Pfizer to Cut Up to $1 Billion in Costs, Fire 10,000 (Update3)
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(Adds information on research program in the 12th through 14th paragraphs.)

By Shannon Pettypiece

Jan. 22 (Bloomberg) -- Pfizer Inc., the world's largest drugmaker, will fire 10,000 workers as generic copies of its top-selling medicines cut into sales.

The job cuts will erase 10 percent of Pfizer's global workforce and are part of a plan to lower costs by $500 million to $1 billion a year, Pfizer said today in a statement. The New York-based drugmaker will close two U.S. plants and five research centers in the U.S., Japan and France.

Chief Executive Officer Jeffrey Kindler is deepening cost-cuts after the company reported a 43 percent drop in fourth-quarter profit. New medicines under development are expected by analysts to generate just half the revenue that will be lost in the next five years as patents expire on older drugs.

``Cuts need to happen, and they need to come from basically any place they can,'' said Jeffrey Malcom, a portfolio manager at Horan Capital Management, which owns Pfizer shares, in an interview. ``As revenue decreases, they do need to make their cost structure in line with the fact that they are going to be a smaller company.''

Competing drugmakers including GlaxoSmithKline Plc and Sanofi-Aventis SA face similar problems and may follow Pfizer in cutting staff.

``A reshaping of Pfizer and the industry's cost structure is beginning to unfold, largely precipitated by the punishing effects of rampant generic competition,'' said Deutsche Bank analyst Barbara Ryan in a Jan. 16 research report.

Shares Fall

Pfizer shares declined 27 cents, or 1 percent, to $26.95 at 3:13 p.m. in New York Stock Exchange composite trading. The stock gained 10 percent in the 12 months through Jan. 19.

Kindler announced the new round of cuts to Pfizer's 100,000-member workforce at a meeting today in New York with analysts and investors, expanding an earlier plan by former Chief Executive Officer Hank McKinnell to trim $4 billion in yearly spending by 2008. In 2006, the company eliminated 8,000 positions.

The Kindler plan will bring the total reduction in annual expenses by the end of next year to $4.5 billion to $5 billion, Pfizer said. Of that, $3 billion will be reinvested in new products and business development.

Pfizer said it plans to close a production site in Brooklyn, New York, where the company was founded in 1849. Other closings will include a plant in Omaha, Nebraska, and research operations in Ann Arbor and Kalamazoo, Michigan; Nagoya, Japan; and Amboise, France. The number of plants will be reduced to 48 in 2008 from 93 in 2003, Pfizer said.

Plant in Germany

The company said it ``will pursue'' the sale of a plant in Feucht, Germany, subject to local labor laws and consultations with work councils. The European sales force will be reduced by more than 20 percent under the plan.

Pfizer said it will simplify its research and development organization and will drop discovery research in gastroenterology and dermatology. The pharmaceutical business will be reorganized into four units, each led by a general manager, the company said.

The goal is to organize in such a way that all medicines for a particular disease area are worked at a single site, the company said. The reorganization will eventually cut research spending by 20 percent.

``We will save hundreds of million of dollars to relocate from support staff and facilities to science,'' said John LaMattina, head of Pfizer's global research and development.

Estimates

Excluding certain costs, profit this year will be \$2.18 to \$2.25, Pfizer said, in line with the \$2.19 average estimate of 19 analysts in a Bloomberg survey of analysts. For 2008, adjusted earnings will be \$2.31 to \$2.45 a share, higher than the \$2.31 average of 15 estimates in a Bloomberg survey.

Pfizer forecast net income of \$1.45 to \$1.55 a share for 2007 and \$1.75 to \$1.93 in 2008. In 2006, the company reported net income of \$19.3 billion, or \$2.66 a share, including a \$7.9 billion profit from the sale of a consumer division.

The company repeated a forecast that revenue won't change in 2007 and 2008 from this year's \$48.4 billion.

In the fourth quarter, revenue rose less than a percent to \$12.6 billion as generic competition weighed on sales of the antidepressant Zoloft, Pfizer's third-biggest drug.

Excluding the sale of Pfizer's consumer business, earnings fell to \$1.5 billion, or 21 cents a share, from \$2.6 billion, or 35 cents, a year earlier. The gain on the unit's sale helped net income more than double to \$9.45 billion, or \$1.32 a share

Revenue to Drop

Pfizer's revenue will drop sharply after 2011 when it loses patent protection on the Lipitor cholesterol pill, which accounts for almost half of profit, analysts predicted. In the fourth quarter, sales of the drug declined to \$3.34 billion from \$3.36 billion a year earlier. Revenue for 2006 rose 6 percent to \$12.9 billion, missing the company's goal of \$13 billion.

When a drug's patent expires and other companies are allowed to sell copies, the price typically falls as much as 70 percent. Pfizer doesn't have enough drugs in development with the potential to replace revenue from Lipitor, the world's best-selling drug.

``We project that the current late-stage pipeline will generate more than \$7 billion in sales from 2011 to 2012,'' said J.P. Morgan analyst Chris Shibutani, who carries StarMine Corp.'s top rating, in a Jan. 3 research report. ``But even that amount would be insufficient to offset the almost \$14 billion in sales that we estimate will be lost during the same period from the Lipitor patent expiry.''

Analysts expect Pfizer to lose patent protection through 2011 on five other drugs with \$8.69 billion in 2005 sales.

Torcetrapib

Pfizer was counting on replacing sales of Lipitor with a newer cholesterol drug called torcetrapib. The company halted testing of torcetrapib early after a study showed an increased number of deaths in patients taking the medicine.

Pfizer is among at least four drugmakers cutting staff and expenses because of mergers and the onset of generic competition. The 10,000 cuts announced today include 2,200 jobs cut by Kindler in December, the company said.

The company has fired more than 5,325 employees, mainly in manufacturing, sales and research, as of Oct. 1, according to a November regulatory filing.

Other drugmakers may follow Pfizer's lead, analysts said. GlaxoSmithKline and Sanofi-Aventis would benefit the most from cutting sales jobs, said Seamus Fernandez, an analyst with Leerink Swann & Co. in Boston, in a Jan. 3 note to clients.

Germany's Bayer AG said in November it would cut more than 800 U.S. jobs, many in research, after completing its purchase of Schering AG. The move will save Bayer $210 million a year by the end of 2008.

Eli Lilly & Co. announced in late 2005 that it aimed to trim $250 million in costs this year and cut staff by 6 percent. Last year Merck & Co. began eliminating 7,000 jobs and closing plants to reduce $5 billion in costs by 2010, and as of December it had already fired more than 3,000 workers.

(For Pfizer's conference with analysts, see {LIVE <GO>}.)

--With reporting by Leslie Gersing in New York. Editor: Simison (jto/rjg)

Story illustration: To see a chart of Pfizer's earnings by quarter, see {PFE US <Equity> CH2 Q <GO>}. To chart the company's recent stock performance, see {PFE US <Equity> GP D <GO>}.

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