BUSINESS

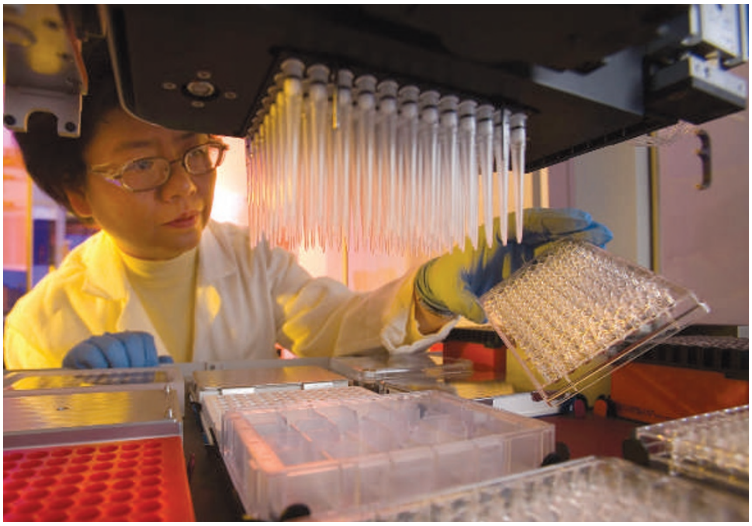
A merger too far?

Bristol-Myers Squibb has been stoking its research productivity. **Meredith Wadman** investigates whether an acquisition would be the right prescription for the company.

Last month, the drug industry was abuzz with reports that Sanofi-Aventis was set to buy up Bristol-Myers Squibb. The move would make Paris-based Sanofi the world's second-largest drug maker, after Pfizer. And although talks between the two companies are said to have broken down, they could yet be revived once a key patent dispute involving both companies has been settled.

But some industry observers question the need for more aggregation. They argue that — short-term shareholder profits aside — Bristol-Myers Squibb could have plenty to gain from remaining independent. "Bristol-Myers Squibb is a turn-around story that has been neglected by many over an extended period of time," says Tim Anderson, an analyst with the Prudential Equity Group in Menlo Park, California.

A merger would streamline efforts to sell the blockbuster blood-thinner Plavix, which the companies now market jointly — but experts differ on whether that alone would justify such a move. "I don't know of many other reasons Bristol-Myers Squibb would want to merge," says Anderson, who last September recommended that investors stop selling shares and start buying them.



BRISTOL-MYERS SQUIBB

Drug development at Bristol-Myers Squibb's genomics lab in New Jersey — the firm's decision to focus research on speciality areas could help it to remain independent.

Niche market

In the process of weathering a series of scandals and blunders that culminated with the ousting of chief executive Peter Dolan last September, Bristol-Myers Squibb has done just what some say smart drug firms should be doing. The New York firm has established itself as a successful speciality-drug deliverer, in a business where most large firms are still chasing blockbusters for the general population.

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In 2003, Bristol-Myers Squibb launched a new research strategy. It slashed its number of therapeutic research areas to ten and "focused discovery and development efforts on patient populations with serious diseases that still had a high level of unmet need", says Brian Daniels, the company's vice-president of global clinical development. "That was a key to creating a successful research and development organization."

At its 17 research and development 'hubs' around the world, Bristol-Myers Squibb's 6,500 employees would focus not on discovering and developing the next Viagra or a slew of me-too cholesterol drugs, but on the pursuit of medicines for serious diseases that are not well served by existing remedies.

At the same time, Bristol-Myers Squibb boosted its efforts to discover biological drugs and narrowed its focus relentlessly to areas such as arthritis and cancer — in which specialists do the prescribing, and sales and marketing costs are thus lower. In the process, and by stark contrast with its bigger competitors, it virtually threw in the towel on chasing the drugs prescribed by generalist physicians to large populations. The new approach made a virtue of necessity — Bristol-Myers Squibb's pipeline of big primary-care drugs was all but dry — but it also yielded fruit and made the company's once-sluggish research operation look productive.

Since 2002, with an annual budget of about US$2.5 billion, Bristol-Myers Squibb has won approval for six novel drugs from the US Food and Drug Administration (FDA). Sanofi spent roughly twice as much in the same period — and had the same number of new drugs approved. And Pfizer, the leading research spender with a budget of around $7-billion, had just ten such drugs approved. What's more, Bristol-Myers Squibb's applications spent less time before US regulators than its competitors: the firm led the industry with a median review time of six months. This year, it expects to submit three new cancer drugs for FDA approval. And, unlike many of its peers, the firm is unlikely to have any major patents expire until 2011.

But all that seemed to count for little when merger talks, which have been widely reported but never officially confirmed, kicked off. Analysts were focused on the fact that the company has a number of key drugs that are due to come off patent in several years time, and that the Canadian generic drug maker Apotex has challenged the patent for the most successful product. Plavix, the world's second-best-selling drug, was invented by Sanofi but is marketed by Bristol-Myers Squibb in North America, bringing the company $3.2 billion in revenue, or roughly 17% of its sales, in 2005. Although a US court is expected to rule in favour of Bristol-Myers Squibb and Sanofi later this year, a loss would throw a major spanner in Bristol-Myers Squibb's works.

Daniels says that the focus on speciality drugs, together with the company's decision to pursue areas in which drugs are lacking, could provide its best insulation from a takeover. The strategy, he says, "gives us our best chance to remain independent".

Derek Lowe, a medicinal chemist whose blog 'In the Pipeline' has a devoted following in the industry, concurs. Focusing on speciality drugs, he says, "makes a lot of sense, because if you are going to compete in the primary-care market, you're going to be competing against some very big players". In speciality markets such as oncology, he points out, it is cheaper to play and therefore, perhaps, easier to win. ■