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HOW U.S. CORPORATE INVERSIONS IMPACT SHAREHOLDER VALUE

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ABSTRACT

This report examines how U.S. corporate tax inversion announcements impact shareholder value. A corporate tax inversion is where a corporation moves its location of residency to a new jurisdiction with a lower tax rate than that of its original location of incorporation. Corporate operations are usually continued in the location with the higher federal effective tax rate. Since the first U.S. inversion in 1983, there have been more than 75 inversions (Marples & Gravelle, 2016). There has been growing division over the issue of whether or not inversions are acceptable as a result of the U.S. tax base deteriorating. Many politicians have been searching for ways to control the number of inversions through legislation. As a result, inversion trends have been changing due to governmental regulation, international business, and public opinion. For this analysis, data is collected on 49 corporate inversions that occur from 1983 to 2016. Event studies are conducted on individual trends to determine what types of inversions create the most value. Results indicate that pharmaceutical corporations completing merger and acquisition (M&A) inversions in Ireland after 2007 are valued the most by shareholders.

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Chapter 1

Introduction

Corporate tax inversions have become a major topic of discussion in the United States, especially as more partisan views related to the topic have developed. A corporate tax inversion is where a corporation changes its residency to a jurisdiction with lower taxes in order to pay less taxes than what it would pay if it maintained its original location of residency. According to the Internal Revenue Service and U.S. tax code 7701(a), a corporation is a "resident" of a nation depending on where it is "incorporated", even if it maintains central operations or "management headquarters" elsewhere (Khurana and Neuman, 2016). When the corporation changes its residency it usually moves most of its intellectual property abroad, but maintains its operations in the nation with the higher-tax rate.

The Congressional Research Service completed a report on corporate inversions that found more than 75 inversions have occurred since the first one in 1983 (Marples & Gravelle, 2016). In the same congressional report, possible legislation was discussed that could be used to prevent future inversions. Even though corporate inversions have been frowned upon by many politicians, respected judge of the U.S. Court of Appeals, Learned Hand (1935), stated:

> Anyone may arrange his affairs so that his taxes shall be as low as possible; he is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase one's taxes. Over and over again the Courts have said that there is nothing sinister in so arranging affairs as to keep taxes as low as possible. Everyone does

> it, rich and poor alike and all do right, for nobody owes any public duty to pay more than the law demands.

Hand depicts the idea that corporate inversions are not a form of tax evasion, but rather corporate leaders and board of directors fulfilling their duty to shareholders by cutting costs and creating value where applicable. As long as corporations follow U.S. tax laws, they are legally permitted to take actions that lower their effective tax rate.

The purpose of this research is to determine if shareholders find value in a U.S. multinational corporation announcing its intention to invert. Since 1983, several corporate inversion trends have evolved as a result of government regulation, international business, and public opinion. Using data from 49 inverted corporations ranging from 1983 to 2016, this paper conducts event studies to evaluate trends that impact the value of an inversion. The predicted outcome is that inversions will increase shareholder value for tax reasons and other possible non-tax reasons.

This report will (i) review the history of corporate inversions and the findings of past scholars, (ii) describe the data collection process and the event study methodology, (iii) and explain the results that are found in each event study. The intent of this report is to prove that there are good reasons that corporate inversions continue to occur, even as the U.S. Congress looks for new ways to discourage it. Also, it is important for corporate leaders to understand what type of inversions are valued the most by shareholders so they can create an effective growth strategy for the future.

Chapter 2

Literature Review

Why do U.S. Corporations Invert?

One of the reasons a U.S. multinational corporation would be inclined to change its location of residency is attributed to the U.S. corporate tax rate (Khurana and Neuman, 2016). Currently, the United States is known to have "third highest general top marginal corporate income tax rate in the world at 39 percent", and it has the "highest corporate income tax rate" for a developed nation (Pomerleau, 2015). Without considering local and state taxes, the U.S. federal tax rate on corporate income is 35 percent. On average, many profitable corporations do not pay the statutory rate because of "tax deductions on losses" and "tax incentives" (GAO, 2016). In a tax analysis completed by the U.S. Department of the Treasury, it was found that between 2007 and 2011 the average effective federal corporate tax rate (ATR) was 22 percent for "profitable corporations" that had at least "$10 million in assets" (2016). Also, the ATR was different for each industry. For example, the lowest ATR was "10 percent for the utilities industry" and the highest ATR was "28 percent for the services industry" (U.S. Department of the Treasury, 2016). Even though the United States has one of the highest statutory tax rates for a developed economy most corporations pay a much lower effective tax rate. A corporation's tax rate depends heavily on its industry because there are different rules and regulations for each industry. The United States Government Accountability Office (GAO) found that 19.5 percent of large corporations that had at least $10 million in assets and reported a profit in 2012 "paid no federal income tax that year" (2016). This is an indication that more large profitable corporations are taking part in tax inversions.

Another reason that many U.S.-based multinational corporations want to invert to tax havens is because the United States has a worldwide tax system. This means that when a U.S.-based multinational corporation is trying to repatriate earnings it made abroad it has to pay the same 35 percent federal corporate tax rate that domestic firms have to pay. Any taxes already paid abroad on the foreign earnings are subtracted from the required 35 percent. For example, if a corporation was trying to repatriate $100 and already paid Sweden's 22 percent tax or $22, the corporation would only have to pay the U.S. federal government 13 percent or $13 (Tax Policy Center, 2016). Most nations have a territorial tax system, so multinational corporations do not have to pay taxes on foreign earnings in those nations. The only country in the Group of 7 (G7) not to practice a territorial tax system is the United States (Tax Policy Center, 2016). The worldwide tax system practiced by the United States hurts U.S.-based multinational corporations because whenever they want to bring earnings home they have pay extra taxes. As Khurana and Neuman (2016) stated, "by completing an inversion, corporations can shield future foreign earnings from U.S. taxation and gain flexibility in the transfer and use of cash across the multinational corporation's subsidiaries".

