Pharmaceutical and Life Sciences Deals Insights Quarterly

Q4 2013

February 2014

A publication from PwC's Deals practice

At a glance

As anticipated in our third-quarter report, deal value and volume increased in the fourth quarter to close 2013 on a high note, signaling strong momentum heading into 2014.

African countries represent many of the world's fastest-growing economies, and investment in the continent's pharmaceutical and life sciences industry is creating significant opportunities for growth.

Tax planning in the course of post-deal integration may present opportunities to mitigate transaction risk and potentially provide substantial cash savings to acquirers.

pwc

Welcome to PwC's Pharmaceutical and Life Sciences Deals Insights Quarterly

This issue of *Pharmaceutical and Life Sciences Deals Insights Quarterly* brings you PwC's perspective on deal activity in the industry. Each quarterly publication features three sections:

1. ***Market update:*** A summary of M&A deals and trends for the previous quarter. This issue covers Q4 2013.
2. ***Market spotlight:*** An update on doing deals in selected geographies. This issue focuses on Africa. African countries represent many of the world's fastest-growing economies, and an increased focus on consumer-oriented sectors and investment in the pharmaceutical and life sciences industry is creating significant opportunities for growth.
3. ***Strategy corner:*** A feature offering tips and insights on different aspects of deal making. Tax planning is a critical component of deal integration and can provide substantial cash savings to acquirers.

Refer also to our previous publications for insights into doing deals in other geographic markets and aspects of making successful transactions. All of our quarterly deals publications are available at www.pwc.com/us/pharmadeals.

Q3:2013
Russia: poised for continued economic change but challenges remain

Using non-traditional consideration to close the M&A value gap

Q2:2013
Brazil: High growth potential but challenges to deal making

Foreign Corrupt Practices Act

Q1:2013
Southeast Asia comes of age
Refining the price-value equation

Q4:2012
Doing deals in China
Driving divestiture success—
Five critical components

Market update

Deal activity increased in the fourth quarter of 2013 to end the year on a strong note, with total deal value 45.8 percent higher than in 2012.

Deal activity in the fourth quarter represented a 24 percent increase in volume and a 102.8 percent increase in value relative to the third quarter of 2013. Relative to the fourth quarter of 2012, deal volume declined by 29.5 percent; however, deal value represented an increase of 106.8 percent. On an annual basis, deal volume in 2013 represented a modest decline of 11.6 percent while deal value increased 45.8 percent relative to 2012. The increase in deal value in 2013 was due primarily to the initial public offerings (IPOs) of AbbVie by Abbott Laboratories and Zoetis by Pfizer in the first quarter of 2013, as well as a particularly strong fourth quarter.

While deal volumes remained relatively consistent throughout 2013, and deal values over the year totalled greater than $140 billion, there were no "mega deals" of the kind prevalent in the pharmaceutical and life sciences (PLS) industry in years past, particularly from 2008 through 2011. Rather, large pharmaceutical companies, which historically have been frequent acquirers, focused on rebuilding their product pipelines through acquisitions of relatively smaller biopharmaceutical players. In addition, pharmaceutical companies remained focused on balancing their own product portfolios and sought to unlock value through divestitures.

Several other trends continued throughout 2013:

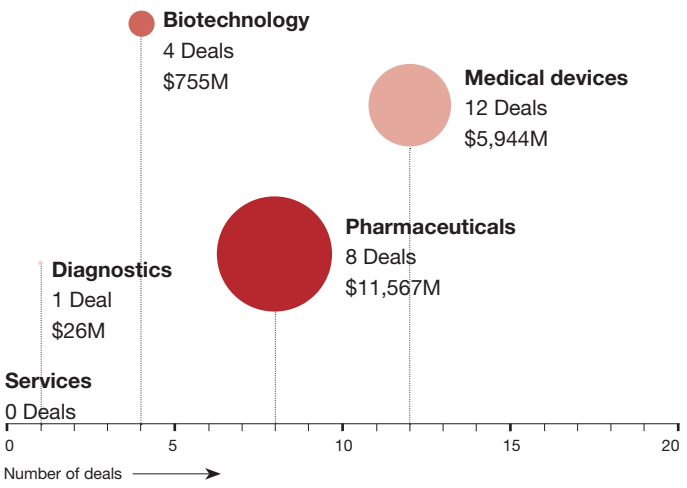
- Pharmaceutical companies continued to face increased competition in deal making from biotechnology companies seeking to gain scale and mitigate risk through a more diverse product portfolio.
- Medical device manufacturers remained active in M&A, primarily in middle-market deals as they sought to complement existing product portfolios with innovative technologies.
- The diagnostics and services sectors remained relatively quiet in the M&A market throughout 2013. However, these sectors may see a return to deal making over the next year. Diagnostic technologies may remain relevant as personalized medicine continues to gain momentum and pharmaceutical companies seek to drive greater effectiveness from their R&D efforts. Meanwhile, services companies may continue to seek geographic scale to position themselves to serve the global needs of their client base.

