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Section: Joint Venture

GSK and Pfizer Join Forces to Create New HIV Firm

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GlaxoSmithKline and Pfizer have agreed to pool their resources in HIV to create a new specialist company that will hold 19% of the market for HIV treatments. The two companies said that it will be more sustainable and broader in scope than either company's individually. GSK will have an 85% stake in the joint venture and Pfizer will have 15%.

GlaxoSmithKline and Pfizer will merge their strengths in HIV to create a specialised unit that will be focused on research, development and commercialisation of HIV drugs (Deal no. 33119). GSK is one of the leading companies in HIV but its marketed drugs are nearing patent expiry and the company will be hoping to rejuvenate its business by benefiting from Pfizer's pipeline of early stage developments in this therapeutic area.

The new company will have a broad portfolio of 11 marketed drugs, including GSK's best sellers, Combivir®, Epzicom®, Kivexa® and Pfizer's Selzentry®. The combined portfolio had sales of GB£1.6 B (US$2.4 B) with operating profits of GB£870 M (US$1.3 B) in 2008. Revenues generated will provide the new company, which has yet to be named, with financial stability and support for further investment in the pipeline. The company will also have six new drugs with four in Phase II development. In all, the pipeline will comprise of 17 molecules from which to develop new HIV treatments or fixed dose combinations. Andrew Witty, CEO of GSK said that by combining their pipelines there was a higher chance of getting a drug to market. The deal is expected to close in the fourth quarter of this year.

For GSK, the deal will expand its marketed portfolio and help to reduce the impact of patent expiries to several of its HIV products in future years; Combivir is expected to lose patent protection in 2012. On the other hand, Pfizer will gain access to GSK's global HIV sales, marketing and distribution network to better reach patients for its slow performing Selzentry.

The deal is structured such that either company would be eligible to increase its equity in the new company if its product made to markets. For example, if all the stated milestones were achieved, GSK's equity interest in the new company would be 75.5% and Pfizer's would be 24.5%. If the milestones achieved are in respect of the pipeline assets originally contributed by GSK only, then GSK's equity interest in the new company will rise to 91% and Pfizer's would be 9%. If only Pfizer's assets achieve the milestones set then GSK's equity will drop to 69.5% and Pfizer's would be 30.5%.

Because of GSK's greater contribution of marketed products to the new company and the pipeline investment required, the transaction is expected to result in near term earnings per share dilution for GSK of 1-2% in 2010 and 1% in 2011. This is expected to reverse as the new pipeline starts to generate sales. Mr Witty added that the benefits of the deal are GSK does not have to pay a large amount of cash to access a pipeline of products. As well as progressing the range of in-house developments, the new company will be free to license-in opportunities outside of the alliance if required.

The new company will also invest in early stage research as part of the GSK and Pfizer Research and Alliance agreement. Under this agreement, GSK and Pfizer will continue to develop HIV drugs with investment from the new company and will have exclusive rights of first negotiation in relation to any new HIV related medicine.

It is a unique arrangement between GSK and Pfizer to share their resources to create this spin-off company. In this way both companies are minimising their risk whilst gaining access to each other's developments. For Pfizer, whose share of the HIV market is only 1%, this deal with GSK will provide it an opportunity to assess the future potential of Selzentry and its HIV pipeline and decide whether to continue in this therapy area or not.

It comes at a time when large pharma companies are seeking innovative ways to cut costs by efficiently allocating researching and developing new drugs especially in hard to treat diseases, such as HIV. GSK is facing stiff competition in the HIV space from Gilead, which currently has 31% share of the HIV market compared to GSK's 18%. This type of collaboration could be a sign of things to come and Mr Witty added that aspects of this model could be extended to other therapy areas.