History of U.S. Corporate Inversions

Corporate tax inversions have been a growing trend for more than three decades. In 1983, the construction company, McDermott International Inc., completed the first known tax inversion when it moved its residency and headquarters to its subsidiary in Panama. McDermott shareholders received cash for their shares and then received shares in the new parent company (Warraich, 2016). McDermott's U.S. location became the subsidiary, while the Panama location became headquarters. As a result of this inversion, the first tax code was created to make inversions more difficult. In 1984, IRC Section 1248(i) was created, which required any U.S. corporation involved in a stock exchange with a controlled foreign corporation (CFC) to pay taxes on any "consideration" (Warraich, 2016). This regulation ended up having a loophole for companies "inverted into a subsidiary of a newly formed CFC" (Warraich, 2016). Then in 1989 IRC Section 163(j) was created to prevent earnings stripping. Any corporation with a debt-to-equity ratio exceeding 1.5 to 1 would receive little to no tax break on their interest expenses (Pollack, 1992). This regulation as well had loopholes, which did little to stop the growth of corporate inversions.

By late-1990s and early-2000s, inversions were becoming a common trend. The majority of the inversions were very similar to the inversion completed by McDermott International Inc. These inversions came to be known as single-company inversions, which is where a corporation creates a subsidiary or holding location in a tax haven. During these type of inversions there is only minor changes in the corporate structure (Khurana & Neuman, 2016). Overall, these corporations remain relatively the same. Politicians and regulators believe that corporations were only completing these inversions in order to avoid taxes. The late-1990s was about the time that U.S.-based corporations completing inversions began to get bad publicity. As a result, IRC Section 367(a) was created in 1996. This regulation made it so that stockholders were now required to pay taxes on any capital gains they acquired between the buying and selling of the original stock (Desai & Hines Jr., 2002). Based off of this regulation, many scholars began to wonder if stockholders of inverting firms viewed expatriations positively or negatively, and if the stock price changed as a result of a U.S.-based corporation announcing its plan to invert.

The U.S. government really began cracking down on corporate tax inversions in 2004 by creating IRC Section 7874(a) and 7874(b) in the American Jobs Creation Act (Warraich, 2016). IRC Section 7874(a) requires the inverted corporation to pay 10-years of U.S. corporate taxes if the domestic corporation transfers the majority of its property, stockholders, and control of business activities to the foreign corporation (Kalia, 2014). IRC Section 7874(b) states that if 80% of the stockholders in the foreign corporation originally owned stock in the inverted firm, then the corporation is still taxed as a domestic corporation (Warraich, 2016; Kalia, 2014). This regulation is linked to the decrease of single-company inversions because inverting firms could no longer move the majority of their shareholders over to their foreign location. It caused U.S.-based corporate inversions to come to a standstill for a period of time, but eventually a new inversion trend began to grow. Today, the majority of inversions are merger-related (Khurana & Neuman, 2016). A U.S.-based corporation will usually acquire a smaller corporation in a tax haven.

Prior Research on U.S. Corporate Inversions

In June 2002, Mihir Desai of Harvard University and James R. Hines Jr. of University of Michigan published a paper analyzing the stock value of 19 corporations over a one-day window and five-day window of the inversion announcement date. The finding was that the "average abnormal returns to inversion announcements, weighted by market capitalization, were positive: 0.3 percent over the one-day window, and 1.7 percent over the five-day window" (Desai & Hines

Jr., 2002). Interestingly, Desai and Hines (2002) found that corporations that had stock price growth over the years leading up to their inversion announcements experienced positive stock growth following their announcement. This portrays the idea that stockholders do not mind paying capital gain taxes. Except, Desai and Hines also made the conclusion that “heavily leveraged” corporations experienced an increase in stock return, but that may prove that large corporations with “institutional investors” as shareholders are not as negatively impacted by the capital gains tax (2002; Warraich, 2016). Overall, their conclusion was that corporations understand shareholders are negatively impacted by the capital gains tax, so they would not choose to invert simply to lower their corporate tax rate.

Bryan Cloyd, Lillian Mills, and Connie Weaver (2002) re-analyzed the work completed by Desai and Hines and came to a different conclusion. They analyzed the same 19 corporations as Desai and Hines but they included five other corporations in their analysis, which came to a grand total of 24. They found that the average return was negative following inversion announcements. Cloyd, Mills, and Weaver explain that they came to a different conclusion because Desai and Hines took into account abnormal returns and did not “assess the statistical significance of these abnormal returns” (2002). As a result, new conclusions were created around the characteristics of corporations that invert. Usually the corporations are larger and have a higher effective tax rate than the rest of the corporations in the same industry (Cloyd, Mills, Weaver, 2002). Also, corporations increase their leverage once they invert. It is evident that there was a strong disagreement in 2002 about whether tax inversions create shareholder value at the time of announcement.

There have also been disagreements related to how event studies related to corporate tax inversion and shareholder value should be conducted. Seida and Wempe completed a similar study as the previous two. They measured the stock returns of 19 firms around the time of their "board approval announcement". Little to no reaction was observed, but a 2.5% return was detected over the "shareholder approval window" (Seida & Wempe, 2003; Lusch, Seida, & Watson, 2016). This study was later referenced in another study to prove the importance of analyzing stock returns of inverted firms in the long-run (Lusch, Seida, & Watson, 2016). Stockholders do not know or understand all the reasons why a corporation plans to invert. As explained by Chorvat (2016), only the managers know all the "opportunities" and "intangibles" at stake outside of tax savings, so shareholders realize the benefits of a tax inversion in the long-run.

