



## **FOCUS Firms interested in Merck KGaA's generics threatened by equity investors**

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FRANKFURT (AFX) - Pharmaceutical companies interested in strengthening their global position by acquiring Merck KGaA's generic drug operations are likely to be pushed off the playing field by private equity heavyweights, said analysts.

Private equity consortia -- such as Bain and Apax, and KKR and Warburg -- are reported to be submitting a non-binding bid for the generics unit, the closing date for which is believed to be Monday.

Although Merck's CFO, according to sources, is hoping to receive 5 bln eur for the unit, the company has declined to comment, and is resolute it is still open to either selling or keeping its generics division.

The drugs giant is likely to opt for the highest bidder, analysts have claimed, noting private equity companies have more financial clout than strategic investors such as India's Ranbaxy Laboratories, Iceland's Actavis Group HF, US-based Myland and Israel's Teva Pharmaceutical Industries.

'It is a competitive playing field, but private equity investors have the better chance because Merck's first priority is likely to be the price,' said Christopher Kummer, director of the Institute of Mergers and Acquisitions.

He noted the proceeds from selling the generics ops would help to drive down Merck's debt levels, which it has accumulated following the company's acquisition of Serono SA.

Kummer also stressed there was no strategic reason for Merck to want its generics operations to fall into the hands of a rival pharmaceutical company.

Since Merck's generic drug unit has a strong presence in Japan, Australia, New Zealand, and Europe, it is highly attractive to rival generic companies looking to penetrate these markets.

Ranbaxy, for example, which has carried out extensive groundwork for its bid, has for some time been seeking opportunities to access the European market.

But as the India-based company lacks sufficient funds to finance the acquisition alone, it would be required to team up with a financial backer before making a bid, said Global Insight analyst Mitra Thompson.

Although Ranbaxy's biggest threat is Teva, said Thompson, 'Teva is still recovering from the financial drain of the Ivax takeover (so) it may be a little too soon to jump into a fresh bid for Merck'.

Thomson said private equity firms would need to reassure shareholders they will not break up the company and sell off units to make a 'quick profit'.

But Kummer believes the private equity firms in question will have a long-term interest in developing Merck's generics operations.

Bankhaus Metzler analyst Karl-Heinz Scheunemann said it does not matter whether Merck's generics is acquired by a strategic or financial investor.

'I do not see a big difference for the future of the division,' he said.

Scheunemann said he believed 5 bln eur to be a fair price for the unit.

But another analyst said: 'There is a tendency for pharmaceutical companies to be overpriced, and I fear that this price is too high.'

Merck Generics accounted for 44.2 pct of Merck KGaA's total pharmaceutical sales in 2006, and ranks among the leading generics companies worldwide.

But as Merck is predicting a drop in US sales of its top-selling chronic obstructive pulmonary disease drug, DuoNeb, in 2007 -- which would have a negative impact on turnover for the generics unit -- a 5-bln-eur price could be seen as 'ambitious', said Global Insight's Thompson.

The generics sector in Germany has been heavily affected in the past few years from price-capping rules under the Economic Optimisation of Pharmaceutical Care (AVWG) Act.

But experts are optimistic about the future of the generics industry in Germany.

'Buying into the generics sector is not such a high-risk business as one might think, especially because health insurance associations in Germany are pushing to give doctors an incentive to prescribe generic drugs instead of over-priced patented drugs,' said Christian Kummer.