



Merck, Nycomed stake European drugs merger heat

By Sitaraman Shankar

FRANKFURT, Sept 21 (Reuters) - Consolidation in Europe's drugs sector gathered steam on Thursday as Germany's Merck unveiled a \$13.3-billion deal to buy Europe's top biotech firm Serono , and Denmark's Nycomed won the drugs unit of Altana .

Merck, which earlier this year failed in its bid to buy rival Schering , said it had struck a deal with Serono's founding Bertarelli family to buy their 64.5-percent stake, and would make a public offer for the rest of the shares at the same price of 1,100 Swiss francs a share in cash.

Altana, Merck's German rival, said later in the day that it had sold its drugs unit to unlisted Danish firm Nycomed for around 4.5 billion euros, slightly higher than analysts had expected.

Altana's sale breaks up one of Europe's last surviving drugs-and-chemicals hybrids, but Merck underlined its resolve to retain its lucrative chemicals business even after the Serono deal, which will bulk up its drugs business.

Merck shares ended down 4.7 percent at 74.70 euros on worries that the firm had overpaid. Shares in Switzerland's Serono jumped nearly 18 percent to 1,076 Swiss francs, and analysts said they did not expect a counter-bid.

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

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

Altana's disposal is driven by a desire to focus on chemicals and a realisation that the future of its drugs business is limited by a poor pipeline and looming patent expiry on its top drug, ulcer treatment pantoprazole.

In June, Germany's Bayer bought Schering for 17 billion euros, the biggest deal in Bayer's 143-year history and the first major consolidation in Germany's drug industry.

STRING OF DEALS

The two deals are the latest in a string of mergers among mid-sized drug firms, which are struggling to compete against industry giants like Pfizer and GlaxoSmithKline .

Combined, Merck and Serono would rank as one of Europe's biggest drug groups, with a market value of around \$30 billion, based on the Serono takeover price, annual sales of almost \$10 billion and a research budget of around \$1.3 billion.

Private investors Nordic Capital, Credit Suisse Private Equity and Blackstone, the owners of Nycomed, will be playing a role as consolidators through the Altana buy, which creates a business with total sales of over 3 billion euros.

While Altana's sale of its pharma unit was well flagged, the sudden sale of Serono took analysts by surprise.

It came after Serono's chief executive, billionaire sailor Ernesto Bertarelli, said he was looking for takeover targets after abandoning attempts to find a buyer.

"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.

"Keeping in mind that Bertarelli announced an acquisition strategy, and that assigned Serono the role of predator planning acquisitions, today's news is a complete surprise," said Tilman Dumrese, senior healthcare analyst at Sal. Oppenheim.

A German fund manager with shares in Merck said he was sceptical about the deal. "I don't think it's a great idea. They were desperate and had to do something," he said.

In a sign of the consolidation fever that has gripped stock markets, shares in another German firm, Schwarz Pharma, rose on talk that it might be bought by financial investors. The company declined to comment.

(Additional reporting by Ben Hirschler in London)