Shareholders seem to value merger-related inversions more than single-company inversions because a corporation's main concern is investing in the business. Khurana and Neuman (2016) found that "merger-related inversions announcements are associated with a significant, positive stock market reaction". Warraich (2016) found that merger and acquisition (M&A) inversions created a positive return in the short-term, but there was no "significant excess returns in the long-term". Based on previous research, new inversion regulation seems to cause a decrease in how many corporations invert.

Inversion Landscape Today

Tax inversion is an interesting topic because the issue is continuously discussed in the news. Alexia Fernandez Campbell (2016) states, "in 1952, corporate income taxes funded about 32 percent of the federal government", but now it has "shrank to 10.6 percent by 2015". As the Obama Administration came to an end, they were working with the Treasury Department to reform the corporate tax system that draws in less and less revenue each year. The Trump Administration is even proposing a cut on the corporate tax rate. The Treasury Department has been looking to minimize the benefits of corporate inversions by preventing earnings stripping, but there is concern that the new regulation will "harm the cash management operations of U.S.-based multinationals" (Morgan, 2016). The government thinks the answer to preventing tax inversions is increased regulation, but this will likely cause corporations to move overseas or to suffer as a result of the new rules.

Chapter 3

Data Description and Methodology

Data Collection and Summary

This analysis intends to answer the question of whether or not corporate inversions cause an increase in shareholder value. The sample size is 49 corporations. The list of corporations includes inversions from 1983 to 2016. This 33 year time period examines almost the entire history of corporate inversions in the United States. The first company to invert, McDermott Inc., was completed in 1983 from Delaware to Panama and the most recent inversion was Arris Group Inc. in 2016 from Delaware to England. This time period is important because it shows how governmental regulations, international business, and the overall views of corporate inversions have transformed over the years. In this analysis the trends evaluated include the inversion announcement date, type, and reason. Also, popular industries of inverted firms and popular jurisdictions are evaluated.

The most important source in the data collection process is *Bloomberg's* "Tracking Tax Runaways" (2017). The majority of the 49 corporations are found from *Bloomberg's* extensive list of over 75 corporations. For this specific analysis, superiority is given to corporations listed as inversions. A few spin-offs are included in the data set. A spin-off is where a corporation moves the more profitable part of their business to a lower tax jurisdiction.

The next step in the data collection process is finding the individual corporate data. For inversions prior to 2002 it has been difficult to find published announcements online. Nirupama

S. Rao's (2015) previous research is helpful in the collection of the corporate inversion announcement dates. To ensure that each of Rao's reported dates is correct they are cross referenced with sources like the *Wall Street Journal* or the *Business Wire*. As a result, a few of the corporations have more precise announcement dates than what was recorded by Rao. Another important source is Cloyd, Mills, and Weaver (2002). Their work helps ensure that the announcement dates prior to 2002 are correct. Most of the inversions after 2007 are easier to research because more information is available online. Most of the inversions after 2007 are M&A, so a lot of information is available as a result of the corporations needing to report to shareholders. Only one corporation, VistaPrint Limited, is not in the analysis as a result of it's announcement date not being attainable. Appendix A provides a list of all the inversions included in the sample.

Table 1 displays how many inversion announcements occur from 1982 to 2002. From 1982 to 1993 there is a gap where no inversions occur. It is only in 1996 where at least one inversion begins occurring annually. From 2002 to 2007 inversions abruptly stop. As explained in the beginning, the IRC Section 7874(a) and 7874(b) in the American Jobs Creation Act is the reason single-company inversions come to a stand-still. Table 2 displays how inversion announcements begin again in 2007 and really grow after the Great Recession. The most popular year for a corporation to invert is 2014. In Table 1 it seems inversion announcements start to occur slowly and then gain popularity leading into 2002. Table 2 shows a similar trend beginning in 2007 where inversion announcements become more prominent each year.

As previously stated, the two most popular types of inversions throughout the years have been single-company inversions and M&A inversions. The inversion type can help explain why more shareholder value is created after 2007. From 1983 to 2002 the most popular type of inversion is single-company inversions. These types of inversions almost stop completely due to the 2004 regulation, which prevented any single-companies from gaining any tax benefit when moving their location of incorporation to a subsidiary. Following 2007 M&A inversions become popular. Prior to 2002 there are 18 single-company inversions and three M&A inversions, but post 2007 there are seven single-company inversions and 21 M&A inversions. Table 3 displays the total number of announcements based on type. For this entire analysis, there are 25 single-company inversions and 24 M&A inversions.

The reason why a corporation would decide to invert is another important factor because it gives insight into how shareholders react to inversions intended for tax savings. News articles about the announcements are valuable sources, but luckily many of the 49 corporations completed a SEC Form DEFA14A during their inversion announcement. SEC Form DEFA14A is proxy material given to shareholders before a required shareholder vote ("SEC Form DEFA14A", 2017). It helps shareholders make a more informed decision. Usually a corporation will mention tax savings or a lower effective tax rate as one of the reasons to invert. Many corporations list a variety of reasons as to why they want to invert and include the opportunity to improve their effective tax rate as one of the reasons. Some corporations say openly that they are inverting because of taxes, and other corporations do not mention taxes at all. As seen in Table 4, 30 of the corporations mention taxes as a reason to invert, 18 do not mention taxes as a reason, and one corporation does not have a known reason. Prior to 2002, there are 17 corporations that mention taxes as a reason to invert and three that do not. This is different from post 2007 data that has 13 corporations mention taxes as a reason to invert and 15 that do not, which is displayed in Table 5. This provides evidence that over time more corporations have not wanted to tell shareholders that they are inverting in an attempt to only lower their effective tax rate.