Quarter in review

The volume of PLS deals closed during the fourth quarter of 2013 increased 24 percent to 31 deals, compared with 25 deals in the third quarter of 2013, but decreased by 29.5 percent from 44 deals in the fourth quarter of 2012. The value of PLS deals closed during the fourth quarter of 2013 increased more than 100 percent to $37.1 billion, relative to the approximately $18 billion in the third quarter of 2013 and the fourth quarter of 2012. For 2013 overall, deal volume decreased by 15 deals, or 11.6 percent, compared with 2012, for a total of 114 deals. Deal value in 2013 increased by nearly $45 billion, or 45.8 percent, to $143.2 billion.

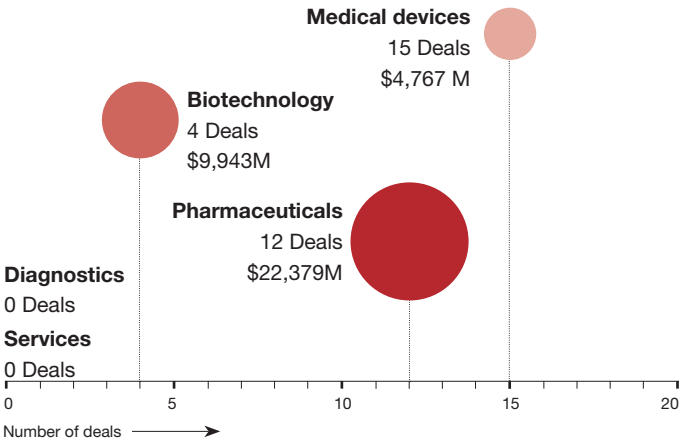
M&A activity in both the pharmaceutical and biotechnology sectors rebounded in the fourth quarter after relatively slow third quarters. Twelve deals closed in the pharmaceutical sector after eight deals closed in the third quarter. Deal value in the pharmaceutical sector totalled $22.4 billion, compared with $11.6 billion in the third quarter and $12 billion in the fourth quarter of 2012. For 2013 overall, the pharmaceutical sector saw 49 deals with a total value of $113.9 billion, compared with $33 billion across 41 deals in 2012. Excluding the IPOs of AbbVie by Abbott Laboratories and Zoetis by Pfizer in the first quarter of 2013, which represented $68.5 billion of deal value, deal value in 2013 represented an increase of 37.6 percent over 2012.

Figure 2: Total deal value and deal volume by industry segment (2013 Q3)



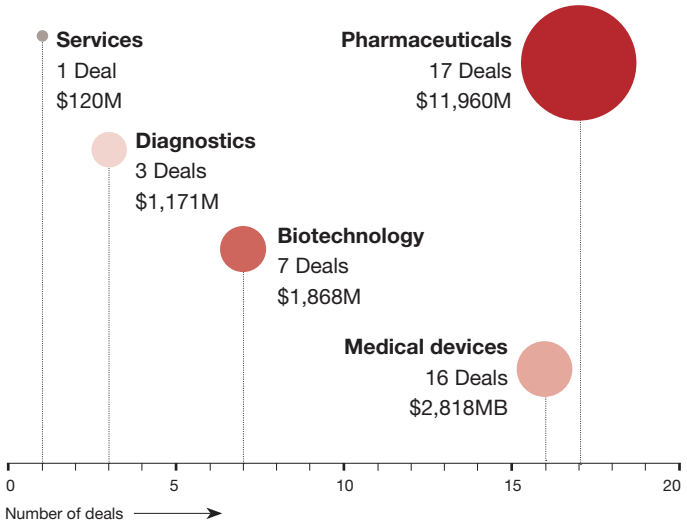
Source: Thomson Reuters

Figure 1: Total deal value and deal volume by industry segment (2013 Q4)



Source: Thomson Reuters

Figure 3: Total deal value and deal volume by industry segment (2012 Q4)



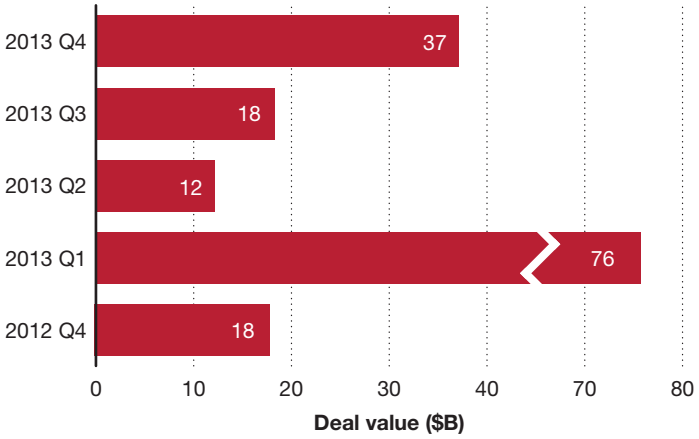
Source: Thomson Reuters

Four deals closed in the biotechnology sector, consistent with the third quarter of 2013 but down from the seven deals closed in the fourth quarter of 2012. However, total deal value increased to $9.9 billion, compared with $755 million in the third quarter and $1.9 billion in the fourth quarter of 2012. The increase in deal value was largely due to Amgen's acquisition of Onyx Pharmaceuticals for $9.7 billion. Overall, 2013 saw a decline in both deal value and volume in the biotechnology sector: 17 deals closed with a total value of $13.7 billion, compared with 25 deals totalling $23.4 billion in 2012.

