

M&A and Equities Update

All amounts in \$US unless otherwise stated.

Mergers and Acquisitions Update

Healthcare & Pharmaceuticals

Follow-up on Bristol-Myers Squibb's Merger with Celgene

On January 3, 2019, Bristol-Myers Squibb Company (NYSE:BMJ) announced a \$74bn acquisition of Celgene Corporation (NASDAQ:CELG). While the deal initially resulted in an increase in Celgene's share price, a slight decline in BMJ's share price and complications with the FTC have resulted in a slide in both companies' stock. In order to appease the FTC's antitrust concerns with the deal, BMJ will have to divest Otezla – one of Celgene's most profitable drugs. Both companies saw an immediate 4% decline in their share prices. Despite investors' concerns reflected in this market reaction, if BMJ is able to find interested buyers in this lucrative divestiture which raked in \$1.8bn last year, it should see a recovery. The deal will now be targeted for completion towards the end of 2019 or beginning of 2020, delayed from its earlier target of Q3 of 2019.

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AbbVie acquires Allergan

In another massive Healthcare & Pharmaceuticals industry, AbbVie announced on June 25 that it planned to acquire Allergan for \$63bn, a 45% premium to its June 24 close, in a cash and stock deal. AbbVie is an American publicly traded biopharmaceutical company founded in 2013, while Allergan is an Irish-tax registered pharmaceutical company that acquires, develops, and markets brand name drugs.

At the close of the first day of trading after the deal, shares in Allergan were up about 25% while AbbVie was down 16%. This is a result of the fact that the proposed takeover doesn't give AbbVie a future pipeline full of potential blockbuster drugs, but it buys the company time to develop more by diversifying its revenue. In the time since, AbbVie shares have climbed back up to a 6% discount from the pre-deal market value as investors see value in AbbVie's diversification.

The deal is largely an effort by AbbVie to compensate for the loss of patent protection for Humira, a treatment for rheumatoid arthritis that is the world's top-selling drug and makes up over a third of AbbVie's revenue. In acquiring Allergan, AbbVie bypasses relying on the risky R&D process for the short term by buying Allergan's portfolio of established popular products such as Botox.

This deal is the second highest value seen in 2019 behind the aforementioned BMJ and Celgene merger and is emblematic of the pharmaceutical buying frenzy in 2019. As of this deal, buyers have announced a 6-month record high \$310bn worth of deals in American health care. As is the case with the BMJ merger, this deal will face scrutiny with the FTC over antitrust concerns and AbbVie is planning to divest two Allergan drugs, IL-23 and Zenpep, to ensure the deal passes more smoothly.

Telecommunications

T-Mobile and Sprint Merger Update

T-Mobile and Sprint's \$26bn merger has continued to be delayed as the DOJ wants them to spin off more assets due to antitrust concerns. The merger would combine the U.S.'s third and fourth-largest cellular providers, creating a massive new company with as many as 127 million customers.

The delay is further compounded by many states who are suing to stop the deal. The states allege that T-Mobile's controlling shareholder, Germany's Deutsche Telekom, has sought consolidation in the wireless network market believing it would lead to "less competition and better returns for network operators", according to the lawsuit, which cites internal Deutsche Telekom documents.

On the other hand, T-Mobile and Sprint claim that the deal allows them to compete with the two dominant networks, Verizon and AT&T, and improves the competitive landscape by making a genuine third major competitor in cellular services. The deal also provides the combined company with the infrastructure capability to expand the U.S.'s 5G network and keep up with international growth.

The deal may near completion soon however as Dish and T-Mobile reached a deal on July 2 for divestitures including wireless spectrum, Boost Mobile, and the ability to use T-Mobile and Sprint's combined network for about six to seven years. The updated merger is now pending DOJ approval and if it is approved, the State lawsuits will likely be settled easily. As a result of this spin off, Dish would take Sprint's place as the fourth cellular service provider relieving the antitrust concerns of the merger.

Equities Market Update

Slack IPO

On June 20th, Slack Technologies Inc. (NYSE:WORK) listed its shares publicly on the New York Stock Exchange at a reference price of \$26 per share, which gave the company a \$16 billion valuation. Goldman Sachs Group Inc., Morgan Stanley, and Allen & Co. were the advisors to Slack on the listing. As of June 28th, the stock closed at \$37.50, representing a 44% premium to the reference price.

Slack is a provider of cloud-based software that facilitate workplace collaboration. Earlier in the month, Slack said that it expects at least \$590 million in revenue in its 2020 fiscal year, which ends January, and represents a rapid growth rate of 50% compared with fiscal 2019 (despite slowing down from a 110% and 81% in the previous two fiscal years). As of fiscal 2019, daily active users have exceeded 10 million, with more than 95,000 organizations as paid customers and over 500,000 organizations currently on a free subscription plan.

After the public offering, Slack will be operating under a dual share structure. Shareholders who owned shares before the company's public listing, which are mostly directors and company executives, will hold class B shares that carry 10 votes per share. Meanwhile, the class A shares that investors can purchase on the NYSE will only carry 1 vote per share, allowing insiders more say in the company's operations. When an insider sells class B shares to the public, the voting privilege does not transfer as the shares would be converted to class A shares.

It is worth noting that the offering was a Direct Public Offering (DPO). Instead of issuing new shares to raise funds, the company's existing shareholders will be able to sell their shares to the public. Through this unconventional direct listing, Slack saves tens of millions of dollars in fees that would have been paid to the investment bankers and members of an underwriting syndicate. Meanwhile, the market, instead of investment bankers, determined the stock price through supply and demand.

In the face of successful DPO's from Spotify last year and now Slack, there are reports that other large tech companies such as Airbnb and the WeWork may consider going down this route. It will be interesting to see if Silicon Value continues to cut out Wall Street from these offerings and how this may affect the IPO market for investment banks.