It is important to analyze the type of industries that are moving overseas to determine popular trends and which have the most success as a result of inverting. Each corporation's industry is found through the database, *MergenOnline*. The 49 corporations come from a total of 24 industries. Before 2002 many of the corporations are from the insurance sectors. Post 2007 inversions seem to be from the healthcare sectors. As listed in Table 6, the three sectors that have the most inversions are general insurance, equipment & services, and pharmaceuticals. General insurance is mostly popular before 2001 and all the corporations appear to move to Bermuda. Equipment & services inversions occur from 1983 to 2014, while pharmaceutical inversions do not begin to take off until 2010. It is interesting that many of the pharmaceutical inversions are announced one after another.

Of the 11 locations that the 49 corporations move to, the most popular four locations are Bermuda, the Cayman Islands, England, and Ireland, as shown in Table 7. Bermuda and the Cayman Islands are the most popular places up to 2002 for a corporation to invert to. While England and Ireland are the most popular places post 2007 for corporations to invert to. The location that has the most inversions in this data set is Bermuda with 17. The other three locations only have six to eight new corporations.

Event Study Methodology

The securities of the 49 corporations are analyzed through Daily Event Studies on Wharton Research Data Services (WRDS). PERMNOs are collected for each corporation based on their name prior to inverting and they are used to compile each corporations individual stock information. It is important to use the PERMNO and not the stock symbol because other corporations can reuse old stock symbols. There are six corporations that are not used in the analysis because they do not have a clear PERMNO or not enough stock data in the WRDS database. Liberty Global Plc is the only corporation that has two PERMNOs. The risk model used is the market model, which determines the abnormal return of a security based on the return of the market and the systematic risk, Beta.

Before running the event study estimation parameters need to be created. The estimation window is set at one hundred days, which is the amount of time prior to the announcement date that is used to estimate the Beta for each security. Then the gap between the estimated window and the event window start date is fifty days. The point of the gap is to make sure that the estimation window is not impacted by the event variance, which is the inversion announcement. Finally, the abnormal returns are examined three days prior and three days after the inversion announcement date. When completing the studies it is important to keep the event window around the announcement date small so the results are less likely to be influenced by extraneous information and events. The announcement date is used to grasp the reaction of shareholders as soon as the news is made public. This way the immediate reaction of shareholders is understood and not impacted by information that could be released later.

In each event study conducted the same variables are analyzed to find any statistical significance that could describe shareholder reaction to inversion announcements. The variables measured include mean abnormal return (abret_m), mean cumulative abnormal return (car_m) but the most important variable in this analysis is the Patell z-statistic for abnormal return (pat_ar). It shows how the securities change in comparison to the market and indicates if anything significant happens that day for a corporation. It is completed by comparing the returns of the securities during the event window to the expected return based on the market model. The Patell z-statistic indicates if the abnormal return occurred by chance alone.

All the Patell z-statistics for each market model are examined for statistical significance. The statistical significance is the probability that the return of a security is impacted by something more than the fluctuations in the market. Since 49 corporations are evaluated, the degrees of freedom (df) is 48 (df = n – 1). As a result, the critical values are 1.677, 2.011, and 2.682 at the 10%, 5%, and 1% significant levels, respectively. In this analysis the 10% level is reported, but on average, critical values below 5% are not usually seen as significant.

Chapter 4

Event Study Results

All U.S. Corporate Inversions

The first event study completed analyzes all 49 corporations together. The inversion announcements of the 49 corporations range from 1982 to 2015. It seems it takes a corporation six months to a year to complete an inversion. The data includes single-company and M&A inversions. The corporations come from 24 industries. Even though there are 49 corporations, there are only a total of 11 locations in which corporations actually move to.

Table 8 displays the abnormal returns of all the announcements. Based on the results, there seems to be some evidence of news leakage prior to the announcement dates because there is a jump in the Patell z-statistic a day prior to the announcement date. The abnormal return a day prior to the announcement date is .003299, which is statistically significant at the 10% level. Then there is a jump in the Patell z-statistic two days after the announcement date, creating an abnormal return of 0.010320 and a significance level of 1%. There is no good reason to assume that most shareholder value is exhibited on the second day following the announcement of a corporate inversion, but overall it seems corporate inversions impact shareholder value positively.

Time Period

Event studies are conducted for both announcement time periods 1982 to 2002 and 2007 to 2015. These studies help explain if shareholders react differently to early inversions compared to later inversions. Table 9 lists the abnormal returns for the time period 1982 to 2002. Most of the abnormal returns are not significant. The only significant abnormal return falls on the second day following the announcement date, and it is only significant at the 10% level. The returns for four out of seven days are negative, which means that the average returns for the corporations being evaluated are lower than the market average return. These results are very different compared to Table 10, which shows the abnormal returns for the time period 2007 to 2015. All the returns are positive. There are multiple days within the event window that are considered to be statistically significant, but the most significant is the abnormal return of 0.009347 on the second day following the announcement date, which is statistically significant at less than the 1% level. It seems that the inversions that occur post 2007 create more shareholder value than inversions prior to 2002. The reason for this statistical difference is most likely the result of the inversion type.

