

Pharmaceuticals

Bristol-Myers: Handicapping The Buyers

Matthew Herper, 04.08.02, 10:30 AM ET

Speculation that **Bristol-Myers Squibb** will soon be bought by a bigger or healthier drug company is now rampant. Analysts started naming potential buyers after the prospects for Vanlev, a hypertension drug once expected to be a huge seller, dimmed. The gossip continued as management slashed earnings estimates by at least a third.

Bristol (nyse: [BMY](#) - news - people) is certainly undervalued enough to be a takeover candidate. But it is worth thinking a bit about what Bristol-Myers has to offer a buyer, whether it is picked up by **Novartis** (nyse: [NVS](#) - news - people), **GlaxoSmithKline** (nyse: [GSK](#) - news - people), **Pharmacia** (nyse: [PHA](#) - news - people), **Wyeth** (nyse: [WYE](#) - news - people) or **Sanofi-Synthelabo**. For many of the names being tossed around, Bristol-Myers Squibb offers very little. The Novartis and Sanofi speculation makes the most sense.

What Bristol-Myers Has

Bristol-Myers is not known for its acumen in drug development. It has been two years since the company has gotten a new drug past U.S. regulators. Worse, the drugs it has made its name on were licensed, not developed in-house, even in the field of cancer treatment, where Bristol-Myers was a leader. "All of the oncology products that I am aware of have been licensed in," says Gruntal analyst Jeffrey Kraws. "That's a pretty interesting item for a company that is the world's leader in oncology."

True to form, Bristol-Myers doesn't have that many drugs in the pipeline. Banc of America Securities analyst Leonard Yaffe points to a schizophrenia drug, aripiprazole, which was licensed from Japan's Otsuka Pharmaceuticals. "It has a very, very clear side-effect profile," Yaffe says. If aripiprazole causes fewer side effects, like weight gain, than do current treatments like **Pfizer's** (nyse: [PFE](#) - news - people) Geodon or **Eli Lilly's** (nyse: [LLY](#) - news - people) Zyprexa, it could easily become a blockbuster. Bristol and Otsuka aren't talking about how U.S. revenue for the drug, which was filed with the Food and Drug Administration in November, will be split.

So what does Bristol-Myers have? In theory, a crackerjack sales force and good financial health. After April 3's earnings warning, Morningstar analyst Todd Lebor issued a report saying he still saw Bristol as a buy. He noted the company's strong cash position (it has \$5.6 billion in cash and only \$6.3 billion in long-term debt) and said he hopes Bristol will have strong cash flow again in 2004.

Playing Matchmaker

Many of the companies being considered as potential buyers face the same problems as Bristol-Myers. GlaxoSmithKline is cited as an example of a merger that didn't work; it is bigger than the companies that formed it but still suffers from a relative paucity of new drugs. If it became GlaxoSmithKlineBristolMyers, it would be an even bigger drug company suffering from a relative scarcity of new drugs.

Pharmacia makes a little more sense because it could use Bristol's sales presence in cardiology to promote eplerenone, a hypertension drug it is developing, and it has some new cash. However, Pharmacia's money would be much better spent buying itself some new drugs: Right now its oncology division has a healthy sales force, but two cancer drugs from its Sugen division have failed. (Pharmacia bought Sugen, a biotechnology company, for its rich drug pipeline.)

Sanofi-Synthelabo makes some sense because of the company's burgeoning number of drugs in the pipeline and lack of U.S. presence. But Basel, Switzerland-based Novartis, the first suggestion put forward by analysts like Deutsche Bank's Barbara Ryan and Sanford C. Bernstein's Richard Evans, may make the most sense.

In the past two years, Novartis has had nine new drugs approved, more than any other drugmaker. It has more new drugs on the way. But analysts have said that in order to properly promote some drugs under development, like Cox-189 for arthritis, Novartis would need a partner with a larger sales force. Buying Bristol-Myers Squibb would fill that need. And if anyone can find some good drugs in Bristol's labs, it is Novartis Chairman **Daniel Vasella**, who turned his own company around after it was formed by a mega-merger.

The only question is, does he really want to?