



FOCUS Celesio could fit well with Boots, but a successful bid is unlikely

539 words

2 April 2007

15:09

AFX International Focus

English

Copyright AFX News, 2007 All reproduction and presentation rights reserved.

FRANKFURT (AFX) - Reports that Celesio AG could team up with private equity firms to buy parts of Alliance Boots PLC are viewed as a good move for the Stuttgart-based pharmaceutical giant, but a successful bid is unlikely to materialise, according to analysts.

Although Celesio has a history of successfully acquiring pharmacy chains and wholesalers across Europe -- including community pharmacy chain Lloyds Pharmacies -- Alliance Boots is the Stuttgart-based company's most ambitious target to date.

For one thing, cartel-related issues could hinder a complete merger of both companies -- as this would lead to a combined market share of more than 70 pct in the French and UK drugs wholesales markets, pointed out Dresdner Kleinwort in a note to clients.

Unperturbed Celesio is, however, according to reports, considering bidding for Boots' community pharmacies ops for around 4-5 bln stg.

Such a bid could create further retail capacity for Celesio in several countries, said Christopher Kummer, director of the Institute of Mergers, Acquisitions and Alliances.

But Dresdner Kleinwort analysts noted: 'We think this price (4-5 bln stg) is too high as it would be close to the current market value of the Celesio group.'

Although Celesio CEO Fritz Oesterle last month said that the company could benefit from a takeover of Alliance Boots -- if the latter decides to divest businesses or pharmacies -- the company is now declining to comment.

A spokesman however told AFX News that Celesio is, in principle, interested in expanding its retail and wholesale businesses.

Alliance Boots on Friday opened its books to Alliance Boots' deputy chairman -- and majority shareholder -- Stefano Pessina and Kohlberg Kravis Roberts & Co (KKR), after they raised their original bid to 10 bln sterling.

'Celesio would have to offer more than KKR, which seems to be quite an ambitious price,' said Merck Finck analysts, adding however: 'We think Boots Alliance pharmacy business would be a good fit to Celesio's business.'

Another issue which is clouding the situation is that Pessina, according to The Times, has indicated that he would not back an approach from a rival.

'Not having Stefano Pessina on their side is certainly a disadvantage for Celesio', said the Institute of Mergers, Acquisitions and Alliances's Kummer, adding that taking the hostile bid route would not be easy, as this could lead to post-merger integration problems.

With Pessina and KKR already under pressure from Alliance Boots to make a bid that accurately reflects the true value of the company, Celesio would require the backing of private equity players in order 'to mount a credible challenge', noted Global Insight's Thompson.

Celesio has declined to comment on reports in The Times that it has started to approach leading private equity firms, including Blackstone, Texas Pacific and CVC Capital about a possible tie-up for Alliance Boots.