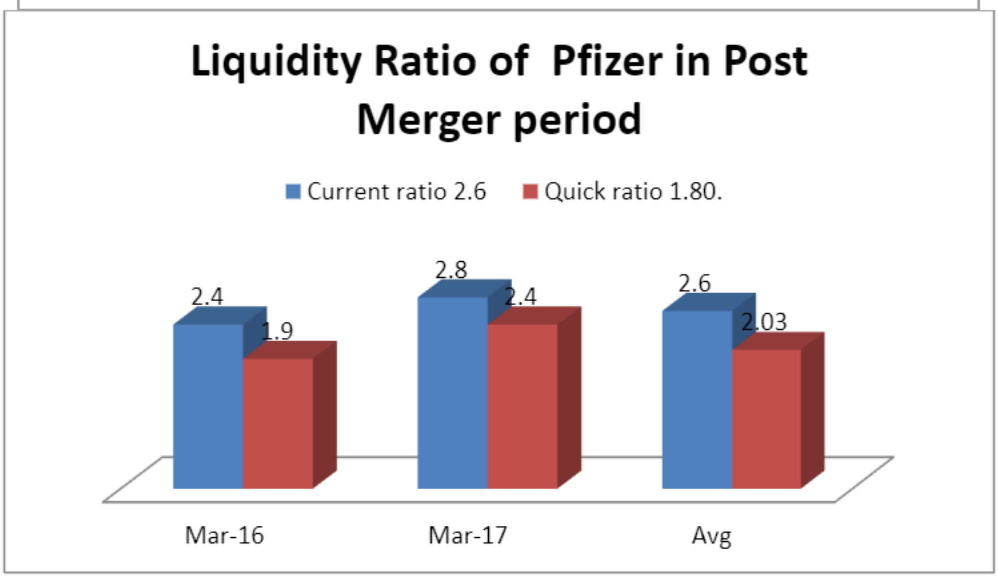
(v) Inventory turnover ratio is 5.40 times for Pfizer pre-merger where as it is 4.40 times. in case of Wyeth Ltd. Post-merger ratio is 5.66 times which shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period.

(vi) Debtor turnover ratio is 7.60 times for Pfizer pre-merger where as it is 13.76 times in case of Wyeth ltd Post merger ratio is 13.26 times which clearly indicates that number of times on the average receivable are turnover in each year. High ratio shows efficient management of debtors or vice versa.

(vii) Investment turnover ratio is 5.40 times for Pfizer pre-merger where as it is 4.40 times in case of Wyeth ltd Post merger ratio is 5.66 times which shows how many times a company can revolve the money invested in the company. As the ratio increases, so does a company's ability to generate revenues or vice versa.

