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Pain persists for Big Pharma in Q1 Analysts hoping for profit recovery in remainder of '03

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NEW YORK (CBS.MW) -- It looks like the long-anticipated recovery in pharmaceutical profits will take a little longer.

With the industry still under heavy pressure from generic competitors, major pharmaceutical companies are expected to report generally lackluster first-quarter profits over the next three weeks, according to analysts and consensus forecasts compiled by Multex. Analyst Stephen Scala at SG Cowen forecasts an average decline of 16 percent in first-quarter earnings.

Struggling Schering-Plough ([SGP: news, chart, profile](#)) is expected to deliver the gloomiest of all the reports, posting a 73 percent decrease in earnings. The Kenilworth, N.J.-based drugmaker warned in March that profits would be off sharply this year as the company continues to struggle in the aftermath of losing patent exclusivity on its flagship anti-allergy drug, Claritin.

Although its decline will be the most severe, Schering-Plough won't be the only Big Pharma company to experience a steep falloff. AstraZeneca ([AZN: news, chart, profile](#)), Bristol-Myers Squibb ([BMY: news, chart, profile](#)) and Wyeth ([WYE: news, chart, profile](#)) are all expected to turn in significantly lower profits.

Anemic earnings, of course, aren't welcome news to shareholders.

"For this quarter, I don't think we'll see the earnings growth that causes people to say, 'I've got to be back in pharmaceutical stocks,'" said Jeffrey Kraws, CEO and co-founder of Crystal Research Associates, an independent pharmaceutical research firm.

Signs of recovery?

But amid all the pessimism about the first quarter, analysts are expressing hopes for modest earnings improvement in the balance of 2003. Scala estimates pharmaceutical earnings will rise, on average, 2 percent for the year compared with an average decline of 5 percent in 2002.

"We're somewhat on the road to recovery," the SG Cowen analyst said.

Given that 2002 was so disappointing, 2003 is going to look good on a relative basis, analysts contend.

"Going forward, there are easier comparisons," said Hemant K. Shah, an independent pharmaceutical analyst. "The industry has gone through a massive cycle of patent expirations and generic competition."

In addition to looming generic competition for Schering-Plough's Claritin, pharmaceutical investors had to worry about the arrival in late 2002 of generic competition for AstraZeneca's Prilosec, an anti-ulcer medication that was once the world's top-selling prescription drug. Bristol-Myers, Eli Lilly ([LLY: news, chart, profile](#)) and Merck & Co. ([MRK: news, chart, profile](#)) were also hurt in 2002 as generic-drug makers flooded the market with cheap versions of erstwhile blockbusters.

But generic competition wasn't the sole source of last year's problems. Wyeth saw sales of its hormone-replacement therapies for postmenopausal women plunge after medical studies raised health concerns about the products. Bristol-Myers reeled from major accounting and drug inventory problems, which led to the company's recent \$2.5 billion restatement of financial results.

The steady stream of bad news last year fueled a 22 percent decline in the Amex Pharmaceutical Index ([\\$DRG: news, chart, profile](#)). Year to date, the index has eked out a gain of less than 1 percent.

Some of the pharmaceutical companies that struggled the most last year could show improvement in 2003, even if it's not in the first quarter, analysts said. Bristol-Myers is expected to post a 10 percent increase in full-year earnings, notwithstanding an anticipated 18 percent slide in the first-quarter.

Merck, which had no earnings growth last year, is expected to turn in a respectable 8 percent increase in 2003 profit.

And Pfizer ([PFE: news, chart, profile](#)), the world's largest pharmaceutical company, is expected to continue to deliver strong earnings growth, with profits projected to rise 13 percent in both the first quarter and the full year. In addition, Pfizer plans this month to complete its nearly \$60 billion buyout of Pharmacia ([PHA: news, chart, profile](#)), and analysts say the acquisition will allow Pfizer to boost profit through cost-cutting for several years.

"It appears for the next two to three years the outlook for Pfizer is strong," Shah said.



New drugs

Analysts said approvals of potential new blockbuster prescription drugs later in the year could help make investors more positive about pharmaceutical stocks. No. 2 drugmaker GlaxoSmithKline ([GSK: news, chart, profile](#)) and German drugmaker Bayer ([BAY: news, chart, profile](#)) hope to get U.S. Food and Drug Administration clearance in the second half of this year to market a new anti-impotence drug, Levitra, that's seen as a significant potential rival to Pfizer's Viagra. AstraZeneca hopes to get U.S. clearance this year for its new high cholesterol medication, Crestor. High-cholesterol treatment is the most lucrative prescription drug category, as Pfizer's Lipitor illustrated in 2002 by generating nearly \$8 billion, a record for the pharmaceutical industry.

It won't be a bonanza of new approvals in 2003, but it should be better than last year, Scala said. The number of new drugs approved by the FDA fell to 17 last year from a peak of 53 in 1996.

"We're emerging from a period when we had very few product approvals," the SG Cowen analyst said.

Trying to put the best face on recent problems, analysts said companies that are able to weather generic competition and other challenges will emerge as stronger businesses. Over the long term, they say, there's a tremendous market opportunity for new disease treatments, if only the pharmaceutical companies can translate their research into new drugs.

"The demand for pharmaceutical products hasn't declined," said Kraws of Crystal Research. "There's more need now for treatments for AIDS, diabetes, cancer, heart disease. That doesn't change."

Ted Griffith is a reporter for CBS.MarketWatch.com

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