BY KIM RIBBINK

Buying Big GLOBAL

How M&A Impacts the Pharma Market

As patent expirations and dwindling pipelines, along with an embattled economy, put a dent on pharma profits, acquisitions again become a necessity for large pharma companies seeking to maintain a healthy bottom line.

With Pfizer's purchase of Wyeth, among other big industry moves, the question is how will this affect the rest of the global life-sciences arena? Analysts offer their insights on the impact of recent M&A activities.

Merger mania in the pharmaceutical industry has taken center stage again with the announcement that Pfizer has agreed to acquire Wyeth for $68 billion in cash and stock.

A few days later, Roche again announced its intent to buy Genentech, though the biotech company remains resistant to the move.

These latest actions follow another year of strong M&A activity, with Takeda acquiring Millennium Pharmaceuticals and Eli Lilly buying ImClone Systems, among other big buy ups.

It's the scale of the Pfizer-Wyeth merger that has analysts buzzing.

This merger is huge; it creates a prescription pharmaceutical company of unprecedented industry scale, says Datamonitor Senior Pharmaceutical Analyst Simon King.

"In 2008, the combined Pfizer-Wyeth entity would have recorded total company sales in excess of $70 billion and prescription pharmaceutical sales of more than $60 billion," Mr. King says.

WHAT IT MEANS FOR PFIZER

Jeff Kindler, CEO of Pfizer, told CNBC in an interview that investors have been very supportive of the Wyeth acquisition, adding that it is "a strategic move for long-term business."

"We're going to be the No. 1 primary care company, the No. 2 specialty company, the No. 3 biologics company, and number one in every growing market in the world," he said in the CNBC interview.

The Wyeth acquisition was a matter of market necessity for Pfizer given that many of its high-earning drugs have lost patent exclusivity or are set to do so in the next couple of years, Mr. King says.

"Theoretically, Pfizer's executives could have accepted this wave of expirations and decided to lead a slimmed-down, leaner Pfizer out the other side of the intense burst of generic competition," he says. "Of course, in reality, as a public company, Pfizer has had no choice but to yield to investor's insatiable demand for continued profit growth. Given Pfizer's already huge $40 billion plus scale, its internal R&D pipeline cannot support near-term sales expansion organically so the only way forward is to 'buy growth' through M&A."

Some analysts see the Pfizer merger as being about improving profits through consolidation of business units across Pfizer and Wyeth.

"By removing all or a portion of redundant operations the company can bring clients together, maintain most of the revenue, but reduce cost significantly, and that actually drives increased earnings," says Chris Bogan, president and CEO of Best Practices. "It's unclear and doubtful that bringing these two combinations together will create a richer pipeline or create accelerated revenue growth."

Adam Bianchi, chief operating officer at Cutting Edge Information, believes massive layoffs at the combined Pfizer-Wyeth organization are on the horizon.

"We've already seen the first wave, but I wouldn't be surprised to see the 'new Pfizer' about the same size as the premerger Pfizer within a cou-

CHRIS BOGAN ● *Best Practices*

For a relatively small handful of the other giant pharma companies — GlaxoSmithKline, Novartis, AstraZeneca, Bristol-Myers Squibb, etc. — if they haven't acquired good assets or good biotech companies to help them get their portfolios moving along, then they may need to become larger portfolio companies themselves.

ple of years," he says. "The company needs more products and innovation, not more headcount, unfortunately. There may be opportunities for divestitures and spin-offs so there may not be as much wholesale destruction as that level of layoffs implies. There also might be some 'Pfizerlets' that pop up around closed facilities. There's a lot of talent out there and some of these executives will find their way into start-ups. Ten years from now, Pfizer may be buying up those start-ups."

However, the process of absorbing large companies is time consuming, staff or resource consuming, and distracting; in the near-term this could leave Pfizer vulnerable in head-to-head brand competition.

"Pfizer will be focused on getting products aligned, getting salesforces aligned, reducing redundant staff positions, shredding underutilized facilities — and that could make the company vulnerable to intense field competition," Mr. Bogan says. "However, Pfizer is a very worthy competitor and they've done these M&A integrations before so they're going to go at that challenge and they know to expect it."