Deal values in the medical device sector declined 19.8 percent from the third quarter. However, volumes increased slightly, from 12 deals in the third quarter of 2012 to 15 deals in the fourth quarter, indicating strong deal activity across the sector. Acquirers in the medical device sector remained active throughout 2013, closing 41 deals with a total value of $14.3 billion, compared with 47 deals totalling $31.8 billion in 2012. Excluding Johnson & Johnson's acquisition of Synthes in the second quarter of 2012, deal value in the medical device sector increased 22.3 percent relative to 2012.

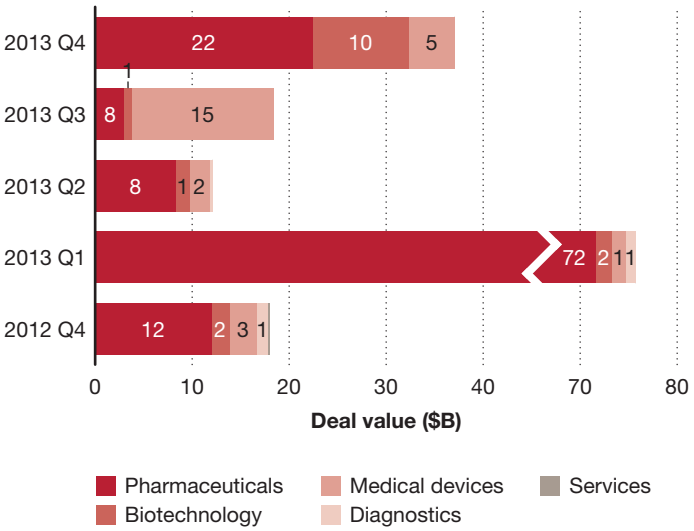
Acquirers in the diagnostics and service sectors remained on the sidelines in the fourth quarter, as 2013 represented a significant decline in both deal values and volumes in the sectors relative to 2012.

Figure 4: Total deal value (2012 Q4–2013 Q4)



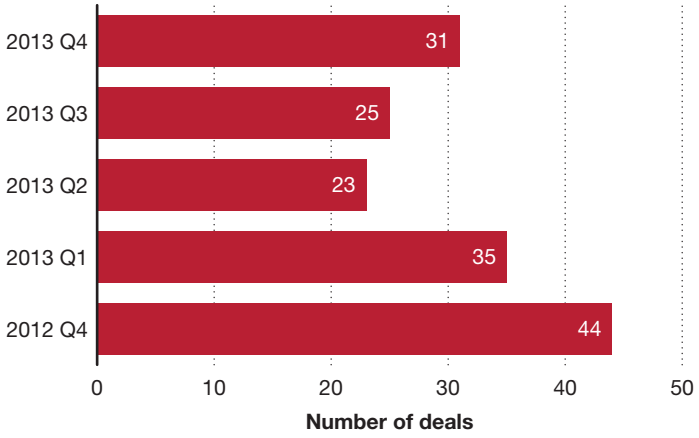
Source: Thomson Reuters

Figure 6: Total deal value by industry segment (2012 Q4–2013 Q4)



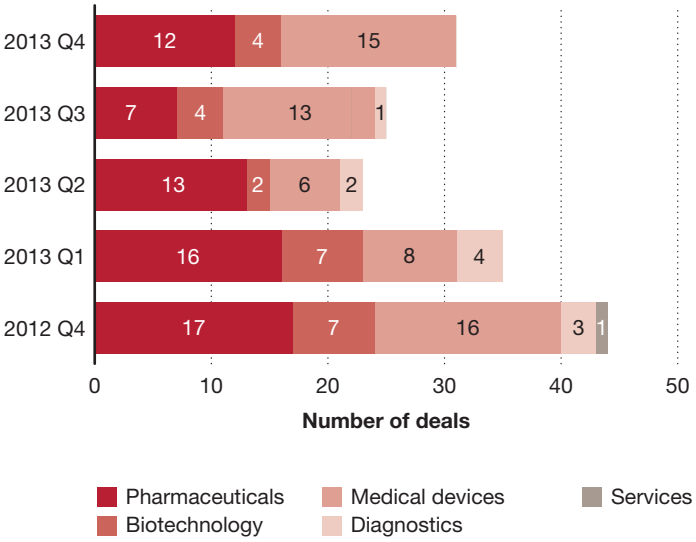
Source: Thomson Reuters

Figure 5: Total deal volume (2012 Q4–2013 Q4)



