

ANALYSIS

Demise of the life science company begins

Life science rivals AstraZeneca (London) and Novartis (Basel, Switzerland) announced in early December that they plan to spin off and merge their agrochemical divisions. Although the move doesn't necessarily mean the death knell of the broad-based life science conglomerate selling pharmaceutical, nutritional, and agricultural products, it does mean that public nervousness over genetically modified (GM) food—both in Europe and the US—is playing a role in biotech business decisions, according to some industry analysts.

The new entity, called Syngenta, is set to become the world's largest agribusiness company, with sales of nearly \$8 billion annually and accounting for one-quarter of the world agrochemicals market. AstraZeneca had sales of \$13.3 billion in the first nine months of 1999 (16% from agricultural chemicals), while Novartis had \$16.1 billion in the same time (26% from agricultural businesses including crop protection, seeds, and animal health). If approved by shareholders of both firms in mid-2000, the new company will be headquartered in Basel.

Both AstraZeneca, which was formed by the April 1999 merger of Astra AB (Södertälje, Sweden) and Zeneca Group PLC (London) (*Nat. Biotechnol.* 17, 7), and Novartis say they plan to eliminate 3,000 jobs worldwide between them over the next three years. And it is likely the decision to spin off and merge pleased investors worried about the two companies' agricultural units: Earlier in 1999, Novartis announced it was cutting 1,100 jobs from its agricultural workforce, about 6% of its total 18,000 employees. And some analysts have predicted a 3% drop in worldwide agricultural sales in 1999, after problems in Southeast Asia and Europe.

Novartis officials say the spin-off and merger will allow them to focus on their high-growth drug business. "The benefits of concentrating on the health-care business outweigh the modest synergies between the health care and agribusiness activities," Novartis officials said in a pre-

pared statement. And, wasting no time, AstraZeneca officials announced a week after the merger that they have 57 new compounds in the company's R&D pipeline, including phase II trials on Iressa, a potential new cancer treatment, and phase III trials of Viozan for chronic



Charles Margulis of Greenpeace says that the spinning off of ag divisions is clearly a result of public pressure and that "nobody wants to eat genetically engineered food."

obstructive pulmonary disease. Tom McKillop, AstraZeneca's chief executive, says, "We have transformed AstraZeneca into a focused pharmaceutical company."

The concept of a broad life science corporation is based on long-term research and development rather than short-term profits, according to Sano Shimoda, president of BioScience Securities, an investment firm in Orinda, CA. "Companies [like Novartis and AstraZeneca] are being forced to sacrifice long-term strategies to short- and intermediate term investor pressures."

Ray Goldberg, professor emeritus of agriculture and business at Harvard Business School, believes that Novartis, which is preparing for public trading on the New York Stock Exchange, wanted to eliminate a potentially risky sector of its business before seeking approval on Wall Street. "We are a global food system, and these firms being attacked overseas feel they are next here," says Goldberg. With public opposition in Europe to GM foods and a growing debate on the subject in the US, attacks by anti-GM environmental groups have made life science firms vulnerable to the perception that they are not serving the consumer. "They need a consistent defense—which is to forget the science until people are comfortable with it, either with labeling or testing by some sort of authority that is credible in the eyes of the consumer."

Indeed, Charles Margulis, director of Greenpeace's (Washington, DC) genetically engineered foods campaign, says that it is public pressure that is taking its toll. "These companies have been talking about spinning off their ag divisions for quite a while," says Margulis. "It's clearly a result of public pressure and that nobody wants to eat genetically engineered food."

The merger took some analysts by surprise, mainly because Novartis and Monsanto (St. Louis, MO) were undergoing preliminary merger talks in the months before, including the settlement of several patent disputes. "You never know about mergers in the drug industry because companies are talking to each other all the time," says one London-based analyst who insisted on anonymity. "But the supposition was that Novartis would get together with Monsanto. This surprised some of us."

Monsanto, a life science firm long rumored to be an acquisition target, may be under pressure to follow suit and spin off its drug and agribusiness sectors, says another analyst. "All these companies backing away from life sciences makes it more likely that Monsanto will spin off the agribusiness independently," Christine McCracken, agribusiness analyst with Midwest Research reportedly said.

However, although Monsanto's Searle pharmaceutical unit produces the popular arthritis drug Celebrex, finding a buyer for the agribusiness unit, which makes Roundup herbicide and GM seed crops, could be more difficult because agricultural products are such a large part of that firm, according to Margulis. Monsanto "is behind on this [GMO] issue," he says. "They have no place to run, and clearly the American people are concerned about this."

Shimoda thinks that it is likely large life science companies will stick to the life science model. These include Monsanto (for the time being); DuPont (Wilmington, DE), which produces agricultural chemicals and pharmaceuticals; and the new entity Aventis, which is the product of the merged Rhone-Poulenc and Hoechst AG (*Nat. Biotechnol.* 17, 15). That \$21 billion merger is creating the world's largest drug manufacturer, while keeping crop protection and animal health units intact.

Eric Nüler

Eric Nüler is a freelance science writer working in San Diego, CA.