

The Novartis stake in Roche and its unwinding

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The most remarkable episode in the relationship between the two Basel groups is the stake that Novartis held in Roche for twenty years. In May 2001, Novartis acquired about a fifth of the Roche bearer shares from the financier Martin Ebner, who had built up a large position through his investment vehicles. Novartis increased its holding over the following months and years, eventually reaching about one third of the voting bearer shares. At the time, observers interpreted the purchase as a first step towards a merger of the two groups, which the Roche families firmly rejected. Because the pool held about half of the votes, a takeover against its will was impossible.¹

For two decades, the holding was a financial investment without strategic influence. Novartis accounted for it as an associated company in its consolidated financial statements, which meant that it included its share of Roche's profits in its own results. Novartis had no representation on the Roche board, while the two companies continued to compete in many therapeutic fields. The Roche stake therefore functioned as a large passive investment in a competitor that delivered rising dividends and capital gains to Novartis shareholders. Roche shares were among the best-performing pharmaceutical shares of the period, so the investment yielded a considerable return.²

In November 2021 the two companies agreed that Roche would buy back the 53.3 million bearer shares held by Novartis at a price corresponding to about CHF 19 billion, or approximately USD 20.7 billion. Roche financed the transaction from its liquid funds and with new debt before cancelling the shares, which reduced the number of bearer shares from 160 million to about 106.7 million. For Novartis, the sale released a large amount of capital, which it returned to shareholders in part through an increase in its share buy-back programme. For Roche, the repurchase ended an uncertainty that had hung over its shareholder structure for twenty years.³

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The legal mechanics of the repurchase illustrate the interaction of corporate law and withholding tax. Because the shares were repurchased by the issuing company for cancellation, the transaction was treated as a partial liquidation subject to withholding tax on the portion of the price that exceeded nominal value and capital contribution reserves. Novartis, as a Swiss company, could reclaim the withholding tax, so the tax did not represent a final cost. The cancellation of the shares required a resolution of the Roche general meeting to reduce the share capital, which was passed in 2022. The transaction thus moved through the same tax and corporate law channels as an ordinary buy-back, although on a scale without precedent among Swiss companies.⁴

1 Notes

1. On the acquisition of Roche bearer shares by Novartis from Martin Ebner's BZ Group in May 2001 and the subsequent increase of the holding to about one third of the voting shares, see the press releases of Novartis and Roche of 2001 and the Novartis annual reports 2001–2003. Dates and percentages to be verified. ↩
2. On the accounting treatment of the Roche stake as an investment in an associated company in the consolidated financial statements of Novartis, see the Novartis annual reports 2001–2021. To be verified. ↩
3. On the agreement of 4 November 2021 under which Roche repurchased 53.3 million bearer shares from Novartis for about CHF 19 billion (approximately USD 20.7 billion), the cancellation of the shares and the use of proceeds by Novartis, see the joint press release of Roche and Novartis of 4 November 2021 and the annual reports of both companies for 2021 and 2022. Figures to be verified. ↩
4. On the withholding tax treatment of the repurchase of the Roche shares from Novartis and the reduction of share capital approved by the general meeting of Roche Holding AG in 2022, see the Roche annual report 2022 and the invitation to the general meeting. To be verified. ↩

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