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Pfizer Swallows Wyeth - Could Spark Other Acquisitions

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In one of the biggest pharmaceutical mergers in the last five years, Pfizer has struck a deal to acquire Wyeth for US$68 B (Deal no. 32282). The acquisition creates a pharmaceutical giant with US$71 B in sales and the combined company expects to realise US$4 B in cost savings. Pfizer anticipates the deal to close during the third or fourth quarter of 2009. The deal was not a surprise because the two companies had been in discussion as early as 2007. The announcement raised eyebrows since Pfizer had been sending signals that it intended to be an aggressive buyer of biotech assets. Amgen and Biogen Idec, whose share prices dipped on the news, were expected to be potential acquisition targets as Pfizer was seeking to strengthen its biologics capabilities.

In the short-term the acquisition would cushion Pfizer against a steep decline in revenue, which is expected when Lipitor® (atorvastatin), its US$12 B a year flagship product faces generic competition in 2012. However, Wyeth will expand Pfizer's presence in non-prescription pharmaceutical markets such as consumer healthcare and animal health. In a strategic u-turn, Pfizer would once again become a diversified healthcare company - having in previous years divested its non-core pharmaceutical functions including its much criticised sale of its consumer healthcare business to J&J (Deal no. 24606). The merger does not solve Pfizer's patent expiry threat or add any significant value to the pipeline. Although Wyeth had transformed itself into a leading biologics and vaccines developer - areas that are hugely attractive to Pfizer - only two products in its pipeline are of any significant value: Prevnar 13, the successor to the childhood vaccine, Prevnar®, and the Alzheimer's drug, bapineuzumab. Pfizer will be hoping to turn bapineuzumab's fortunes around following last year's uninspiring Phase II results.

Mega-mergers on this scale, from past experience, have not produced sustained growth or increased shareholder value. In the last bout of consolidation in 2002-04, Pfizer acquired Pharmacia (Deal no. 10948) primarily for its cox-2 developments, Celebrex® (celecoxib) and Bextra® (valdecoxib). With hindsight, it was a disastrous acquisition in light of the recent US$2.3 B settlement by Pfizer to prosecutors investigating the marketing practices of Bextra following the withdrawal of Vioxx® (rofecoxib). Earlier in the decade another Pfizer merger involved Warner Lambert (Deal no. 5536) and Glaxo Wellcome merged with SmithKline Beecham (Deal no. 5344) None of these can be regarded as outstanding examples of successful mega-mergers. All of these companies face the same issues as others in the industry: low R&D productivity, threat of generic competition and a ticking patent clock.

At a time when the two companies need to bolster their pipelines, the scale of the merger will divert attention from acquiring or in-licensing drugs or platform technologies. To generate long term revenues, companies must have innovative drug development and potential candidates in the pipeline to replace patent expired products. Pfizer, which had cash reserves of around US$25 B and seriously needed to shore up its late stage R&D pipeline, could have taken the opportunity to acquire a number of companies with strong biological products in development. Instead, it had to borrow an additional US$22.5 B in the current financial climate to acquire a counterpart that was in a similar predicament itself. Pfizer may miss some biotech gems whilst it is embroiled in merger management as small company acquisitions are going to take a back burner for now. Other

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pharmaceutical companies were awaiting Pfizer's next move and this merger may trigger further consolidation as other companies would not want to be left behind. If like Pfizer, the reasons for the merger were the prospect of expiring patents, combining portfolios and to cut costs, rumours point to Bristol-Myers Squibb (BMS) as an attractive target. It is also facing a patent cliff with its lead products, Plavix® (clopidogrel) and Avapro® (irbesartan), expected to go off patent in 2011. Plavix is the second best selling drug behind Lipitor with sales of US$5.6 B. Although BMS has stated that it wants to go it alone by acquiring small biotech companies with niche products, it is difficult to see how it could replenish US$1.47 B from sales of Plavix with biotech products that are still in early stages of development and their success is as yet unknown. A possible merger candidate could be its Plavix partner, sanofi-aventis.

The Pfizer-Wyeth merger has also spurred Roche to resume its bid for Genentech and was reported to be seeking to secure a multibillion loan to close the deal, which had stalled due to Genentech's rejection of the initial offer and the financial uncertainty in the markets. After Pfizer had secured funding for its acquisition it has given Roche greater confidence in the markets. Roche had bid US$43.7 B to acquire the 44% of Genentech it doesn't own and looks hopeful that a deal will take place.

Companies such as GlaxoSmithKline have shunned the mega merger option, preferring to diversify into consumer and emerging markets and acquiring small companies to build its portfolio – taking advantage of the credit crunch that is affecting small biotechs. Similarly, Novartis ruled out any big mergers even though it had built up its holding in Roche to 33% - the fellow Swiss company is an attractive target. It said that it will continue to seek opportunities in smaller acquisitions. Although Eli Lilly acquired ImClone, it is also beginning to feel the heat. Having survived the last round of consolidation, its resolve to remain independent will be further tested during 2009.