

Novartis reshapes business with GSK, Lilly deals (Update)

April 22 2014, by John Heilprin



The Oct. 19, 2012 file photo shows a Novartis employee in a laboratory of Novartis in Prangins near Nyon, Switzerland. Swiss pharmaceutical giant Novartis AG announced a series of multibillion-dollar deals Tuesday, April 22, 2014 with other major pharmaceutical companies that it said would reduce sales but boost profitability, while affecting some 15,000 of its employees globally. (AP Photo/Keystone, Yannick Bailly)

Swiss pharmaceutical firm Novartis AG launched a major overhaul of its business Tuesday, unveiling a series of multibillion-dollar deals with

Britain's GlaxoSmithKline PLC and the U.S.'s Eli Lilly & Co. that heralds more restructuring in the fast-changing industry.

Joseph Jimenez, the CEO of Basel, Switzerland-based Novartis, said the deals with GSK and Eli Lilly reflect "a very dynamic health care environment" and would reduce overall sales at Novartis but boost its profit margins. He told reporters some 15,000 of its employees globally will be affected by the changes but that no one will be fired by Novartis— all employees whose units are being sold off will be transferred to the new owners.

"The transactions mark a transformational moment for Novartis," Jimenez said. "They also improve our financial strength, and are expected to add to our growth rates and margins immediately."

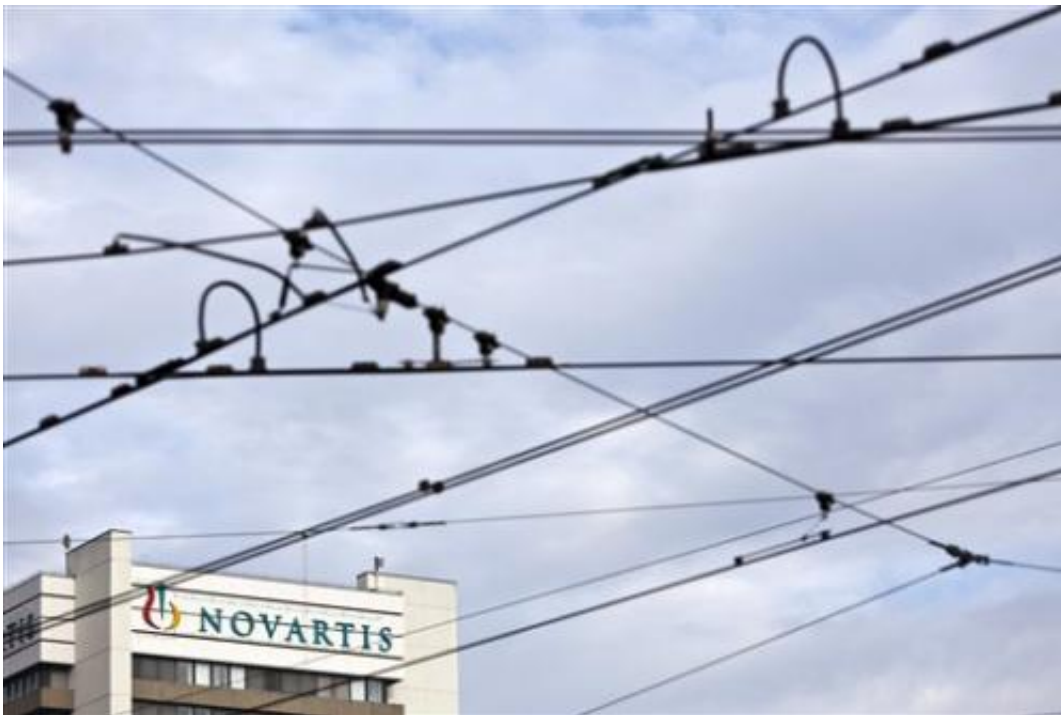
The deals unveiled Tuesday are the latest in a string of mergers and acquisitions that have engulfed the industry of late and which, analysts said, could trigger some further activity in the months ahead.