Having been down the M&A road several times before, Mr. Kindler says the company has learned a lot from mistakes of the past.

"In the past we took big primary care businesses and put them on top of ours; what we've done instead in last two years is we've completely transformed our company," he told CNBC. "It now consists of much smaller research organizations and business units each pursuing different opportunities for different customers in different scientific opportunities. And the result of that is a company that has the spirit of small units backed up by the power of scale. This makes integration much clearer because we're able to put the great assets that Wyeth brings to us across these business units in a much more effective and quick way."

According to Mr. Bianchi, the industry has been waiting for the next "megamerger" for a couple of years now.

"There's a general feeling that, for many companies, this is the only way to fix the pipeline problems that have been holding their stock prices back for several years," he says. "Not everyone completely buys into the merger strategy, but even the most innovative pharma companies are working with biotechs regularly now. And the majority of pharma companies really believe that buying in products and new molecules is the Holy Grail to get them through the next five years."

R.T. "Terry" Hisey, vice chairman, U.S. life sciences leaders, Deloitte, predicts increased M&A activity in 2009.

"All companies are in play and all pharma companies are weighing their options," Mr. Hisey says. "Even with the credit crisis, pharmaceutical companies have access to lots of capital. Across the board, pharmaceutical companies are looking to balance their portfolios, and they will continue to look at biotech companies to augment their pipelines. In addition, companies may purchase late-stage products to bridge their pipelines."

BIG CAP IMPLICATIONS

The global implications of this merger activity will vary for different constituents in the biopharma industry, some analysts say.

"For a relatively small handful of the other giant pharma companies — GlaxoSmithKline, Novartis, AstraZeneca, Bristol-Myers Squibb, etc. — if they haven't acquired good assets or good biotech companies to help them get their portfolio moving along then they may need to become larger portfolio companies themselves," Mr. Bogan says.

But the landscape for larger portfolio companies is more complex today, Mr. Bogan says.

Whereas companies once looked solely to bolster their pharmaceutical product pipelines, the portfolio company of today involves specialty business units, medical device units, animal products, consumer products, diagnostics, and even generics. All these lines of business have different growth and profit characteristics.

"Good pharmaceutical products tend to be the fastest growing and highest margin for a business, so in the past a company didn't want the complexity of these other pieces, which tend to have lower volume potential and lower margin characteristics," Mr. Bogan says. "Today, though, pharma companies have to structure themselves more like a General Electric and consider how they'll pull in other business components, such as vaccines or generics, for example."

This model means that the giants of the global pharma industry have to become broader portfolio companies to maintain superior growth and profitability.

"This is a different type of company, and the giants are wrestling with trying to understand how to operate in this manner," Mr. Bogan says. "Cost management, smart capital allocation, and fast resource shifting are hallmarks of strength for portfolio companies."

Mr. Bianchi believes the next three to five years are going to be turbulent for the industry.

"There's an incredible amount of cutting-edge science coming down the pipeline so the industry will do fine in the medium term," he says. "But the products that will come from that innovation are several years off and patent challenges, coupled with the current tough economic environment, will mean belt-tightening and a different mindset in the short term. Mergers are meant to help with these challenges, but M&A is a gamble. It's impossible to guarantee that the Pfizer merger or any combination will work out. There will be even more pharma-biotech combinations as big

As the effects of the credit crunch began to be felt at a global level, business sectors ranging from banking to retail began to feel the pinch, and many wondered whether the pharmaceutical industry would be the next to suffer. So far, this has not proven to be the case. Mergers and acquisitions abounded during 2008, while lines between the pharmaceutical, biotech, and generics sectors grew progressively blurred. Thanks to a cash-rich and conservative business model, most first- and second-tier drug makers continued to view acquisitions as an essential part of their strategy for growth. Indeed, for many leading pharma companies, the greatest challenge of 2008 was not the credit crunch but the ongoing threat of lost revenue from genericization of blockbuster drugs. This saw a host of top drug makers launch restructuring operations and cutback policies, with Pfizer (U.S.), Wyeth (U.S.), AstraZeneca (U.K.), and UCB (Belgium) among those affected.