Type of Corporate Inversion

To understand how single-company inversions are valued compared to M&A inversions, event studies are conducted on both types. Table 11 shows the abnormal returns for single-company inversions. It is interesting to find that there are no statistically significant abnormal returns for single-company inversions and most of the returns are negative, but there are three statistically significant abnormal returns at the 1% level for M&A inversions in Table 12. The day before the announcement date and the actual announcement date are significant, but the most significant day is the second day following the announcement date, which continues to be seen in many of the other event studies completed. M&A inversions seem to be valued drastically more than single-company inversions. This may be because shareholders have a more negative view of single-company inversions being tax based, while M&A inversions are viewed as more as business investments. As previously stated, it is not surprising that the results in these event studies are similar to the time period event studies because most single-company inversions occur prior to 2002 and most M&A inversions occur post 2007.

Inversion Reason

Next, corporations are evaluated based on whether or not their inversions are tax based or non-tax based. Table 13 displays the abnormal returns for tax reason inversions. One day prior to the announcement date the abnormal return of 0.007395 is statistically significant at the 1% level, and one day following the announcement date the abnormal return of 0.004555 is statistically significant at the 1% level. This is different from the abnormal returns of non-tax reason inversions, which is seen in Table 14. One day following the announcement date the abnormal return is highly negative at -0.012156 and statistically significant at less than the 1% level and two days following the announcement date the abnormal return is 0.009839 and statistically significant at the 1% level. It seems that corporations that are inverting for tax reasons exhibit larger positive abnormal returns, while corporations inverting for other reasons experience lower returns that are negative. Based on these results there is reason to assume that the hypothesis is correct, and that inversions intended for tax reasons and non-tax reasons increase shareholder value.

Popular Industries for Inverted Corporations

As previously stated, the three most popular types of industries for inversions occur in are general insurance, equipment & services, and pharmaceuticals. In the event study for general insurance there are a lot of significant abnormal returns in Table 15 that are highly negative. On both the first and third day following the announcement date there are abnormal returns that are statically significant at the 1% level and the returns are negative. General insurance seems to be an industry that does not gain shareholder value after an inversion. The equipment & services corporations have almost no significant abnormal returns in Table 16, and almost all the returns are also negative. The only significant abnormal return is -0.010699 which is statistically significant at only the 10% level on the announcement date. The strongest abnormal returns are found in the event study conducted on pharmaceutical inversions in Table 17. The abnormal return of 0.042277 on the announcement date is less than the 1% level, and the abnormal return of 0.039742 the day following the announcement date is also less than the 1% level. This provides evidence that the only industry to create shareholder value with an inversion announcement is the pharmaceutical industry with a cumulative increase in shareholder value of over 8%.

Popular Locations for Incorporation

To investigate which jurisdiction creates the most shareholder value, event studies are conducted on all four popular locations. In Table 18, Bermuda has an abnormal return of -0.018866 on the first day following the announcement date, which is statistically significant at less than the 1% level. Since the largest proportion of the corporations move to Bermuda and the returns are negative, it can be assumed that Bermuda inversions do not create that much shareholder value. The Cayman Islands and England, Table 19 and 20, both experience similar results. Both locations exhibit statistical significance at the 1% level one day following the announcement date. The location that seems to create the most shareholder value is Ireland. Table 21 shows that on the announcement date the abnormal return of 0.044802 is statistically significant at the 1% level and the first day following the announcement date the abnormal return of 0.025802 is statistically significant at the 1% level. Based off the event study results, it seems that Ireland inversions create the most shareholder value. It should be noted that six out of the eight corporations that have moved to Ireland are from the pharmaceutical industry.

Chapter 5

Implications & Conclusion

The purpose of this report is to determine if there is an increase in shareholder value following a corporate inversion announcement. After completing event studies on various inversion trends for 49 announcements, findings indicate that the most shareholder value is created by pharmaceutical corporations completing M&A inversions in Ireland following 2007. This is important because it provides insight into how the inversion landscape is evolving and how future inversion regulation will impact U.S.-based multinational corporations.

There is a clear difference in the level of abnormal returns created by M&A inversions compared to single-company inversions. This is clear by the difference in value created by inversions prior to 2002 to inversions post 2007. The next question to be answered is how much of the value created by M&A inversions is actually a result of tax savings. Most corporations completing mergers only mention the opportunity to lower their effective tax rate as one of the reasons to invert to a new jurisdiction. The main reason mentioned by corporations to merge is that they want to be closer to their competition and suppliers. This is portrayed by the fact that many of the pharmaceutical inversions are announced around the same period of time. It is likely that corporations move to new jurisdictions as a result of wanting to lower their effective tax rate, but now corporations are completing the move to maintain a competitive advantage.

There is discussion in U.S. Congress to lower the corporate tax rate from 35% to 24% and transition the United States from a worldwide tax system to a territorial tax system (Marples & Gravelle, 2016). But more restrictive actions are being considered, which includes legislation that would “directly restrict the ability of U.S. firms to invert by merger” (Marples & Gravelle, 2016). Other restrictions include not allowing a corporation incorporated elsewhere to maintain head operations in the United States, and decreasing how many shareholders from the old corporation can be invested in the new corporation. Currently, based on IRC Section 7874(b), only 80% of shareholders from the old corporation can be invested in the new corporation. The concern is that the new legislation being considered to prevent corporate inversions may hurt business and shareholders because inversions have evolved from being strictly tax based to competitive-based. The possibility of new legislation could describe why there are twelve M&A inversion announcements after one another from 2013 to 2015. M&A inversions may have become more popular among shareholders and corporate leaders because of the fear of Congress creating more restrictive inversion legislation in the future.