All of Novartis' deals with GSK were timed to close simultaneously. Novartis has agreed to buy GSK's cancer-drug business for \$14.5 billion, plus up to \$1.5 billion more if certain milestones are met. And the Swiss company has agreed to sell most of its vaccines business to GSK for \$7.1 billion, plus royalties, giving GSK better market position with Bexsero, a meningitis B vaccine.

Two GSK cancer drugs, Tafinlar and Mekinist, would give Novartis a strong position for melanoma treatments. Tykerb, for metastatic breast cancer, and Arzerra, for chronic lymphocytic leukemia for thrombocytopenia, are two other drugs included in the deal.

The two firms are also creating a new consumer health care business through a joint venture that combines Novartis' over-the-counter drug

business with GSK's consumer business. Novartis would own 36.5 percent of the venture, which is expected to generate revenue of \$10 billion a year emphasizing wellness, oral health, nutrition and skin health.



The Jan 11, 2011 file photo shows tram wires outside the Novartis headquarters in Basel, Switzerland. Swiss pharmaceutical giant Novartis AG announced a series of multibillion-dollar deals Tuesday, April 22, 2014 with other major pharmaceutical companies that it said would reduce sales but boost profitability, while affecting some 15,000 of its employees globally. (AP Photo/Keystone, Gaetan Bally)

Separately, Novartis said it will sell off its animal health division to Eli Lilly for about \$5.4 billion. Indianapolis-based Lilly has been hit hard by the expiration of patents protecting key products in the past few years and has staked its recovery in part on new drugs it develops and its

animal health business.

Investors welcomed the deals, with Novartis shares in Zurich closing up 2.3 percent at 76.40 Swiss francs. GSK's share price in London soared 5.2 percent at 16.40 pounds with investors particularly cheered by the news that company is planning to return 4 billion pounds to shareholders following the closure of the deals. Eli Lilly shares fared less well, trading 0.6 percent lower.

Ishaq Siddiqi, a market strategist with ETX Capital in London, said traders are "generally feeling upbeat on the back of some high profile deal activity in the pharma sector."



The Jan. 29, 2014 file photo shows Novartis CEO Joseph Jimenez as he arrives for the annual balance press conference in Basel, Switzerland. Swiss pharmaceutical giant Novartis AG announced a series of multibillion-dollar deals Tuesday, April 22, 2014 with other major pharmaceutical companies that it said

would reduce sales but boost profitability, while affecting some 15,000 of its employees globally. (AP Photo/Keystone, Steffen Schmidt)

In many ways, the deals reflect the industry push for ways to make money and cut costs as their blockbuster drugs face competition from generics.

The pharmaceutical industry is in state of flux as firms look to continue the growth investors have got used to at a time when many blockbuster drugs that routinely generated billions of dollars in annual revenue have gone off-patent, said Steve Brozak, who follows health care industries as president of WBB Securities.

"This is buying time until they can figure out what is next," he said.

Patent expirations have exposed those blockbusters to cheaper generic competition, and drugmakers, who have also been helped by growth in Medicare prescription drug coverage in the United States, haven't been able to churn out more billion-dollar drugs. Mergers and acquisitions give them additional sources of revenue and new ways to cut costs and become more efficient.



The Aug. 12, 2005 file photo shows the logo of Swiss company Novartis in Basel, Switzerland. Swiss pharmaceutical giant Novartis AG announced a series of multibillion-dollar deals Tuesday, April 22, 2014 with other major pharmaceutical companies that it said would reduce sales but boost profitability, while affecting some 15,000 of its employees globally. (AP Photo/Keystone, Steffen Schmidt)

"There are no blockbusters," Brozak said. "We're seeing the logical extension of behavior that has taken place not over just the last few years, but in the past decade."

On Monday, Canadian drugmaker Valeant Pharmaceuticals International Inc. said it teamed up with activist investor Bill Ackman in a bid for Botox maker Allergan that could be worth about \$40 billion. And over the weekend, media reports indicated that Pfizer had made a tentative \$100 billion approach last year to buy British pharmaceutical firm

AstraZeneca PLC.

Traders have bought into the idea that AstraZeneca may be a target and the company's share price closed 4.7 percent higher Tuesday at 39.60 pounds.

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