



# **VALUE CREATION IN PHARMACEUTICAL INDUSTRY**

## **ACQUISITION: A CASE STUDY OF**

### **MERCK/SCHERING-PLOUGH**

Tamatat Tharangkoon  
ID 5502042343

Master of Science Program in Finance (International Program)  
Faculty of Commerce and Accountancy, Thammasat University, Bangkok, Thailand  
May 2014

#### **ABSTRACT**

Since pharmaceutical industry confronts the declining in sales revenue that pharmaceutical firms use merger and acquisition strategy to survive in the market. So I try to evaluate this strategy by choosing a case study of acquisition between Merck and Schering-Plough in 2009. I use free cash flows to firm model to evaluate and value the firm with synergy value. In addition, I value undeveloped intangible assets and products in pipeline by using options pricing model and present value of growth opportunities to be an opportunities value that new Merck can achieve from the acquisition. I find that the acquisition of Merck and Schering-Plough is successful with high synergy value because of the cost reduction and enhancing of pipeline products from Merck's expectation. The opportunity of intangible assets and pipeline products can help to increase firm value. For price recommendation, I recommend to hold Merck stock price with target value \$55.81.

Key word: value creation, Merck, Schering-Plough, Synergy value, merger and acquisition, pipeline products, growth opportunities, intangible assets value, patents