M&A IN 2008

Buyer/Acquisition	Target Date	Acquisition Sum ($ millions)
Roche/Ventana	January	$3,400
Teva/CoGenesys	January	$400
Piramal Healthcare/Healthline Private	January	$3.79
Taisho/Biofermin Pharmaceutical	February	4253
Fujifilm Holdings/Toyoma Chemicals	February	$935.3
Pfizer/Encysive	February	$195
Galderma/CollaGenex	February	$420
Pfizer/Serenex	March	Undisclosed
Takeda/Millennium Pharmaceuticals	April 8	$800
Teva/Bentley Pharmaceuticals	April	$360
Dr. Reddy's/Jet Generici	April	Undisclosed
Novartis/Alcon	April	$39,000
Fresenius Kabi/Dabur Pharma (73.27%)	April	$220
Solvay/Innogenetics	April	$277.6
GlaxoSmithKline/Sirtris Pharmaceuticals	April	$720
Antisoma/Xanthus Pharmaceuticals	May	$52.4
Daiichi Sankyo/U3 Pharma	May	$233.9
Intercell/Iomai	May	$116.4
Bristol-Myers Squibb/Kosan Biosciences	May	$190
Zydus Cadila/Combix Laboratories	May	Undisclosed
Novartis/Protex Pharmaceuticals	June	$400
Daiichi Sankyo/Ranbaxy	June	$4,600
Boehringer Ingelheim/ Actimis Pharmaceuticals	June	$515
Shire Pharmaceuticals/Jerini	July	$519.2
Fresenius Kabi/APP Pharmaceuticals	July	$5,600
Eli Lilly/SGX Pharmaceuticals	July	$64
Novartis/Speedel	July	$800
Sanofi-Aventis/Symbion Consumer	July	$547
Teva/Barr Pharmaceuticals	July	$7,460
Sanofi-Aventis/Acambis	July	$549.8
Mylan/Somerset Pharmaceuticals	July	Undisclosed
Lupin/Hormosan Pharma	August	Undisclosed
CSL/Talecris Biotherapeutics	August	$3,040
Orchid/Daikron	August	Undisclosed
Otsuka Pharmaceutical/Interpharma Praha	August	Undisclosed
Shionogi/Sciele	August	$1,100
BioMerieux/AviaraDX	September	$60
Sopharma/Vitaminy (99.56%)	September	Undisclosed
Sanofi-Aventis/Zentiva	September	$2,326
Eli Lilly/ImClone Systems	October	$6,500
Alapis/Gerolymatos	October	$250.1
Recordati/Yeni Ilaç	October	$61.3
GlaxoSmithKline/Genelabs Technologies	October	$57
King Pharma/Alpharma	November	$1,600
Roche/Memory Pharmaceuticals	November	$50
Johnson & Johnson/Omrix	November	$438
Johnson & Johnson/Mentor Corp.	December	$1,070
Abbott Laboratories/Ibis Biosciences	December	$175
Wyeth Pharmaceuticals/Thiakis	December	$120

Note: Chart includes company acquisitions valued at US $50 million and more, at date of announcement.
Source: IHS Global Insight. For more information visit ihsglobalinsight.com.

companies seek to add new products and technologies without the potential growing pain of transformative deals like Pfizer-Wyeth."

According to an IHS Global Insight report — Pharmaceutical Growth in an Economic Downturn: Wrap-Up for 2008, Outlook for 2009 — big pharma's forays into the biotech sector in 2009 will become increasingly targeted, prioritizing innovation and drug discovery over promising late-stage drug candidates.

"One player that is widely expected to prioritize M&A as a growth strategy in 2009 is Sanofi-Aventis, under the direction of new CEO Chris Viehbacher," say IHS Global Insights Analysts Aparna Krishnan and Mitra Thompson. "Acquisition targets in various sectors are expected as the French drug giant looks to diversify its holdings and minimize the risk of dependency on any one area."

Mr. Hisey says companies are going to be more focused on specific therapeutic areas and turn toward better disease-management models.

"Areas of interest are pharmaceuticals and therapies that target conditions that occur later in life," he says. "Oncology drugs and treatments for Alzheimer's will receive a great deal of attention."