(e) Bar presentation of Liquidity ratio

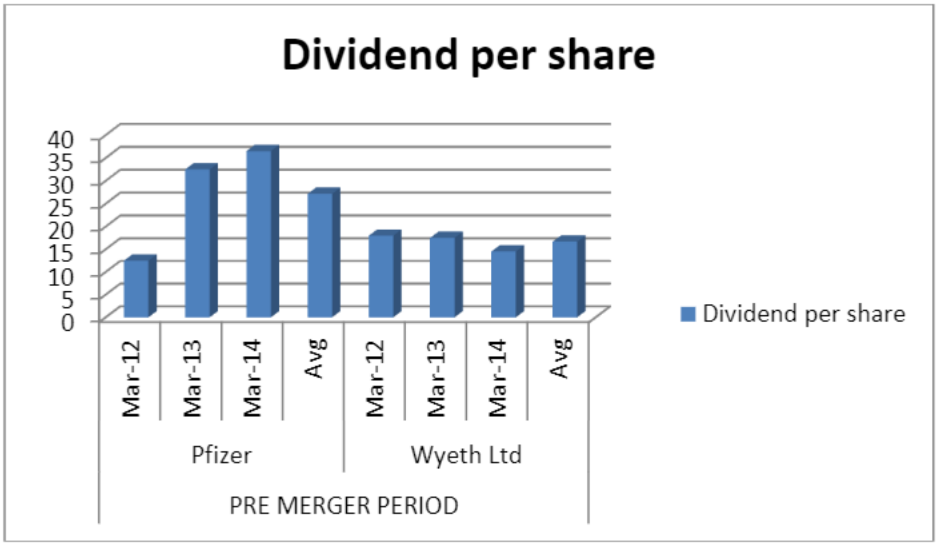


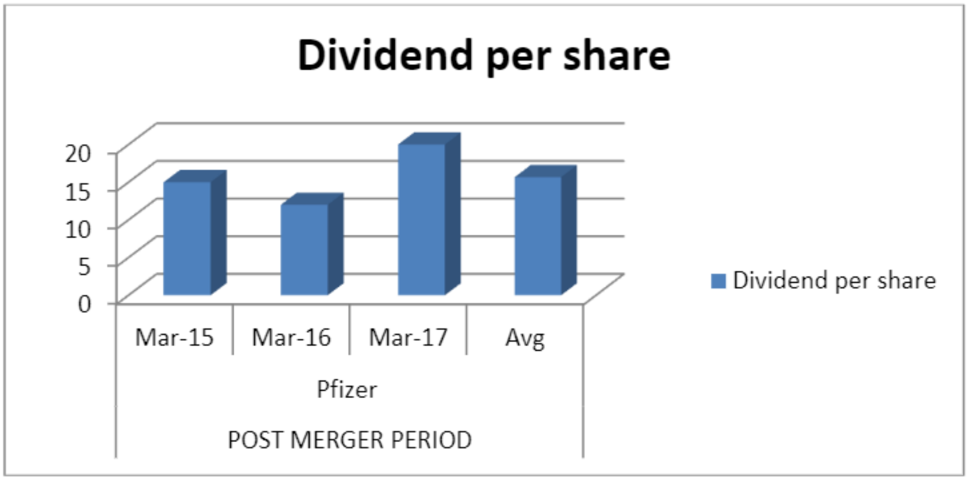


(viii) Current ratio is 5.06:1 for Pfizer pre merger where as it is 3.93:1 times in case of Wyeth Ltd. Post merger ratio is 2.60:1 which depicts that high current ratio signifies that company is not able to set off its liabilities because of slow moving or outdated stock. Stock contains large part in current assets.

(ix) Quick ratio is 4.30:1 for Pfizer pre merger where as it is 2.30:1 in case of Wyeth ltd Post merger ratio is 2.03:1which indicates that the company is investing too many resources in the working capital of the business which may be invested somewhere else that gives feasible return .

(f) Bar Presentation of Market per share





(g) Interpretation of Dividend per share

Dividend per share is a significant indicator of the current ability of a company to produce value for its shareholders; it is rising after merger which clearly shows that company is able to generate more value to its ultimate shareholder

H0: There is no significant difference between Net Profit Margin of Pfizer and Wyeth Ltd.in pre and post-merger time.

t-Test: Paired Two Sample for Means		
	Variable 1	*Variable 2*
Mean	0.234	0.14325
Variance	0.00412232	0.002613645
Observations	2	2
Pearson Correlation	-1	
Hypothesized Mean Difference	0	
df	1	
t Stat	1.112814224	
P(T<=t) one-tail	0.233019892	
t Critical one-tail	6.313751514	
P(T<=t) two-tail	0.466039783	
t Critical two-tail	12.70620473	

(h) Interpretation

From the above paired t- test table, the researcher analyzed that net worth has no significantly changed after merger and acquisition, p-value comes to .1414 which is less than 0.5 , this depicts that Null hypothesis is accepted which can be said that there is **no significant changes** in net profit which arises between pre and post-merger time.

H0: There is no significant difference between Net worth Margin Pfizer and Wyeth Ltd in pre and post-merger time

t-Test: Paired Two Sample for Means		
	Variable 1	*Variable 2*
Mean	0.27095	0.1161
Variance	0.000383645	0.00106722
Observations	2	2
Pearson Correlation	1	
Hypothesized Mean Difference	0	
df	1	
t Stat	16.74054054	
P(T<=t) one-tail	0.018991746	
t Critical one-tail	6.313751514	
P(T<=t) two-tail	0.037983491	
t Critical two-tail	12.70620473	

(i) Interpretation

From the above paired t- test table, the researcher analyzed that net worth has no significantly changed after merger and acquisition, p-value comes to .3104 which is less than 0.5 , this depicts that Null hypothesis is accepted . It can be said that there is no modification in net worth which arises between pre and post-merger time.

X FINDINGS

(a) Net profit ratio clearly indicates rise in level of operating expenses because Pfizer paid high integration cost in the merger period.
(b) Operating profit ratio shows that company has paid expenses which were incurred during the merger period.
(c) Return on net worth indicates that when there is high chance of bankruptcy, then the firms are not in state or position to payback the debt.
(d) Return on capital employed shows how effectively assets are being utilized for the purpose of long-term financing and investment decisions.
(e) Inventory turnover ratio shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period.
(f) Debtor turnover ratio clearly indicates that number of times on the average receivable is turnover in each year.
(g) Investment turnover ratio shows how many times a company can resolve the money invested in the company.
(h) Current ratio depicts that high current ratio signifies that company is not able to set off its liabilities because of slow moving or outdated stock. Stock contains large part in current assets.
(i) Quick ratio indicates that the company is investing too many resources in the working capital of the business which may be invested somewhere else that gives feasible return.
(j) Dividend per share is a significant indicator of the current ability of a company to produce value for its shareholders,

XI SUGGESTIONS

(a) Company should try to reduce the expense because it ultimately affects the level of earning and profit of the company.
(b) Company efforts to manage its assets in effective manner so desire return on assets can be achieved easily after merged period.
(c) Company is investing too many resources in the working capital of the business which may be more profitably if used elsewhere.

XII CONCLUSION

Merger & Acquisition shows a significant growth rate in case of pharmaceutical sector. It is mainly done for the purpose of registered patent that are near to expire by acquisition of new competitive and small firm. Merged entity is helpful in attaining high market share and reduces competition among new drug In this case; this merger can only be taken place because the Wyeth Ltd has an innovative technology which helps the Pfizer to getting more customers.

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