

Early Warning System - Case 11

Pharmaceutical company takeover

Final methodological assessment - prepared by the EWS secretariat with the approval of relevant EWS network members

Based on information available in November 2019

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Background

The multinational pharmaceutical company A with HQ in country X acquired pharmaceutical company B in country Y in mid-2018. The price was several billion euro. Both X and Y are EU member states.

The ECB suggested the case for consideration by the EWS:

“The interest is in the valuation of IPP assets in the national accounts and BOP (the company policy of company B is to expend these, A on the other hand has large amounts of IPP on its balance sheet), and the recording decisions as regards the IPP in the two countries involved. A’s next quarterly report, or 2018 annual report will therefore be interesting, as will be the case of how they are going to be recorded in X and Y.”

Findings

At the end of 2017, the accounts of company B showed assets of a few hundred million euro (almost all financial assets), and shareholder equity of about half that, much lower than the acquisition price.

A’s global balance sheet shows an increase in *Intangible assets* of more than 10 billion euro from the end of 2017 to the end of June 2018. This is probably partly related to the acquisition of B.

Both country X and Y said that they knew about the merger. B will continue operating in country Y as a foreign affiliate of A, so there is little impact on turnover and other short-term business statistics. The same can be expected to be the case for output and value added in the national accounts.

Country Y reported impacts on the financial account of the BoP, with an increase of the FDI equity liabilities on country X in June 2018. The increase is consistent with the purchase price for B, announced by company A. For portfolio investment, there was a decrease of the liabilities, since B was partly owned by non-residents before the acquisition. Income for FDI according to Current Operating Profit will however only be recorded in the September 2019 version of the 2018 BOP. So this could cause small revisions of the income account.

It is still too soon to see the impacts on other kinds of economic statistics like FATS and R&D expenditures, since these have not yet been compiled for the reference year 2018.

Conclusions

Both country X and Y are aware of the acquisition. The impact on turnover, output and value added in NA should be small. The impact on BoP, IIP, FDI, and FATS statistics will be larger. Some of this has been observed already (e.g. FDI in country Y), but several statistics have not yet been compiled for 2018.

The countries are asked to continue to monitor the case and notify the EWS on any significant impact on the statistics.