MID-CAP CONSIDERATIONS

The way forward for mid-cap companies is quite different, some analysts say, since these companies will have different priorities for their portfolios and merger considerations would involve different parameters for success.

"If a mid-cap pharmaceutical company has a healthy portfolio it will focus on continuing to grow those products," Mr. Bogan predicts. "These companies can have very bright futures based on the prospects of those superior biopharmaceutical products."

According to Mr. Hisey, smaller pharmaceutical companies that lack access to credit are acting prudently given the current economic crisis.

"Smaller companies with lower valuations and lacking access to credit are more affordable to potential suiters," he says. "Deals in the mid-cap space will be highly strategic, they will be well-thought out, and they will focus on targeted therapeutic areas. As the move toward personalized medicine continues, acquisitions also will be more focused on maintaining and building pipelines."

Pfizer's Acquisition of Wyeth

Creates the World's Premier Biopharmaceutical Company

SIMON KING
Datamonitor

Given Pfizer's already huge $40 billion plus scale, its internal R&D pipeline cannot support near-term sales expansion organically so the only way forward is to 'buy growth' through M&A.

Pfizer and Wyeth announced on Jan. 26, 2009, that they have entered into a definitive merger agreement under which Pfizer will acquire Wyeth in a cash-and-stock transaction currently valued at $50.19 per share, or a total of about $68 billion. The boards of directors of both companies have approved the combination.

The combined company will create one of the most diversified companies in the global healthcare industry. Operating through patient-centric businesses that match the speed and agility of small, focused enterprises with the benefits of a global organization's scale and resources, the company will respond more quickly and effectively to meet changing health care needs. The combined company will have product offerings in numerous growing therapeutic areas, a strong product pipeline, leading scientific and manufacturing capabilities, and a premier global footprint in healthcare.

With its broad and diversified global product portfolio and reduced dependence on small molecules, the new company will be positioned for improved, consistent, and stable top-line and EPS growth and sustainable shareholder value in the short and long term. It is expected that no drug will account for more than 10% of the combined company's revenue in 2012.

FINANCIAL HIGHLIGHTS

Under the terms of the transaction, each outstanding share of Wyeth common stock will be converted into the right to receive $33 in cash and 0.985 of a share of Pfizer common stock, subject to the terms of the merger agreement. Based on the closing price of Pfizer stock as of January 23, 2009, the stock component is valued at $17.19 per share. The transaction provides immediate value to Wyeth shareholders through the cash component, as well as continued participation in the future prospects expected to result from the combination through their ownership of about 16% of Pfizer's shares.

STRATEGIC OVERVIEW

Jeffrey B. Kindler, chairman and CEO of Pfizer, said: "The combination of Pfizer and Wyeth provides a powerful opportunity to transform our industry. It will produce the world's premier biopharmaceutical company whose distinct blend of diversification, flexibility, and scale positions it for success in a dynamic global healthcare environment. The new company will be an industry leader in human, animal, and consumer health. With our combined biopharmaceuticals business, it will lead in primary and specialty care as well as in small and large molecules. Its geographic presence in most of the world's developed and developing countries will be unrivaled."

Bernard Poussot, chairman, president, and CEO of Wyeth, said, "Wyeth's commitment to scientific innovation has enabled us to build a diversified biopharmaceutical company with leadership in attractive growth areas such as vaccines, nutritionals, and biologics. For example, Wyeth developed Prevnar, the first pneumococcal vaccine for infants. In addition, because we were early to see the potential of biotechnology to create life-changing medicines, we now have a strong franchise which includes Enbrel, the number one biotechnology product in the world. With our business focused on prevention and wellness, Wyeth is well positioned in today's rapidly changing healthcare environment. Our employees should be enormously proud of what we have built and confident that combining with Pfizer will accelerate our pursuit of innovative new medicines to meet critical unmet patient needs. Wyeth and Pfizer are highly complementary businesses, and together we can build the best diversified healthcare company in the world. We believe we can better execute our strategy and can accomplish far more together in the years ahead than either company could have achieved on its own."

Mr. Kindler continued, "With this combination, Pfizer will offer patients around the world a uniquely broad and diversified portfolio of biopharmaceutical innovations through business units — each one focused on different customer needs and backed by the resources of a premier global organization. By combining the spirit of small, agile enterprises with our combined scale, Pfizer will advance its mission of working together toward a healthier world."