Source: Thomson Reuters

Figure 7: Total deal volume by industry segment (2012 Q4–2013 Q4)

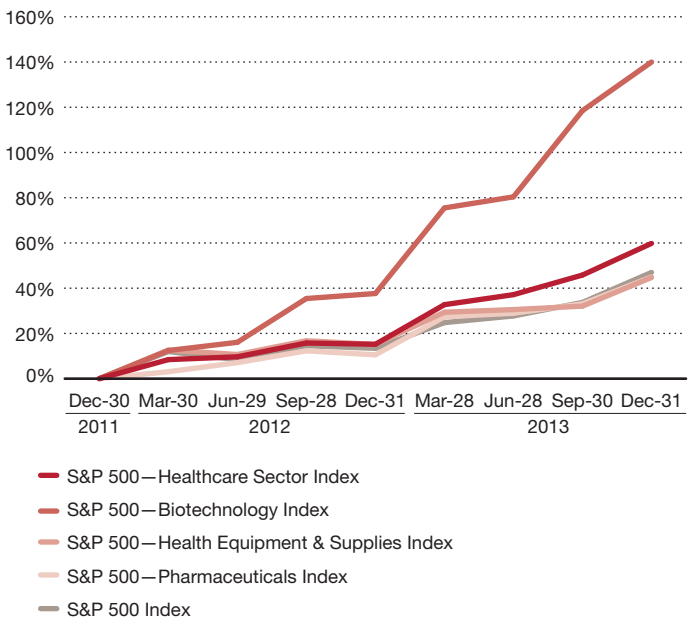


Source: Thomson Reuters

Trends and insights

- Fourth-quarter results suggest a strong wave of M&A activity to finish 2013. This trend, driven by macroeconomic stability and growth in key markets, may continue into 2014. Acquirers remain active in the market, as evidenced by relatively consistent levels of deal activity throughout 2013. While quality assets remain relatively scarce, and acquires continue to focus on successful execution, acquirers in the PLS industry are using earn-outs and other deal tools to bridge value gaps, share risk, and complete deals.
- Divestitures remain a key component of PLS companies' strategies to maximize shareholder value. Eleven divestitures were completed in the fourth quarter, representing a total value of $3.8 billion. Additionally, there were 14 pending divestitures with deal values announced, with a total value of $12.2 billion.
- Strategic buyers continue to account for the majority of M&A activity in the PLS industry. In the fourth quarter, three deals with a total value of $710 million were closed by financial buyers. Throughout 2013, financial buyers accounted for 17 transactions with an aggregate value of $3.0 billion. While financial buyers remain active in deal processes, potential synergies and other benefits of transactions have driven a higher rate of success for strategic acquirers.
- PLS stocks finished 2013 by outperforming the S&P 500 in the fourth quarter. The S&P healthcare sector index rose by 14 percent, compared with a 13.3 percent increase for the S&P 500. The S&P 500 biotechnology index led PLS subsectors with a 21.5 percent gain in the fourth quarter, compared with 12.7 percent for the healthcare equipment and supplies index and 11.9 percent for the pharmaceutical index. On a year-to-date basis, the S&P healthcare sector index increased 44.6 percent relative to 33.6 percent for the S&P 500.

Figure 8: Equity Index Returns



Source: S&P CapitalQ

- The IPO window remained open for PLS companies in the fourth quarter as the capital markets continued to demonstrate strong momentum. Overall, there were 77 IPOs in the fourth quarter, through December 17, compared with 63 in the third quarter of 2013 and 38 in the fourth quarter of 2012, according to IPO Watch, a quarterly survey of IPOs listed on US stock exchanges by PwC.[1] IPO proceeds in the fourth quarter totalled $24.0 billion, compared with $11.8 billion in the third quarter of 2013 and $8.2 billion in the fourth quarter of 2012. IPOs in 2013 totalled 237 with proceeds of $56.8 billion, compared with 146 IPOs with proceeds of $26.9 billion (excluding Facebook) throughout 2012. Although IPO activity among healthcare companies slowed in the fourth quarter from $3 billion in 18 IPOs in the third quarter to $1.1 billion in 14 IPOs, IPO values and volumes for all of 2013 increased by approximately 11 and 4 times, respectively, compared with 2012.

- According to the MoneyTree Report by PricewaterhouseCoopers LLP and the National Venture Capital Association (NVCA), biotechnology and medical device companies accounted for 23 percent of all venture capital dollars invested in 2013, compared with 25 percent in 2012.[2] Biotechnology investment dollars rose 8 percent, while volume decreased 2 percent in 2013 to $4.5 billion going into 470 deals, making it the second-largest investment sector for the year in terms of deals and dollars invested. The medical device industry fell 17 percent in dollars and 4 percent in deals in 2013, finishing the year with $2.1 billion going into 308 deals. In the fourth quarter of 2013, $1.3 billion went into 134 biotechnology companies, while $460 million went into 94 medical device deals.

