



## **ANALYSIS - European mid-cap pharma desperate for scale**

By Ben Hirschler, European Pharmaceuticals Correspondent

LONDON, Sept 21 (Reuters) - With Europe's mid-sized drugmakers feeling the heat, industry experts are confident Thursday's \$13.3 billion deal for Germany's Merck KGaA to buy Swiss biotech Serono will not be the last.

Squeezed by the spiralling cost of developing new drugs and the financial muscle of industry giants like Pfizer and GlaxoSmithKline, smaller players are having to bulk up or sell out.

Next to strike a deal is likely to be Germany's Altana, whose supervisory board will meet later on Thursday, according to industry sources, to discuss selling its medicines business to privately owned Danish drugmaker Nycomed.

"Smaller pharmaceutical companies either have to find a perfect niche or think of ways to secure their future by mergers and acquisitions," said Christopher Kummer, director of the Institute of Mergers, Acquisitions and Alliances at Webster University in Vienna.

Merck, Serono and Altana are still family-controlled, like many other medium-sized European drug firms, which industry analysts say has made them slow to change.

Now they are finding the middle ground in the drugs business is shrinking as big pharmaceutical companies at one end of spectrum cosy up to small biotech firms at the other end.

Underlining the point, Pfizer's new CEO Jeffrey Kindler declared on Wednesday he aimed to make the group the world leader in biotechnology.

"They (mid-sized firms) need to do deals because they cannot compete with the big boys," said Martyn Postle, director of UK consultancy Cambridge Healthcare and Biotech.

Finding the ideal deal is easier said than done, however.

Investors in Germany's Merck -- which is not associated with the U.S. firm of the same name -- appeared underwhelmed by its decision to acquire Serono, a business that was first put up for sale 10 months ago but failed to find a buyer.

Shares in Merck fell 5 percent on Thursday fears it had overpaid.

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Industry analysts said the deal would give Merck synergies in manufacturing its cancer medicine Erbitux and other biological drugs, as well as adding around 800 sales representatives in the key U.S. marketplace.

But the acquisition will do little to boost Merck's pipeline of experimental drugs, since Serono's portfolio is relatively thin and mostly at an early stage of development.

Its biggest pipeline hope is a new multiple sclerosis (MS) pill, to succeed its current best-seller Rebif, which must be given by injection. But this is still several years from the market and half a dozen others are also in the oral MS drug race, including Novartis.

Merck had originally hoped to merge with German rival Schering but that deal was snatched from its grasp by larger rival Bayer.

Other mid-sized players will be watching from the sidelines.

Some, such as Belgium's UCB, have already taken steps to improve their position through acquisitions. UCB bought British biotech firm Celltech in 2004.

Others, like Denmark's Novo Nordisk, the world's largest insulin maker, believe they have a commercially sound niche, which gives adequate clout in their specialist area.

Along with the likes of Solvay and Lundbeck these companies are controlled by families or foundations who analysts say will ultimately decide their fate.

It remains to be seen whether they agree with Serono's youthful CEO Ernesto Bertarelli, who highlighted the problems facing mid-sized drug firms in April and said: "It is clear we cannot stand still."

To read story on Merck takeover of Serono, please double click on

(Additional reporting by Thomas Atkins in Zurich and Sitaraman Shankar in Frankfurt)