

The merger of 1996 and the birth of Novartis

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On 7 March 1996, Ciba-Geigy and Sandoz announced their intention to merge into a new company called Novartis, a name derived from the Latin *novae artes*, new skills. The transaction took the form of a merger of equals in which the shareholders of both companies exchanged their shares for shares of the new company. Measured by the market value of the combined company, it was at that time described as the largest corporate merger in history, with a value of the order of USD 30 billion.¹ The merger was completed in December 1996 after approval by the shareholders and the competition authorities. The European Commission and the United States Federal Trade Commission required the divestment of certain products, especially in animal health and agrochemicals, where the two companies overlapped.²

The merger was driven by the economics of pharmaceutical research. By the mid-1990s, the cost of developing a new medicine had risen sharply, which drove a worldwide consolidation of the industry. In 1995 alone, Glaxo had acquired Wellcome while Pharmacia had merged with Upjohn. In this environment the two Basel companies, each of them a medium-sized pharmaceutical group with large non-pharmaceutical businesses, feared that they would fall behind the American and British leaders. By combining their research budgets and their sales forces, they hoped to create a group large enough to compete at the global level.³ The social cost of the merger was a reduction of several thousand jobs worldwide, including a significant number in Basel. The announcement caused considerable political controversy in Switzerland, where the merger became a symbol of the new shareholder-oriented capitalism.⁴

For the financial centre, the merger had two lasting consequences. It created a company whose market capitalisation placed it among the largest listed companies in Europe, which made Novartis a core holding for every investor in Swiss equities. It also showed that the Basel industry would use

the instruments of the capital market, in particular mergers, demergers and share exchanges, to reshape itself. The legal technique of 1996, a merger by absorption combined with the creation of a new holding company, preceded the Swiss Merger Act of 2003, which later provided a comprehensive framework for such transactions.⁵

1 Notes

1. Joint announcement of Ciba-Geigy AG and Sandoz AG of 7 March 1996; on the size of the transaction and its description as the largest merger to date, see the contemporary financial press (e.g. Neue Zürcher Zeitung, Financial Times, March 1996). Figures to be verified. ↩
2. European Commission, decision in case IV/M.737 – Ciba-Geigy/Sandoz (1996); United States Federal Trade Commission, consent order in the matter of Ciba-Geigy Ltd., Sandoz Ltd. and Novartis AG (1996/1997). Case references to be verified. ↩
3. On the consolidation of the global pharmaceutical industry in the 1990s and the motives of the Ciba-Geigy/Sandoz merger, see the literature on the history of the pharmaceutical industry and the annual reports of Novartis for 1996 and 1997. To be verified. ↩
4. On the job cuts announced with the merger and the political reaction in Switzerland, see the contemporary press and the Novartis annual report 1996. Figures to be verified. ↩
5. Federal Act of 3 October 2003 on Mergers, Demergers, Transformations and Transfers of Assets and Liabilities (Merger Act, SR 221.301). Before its entry into force on 1 July 2004, mergers were governed by Art. 748 ff. of the former Code of Obligations. To be verified. ↩

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