Glaxo takeover bid — welcome or not?

The bid by Glaxo, Britain's largest pharmaceutical company, for its smaller rival Wellcome, has received a lukewarm response from both investors and the scientific community alike.

The former, at least judging by initial share movements, remain to be convinced that a horizontal merger between two organizations with broadly similar product development pipelines is in the best interests of the larger company.

For the latter, the planned reduction of the research staffs of the two companies has raised worries that the intellectual benefits of sustaining competing research teams may be lost, and may at the same time result in a weakening of Britain's overall capability in the field. Glaxo has an annual R&D budget of almost £900 million (US$1.4 billion), and Wellcome's is about £300 million ($467 million); producing savings by reducing overlaps, estimated to affect 90% of their joint R&D effort, is one of the arguments Glaxo is using to support its bid.

Sir Richard Sykes, Glaxo's chief executive (and formerly its research director), claims that growing pressures to contain health-care costs and the increasing costs of new drug development are forcing companies to seek such economies of scale by streamlining their R&D efforts.

Sykes has already said, for example, that if the bid is accepted by Wellcome shareholders — as *Nature Medicine* went to press, its fate was still unknown — then in areas such as cardiovascular research, where both companies have active research teams, only the stronger would be retained. The proposed merger will likely affect researchers in the United States working at Research Triangle Park in North Carolina, where both companies now support large research facilities.

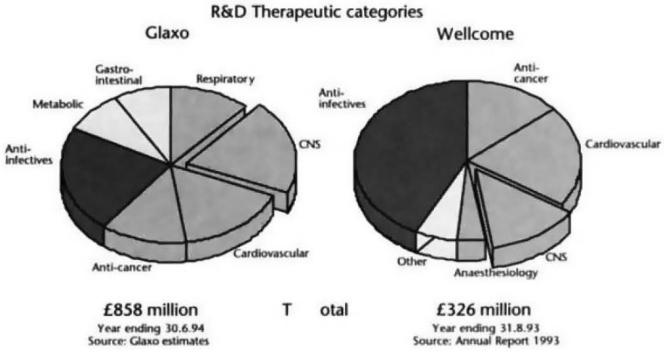
Some observers are already pointing out that a number of active researchers left Britain after being displaced in a merger between Smith, Kline & French and Beecham in 1989, and that history may repeat itself.

Wellcome itself initially opposed the bid as undervaluing the company. Although Glaxo's offer of £9.2 billion put a value on the shares 49% higher than they had been trading shortly before the bid, analysts have pointed out that this is less than the 96% premium that CIBA-Geigy paid for shares in Chiron last year.

Much of Wellcome's displeasure, however, has been directed at the Trust, the charitable body set up on the death of the firm's founder, Sir Henry Wellcome, in 1936, which owned all the shares in Wellcome (then known confusingly as the Wellcome Foundation) up until 1986. The company feels that it has been stabbed in the back by the Trust, which endorsed the Glaxo bid independently on the evening before its public announcement.

For the Trust, the acceptance of the bid is the final step in a chapter that started in 1986 when, with the full backing of the company and the consent of a high-court judge, it sold 25% of its shares on the open market.

The apparent success of this move persuaded it to follow up with a further sale in 1992. This was less successful; although the value of the company's shares had risen impressively in the intervening period from about £1.20 to over £9.00 — largely due to the profits generated by the anti-AIDS drug AZT — the Trust's decision to sell was seen in some quarters as a vote of no confidence in the company.



This factor, together with a general softening in the market for pharmaceutical shares in general, meant that the actual price received was only £8 a share — and that, having initially talked of reducing its share in the company to 25%, at the end of the offering the Trust still had almost 40% in its hands.

Nevertheless the sale, which raised £2.1 billion in capital for the Trust, has had a significant impact on its influence on research. With an annual income of almost £200 million, the Trust has now become the main source of private funding for medical research in Britain, almost on a par with the government's Medical Research Council.

Much of this money has been used to fill vital holes in the infrastructure of support for biomedical research in the United Kingdom. For example, in addition to fellowships and research grants, the Trust has in recent years been providing substantial capital sums towards the construction of new research centres in many of Britain's universities.

It has also actively sought to provide such laboratories with sufficient resources to attract leading researchers from around the world in an effort to turn the 'brain drain' of previous years into a 'brain gain'.

Whether Wellcome is sold to Glaxo, or whether it manages to attract a higher bidder, either course of action will, at least in the short term, be good news for the Trust. Under the terms of the Glaxo offer, for example, it could expect to see its capital endowment grow to about £6.7 million at current prices.

"This could give the Trust an extra £80 to £100 million a year to spend on research, which is certainly good news for the scientific community," according to Diana Garnham, director of the Association of Medical Research Charities.

Wellcome itself is believed to have been dismayed at the Trust's decision to accept the Glaxo offer to buy all of its remaining shares without even consulting Wellcome executives. The company has already applied for a court hearing of a planned legal suit against the Trust, claiming that it was wrong to accept the first offer that came along.

The merger has also caught the attention of the UK government. The House of Commons Select Committee on Science and Technology has scheduled a meeting at the end of February to discuss the issues raised by the proposed merger.

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