



**Nestle buys Novartis medical food unit for \$2.5 bln**

14 December 2006

07:34

ZURICH, Dec 14 (Reuters) - Nestle, the world's largest food group, is buying the medical nutrition business of Swiss pharmaceutical group Novartis AG for \$2.5 billion, the companies said on Thursday.

The deal, which was the subject of wide speculation, will propel Nestle to the No. 2 position globally in the fast-growing niche business of providing specialised food to hospital patients and boosted its shares.

Under Chief Executive Peter Brabeck, Swiss-based Nestle has been moving steadily toward high-margin, value-added food production in addition to its core operations in food staples.

"We see two very complementary businesses that we believe that, put together, will deliver faster growth," said Roddy Child-Villiers, head of investor relations at Nestle.

The nutrition unit sale comes on the heels of Nestle's \$600 million purchase of U.S. food company Jenny Craig, which makes a range of food products and services such as weight management programmes.

Novartis said the proceeds of the sale would be used to strengthen its financial position as well as provide additional strategic flexibility. The sale does not include the Gerber baby food division.

Shares in Novartis rose 0.6 percent and Nestle added 1.3 percent by 0843 GMT as investors said the sale made strategic sense.

"It gives them an opportunity to concentrate much more on the pure healthcare business," said Martin Hall of stockbroking and fund management firm Eden in London. "Novartis and Johnson & Johnson are the most diversified companies in the sector but there is now an element of greater focus coming in."

"Medical foods certainly have a better strategic fit with Nestle than with Novartis," said Christopher Kummer, director at the Institute of Mergers, Acquisitions and Alliances at Webster University.

**MORE FOCUS**

The deal was widely predicted after Novartis CEO Daniel Vasella said earlier this month that nutrition was not a central part of the drug group's operations and a sale was on the cards.

But by failing to shed Gerber, Novartis leaves a question about whether another divestment could be coming shortly.

Equity analysts at private bank Vontobel said Novartis could also sell its infant and baby nutrition unit in the medium term.

Novartis's Medical Nutrition unit is active in around 40 countries and has about 2,000 employees. The business is expected to generate approximately \$950 million in net sales in 2006 and approximately \$90 million of operating income.

Nestle said it did not expect the deal to have any material impact on earnings in the short term.

## SECOND DRUG DELAY

The sale news overshadowed a separate Novartis announcement on Thursday that possible U.S. regulatory approval for its blood pressure drug Tekturna, developed with biotech firm Speedel, had been delayed by up to three months as the U.S. Food and Drug Administration reviews new data.

The news knocked around 2.6 percent off Speedel shares.

The delay is the second setback in as many months after diabetes drug Galvus was delayed by three months following evidence of skin problems in animal tests, which were not seen in clinical studies with patients. The Swiss group now hopes to win U.S. approval for Galvus in the first half of 2007.

The Tekturna delay follows the detection of colon inflammation in rat tests, announced last month, which prompted Novartis to conduct a small colonoscopy study on 30 patients.

There has been no evidence of similar problems occurring in humans in earlier trials and equity analysts at private bank Vontobel said they were confident Tekturna would be approved by mid-March.

Lazard and Credit Suisse advised Nestle in the deal, while Goldman Sachs advised Novartis.

(Additional reporting by Sam Cage, Rupert Pretterklieber and Andrew Hurst, with Ben Hirschler in London)