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Section: Mergers & Acquisitions

Merck to Merge with Schering-Plough in a US$41.1 B deal

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Merck & Co and Schering-Plough have announced that they are to merge in a deal worth US$41.1 B. It's a deal that has been long speculated because of their existing marketing relationships over Zetia® and Vytorin® and the opportunity of potential cost savings. The combined company will generate sales of US$47 B. The deal will diversify Merck's portfolio of drugs and double its late stage pipeline to 18 developments. Merck's CEO, Richard Clark, will head the merged company with Merck shareholders owning a 68% stake. Schering-Plough generates 70% of its revenue outside of the US which will accelerate Merck's international growth.

With consolidation in the air, Merck has done away with tradition and decided to go for a US$41.1 B mega-merger with Schering-Plough. Under the agreement, Schering-Plough shareholders will receive 0.5767 shares of Merck and US$10.50 in cash for each Schering-Plough share. The transaction offers a premium of 34% for Schering-Plough shareholders based on Friday's closing price. The merger brings together the makers of Zetia (ezetimibe) and Vytorin (ezetimibe/simvastatin). Already both companies were cost-cutting amid the setbacks from the results of a study released early in 2008 that showed the combination drug was no better than low cost generic versions of Zocor® (simvastatin) alone and the increased risk of cancer; fourth quarter sales last year slumped by 26%. Merck CEO, Richard Clark, pointed out that the merger would result in cost savings of approximately US$3.5 B a year beyond 2011 in addition to the savings that will be undertaken as announced previously. The combined company will benefit from a formidable R&D pipeline, have a broad portfolio of drugs and will be able to expand into emerging markets. The deal is expected to close in the fourth quarter.

The merger, although according to some analysts, is long overdue, makes sense for Merck. Over the next five years, Schering-Plough has a lower exposure to generics than Merck, which is facing a patent cliff and could lose US$9.6 B to patent expirations. Merck, historically, has not pursued the mega-merger strategy and has been increasingly reliant on internal research to fill its pipeline. Clearly, this has not worked and lower levels of productivity have not met the needs of the company to develop blockbuster drugs; hence resorting in the end to acquire Schering-Plough. With a decent late stage pipeline, Schering-Plough has done well following its merger with Organon, and the company is particularly strong in biologics. This is another area in which Merck will benefit after it revealed late last year that it intends to push into biologics and biosimilars. From Schering-Plough's point of view it gets to increase its chances of getting its products to market and bolster its sales and marketing capabilities to promote these late stage products.

The enlarged Merck is now in a better position to compete with Pfizer-Wyeth, which merged earlier in 2009, by becoming a much more diversified company with the addition of Schering-Plough's consumer healthcare and animal health divisions. More consolidation is expected in the industry and all eyes are on the next mega-merger.