

## **Roche Record Share Discount Shows Bet Novartis to Sell Stake**

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(Updates with closing stock prices in 12th paragraph.)

By Trista Kelley

Dec. 17 (Bloomberg) -- The record discount in Roche Holding AG voting shares signals increasing speculation cross-town rival Novartis AG will sell its \$14.1 billion stake into the market.

Traders have pushed Roche's voting shares to the lowest price versus its non-voting stock since at least 1989, a sign they are preparing for dilution should Novartis sell its 33 percent stake in the equities, said Ben Kelly, an analyst at Louis Capital Markets. The discount is an anomaly. Over the past decade, Roche's voting shares have traded 14.66 Swiss francs higher on average, data compiled by Bloomberg show.

Analysts who monitor changes in the price relationships between securities say the two-year rally that has restored \$4.67 trillion to the Stoxx Europe 600 Index could persuade Novartis to part with the stake that it has resisted selling.

While Chief Executive Officer Joe Jimenez told investors last month the market undervalues the shares, their 7 percent drop this month shows the risk of sitting on stock.

"There's definitely pressure on him to do something," said Michael Leuchten, an analyst at Barclays Plc who rates Roche overweight, the equivalent of a buy, and Novartis underweight. "This stake doesn't do anything for them. From a pure financial perspective, you would want to liquidate that stake. Investors would want them to do it."

Stepan Kracala, a Roche spokesman, and Eric Althoff of Novartis declined to comment on Novartis's holding.

### **Unsuccessful Merger**

At issue is a stake of Roche voting shares amassed by former Novartis CEO Daniel Vasella more than a decade ago as he tried unsuccessfully to convince his Basel-based competitor to merge. Roche set up a dual-class share system in 1928, allowing the owners to raise money without reducing their voting rights.

While voting shares are normally more valuable than non-voting, the advantage is diminished at Roche because the founding families own 50.1 percent of the class -- too much to be overruled, according to Peter Lampert, a Singapore-based analyst at Mawer Investment Management Ltd.

"I just don't see the appeal of why somebody should pay a premium for those voting rights when they still don't have control of the company," said Lampert, whose firm oversees C\$18 billion (\$17 billion), including Novartis and Roche shares.

Roche voting shares climbed 15 percent above non-voting in March 2011, the highest premium since 2008, after Maja Oeri, a descendant of Fritz Hoffmann-La Roche, broke away from the founding family and said she would exercise her rights over the stock separately. That raised the possibility of a shift in control, igniting merger speculation that has since receded.

### **Novartis Pressure**

“If there’s a potential for a bid on Roche then voting rights are very valuable, but the likelihood of that is extremely low,” said Louis Capital Markets’ Kelly, who is based in London. “It feels like Novartis wants to get rid of this, especially at current levels. Novartis is coming under pressure from shareholders to get value out of this.”

Novartis, one of the largest companies in Europe with a market value of about \$207.8 billion, holds 53.3 million Roche voting shares, or about 6 percent of the pharmaceutical firm as a whole. Roche’s market value is \$228.3 billion.

Roche voting shares have gained 25 percent this year to 234.10 francs yesterday. That’s less than the 28 percent advance to 235.10 francs for the non-voting stock. The benchmark Swiss Market Index has climbed 15 percent. Roche voting shares fell 0.5 percent to 233 francs today and the non-voting stock lost 0.7 percent to 233.40 francs.

### **Worth More**

“It’s worth, I believe, more than what the market price is, and from a value standpoint, that’s what would be required for us to exit it,” Novartis’s Jimenez told investors last month.

Before this year, the voting shares traded at a premium to the non-voting every day but one, according to data compiled by Bloomberg going back to 1989. They’ve been at a discount for 106 days in 2013, including the past 48 days, the data show.

Novartis doesn’t need to get rid of the stake. It has returned 23 percent this year and had about \$7.3 billion in cash and equivalents as of September, while Jimenez has said a \$10 billion purchase is within reach to bolster the business.

“They probably aren’t going to find a strategic buyer,” Philippe Comby, New York-based co-manager of Hottinger Capital Corp.’s about \$500 million Swiss Helvetia Fund, which owns Novartis and Roche shares, said in a phone interview. “If you can’t sell it to the family, you can’t sell it to the company, then obviously the market doesn’t see another solution than dumping it on the market. That’s what the market expects. They are kind of stuck.”

### **Stake Options**

Novartis could sell the stake back to Roche or to an investor or mete out shares to the market over months or years.

Another option would be to resell the stock in a block trade.

The sale of a stake of that size, a little less than the total market valuation of New York-based drugmaker Forest Laboratories Inc., would rank among the 10 biggest block trades ever, data compiled by Bloomberg show.

Speculation the stake may be offered in the market has grown since the Stoxx 600 climbed to a 5 1/2-year high last month and amid a boom in block sales.

Nestle SA on Dec. 5 sold its \$1.3 billion stake in Givaudan SA, while the U.K. government in September sold a 3.2 billion-pound (\$5.2 billion) stake in Lloyds Banking Group Plc, after it bailed out the lender in 2008. Last week, General Motors Co. sold its entire PSA Peugeot Citroen stake.

### **No Point**

“There’s no real point in having it,” said Alistair Campbell, an analyst at Berenberg Bank in London, referring to Novartis’s Roche stake. “It’s a sizable sum of capital and it’s been invested in an area that’s clearly out of their control.”

Novartis Chairman Joerg Reinhardt started a review of the drugmaker’s businesses after taking his post in August. The process is continuing, Jimenez said in October, when Europe’s biggest drugmaker by sales raised its sales forecast for the second time this year.

“We would be very happy to see them sell the stake, even if they sold it at a discount to market,” Mawer Investment Management’s Lampert said in an interview last month. “They have many great opportunities to invest in their core business.

We can buy Roche shares separately, so we don’t need to own them through Novartis.”

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--With assistance from Alexis Xydias in London, Brooke Sutherland and Lu Wang in New York, Naomi Kresge in Berlin and Eva von Schaper in Munich. Editors: Chris Nagi, Cecile Vannucci

To contact the reporter on this story:

Trista Kelley in London at +44-20-7073-3074 or [tkelley2@bloomberg.net](mailto:tkelley2@bloomberg.net)

To contact the editor responsible for this story:

Cecile Vannucci at +44-20-3525-7032 or

[cvannucci1@bloomberg.net](mailto:cvannucci1@bloomberg.net)