

Johnson & Johnson to Pay \$16.6 Bln for Pfizer Unit (Update6)
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(Opens shares in the fifth paragraph, adds J&J comment in the 11th and 12th paragraphs.)

By Dana Cimilluca and Avram Goldstein

June 26 (Bloomberg) -- Johnson & Johnson agreed to buy Pfizer Inc.'s consumer health products unit for \$16.6 billion, \$3.5 billion more after taxes than Pfizer expected.

The all-cash transaction adds brands such as Sudafed cold medicine, Listerine mouthwash and Bengay pain cream to a J&J lineup that already has some of the world's best-known products, including Band-Aid bandages. New York-based Pfizer, the world's biggest drugmaker, and New Brunswick, New Jersey-based J&J will close the deal by year's end, the companies said today.

J&J outbid GlaxoSmithKline Plc and rivals by paying almost double the value JPMorgan analysts initially put on the unit, which had \$3.88 billion in sales last year. The purchase expands J&J's consumer operations by more than a third to \$13 billion a year in sales, or almost a quarter of revenue. Pfizer said it will increase its share buybacks and use funds to develop and acquire new products for its drug division.

"This price seems high, but it also seems like a price from which J&J can extract value," said Robert Faulkner, an analyst with JMP Securities in New York, in a telephone interview last night. "Investors will think that J&J may have lost a little bit of discipline, but investors would still rather see visibility on earnings growth and deployment of that cash than no action at all."

Shares of J&J fell \$1.57, or 2.6 percent, to \$59.75 at 9:34 a.m. in New York Stock Exchange composite trading. The stock has lost 6.6 percent in the past 12 months. Pfizer shares rose 56 cents, or 2.5 percent, to \$23.20, after dropping 19 percent in the past year.

'Fair Amount of Value'

David Shedlarz, a Pfizer vice chairman, said the company initially thought the value of a spinoff, which the company estimated at about \$10 billion, would be roughly equivalent to that of a sale. The J&J acquisition topped that by about \$3.5 billion after taxes, he said.

"We thought, uneducatedly, that selling the unit would be comparable" to the value the company would get from a spinoff, Shedlarz said in a telephone interview today. "We truly untapped a fair amount of value."

"It was a very, very competitive process," Shedlarz said.

Over 30 months the company expects to invest about \$17 billion of the \$34 billion in cash it will have after the sale in research and acquisitions, Shedlarz said. The remainder will be used to repurchase shares this year and next, he said.

Well Positioned

Johnson & Johnson is well positioned for acquisitions because it has \$16.8 billion in cash, according to the company's last quarterly report, analyst Faulkner said. The 120-year-old company is also the world's largest maker of medical devices and the second-largest U.S. prescription drugmaker behind Pfizer.

The acquisition will nearly double the size of J&J's over-the-counter drug business, said Colleen Goggins, head of that

company's consumer products unit.

Pfizer's consumer health care expands our global research into an attractive, high growth market," said Goggins in a conference call with analysts today. For instance, she said, "Listerine will transform our oral care franchise into a billion dollar plus market."

Consumer products accounted for 7.6 percent of Pfizer's \$51.3 billion in 2005 revenue. Pfizer put the unit up for sale in February as it faces generic competition on some of its biggest prescription drugs within the next two years.

Pfizer Patents

Pfizer patents will expire this year on three drugs with \$9 billion in 2005 sales, including the Zoloft antidepressant. The company is also facing cheaper competition to its top-selling cholesterol drug Lipitor, which had \$12.2 billion in 2005 sales, from generic copies of Merck & Co.'s Zocor, approved June 23.

Selling the consumer unit will swell Pfizer's war chest for research on new drugs, acquisitions and partnerships with smaller companies. In the first quarter, Pfizer reported \$15.5 billion in cash and marketable securities.

"They want to really focus on the over 90 percent of their business which is pharma," said Jeffrey Malcom, who manages about 500,000 Pfizer shares at Horan Capital Management in Towson, Maryland, in a June 7 interview.

Pfizer said it will buy back as much as \$17 billion in stock in 2006 and 2007.

The \$16.6 billion price tag is above most analysts' recent expectations of \$12 billion to \$14 billion, and the share buyback should have a "neutral to mildly positive" impact of Pfizer's share price, Chris Shibutani, a JPMorgan Securities Inc. analyst, said in a note to clients this morning.

Lazard and Bear Stearns Cos. advised Pfizer on the transaction. Cadwalader, Wickersham & Taft gave legal counsel.

J&J Products

J&J makes thousands of over-the-counter health products including the Tylenol and Motrin painkillers, Neutrogena skin products and Pepcid ulcer pills.

Based on the Pfizer unit's sales, JP Morgan analysts initially estimated its value at \$8 billion to \$10 billion. London-based Glaxo was considering paying \$14 billion to \$16 billion earlier this month, the Financial Times reported June 2.

Pfizer may also have been talking with Bayer AG, Reckitt Benckiser Plc and Wyeth. Pfizer also was considering a spinoff.

J&J has more than 200 operating units that also make iBot climbing wheelchairs, Cypher heart stents and DePuy orthopedic implants. With its emphasis on research and development and its distribution muscle, J&J can wring every conceivable benefit from the Pfizer assets, Faulkner said. Consumer products are more stable than the prescription drug business, Faulkner said.

'Bigger Premium'

"It can be leveraged without trepidation," Faulkner said. "Financial engineering is going to be more common, and that means acquisitions will go at a bigger premium."

Pfizer's brands also include the Benedryl antihistamine, the Neosporin antibiotic ointment, Roloids antacids, Visine eyedrops, the Dramamine motion sickness pill and the e.p.t. pregnancy test. They would complement a J&J lineup that also

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contains Carefree and Stayfree feminine hygiene products, the Cortaid anti-itch cream, the Duragesic pain patch, the Immodium diarrhea treatment, Mylanta antacids, St. Joseph aspirin and the Splenda sweetener.

J&J's last attempt at a major acquisition was its failed offer of \$24.2 billion for Guidant Corp., the No. 2 maker of implantable electronic heart devices. Boston Scientific Corp. prevailed in a bidding war and purchased Guidant in April for \$27.5 billion.

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Nine of the unit's products have more than \$100 million of annual sales, spokesman Fitzhenry said Feb. 7. Pfizer Chief Executive Officer Hank McKinnell is cutting \$4 billion from annual costs by 2008 as patents expire on five prescription drug products over four years.

(Johnson & Johnson will hold a conference call with analysts at 9 a.m. New York time, accessible by visiting the Johnson & Johnson's Web site at <http://www.jnj.com>.)

--with reporting by Shannon Pettypiece in Washington. Editor: Simison (cje/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>}. For Johnson & Johnson's history of acquisitions, see {JNJ US <Equity> CACS <GO>}

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