Figure 9: Value and volume of US IPOs in the healthcare industry

	2013		2012	
	Value	Volume	Value	Volume
Q4*	1,103	13	194	4
Q3	2,973	18	218	3
Q2	2,054	17	131	2
Q1	2,538	6	251	4
Total	**8,668**	**54**	**793**	**13**

*Q4 2013 data through December 17, 2013

Source: PwC IPO Watch

1 http://www.pwc.com/us/en/press-releases/2013/pwc-q4-2013-ipo-watch-press-release.jhtml

2 http://www.pwc.com/us/en/press-releases/2014/annual-venture-investment-dollars.jhtml

Key closed transactions

- On October 1, Amgen completed its acquisition of Onyx Pharmaceuticals, a developer of oncology therapies, for $125 in cash per share, or a total value of $9.7 billion.
- On October 1, Actavis acquired the entire share capital of Warner Chilcott, a manufacturer and wholesaler of pharmaceutical drugs, in a stock swap valued at $5.1 billion.
- On October 7, MedImmune, a unit of AstraZeneca, acquired Amplimmune, a developer of immunology therapeutics for oncology and other diseases, for $225 million in cash and up to $275 million in potential contingent payments.
- On October 11, Otsuka Holdings of Japan acquired Astex Pharmaceuticals, a developer of oncology therapeutics, for $8.50 in cash per share, or a total value of $886.9 million.
- On October 23, Cubist Pharmaceuticals acquired the entire share capital of Optimer Pharmaceuticals for $10.75 in cash and up to $5.00 per share in contingent value rights, or a total value of $775.5 million.
- On December 4, Mylan acquired Agila Specialties Private Limited, a developer of generic injectable products, from Strides Arcolab Limited. Consideration offered in the transaction is up to $1.75 billion, with $250 million held back as contingent consideration.
- On December 17, Stryker Corporation acquired the shares of Mako Surgical Corporation for $30 per share, or a total value of $1.7 billion. Mako develops systems for robotic-assisted surgery in orthopaedic procedures.
- On December 18, Perrigo completed its merger with Elan, a Dublin-based biotechnology company, in a stock swap transaction valued at $8.5 billion. The combined company will be reincorporated in Ireland in conjunction with the transaction.
- On December 31, CareFusion acquired Vital Signs, Inc, a manufacturer of single-patient-use consumables for respiratory care and anesthesiology, from GE Healthcare, a unit of General Electric, for $500 million.

Figure 10: Total deal value and deal volume by deal size and quarter

	2013 Q4		2013 Q3		2012 Q4	
	Number of deals	Deal value ($M)	Number of deals	Deal value ($M)	Number of deals	Deal value ($M)
$15M to $50M	4	98	8	260	8	254
$50M to $100M	2	133	0	0	8	581
$100M to $250M	8	1,144	6	985	13	2,080
$250M to $500M	8	2,822	7	2,539	9	2,942
$500M to $1,000B	4	2,662	1	787	4	3,004
> $1,000B	5	30,230	3	13,722	2	9,076
Total	**31**	**37,089**	**25**	**18,292**	**44**	**17,937**

Source: Thomson Reuters

Key announced transactions

- On November 7, Salix Pharmaceuticals offered to acquire the shares of Santarus, a biopharmaceutical company focused on gastroenterology, for $32 per share or total consideration of approximately $2.6 billion. The transaction closed on January 2.
- On November 11, Shire offered to acquire the shares of ViroPharma, a manufacturer and developer of therapeutics for the treatment of rare diseases, for $50 per share or total consideration of $4.2 billion.
- On November 11, Grifols, a Spain-based biopharmaceutical company, agreed to acquire the blood transfusion diagnostic unit of Novartis for $1.7 billion.
- On December 19, AstraZeneca agreed to acquire the diabetes business of Bristol-Myers Squibb for total consideration of $4.3 billion. Consideration in the transaction consisted of $2.9 billion in cash and up to $1.4 billion in contingent payments.
- On November 5, Endo Health Solutions agreed to acquire Paladin Labs in an exchange of stock, which valued Paladin at $1.6 billion or $72 per share. Paladin is a biopharmaceutical company focused on acquiring and in-licensing pharmaceutical products for the Canadian and world markets
- On November 19, Royal DSM agreed to merge its DSM Pharmaceutical Products unit with Patheon, Inc., a contract developer and manufacturer owned by private equity firm JLL Partners. Post-transaction, Royal DSM will own 49 percent of the combined entity while JLL will retain a 51 percent interest.
- On December 19, Jazz Pharmaceuticals offered to acquire the shares of Gentium SpA, an Italian manufacturer and developer of therapeutics for the treatment of rare diseases, for $57 per share or total consideration of $879 million.

