

Business

Mega pharma swap

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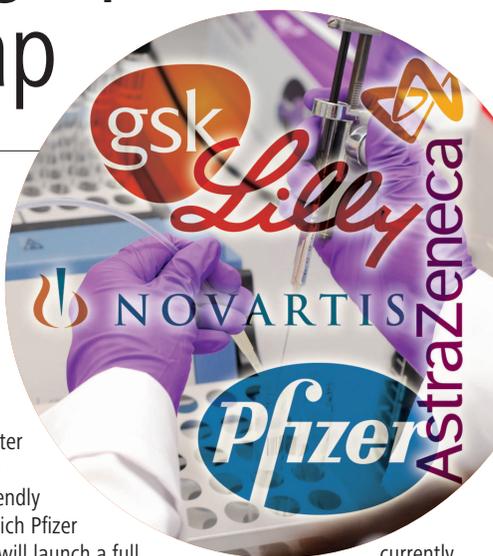
The days of mega pharma deals have returned with confirmation that US major Pfizer has been bidding to acquire AstraZeneca. After an unsuccessful attempt at a friendly takeover, cash-rich Pfizer has said that it will launch a full £60bn bid for the UK company.

Meanwhile, the UK's GSK and Swiss major Novartis have put together a major asset swap and new joint venture, while in a separate deal, Novartis is handing over its animal health business to Lilly for \$5.4bn – a divestment that has been on the radar screens of pharma watchers for a number of months.

But as for the rest of the changes, pharma watchers have been taken unawares, despite all the restructuring announced by Novartis in recent months, by a series of swap/sell and partnership deals with GSK.

Firstly, Novartis OTC and GSK Consumer Healthcare are pooling their businesses to create a joint venture consumer healthcare business, with revenues of £6.5bn. GSK will be the controlling partner, with Novartis owning a 36.5% share, with four out of 11 board places and minority rights and exit rights at a pre-defined, market-based pricing mechanism.

Novartis is also divesting its vaccines business, excluding its flu vaccine activities that are to be sold separately, to GSK for \$7.1bn, while GSK is divesting its



currently marketed oncology products, R&D activities and rights to its AKT inhibitor, together with commercialisation partner rights for future products, to Novartis for \$16bn. GSK will, however, continue oncology R&D into new treatments in cancer immunotherapy, epigenetics and tumour environment.

Novartis ceo Joseph Jimenez described the transactions as marking 'a transformational moment', focusing the company on 'leading businesses with innovation power and global scale. They also improve our financial strength, and are expected to add to our growth rates and margins immediately.'

GSK's ceo Andrew Whitty said: 'This proposed three-part transaction accelerates our strategy to generate sustainable, broadly sourced sales growth and improve long-term earnings. Opportunities to build greater scale and combine high quality assets in vaccines and consumer healthcare are scarce. With this transaction we will substantially strengthen two of our core businesses and create significant new options to increase value for our shareholders.'

Paul Hodges
chairman, International eChem



Geopolitics and demand

It has been a long time since geopolitics played a major role in the global economy. Many senior executives are too young to remember the Cold War that ended in 1989, or the OPEC oil embargo of 1973-4. I therefore anticipate a great rush to attend briefing sessions on the topic, as the implications of developments, such as Russia's annexation of Crimea, begin to sink in.

German Chancellor Angela Merkel has already warned the European Parliament of potential 'catastrophe,' saying that Germany sees the annexation 'as neighbours of Russia, as a threat'. And she went on to warn it will 'not only change the European Union's relationship with Russia. No, this would also cause massive damage to Russia, economically and politically'.

These are strong words from Europe's leading politician. So it is worth reminding ourselves how we came to forget that geopolitics could have such importance.

The reason is simple. The end of the Cold War coincided with the arrival of the 'demographic dividend' provided by the post-war Baby Boom. The world's population nearly trebled between 1950 and today, whilst global life expectancy increased by 50%. The world seemed to have entered into a new paradigm of constant demand growth.

But since 2001, the oldest Boomers have been entering the New Old 55+ age group, when spending slows dramatically. New Olders already own most of what

they need, whilst their incomes decline as they enter retirement. Now a new paradigm is coming into prominence due to the collapse of fertility rates.

Globally, these have halved since the 1960s, with the average woman now having just 2.5 babies. In Europe the situation is even worse, as rates have been below replacement level – 2.1 babies per woman – for 40 years. As a result, we now have a rapidly ageing population: 'demographic dividend' has turned to 'demographic deficit':

- The New Old now number a third or more of the adult population in most major economies
- Globally, their numbers will grow by 600m by 2030

This has never happened before in history.

Business leaders need to be very careful when planning for the rest of 2014. They should take nothing for granted. And they should certainly be sceptical of policymaker promises to do 'whatever it takes' to restore economic growth to BabyBoomer levels. One thing that governments certainly cannot do, after all, is to print babies as part of their stimulus programmes.

Russia's annexation of Crimea is thus a wake-up call for us all on the resurgence of geopolitics. The size of the anti-EU vote in May 2014's European elections will probably be another. As the briefing sessions will remind us, geopolitical developments always multiply in importance when economic growth continues to disappoint. ●