Another question that has to be examined is if pharmaceutical corporations are still the most popular industry to invert in 2017. There are many pharmaceutical corporations that have completed inversion announcements from 2013 to 2014, but the new industry that has had a few inversion announcements has been the medical instruments & equipment industry. In 2015 the first medical instruments & equipment corporation inversion announcement occurred, and it was followed by two similar inversions. This is interesting considering that the medical instruments & equipment industry is similar to the pharmaceutical industry. Both industries represent the healthcare sector and deal with the problems of rising costs. One of the possible reasons as to why healthcare corporations are moving overseas is because the costs are growing and being passed on to consumers. As a result, there are possibly better opportunities to compete in Europe by moving to Ireland and England where there are tax-breaks. Also, through lower costs these corporations are finding they can lower their prices, which helps reduce the possibility of emerging markets “reverse-engineering” their drugs (Fernholz, 2014). The key idea is that healthcare corporations want to be successful on both a national and global level. As emerging markets continue to develop it is necessary for American healthcare corporations to evolve and find markets that are in need of medical products and services. This requires ensuring that the intellectual property of these corporations remains protected and not plagiarized.

All the inversion trends in this analysis are important because they give a glimpse into what the future of corporate inversions will look like. Evidence indicates that corporations are no longer inverting just to attain a lower effective tax rate, but because there is now a competitive advantage created by M&A inversions. Ireland and England have become popular places for inversions because they offer a territorial tax system, but also provide access to developed markets in Europe and emerging markets in Asia (Fernholz, 2014). This is specifically important to corporations in the healthcare sector that want to provide their products to the public while maintaining their intellectual property for future profit. Even though more research is required, it seems modern inversions are the result of a “flattening” world (Friedman, 2007). Corporations are completing mergers to stimulate future growth, and since the world is now so interconnected it is necessary for some corporations to move abroad to remain competitive. Legislators will need to analyze exactly how future inversion regulation will impact American multinational corporations.

Appendix A

List of U.S. Corporate Inversions 1983 – 2016

New Parent Name	Announcement Date	Location of Incorporation	Industry	Type
McDermott Intl. Inc.	10/28/1982	Panama	Equipment & Services	Single
Helen of Troy Ltd.	12/30/1993	Bermuda	Household Appliances, Electronics & Goods	Single
Triton Energy Ltd.	2/8/1996	Cayman	Production & Extraction	Single
Tyco Intl. Ltd.	3/17/1997	Bermuda	Industrial Machinery & Equipment	M&A
Fruit of the Loom Ltd.	2/11/1998	Cayman	Textiles	Single
XOMA Ltd.	11/24/1998	Bermuda	Pharmaceuticals	Single
Gold Reserve Inc.	11/24/1998	Canada	Precious Metals	Single
Transocean Ltd.	3/15/1999	Cayman	Production & Extraction	Single
PXRE Group Ltd.	7/7/1999	Bermuda	General Insurance	Single
Everest Reinsurance Group Ltd.	9/17/1999	Bermuda	General Insurance	Single
White Mountain Insurance Group Ltd.	9/23/1999	Bermuda	General Insurance	Single
Trenwick Group Ltd.	12/19/1999	Bermuda	Brokers & Intermediaries	M&A
APW Ltd.	1/26/2000	Bermuda	Business Services	Single
Arch Capital Group Ltd.	9/11/2000	Bermuda	General Insurance	Single
Foster Wheeler AG	11/30/2000	Bermuda	Construction Services	Single
Cooper Industries Plc.	6/11/2001	Bermuda	Electrical Equipment	Single
GlobalSantaFe Corp.	9/3/2001	Cayman	Production & Extraction	M&A
Ingersoll-Rand Plc.	10/16/2001	Bermuda	Industrial Machinery & Equipment	Single
Nabors Industries Ltd.	1/2/2002	Bermuda	Production & Extraction	Single
Noble Drilling Corp Plc.	1/31/2002	Cayman	Equipment & Services	Single
Weatherford Intl. Ltd.	4/5/2002	Bermuda	Equipment & Services	Single
Argo Group International Holdings Ltd.	3/14/2007	Bermuda	General Insurance	M&A
Invitel Holdings A/S	11/28/2008	Denmark	Services	M&A
Altisource Portfolio Solutions SA	5/13/2009	Luxembourg	Property, Real Estate & Development	Single
Tim Hortons Inc.	6/29/2009	Canada	Hotels, Restaurants & Travel	Single
Ensco Interntional Ltd.	11/9/2009	England	Equipment & Services	Single
Valeant Pharmaceuticals Intl. Inc.	6/21/2010	Canada	Pharmaceuticals	M&A
Alkermes Plc.	5/9/2011	Ireland	Pharmaceuticals	M&A
Jazz Pharmaceuticals Plc.	9/19/2011	Ireland	Pharmaceuticals	M&A
Aon Plc.	1/13/2012	England	Brokers & Intermediaries	Single
D E Master Blenders 1753 NV	1/28/2012	Netherlands	Beverages	Single
Rowan Companies Plc.	2/28/2012	England	Equipment & Services	Single
Stratasys Ltd.	4/16/2012	Israel	Computer Hardware & Equipment	M&A
Eaton Corp. Plc.	5/21/2012	Ireland	Electrical Equipment	M&A
Tower Group International Ltd.	7/30/2012	Bermuda	General Insurance	M&A
Liberty Global Plc.	2/5/2013	England	Radio & Television	M&A
Theravance Biopharma Inc.	4/25/2013	Cayman	Pharmaceuticals	Single
Actavis Plc.	5/20/2013	Ireland	Pharmaceuticals	M&A
Perrigo Co. Plc.	7/29/2013	Ireland	Pharmaceuticals	M&A
Endo International Plc.	11/5/2013	Ireland	Pharmaceuticals	M&A
Horizon Pharma Plc.	3/19/2014	Ireland	Pharmaceuticals	M&A
Medtronic Plc.	6/15/2014	Ireland	Medical Instruments & Equipment	M&A
C&J Energy Services Ltd.	6/25/2014	Bermuda	Equipment & Services	M&A
Mylan N.V.	7/14/2014	Netherlands	Pharmaceuticals	M&A
Restaurant Brands Intl. Inc.	8/26/2014	Canada	Hotels, Restaurants & Travel	M&A
Steris Plc.	10/13/2014	England	Medical Instruments & Equipment	M&A
Wright Medical Group N.V.	10/27/2014	Netherlands	Medical Instruments & Equipment	M&A
LivaNova Plc.	2/26/2015	England	Medical Instruments & Equipment	M&A
Arris International Plc.	4/22/2015	England	Radio & Television	M&A