Other previously announced transactions which had not closed as of the end of the fourth quarter included:

- On April 15, Thermo Fisher Scientific announced it had agreed to acquire Life Technologies for approximately $15.5 billion in cash and assumed debt. Life Technologies is a global life sciences company that provides a range of products and services, including systems, instruments, reagents, and software for research and commercial applications.
- On July 29, France-based Essilor International agreed to acquire the remaining 51% interest, which it did not already own, in Transitions Optical Inc, a manufacturer of photochromic lenses, from PPG Industries for approximately $1.7 billion in cash and up to $125 million in profit-related payments. The transaction also included Intercast, an Italian supplier of sun lenses.
- On September 27, a subsidiary of Kohlberg Kravis Roberts & Co agreed to acquire an 80% interest in Panasonic Healthcare Co., Ltd., a Tokyo-based manufacturer of medical equipment, for approximately $1.7 billion in cash. Panasonic Corporation will retain the remaining 20% interest in Panasonic Healthcare.

Market wrap-up

Deal activity in the fourth quarter, including both closed and announced transactions, suggests a heightened level of activity in early 2014. Healthy balance sheets, access to financing, and strong equity markets will allow PLS participants to continue to seek opportunities to grow through acquisition across industry sectors.

About the data

We define M&A activity as mergers and acquisitions in which targets are US-based companies acquired by either US or foreign buyers or foreign targets acquired by US pharmaceutical and life science companies. We define divestitures as the sale of a portion of a company (not a whole entity) by a US-based seller.

We have based our findings on data provided by industry-recognized sources. Specifically, values and volumes used throughout this report are based on completion-date data for transactions with a disclosed deal value greater than $15 million, as provided by Thomson Reuters as of December 31, 2013 and supplemented by additional independent research. Information related to previous periods is updated periodically based on new data collected by Thomson Reuters for deals closed during previous periods but not reflected in previous data sets.

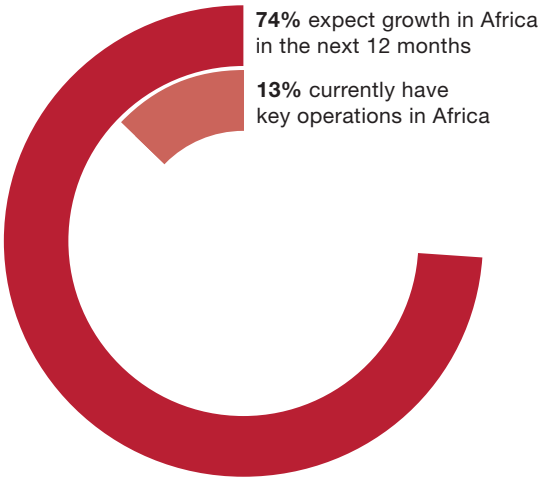
Deal information was sourced from Thomson Reuters and includes deals for which buyers or targets fall into one of the industry sectors: biotechnology, medical devices, medical diagnostics, pharmaceuticals, or services (i.e., contract research organizations). Certain adjustments have been made to the information to exclude transactions that are not specific to the PLS industry. Capital market and equity return information is sourced from Capital IQ.

Market spotlight
Africa: This time it's for real

Following nearly two decades of sustained annual gross domestic product growth in excess of five percent, the future for Africa has never looked brighter. African countries represent many of the world's fastest-growing economies, according to the International Monetary Fund, and the African Development Bank forecasts average annual growth in excess of five percent for the foreseeable future.

Africa's sector focus is beginning to shift from its historical reliance on natural resources (mining and oil) to a greater emphasis on infrastructure and consumer-oriented sectors, including telecommunications, financial services, retail, and pharmaceuticals. This shift coincides with the emergence of the middle class in Africa, which is now estimated at 313 million people, roughly as large as China's or India's. By 2020, 128 million households in Africa are expected to have discretionary income. By 2040, more than one billion Africans are expected to be eligible to enter the labor market, and half are expected to live in cities. Pharmaceutical and life sciences (PLS) companies also stand to benefit from these trends. Pharmaceutical spending in Africa is expected to reach $30 billion by 2016 and could reach $45 billion by 2020, according to a 2012 report by IMS Health.[3]

Figure 11: CEO Expectations for growth in Africa



Source: PwC, 16th Annual Global CEO Survey, 2013

Responding to these socioeconomic trends, multinational companies (MNCs) are increasingly seeking opportunities to enter the market. Nearly three-quarters of respondents to PwC's *16th Annual Global CEO Survey* said they planned to expand operations in Africa over the following twelve months. And sub-Saharan Africa is expected to continue to attract the highest rates of foreign direct investment inflows per capita of any developing region over the next few decades.[4] However, investors would be well served to approach the market with a carefully considered strategy to address the risks and maximize opportunities.

