

Pfizer-Wyeth now a premier biopharma entity

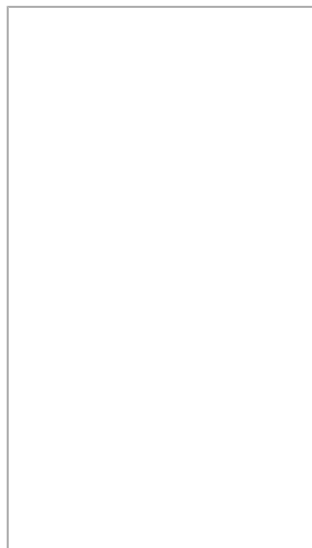
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Pfizer-Wyeth now a premier biopharma entity

The Pfizer-Wyeth deal has created ripples in the biopharmaceutical market as a marriage between the two giants could mean capturing a major chunk of the total market share. But it has failed to create much spark in India



Major Products

Pfizer Brands
Corex
Becosules
Gelusil-mps
Dolonex
Minipress-xl
Wyeth Brands
Folvite
Ovral-I
Mucaine
Wymox
Wysolone

It could never get bigger than this as two big-wigs of the pharma industry decided to join hands, making this the fourthlargest acquisition in the history of the pharmaceutical industry. The Pfizer-Wyeth deal has come in as a blessing in disguise just when the pharmaceutical industry had mentally geared itself up for the death of “the Big-Pharma” said industry experts. The \$68 billion acquisition of Wyeth could perhaps be the much awaited tonic for Pfizer which was gearing itself up for a nose dive drop in its revenue streams in the event of two of its major Blockbuster drugs namely cholesterol drug Lipitor and its erectile-dysfunction drug,Viagra, going off patent in a couple of years. Laws suits and legal battles in different countries including the infamous Ranbaxy-Pfizer Lipitor suit, coupled with depleting R&D product pipelines and pressures of global financial crunch were some of the predicaments. “Even before the recession, Pfizer has been looking out for acquisitions to increase its product base and diversify its business. It was a company which did not have a diversified portfolio and was just dependent on a handful of drugs,”commented a reliable source under the condition of anonymity. Altogether there are 14 patents which will go off patent leading to a lose of around \$35 billion. Globally the New York based pharmaceutical giant had also showed a dip in its performance over the past one year. It declared a 4 percent drop in its revenue in its current quarter.

The deal and the global consequences

According to the terms of the deal, each outstanding share of Wyeth will be converted to \$33 in cash and 0.985 of a share of Pfizer stock, valued at \$17.19 per share. The acquisition will be financed through a combination of cash, debt and stock, with banks providing \$22.5 billion in debt. Analysts estimate that Pfizer has \$25-30 billion in cash, much of it kept offshore. At the time when news of the deal was doing the rounds, Pfizer halved its dividend to go ahead with the deal which did not go down well with the investors. There was an immediate drop of 10 percent in Pfizer’s shares. In the case of Wyeth however its share price increased by 14 percent

Though it was not an acquisition out of a desperate urge but at the same time Pfizer had no choice. A large scale acquisition was bound to happen sooner or later. Nandakishore K, industry manager, health care practice, Frost & Sullivan, said, “Pfizer’s dependency on one drug is huge. A merger will bring about a consolidation in its market position not just in the purely pharmaceutical space but in diversified areas like vaccines, animal health, and biologics.” The deal will increase Pfizer’s revenue by 50 percent. “Wyeth’s product portfolio includes the more non-traditional areas of pharmaceuticals which in a way compliments with that of Pfizer (which focus on niche areas like oncology, antibiotics). A nexus will give them a wider base,” said Ajit Mahadevan, partner advisory services, Ernst & Young. About 12 percent of Wyeth’s revenues comes from consumer healthcare, 5 percent from from animal health and 36 percent from biologics.

At present, Pfizer has a product pipeline which includes clinical trials for Sutent (oncology), 10 phase I programs whose mechanisms has not yet been designed (for oncology). In the same therapeutic segment, Wyeth’s products include clinical trials like Posutinib (for diseases like breast cancer) and Inotuzumab. Pfizer has two Phase II and one Phase I trials in Alzheimer while Wyeth has five Phase I programs in this segment.