Table 1: Number of Inversion Announcements by Year (1982 – 2002)

Year	***Number of Announcements***
1982	1
1993	1
1996	1
1997	1
1998	3
1999	5
2000	3
2001	3
2002	3

Table 2: Number of Inversion Announcements by Year (2007 – 2015)

Year	***Number of Announcements***
2007	1
2008	1
2009	3
2010	1
2011	2
2012	6
2013	5
2014	7
2015	2

Table 3: Number of Inversion Announcements by Inversion Type

Type of Inversion	***Number of Announcements***
Single- Company Inversion	25
M&A Inversion	24

Table 4: Number of Inversion Announcements by Reason

Reason for Inversion	***Number of Announcements***
Taxes	30
Other	18
N/A	1

Table 5: Number of Inversion Announcements by Reason (2007 – 2015)

Reason for Inversion	***Number of Announcements***
Taxes	13
Other	15

Table 6: Number of Inversion Announcements by Industry

Industry	***Number of Announcements***
Medical Instruments & Equipment	4
Production & Extraction	4
General Insurance	6
Equipment & Services	6
Pharmaceuticals	10

Table 7: Number of Inversion Announcements by New Location of Incorporation

New Location	***Number of Announcements***
Bermuda	17
Caymans	6
England	7
Ireland	8

Table 8: Abnormal Returns of All Announcements

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	-0.000358	-0.000358	0.26622
-2	-0.002265	-0.002623	-0.42221
-1	0.003299	0.000677	2.00235*
0	0.006292	0.006969	1.56785
1	0.000102	0.007072	0.11047
2	0.010320	0.017391	3.55202***
3	0.000063	0.017454	0.36468

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 9: Abnormal Returns of 1982 – 2002 Announcements

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	-0.003798	-0.003798	0.06502
-2	-0.007965	-0.011763	-1.46901
-1	0.003576	-0.008188	0.15996
0	-0.010470	-0.018657	-0.56383
1	-0.011701	-0.030359	-1.65009
2	0.012202	-0.018157	1.77472*
3	-0.004956	-0.023113	-0.52047

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 10: Abnormal Returns of 2007 – 2015 Announcements

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	0.002288	0.002288	0.33269
-2	0.002176	0.004464	0.81237
-1	0.002759	0.007224	2.34621**
0	0.018920	0.026144	2.51189**
1	0.009361	0.035505	1.74727*
2	0.009347	0.044852	3.23932***
3	0.004504	0.049356	1.22400

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 11: Abnormal Returns of Single-Company Inversion Announcements

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	-0.001563	-0.001563	0.39566
-2	-0.005242	-0.006806	-1.21776
-1	-0.004444	-0.011250	-1.33148
0	-0.008396	-0.019646	-0.84412
1	-0.004231	-0.023877	-0.12909
2	0.003588	-0.020289	0.01293
3	-0.006005	-0.026294	-0.55323

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 12: Abnormal Returns of M&A Inversion Announcements

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	0.000848	0.000848	-0.01917
-2	0.000712	0.001561	0.62067
-1	0.011043	0.012604	4.16324***
0	0.020981	0.033585	3.06140***
1	0.004436	0.038020	0.28533
2	0.017051	0.055072	5.01040***
3	0.006130	0.061202	1.06897

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 13: Abnormal Returns of Tax Reason Inversions

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	-0.003316	-0.003316	-0.29922
-2	-0.001576	-0.004892	-0.13964
-1	0.007395	0.002503	3.14259***
0	0.000170	0.002673	0.24112
1	0.004555	0.007228	3.45669***
2	0.007744	0.014972	1.75277*
3	0.000827	0.015799	1.16164

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 14: Abnormal Returns of Other Reason Inversions

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	0.005446	0.005446	1.02238
-2	-0.004340	0.001106	-0.69214
-1	-0.004323	-0.003217	-0.86794
0	0.013289	0.010072	1.87914*
1	-0.012156	-0.002084	-4.72639***
2	0.009839	0.007755	2.93337***
3	-0.007001	0.000754	-1.53744

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 15: Abnormal Returns of General Insurance Announcements

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	0.005835	0.005835	0.95407
-2	-0.003492	0.002343	-1.06608
-1	-0.001454	0.000889	-0.26458
0	0.012566	0.013454	2.20779**
1	-0.030314	-0.016860	-6.95053***
2	-0.001286	-0.018146	0.22999
3	-0.022620	-0.040766	-3.86073***

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 16: Abnormal Returns of Equipment & Services Announcements

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	0.002903	0.002903	0.31209
-2	-0.012273	-0.009370	-1.08696
-1	-0.011090	-0.020460	-1.42360
0	-0.010699	-0.031158	-1.75441*
1	-0.005557	-0.036715	-0.70508
2	-0.005481	-0.042196	-0.37582
3	-0.002958	-0.039238	0.33224

