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Pfizer in Talks to Buy Wyeth

Pfizer Inc. is in talks to acquire rival drug maker Wyeth in a deal that could be valued at more than $60 billion, said people familiar with the matter.

A combination of these two U.S. pharmaceutical giants would redraw the boundaries of the global drug industry, which has suffered from flagging product development and high fixed costs. It would also represent a high-stakes gambit for Pfizer, which has been stung in the past by expensive acquisitions.

The two sides have been in discussions for months and a deal isn't imminent, the people said. Given recent market volatility and overall economic uncertainty, the talks are especially fragile and could collapse, the people warned.

Pfizer spokesman Raymond F. Kerins Jr. said the company doesn't comment on "market rumors and speculation." A Wyeth spokesman said, "We don't comment on marketplace rumor."

Joining New York-based Pfizer and Madison, N.J.-based Wyeth would create a behemoth with combined revenue of about $75 billion and a line of blockbuster drugs including Pfizer's cholesterol drug Lipitor and Wyeth's pediatric vaccine Prevnar.

Pfizer, the world's largest drug maker by revenue, would likely use a combination of cash and stock for the acquisition. Details on price haven't been worked out, but Wyeth has a market capitalization of about $52 billion and premiums in the sector have averaged just over 20%. That would put the value of the deal at well over $60 billion.

If completed, a deal could create billions in cost savings through the combination of back-office operations, research and development, sales and manufacturing. Like other major pharmaceutical companies, Pfizer and Wyeth face the looming expiration of patents on their most lucrative products as well as intense competition from makers of generic drugs. In addition, a tougher regulatory environment in the U.S. and overseas has made it more difficult to win approval for new treatments, forcing companies to narrow their research focus.

Those realities have prompted calls for industry consolidation from the investment community. For years, companies have withstood pressure to merge, hoping that new discoveries would allow them to maintain independence. But with drugs generating an estimated $30 billion in sales losing patent protection over the next several years, many analysts have been saying industry consolidation is inevitable.

Unlike other sectors of the economy, the pharmaceutical industry has historically been buffered from downturns because patients typically don't stop seeking treatment for major ailments. While there are growing signs that this recession has triggered a decline in prescription-drug consumption among cash-strapped consumers, major companies nonetheless have streams of cash they can use for acquisitions.

Pfizer alone had more than $27 billion in cash and equivalents on its balance sheet at the end of 2008, Goldman Sachs estimated in a recent note to investors. Analysts believe that most of that money is outside the U.S. and Pfizer would suffer a tax hit if the company repatriated the funds. Many in the industry have been waiting to see what Pfizer does before pursuing deals of their own.

Pfizer posted revenue of $48.4 billion and a profit of $8.1 billion in 2007, the most recent year for which data are available. Wyeth's revenue totaled $22.4 billion and its profit $4.6 billion in 2007.

The stocks of both companies have held up fairly well over the past year compared with the rest of the market. Pfizer's shares have fallen about 23% while Wyeth's stock is down 7.5%. The S&P 500 is off 37% over the same period.

Combining major drug companies doesn't solve the industry's short-term need for new drugs, but it would allow the industry to slash research-and-development spending, which accounts for nearly 20% of sales at many companies.

With more scale, drug companies would also be better positioned to acquire biotech companies, which many believe will be a source of future treatments. Many pharmaceutical companies have already begun to buy or strike drug-development deals with smaller biotech firms. While promising in the long term, such deals tend to bring too little revenues and profits in the short term to make up for the loss of blockbuster drugs.

Since Jeffrey B. Kindler took Pfizer's helm in 2006, there have been rumors he would seek a major acquisition. Pfizer has been battling generic competition for some of its top drugs, while its best-selling drug, Lipitor, which accounts for one-fourth of its revenue, loses patent protection in 2011. It has had trouble bringing new products to market.

Mr. Kindler has been cutting costs, firing more than 15,000 employees since January 2007. A person familiar with the matter says Pfizer is planning to cut as many as 2,400 sales-force jobs in the first quarter of 2009. The chief executive has also been revamping drug-research efforts, shuttering laboratories and selling manufacturing plants.

Investors and analysts have grown increasingly frustrated that these steps aren't enough to return Pfizer to the kind of profitability that made it a stock-market star in the 1990s

and early 2000s. Since Mr. Kindler took over, Pfizer stock is down 34%, compared with a drop of 20% for the Dow Jones Wilshire Pharmaceuticals Index.
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Critics have lambasted Pfizer's 2006 sale of its consumer business, which included the Listerine, Visine and Lubriderm brands, as well as nonprescription drugs Sudafed and Nicorette. That unit is now helping its buyer, Johnson & Johnson, weather problems in its own prescription drug business.

Of big drug makers, Pfizer in particular has been built through big acquisitions. It gained full control of Lipitor after a $116 billion takeover of Warner-Lambert Co. in 2000. But Pfizer's deal-making history also suggests the pitfalls of what analysts say is a reliance on big takeovers over strong in-house research and smart licensing.

Pfizer bought Pharmacia in 2003 largely for painkiller Celebrex, but sales plunged after a rival drug, Vioxx, was withdrawn in 2004 over heart risks.

"The record of big mergers and acquisitions in big pharma has just not been good. There's just been an enormous amount of shareholder wealth destroyed," said Gary Pisano, a Harvard Business School professor who has written about the issue.

Wyeth has had struggles of its own in the past year or two, with sales of its new antidepressant Pristiq taking off slowly and a plunge in sales of heartburn drug Protonix after generic competition came sooner than expected. Midstage trial data of an Alzheimer's drug the company is developing with Elan Corp. have also disappointed some investors.

Nonetheless, analysts have named Wyeth as a likely target because the company has products and businesses that complement Pfizer's lineup. It's not clear what role Wyeth CEO Bernard Poussot would play in the combined company.

Wyeth has already established a foothold in biotechnology. The company has had strong success with Prevnar, its pediatric pneumococcal vaccine, which brought in $2.11 billion in sales in the first nine months of 2008, a 12% increase over the year-earlier period. The company's pipeline includes a new version, Prevnar-13, that is designed to offer enhanced protection against pneumococcal disease. Another strong biotechnology seller in Wyeth's portfolio is the anti-inflammatory biologic Enbrel, which Wyeth co-markets with Amgen Inc.

Wyeth also would bring with it an animal-health business and consumer-health unit whose brands include Advil, Robitussin and ChapStick. Those businesses would help offset the cyclicality and risks of the drug business.

In the absence of big merger deals, pharmaceutical companies have tried to buy time by slashing costs. Most notably, the industry has eliminated about 15,000 sales jobs since pharmaceutical sales-rep ranks reached a peak of about 105,000 in the first quarter of 2006, according to ZS Associates, a sales and marketing consulting firm.

Consultants say the industry still hasn't cut costs nearly enough, and analysts have increased the pressure on executives like Mr. Kindler. Investors are especially keen on acquisitions from cash-rich pharmaceuticals companies now that values of smaller companies have shrunk.

"There is no major payday in R&D coming in the next several years, and the personal makeovers will not be enough," Deutsche Bank analyst Barbara Ryan wrote in a recent note to investors.

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