

Spin-offs as a form of distribution: Alcon and Sandoz

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Alongside acquisitions, Novartis has used spin-offs to distribute value to its shareholders. In April 2019 it spun off Alcon, which was listed as an independent company on the SIX Swiss Exchange and on the New York Stock Exchange. Novartis shareholders received one Alcon share for every five Novartis shares. The spin-off reversed the integration that had followed the acquisition in 2011, since the eye-care business had shown different growth and margin characteristics from the pharmaceutical business. Alcon established its headquarters in Geneva, although its operational centre remained in the United States.¹

In October 2023 Novartis spun off Sandoz, its generics and biosimilars division, which was listed on the SIX Swiss Exchange with an over-the-counter ADR programme in the United States. Novartis shareholders received one Sandoz share for every five Novartis shares. The name Sandoz, which had disappeared into Novartis in 1996, thereby returned as an independent listed company headquartered in Basel. Before the separation, Sandoz raised its own debt financing, including bonds and bank facilities, so that it began its independent existence with a capital structure of its own and a credit rating in the investment-grade range.²

From a tax perspective, both spin-offs were structured to qualify as tax-neutral restructurings under Swiss law. A distribution of shares in a subsidiary to shareholders would normally be treated as a dividend in kind subject to withholding tax, but Swiss practice allows a tax-neutral spin-off when certain conditions are met, including the continuation of business operations by both companies. The Federal Tax Administration has published guidance on these conditions in its circular on restructurings. The availability of tax-neutral treatment is a precondition for spin-offs of this kind, which would otherwise impose a substantial withholding tax burden on shareholders.³

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The spin-offs also illustrate a broader trend in the pharmaceutical industry, in which diversified groups have concentrated on innovative medicines and separated other businesses. Investors have tended to value focused companies more highly, since the risk and return profiles of generics, eye care and innovative medicines differ considerably. For the financial centre in Basel and Geneva, the spin-offs created new listed companies with their own treasury functions, investor relations departments and board structures. The number of large listed life sciences companies headquartered in Switzerland has increased as a result.⁴

1 Notes

1. On the spin-off of Alcon by Novartis, approved by the general meeting on 28 February 2019 and completed on 9 April 2019 with a distribution ratio of one Alcon share for every five Novartis shares, and the listing of Alcon on SIX Swiss Exchange and the New York Stock Exchange, see the Novartis and Alcon press releases and the Alcon listing prospectus. To be verified. ↩
2. On the spin-off of Sandoz by Novartis, approved by the extraordinary general meeting of 15 September 2023 and completed with the first trading day on SIX Swiss Exchange on 4 October 2023, the distribution ratio of one Sandoz share for every five Novartis shares and the debt financing of Sandoz, see the Novartis and Sandoz press releases and the Sandoz listing prospectus. To be verified. ↩
3. On the tax-neutral treatment of spin-offs (Abspaltungen) under Swiss law, including Article 5 para. 1 lit. a VStG, Article 61 of the Federal Act on Direct Federal Tax (DBG) and Circular Letter No. 5a of the Federal Tax Administration on restructurings, see the official materials of the Federal Tax Administration. To be verified. ↩
4. On the trend towards focused pharmaceutical companies and the valuation of spin-offs, see the analyses of investment banks and the literature on corporate spin-offs. The assessment is the author's own and to be verified. ↩

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