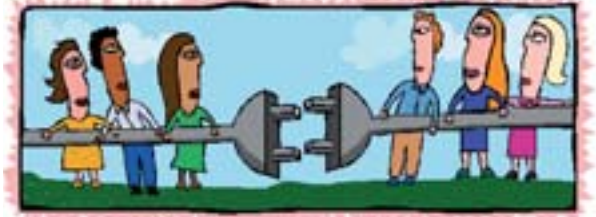


Pfizer takes over Wyeth, MSD follows

# Similar Deal, Same Mistake?

€53,000,000,000 here, €32,000,000,000 there.

Two multi-billion mergers rock the pharmaceutical world but some say that they reveal huge weakness.



Two deals were announced in the USA recently that will change the pharmaceutical world completely. At the end of January this year, global market leader Pfizer announced the upcoming acquisition of US competitor Wyeth. The Viagra producer from New York City is to buy Wyeth for an equivalent of €53 billion. Just a few weeks later, MSD Sharp & Dohme (aka Merck & Co.) followed with another huge offer, announcing that MSD is to pay an equivalent of €32 billion for competitor Schering-Plough (see comment on page 53).

Both purchase prices reached an 11 digit sum, representing amounts that are unimaginable for mere mortals. However, Pfizer's executives in particular are no mere mortals. They have started to arrange similar deals every few years, such as the €70 billion merger with Warner-Lambert in 2000, and the €47 billion merger with Pharmacia in 2003. However, in retrospect, neither the Warner-Lambert deal nor the Pharmacia acquisition were big hits. Last but not least, Pfizer paid an enormous sum to bag Pharmacia's potential arthritis blockbuster Celebrex, that never lived up to expectations. More than a few experts have abused their seats on Pfizer's management, using their position as an opportunity to destroy value, scaring away key scientists as well as scaling down research and development expenses, in contrast to a bumped-up advertising budget. At least one red light is flashing: Pfizer's stock has dropped by more than 50% since the Warner-Lambert deal.

Anyway, many Wall Street bankers applauded the new deal because Pfizer's development pipeline contains only a few potential new drugs and, to make things worse, hardly any potential new blockbusters. Despite the mergers with Warner-Lambert and

Pharmacia, the weak giant, has proven unable to create enough promising drugs on its own. A quarter of Pfizer's revenue is generated by its warhorse Lipitor that loses patent protection in 2011. Wyeth struggles with similar problems but at least has a strong position in vaccines, biological drugs, veterinary medicine and consumer products.

## Everything staying different?

Pfizer's CEO Jeff Kindler, who took the job in 2006, has got his hands full, insisting that the actual Pfizer acquisition is completely different from his company's earlier mergers. According to *Business Week* he said, "the Wyeth merger is not about a single product or cost-cutting, as with past deals". Kindler underlined that the deal will be made, "to create a broad, diversified portfolio". Kindler maintains that his company, "has learned a lot from prior acquisitions" (executed by his predecessor Hank McKinnell), and that Pfizer will emphasise research and science from now on.

The future will show whether Pfizer has really learned its

lesson, in the face of inconsistent measures like reducing the combined workforce of the two companies by about 20,000 jobs, closing 5 of its 46 plants and laying off 800 of Pfizer's scientists.

Another unpleasant detail is always hushed up in the media. Pfizer will pay for the acquisition with €17.5 billion in cash, €18 billion in stock and €17.5 billion in debt. That means that Pfizer will be paying an enormous amount for many, many years to amortise its debt.

## Bargain hunters watching out for Crucell

A comparatively small biotech company has suffered damage as a direct result of the Pfizer-Wyeth deal. Crucell, a profitable Dutch vaccine maker, was near to achieving a friendly takeover by Wyeth when all acquisition talks were suddenly withdrawn thanks to the giant merger. It has been reported that Wyeth was initially willing to pay around €20 per Crucell share, resulting in a total price of €1.1 billion for the whole company. After Wyeth's cancellation of the deal, Crucell's stock has tumbled to €14.

Crucell's momentary distress could be the perfect opportunity for other pharmaceutical companies, such as Novartis and Sanofi-Aventis, to purchase one of the world's leading independent vaccine makers for a bargain price.

## Seeking emerging markets

In the light of Pfizer's January announcement (above), it sounded like a direct response when in March rival MSD Sharp & Dohme disclosed plans to merge with its New Jersey-based neighbour, Schering-Plough, in a €32 billion deal. MSD intends to expand its presence in emerging markets (such as China, Brazil and India) and to expand its drug pipeline, doubling the number of potential medicines MSD has in Phase III development to 18. The combined company will be led by MSD's Chief Executive Richard Clark (see photo) and is expected to draw more than 50% of its revenue from outside of the USA.

There is, however, a tiny fact that both companies like to keep quiet. As MSD and Schering-Plough proudly announce on their websites, both companies employ "talented" people that, "are well recognized for pursuing exciting new therapeutic compounds and who [...] significantly advance efforts in the discovery and development of important therapies".

Why in the world is Richard Clark going to sack 16,000 of them?

WINFRIED KOEPELLE



Photo: Ricardo Stuckert/Wikipedia

**MSD's Chief Executive Richard Clark indulged in a 167 percent salary increase while axing 7,000 jobs in 2007. In 2009, he's continuing this trend.**