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 17: Abnormal Returns of Pharmaceutical Announcements

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	-0.004545	-0.004545	-0.56747
-2	0.007074	0.002529	0.78837
-1	-0.005014	-0.002485	-1.04124
0	0.042277	0.039792	6.18528***
1	0.039742	0.079534	6.36994***
2	0.008000	0.087533	0.68909
3	-0.009183	0.078350	0.07562

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 18: Abnormal Returns of Bermuda Announcements

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	-0.004236	-0.004236	-0.06219
-2	-0.002376	-0.006612	-0.75690
-1	-0.002683	-0.009294	-0.59563
0	-0.012560	-0.021854	-0.61240
1	-0.018866	-0.040720	-5.63099***
2	0.007731	-0.032989	1.47045
3	-0.008626	-0.041615	-2.12427**

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 19: Abnormal Returns of Cayman Islands Announcements

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	0.019307	0.019307	0.99617
-2	-0.026070	-0.006763	-2.45863**
-1	0.006136	-0.000626	0.15284
0	0.018717	0.018091	2.36562**
1	0.028422	0.046513	3.48025***
2	0.018057	0.064570	1.33800
3	-0.004076	0.060494	-0.42343

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 20: Abnormal Returns of England Announcements

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	0.003830	0.003830	0.39551
-2	0.006008	0.009838	1.72412*
-1	-0.001983	0.007855	-0.35843
0	-0.006053	0.001802	-2.34290**
1	0.019416	0.021218	2.93609***
2	0.001366	0.022584	0.85638
3	-0.004556	0.018028	-1.02519

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

Table 21: Abnormal Returns of Ireland Announcements

Day	Abnormal Return	Mean Cumulative Abnormal Return	Patell Z-Statistic
-3	-0.008434	-0.008434	-0.88933
-2	0.008012	-0.000422	0.78355
-1	0.004887	0.004465	0.49318
0	0.044802	0.049266	4.59429***
1	0.025802	0.075069	4.00609***
2	0.014877	0.089946	2.16306**
3	-0.002406	0.087540	1.00474

*,**,*** significant at the 10%, 5%, 1% levels, respectively.

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MaryKate MacDonald

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Education

The Pennsylvania State University **University Park, PA**
Schreyer Honors College
Smeal College of Business | Bachelor of Science in Finance

Professional Experience

The Vanguard Group **Malvern, PA**
Intern: Financial Advisor Services- Model Portfolios- Client Offer *June 2016 – Aug 2016*

- Developed a new team dashboard, which helped the Model Portfolios team measure the success of their business through various metrics concentrating on growth, efficiency and client loyalty
- Analyzed the profit margin for Models Portfolios to enable better decision making, particularly in deciding if more resources should be available for targeted channel marketing campaigns
- Completed a competitive analysis describing the various services and products offered in the Model Portfolios industry
- Derived insights and formulated conclusions from previously unanalyzed sales activity data which was then used to help measure business success
- Hosted a roundtable discussion on an investment-related topic, which created an open atmosphere that stimulated brainstorming and sharing of diverse opinions

Pennsylvania State University, Smeal College of Business **University Park, PA**
Teaching Assistant: Management 301 *Jan 2016 – May 2017*

- Worked with a team of management teaching assistants to personalize a course for 1800 business students
- Supervised 1000 underclassmen during the Smeal Corporate Citizenship Conference, which promoted the importance of integrity, corporate social responsibility, and sustainability in business
- Read and graded assignments for 600 business students, held weekly office hours, and mentored/tutored students
- Enforced administration policies and rules governing students to create a safe and respectable learning environment
- Proctored exams for students with disabilities in a tailored manner to allow them an equal opportunity for success in the course

Great Valley Pet Hotel **Malvern, PA**
Manager *Sep 2011 – May 2016*

- Generated goals for a team of over 20 employees around productivity and re-evaluated team goals annually as needed
- Created an environment for employees to communicate and work as a team to efficiently produce a high quality service
- Helped employees problem solve and correct errors quickly to meet clients' needs and ensure future client loyalty
- Identified daily business expectations, proper staffing responsibilities and organized appropriate dismissal times to minimize daily costs

Panera Bread **West Chester, PA**
Customer Service Associate *Mar 2011 – Sep 2011*

- Socialized with the customers to produce a trusting relationship and a place where they felt welcomed
- Ensured accuracy of funds by recounting cash drawers at end of shift

Leadership Experience

Beta Gamma Sigma **University Park, PA**
Vice President *Apr 2016 – May 2017*

- Coordinated information sessions, initiation ceremonies, and community service projects to encourage academic achievement, workplace professionalism, and societal improvement
- Represented Smeal College of Business at the 2016 Global Leadership Summit, which concentrated on the improvement of young professionals through a Strengths Finder session and team business case competition

Penn State Brandywine Marketing & Advertising Club **Media, PA**
Secretary *Sep 2014 – May 2015*

- Coordinated fundraising events to support the club and charitable organizations, which was awarded the Student Organization of the Year for 2016
- Promoted club-sponsored events by creating flyers and electronic communications to help all members and students stay informed

Honors, Skills, and Interests

- The Honor Society of Phi Kappa Phi
- Proficient in Microsoft Excel, Word, and PowerPoint
- Wall Street Prep, Inc. Advanced Excel seminar
- Volunteer at Saints Peter & Paul Parish as a collection counter
- The President's Freshman Award & The President Sparks Award
- Interests include: running, skiing, piano, hiking