Building local industry capabilities

In 2007, the African Union endorsed the Pharmaceutical Manufacturing Plan for Africa (PMPA) with the dual objectives of improving public health and developing the PLS sector within Africa. The PMPA was designed to improve access to medicine on the continent while reducing reliance on imported products; the plan takes into account the need for investment, research, manufacturing skill, and regulatory oversight. The PMPA has broad support from the United Nations Industrial Development Organization among other stakeholders. While further advances in research and development and production capabilities are needed, progress has already been made with several sizable investments in capacity made in Tanzania, Angola, Mozambique, and other countries.[5] This initiative may help PLS companies establish a presence and brand in local markets, partner with local institutions, and benefit from first-mover advantage.

3 "Africa: a ripe opportunity–Understanding the pharmaceutical market opportunity and developing sustainable business models in Africa," IMS Health, November 2012.

4 United Nations Conference on Trade and Development, World Investment Report 2012: Towards a New Generation of Investment Policies.

5 "Moving production into Africa," by Neil Ford, African Business, May 1, 2013.

Strategies to enter the market

Foreign companies conducting business in Africa face numerous challenges including countries facing unresolved issues regarding their social institutions, governance structures, infrastructure, and healthcare and educational systems. Investors are responding with several notable strategies letting them access rapidly emerging new market opportunities. These include:

- **Compete effectively**—Investors from China, India, and other countries have begun to invest heavily in Africa, while many Western MNCs continue to evaluate strategies and opportunities. While these investments initially targeted natural resources, they have since expanded into other sectors. Western investors will need to devise strategies to compete in these markets despite the gains made by China, India, and others.
- **Think locally**—The African market comprises more than 54 sovereign nations, each with its own practices and regulations. Investors would be well served to tailor their strategies to each of these localities and engage in business practices suitable for each. However, such tailored practices are further complicated by the continent's geographic scale and often inadequate infrastructure. While companies have traditionally established hubs in key markets such as Nigeria and South Africa, regional economic communities (RECs) are increasingly providing benefits of scale among smaller markets. Many RECs have established free trade areas with limited tariffs or customs unions, where all members of a free trade area also put into place uniform tariffs on imports coming from outside an REC.
- **Build talent**—A third of CEOs in Africa responding to PwC's 15th Annual Global CEO Survey said a shortage of talent curbed innovation or stifled a market opportunity, while almost half said talent costs had climbed higher than expected and two-thirds noted recruitment and retention of skilled middle managers was particularly challenging. Companies investing in Africa are employing a variety of strategies to develop and retain human capital, including secondments, training, and effective use of technology.

Investors should be prepared to anticipate—and mitigate—the risks inherent in investing in any emerging market, including Africa. These risks include regulations, corruption, unilateral changes in tax policies, new cross-border restrictions, high transportation costs, power grid outages, and poor distribution channels. While infrastructure and governance continue to improve, investors would do well to not underestimate the potential challenges and to allocate sufficient time and resources to address them.

The robust economic conditions in many African countries, with a fast-growing consumer class, point to nearly unlimited opportunities for companies committed to deploying innovation, gaining local know-how, and adequately preparing for expansion into diverse markets. Investors with thoughtful strategies for entering this market, and a commitment to the effort required to be successful, stand to benefit significantly.

For a more in-depth discussion of the African markets, please refer to our publications, *View: Competing for African markets: Strategies to win new business now*, PwC 2013, http://www.pwc.com/us/en/view/issue-16/strategies-win-african-business.jhtml and *10Minutes on investing in Africa*, http://www.pwc.com/us/en/10minutes/investing-in-africa.jhtml

Strategy corner
Mitigating risk by aligning post-deal integration and tax planning

Transactions in the pharmaceutical and life sciences (PLS) industry are often characterized by risks associated with new products or markets. The consequences of these risks may significantly impact the value of the target company or asset. When buying a target, the acquirer doesn't expect the investment value to decline. However, investments do not always pay off, and thoughtful planning at the time of acquisition may result in recovering a portion of any loss through a tax deduction.

If structured properly, a company may monetize acquired stock basis if the value of a target declines. Buyers often transfer acquired assets into their own legal entities as part of their post-deal integration. However, if the acquired entity is liquidated upon integration (either formally or by transferring all the assets of the entity without retaining an interest), the newly acquired stock basis may disappear; thus, the buyer would be prevented from claiming a deduction in the future. Generally, if the stock basis is preserved, a tax loss may be available through a worthless stock deduction or an internal taxable exchange of the stock.

Worthless stock deduction

If an investment has become worthless during a tax year, a worthless stock deduction may be available, resulting in the full recognition of the loss for tax purposes under Section 165(g). However, a deduction for the partial decline in market value of an equity investment is not allowed, and a taxpayer must establish complete worthlessness in order to take advantage of the worthless stock deduction. In order to claim this deduction, a taxpayer must generally prove that 1) the security has no liquidating value, and 2) there is no future potential value. Taxpayers must also establish when the loss in value occurred. In many cases, these requirements present significant hurdles to claiming a worthless stock deduction. However, for PLS companies, value is often lost in discrete events such as a failure in clinical trials.