Over the last two years, Pfizer has become a leaner, more disciplined, and far stronger company that is now capable of — and has demonstrated — superior and consistent execution of its strategies and commitments. As separately announced, for example, Pfizer achieved its 2008 objectives despite the challenging economy, including meeting or exceeding its financial guidance and cost-reduction target.

With this essential foundation established, the combination with Wyeth meaningfully advances in a single transaction each of the strategic priorities that Pfizer has identified and pursued over the last two years, including:

- Enhancing the in-line and pipeline patent-protected portfolio in key "Invest to Win" disease areas, such as Alzheimer's disease, inflammation, oncology, pain, and psychosis;
- Becoming a top-tier player in biotherapeutics and vaccines;
- Accelerating growth in emerging markets;
- Creating new opportunities for established products; and
- Investing in complementary businesses; and
- Creating a lower, more flexible cost base.

Mr. Kindler added, "Over the last several years, Wyeth's leadership and its employees have done an outstanding job creating a strong, diversified biopharmaceutical company. The people, products, and technologies that Wyeth brings to the new company will enhance our scientific capabilities and drive further commercial innovation to improve the health of the patients we serve. The compelling combination of Pfizer and Wyeth allows us to advance our newly strengthened organization to the next level by harnessing the talents of the best people from both companies. This will enable us to accelerate significantly our progress along 'Our Path Forward' as we pursue our mission of applying innovative science to improve world health."

GLOBAL BIOPHARMACEUTICAL LEADERSHIP AND BUSINESS DIVERSIFICATION

The combined company will offer customers and patients a broad range of products for every stage of life — with top tier portfolios in key therapeutic areas such as cardiovascular, oncology, women's health, central nervous system, and infectious disease and a diverse product portfolio that includes 17 products with more than $1 billion each in annual revenue. Pfizer will be the second largest specialty care provider, with products including the world's leading biologic, Enbrel; Prevnar, the world's largest-selling vaccine; Sutent for cancer; Geodon for schizophrenia; and Zyvox for infection. The transaction also builds upon Pfizer's position as a global leader in animal health, with strong product lines in attractive segments, for companion animals, biologics, and anti-infectives.

The new company will have more resources to invest in research and development than any other biopharmaceutical company and access to all leading scientific technology platforms, including vaccines, small and large molecules, nutritionals, and consumer products.

The combination also brings together a robust pipeline of biopharmaceutical research and development projects, including programs in diabetes, inflammation/immunology, oncology, and pain, as well as significant opportunities in Wyeth's Alzheimer's disease pipeline, which has a number of compounds in development, including Phase III biotech compound bapineuzumab. These will be added to the exciting agents currently in early and later stage development at Pfizer for Alzheimer's disease, illustrating the breadth and depth the new company will be able to use in targeting the diseases that most affect patients.

The new company will have an enhanced ability to innovate, operating as focused business units tailored to patients and other customers. Each business unit will oversee product development from clinical trials to commercialization. This approach will allow for rapid decision-making and a more efficient use of resources and, as a result, will enhance the company's ability to invest in long-term opportunities. The combination will also provide additional high-quality and high-volume manufacturing capabilities, including Wyeth's Grange Castle, Ireland, facility, the largest integrated biotechnology manufacturing facility in the world.

Geographically, the combination will enhance Pfizer's and Wyeth's compelling portfolios in important growth areas. Based on IMS data, the combined company will be No. 1 in terms of biopharmaceutical revenues in the United States with about a 12% market share; in Europe with about a 10% share; in Asia (ex-Japan) with about a 7% share; in Japan with a 6% share; and in Latin America with a 6% share.

Pfizer and Wyeth's combined presence will be significant in high-growth emerging markets, such as Latin America, the Middle East, and China, where Wyeth has an impressive presence in infant nutritionals and Pfizer is a recognized leader in pharmaceuticals. This enhanced geographic position will further strengthen the combined company's business, provide increased exposure to high-growth, less-developed and under-penetrated markets, and provide compelling opportunities for expense savings. ✦

Source: Pfizer. For more information, visit pfizer.com.