Monsanto to merge with P&U

After nearly a year of courtship by several potential suitors, Monsanto (St. Louis, MO) has finally agreed to a corporate marriage with pharmaceutical giant Pharmacia & Upjohn (P&U; Peapack, NJ) in a deal that rids Monsanto of its troubled agricultural unit. While analysts think the move is good for Monsanto, they also maintain that the current GMO controversy will be short-lived and that Monsanto's agricultural products will ultimately do well.

Under the deal, P&U shareholders will receive 1.19 shares in the new Monsanto–P&U pharmaceutical company, which has yet to be named, while Monsanto shareholders will get one share. The new company, which has a combined value of $52 billion, will be based in Peapack, NJ and headed by Fred Hassan, chief executive at P&U. It will have pharmaceutical sales of about $8 billion—putting it in the upper level of worldwide drug firms such as Merck and Pfizer—along with a $2 billion R&D budget. In addition, a separate agricultural firm comprising all of Monsanto's agricultural parts will be set up as a subsidiary of the joint company, with 20% being sold in an initial public offering. That firm will be based in St. Louis and headed by Hendrik Verfailles, now the chief operating officer at Monsanto.

Analysts say the deal, announced on December 20, improves Monsanto's standing with shareholders and on Wall Street. "It should improve [Monsanto's] balance sheet quite a bit, pay down their debts, and their sales force will be much bigger," says Patrick Dunkerley, a biotechnology industry analyst at Securities Corporation of Iowa (Cedar Rapids, IA).

Formerly focused on chemicals, Monsanto fully committed to the life sciences in 1993 when president Robert Shapiro, formerly head of Searle, took over as Monsanto president. The company has since increased its R&D in agricultural biotechnology and acquired several seed firms (*Nat. Biotechnol*. **16**, 497), and agricultural products accounted for nearly 48% of Monsanto's total sales in 1999.

Compared with the same period in 1998, earnings in Monsanto's ag unit were down $128 million in the third quarter of 1999 because of costs associated with its seed-company purchases, but Monsanto's sales in 1999 were higher in both its agricultural and pharmaceutical sectors than in the previous year. (Third-quarter 1999 sales for its ag division were $951 million, compared to $868 million in 1998.)

However, the consumer backlash against GM crops probably played a role in Monsanto's business decision to get rid of its ag unit, according to one analyst. Investors have become concerned because of low crop prices in the United States and opposition to Monsanto's GM soybeans in both Europe and Brazil (*Nat. Biotechnol*, **17**, 848). In addition, in October 1999, Shapiro announced that the firm would no longer pursue development of GM infertile seeds (*Nat. Biotechnol*, **17**, 1054). And in early December, Monsanto found itself the target of an antitrust lawsuit regarding its GM agricultural products (*Nat. Biotechnol*, **18**, 8).

"The GMO problem has hurt business and created a short-term black cloud over the valuation of the company," says Sano Shimoda, president of BioScience Securities Inc. (Orinda, CA), a brokerage and investment banking firm focusing on agricultural biotechnology. "That's what is upsetting a lot of people."

Indeed, P&U's share price initially dropped from $53 to $44 after the merger was announced, prompting Hassan to meet personally with major investors and Wall Street analysts the following week. He maintained Monsanto's ag business has significant growth potential and that concerns about GM foods will fade over the long term. By mid January, P&U was trading at around $48 per share.

Monsanto's decision to focus on pharmaceuticals and drop ag biotech was the right one for now, according to Shimoda. However he is also optimistic about the long-term prospects of its Roundup pesticide and GM seeds. "In ag biotech, there are serious issues, but at the end of the day the clouds will go away."

As part of the merger with P&U, Monsanto cancelled a planned $1.9 billion merger with cotton-seed company Delta & Pine Land, paying Delta a $81 million termination fee. The P&U merged entity has a debt of $6.8 billion, more than $6 billion of which comes from Monsanto. Officials of the new company say they hope to reduce that figure to $4.5 billion by the end of 2000, in part through sales of Monsanto's nutrition and consumer businesses.

The new combined firm, according to Hassan, will realize $600 million in cost savings from the merger and benefit from Monsanto's Celebrex, the best-selling arthritis medicine, and Eplerenone, a promising drug for treating heart failure and hypertension Monsanto has in late-stage testing.

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