With this deal, Pfizer can now take under its fold, Wyeth’s biological and vaccine product portfolio thus diversifying itself inthe biotech space. In a joint statement given by both the parties it was specified, “This combination means a broad portfolio of health care solutions and treatments for every stage of life; leadership positions in key therapeutic areas such as cardiovascular, oncology, women’s health, CNS and infectious disease; in vaccines, biologics and small molecules; and in animal health, with products for companion animals, biologics and anti-infectives. A robust pipeline of biopharmaceutical development projects, including programs in inflammation/immunology, oncology and pain, as well as a significant opportunity to find a cure for Alzheimer’s disease.’

The joint press release also mentions, “Industry-leading positions in most of the world’s developed countries and an enhanced geographic presence in key emerging markets such as China, Latin America and the Middle East that will enable treatment for patients around the world.

The bad news is that the merger might lead to huge scale job cuts and layoffs (especially with Pfizer emphasizing on its cost

saving measures). Already there have been rumors doing the rounds that globally jobs amounting to 20,000 might be cut if the drug maker has its way. Pfizer has already fired thousands of people. Most recently it cut 800 researchers and 2,400 sales personnel. A Wall Street Journal mentions, “If completed, a deal could create billions in cost savings through the combination of back-office operations, research and development, sales and manufacturing.” Step one will be hashing out the chaff from the grain.

India performance

Despite the escalated hype globally, the deal will have minuscule impact on Indian shores. “I do not think it will have much impact on the Indian scenario. They have a small share in the market and the biotech in India has not yet started. So the deal will not make a difference,” revealed the CEO of a well known global pharmaceutical giant.

A sneak peek at both the companies’ ranking and performance in India will reveal that unlike the global platform wherein Pfizer’s ranking is number one and Wyeth coming within the Top 15 (according to IMS rankings), in India Pfizer falls within a ranking of 18 while Wyeth does not even figure within the top 30! “According to ORG IMS, the Indian market share for Pfizer comes to around 2.2 percent while that of Wyeth comes up to 0.8 percent so together their market share would be 3-3.5 percent,” added Nandakishore. A reliable source also mentions that Pfizer’s retail sales amounts to \$134 million (market cap of \$329.68 million) while Wyeth’s sales rake up to \$69 million (market cap of \$201.66 million). The combined retail sale revenues will increase to approximately \$198 million.

The plus point will be broadening of its product portfolio. “Vaccines are the next big thing in the biopharmaceutical market. Wyeth has Prevnar vaccine for children which has been churning out good revenues in India,” added Nandkishore. Pfizer which sold out its OTC division to J&J few years back is back in the grind again. “Wyeth has a consumer healthcare division in India and with this Pfizer will have its foot set again in that space,” added Mahadevan.

The global press statement also mentioned that the merger intended “to streamline manufacturing capabilities and increase their outsourcing activities’. To this Nandakishore added, “Both Pfizer and Wyeth have a good share in the CRAMS this may but give a boost to the CRAMS market in India.”

“Many Indian arms of global MNCs have not aligned their products to the global platform now we can see launching of products in India which will align itself globally,” added Mahadevan.

As far as speculations on the job losses in India are concerned spokespersons from both the companies refused to comment. However if one looks back in retrospect, when the financial crunch hit the market, globally Pfizer had cut down on 10,000 jobs but in India they were in the process of recruiting people. “India has become a key hub for most of the MNCs so job cut is unlikely,” said a reliable expert. In India, Pfizer employs around 2,000 people while Wyeth has a workforce of 800 plus.

The acquisition has come at a time when most companies across all sectors were hesitant to go in for an M&A. The credit crunch has made access to easy capital difficult and usually post a deal even the integration process might not be a cakewalk. So says conventional management concepts. “Big pharma has a good amount of cash available. Their average debt will be only around 6-7 per cent. Integration depends all on the expertise on the management,” points out Mahadevan. One can hope to see a new wave of M&As which will be in the same league as this deal, as some of the top pharma companies are already in talks with parties. The Pfizer-Wyeth deal this can set a new trend of M&A not just globally but can be a lesson for Indian companies too.

Nayantara Som in Mumbai