The most significant benefit of a worthless stock deduction is realized when the deduction is characterized as an ordinary deduction that is available to offset the buyer's operating income. Tax rules generally provide an ordinary loss when a subsidiary is an operating company, subject to certain ownership and income thresholds. With the right fact pattern, a buyer may be able to claim an ordinary deduction that can offset operating income in the year the target becomes worthless. Take, for example, a biotechnology company engaged in the development of a single compound, currently in phase two clinical trials, that is acquired for $100 million. Subsequent to the acquisition, development of the compound is abandoned based on the results of the clinical study. The buyer may be able to achieve federal cash tax savings of $35 million, assuming that the tax basis has not changed since acquisition, which is often not the case. While this is not the result a company desires when making an acquisition, the tax savings achieved may help to mitigate the impact of a negative outcome.

Key considerations in tax planning:

- A tax deduction may be achieved as a result of a decline in an acquired company's value.
- Integration of target business may result in loss of stock basis that could provide future benefit in the event of a decrease in value.
- Tax implications should be considered in integration to avoid loss of stock basis.

Granite Trust planning

If a worthless stock deduction is not available because the target is solvent, but the target value has declined, alternative planning—frequently referred to as *Granite Trust*—may be explored to determine whether a company may recognize a built-in loss. A series of court cases, including *Granite Trust Co. v. United States, 238 F.2d 670 (1st Cir. 1956)*, have established that a company may be able to structure an internal transaction in order to achieve a taxable exchange of stock under Section 331, versus a tax-free liquidation.

The downside to this planning versus a worthless stock deduction is that a company will likely recognize less than 100 percent of the built-in loss, and the loss is generally treated as a capital loss that can only offset capital gains. However, a corporation may want to consider *Granite Trust* planning if a) the company has a built-in loss on the target stock, b) the target is solvent and it is not foreseeable that the target will become insolvent, and c) the company has the ability to benefit from the loss.

Conclusion

Post-deal integration is often a key component of successful transactions and has a major impact on operational and financial functions. Buyers who align tax planning with their post-deal integration strategy may be able to preserve significant value.

About PwC's Deals Practice

Our deals professionals help clients understand the risks in transactions so they can be confident they are making informed strategic decisions. From their deal negotiations to capturing synergies during integration, we help clients gain value and, ultimately, deliver this value to stakeholders. For companies in distressed situations, we advise on crisis avoidance, financial and operational restructuring, and bankruptcy.

PwC's Deals group can advise pharmaceutical and life sciences companies and PLS-focused private equity firms on M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, through developing strategies for capturing post-deal profits, to exiting a deal through a sale, carve-out, or IPO. With more than 9,800 deals professionals in 75 countries, we can deploy seasoned deals teams that combine deep pharmaceutical and life sciences industry skills with local market knowledge virtually anywhere and everywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services. In short, we offer integrated solutions tailored to your particular deal situation and designed to help you complete and extract peak value within your risk profile, whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divestiture process.

For more information about M&A and related services in the pharmaceutical and life sciences industry, please visit www.pwc.com/us/pharmadeals, www.pwc.com/us/pharma or www.pwc.com/us/medtech.

For views on the health industries sector, refer to the US Health Services Deals Insights reports on the Deals section of our website.

Acknowledgments

Authors

Dimitri Drone
Partner, Deals
Deals Services Pharmaceutical
& Life Sciences Leader
973 236 4977
dimitri.b.drone@us.pwc.com

James Woods
Director, Deals
617 530 4133
james.woods@us.pwc.com

Strategy corner–Mitigating risk by aligning post-deal integration and tax planning

Stephen Puzzo
Partner, Deals
Mergers & Acquisitions Tax
617 530 6323
stephen.puzzo@us.pwc.com

Erica Groetken
Director, Deals
Mergers & Acquisitions Tax
617 530 4519
erica.groetken@us.pwc.com

Market spotlight–Africa: This time it's for real

Harry G. Broadman
Leader, Emerging Markets Strategy Consulting,
and Chief Economist
202 312 0807
harry.g.broadman@us.pwc.com

For a deeper discussion on pharmaceutical and life sciences deal considerations, please contact one of our practice leaders or your local Deals partner:

Martyn Curragh
Principal, US Practice Leader, Deals
646 471 2622
martyn.curragh@us.pwc.com

Northeast

Tom Pickette
Partner, Deals
617 530 6343
thomas.r.pickette@us.pwc.com

New York Metro

Glenn Hunzinger
Partner, Deals
646 471 8764
glenn.hunzinger@us.pwc.com

Colin Wittmer
Partner, Deals
646 471 3542
colin.e.wittmer@us.pwc.com

Central

Manoj Mahenthiran
Partner, Deals
312 298 3162
manoj.c.mahenthiran@us.pwc.com

Pam Yanakopulos
Partner, Deals
312 298 3798
pamela.yanakopulos@us.pwc.com

West

Mattias Gunnarsson
Partner, Deals
213 356 6978
mattias.x.gunnarsson@us.pwc.com

www.pwc.com/us/pharmadeals