Novartis Accepts Aventis Offer to Start Merger Talks

April 22 (Bloomberg) -- Novartis AG, Switzerland's biggest drug maker, agreed to begin negotiations to buy France's Aventis SA, which is trying to thwart a EUR 45 billion (USD 53.2 billion) offer from Sanofi-Synthelabo SA backed by the French government.

Novartis, which earlier said it wouldn't enter talks unless France dropped its opposition to a foreign bidder, will “take into consideration all legitimate concerns” about retaining French jobs, Raymund Breu, chief financial officer of the Basel, Switzerland-based company, said on a conference call.

Buying Aventis would make Novartis the world's second-largest drug maker, behind New York-based Pfizer Inc., and the biggest producer of cancer medications. Novartis, which will introduce no new products with billion-dollar sales potential before 2005, would gain Aventis's U.S. marketing force of 4,400 to help boost sales of established heart and cancer drugs.

“We're not at the endgame here yet,” said Richard Jarvis, a pharmaceutical analyst at Pictet & Cie in London. “The French government hasn't changed their position and Novartis is keen to try and persuade them. It's not completely in their hands and it isn't just in the hands of Aventis shareholders at present.”

The French government doesn't own any shares of the French drug makers and any action to block a foreign bidder would be subject to review by the European Union.

First-Quarter Results

Novartis, which reported a 22 percent increase in first-quarter profit today, said pharmaceutical sales in the U.S. rose 12 percent in the quarter and accounted for 40 percent of a total USD 6.64 billion in company revenue. Sanofi, which said first-quarter sales rose 12 percent, got just 24 percent of its revenue in the U.S., less than either Aventis or Novartis.

Novartis shares fell CHF 1.15, or 2 percent, to CHF 56.2 as of the close of trading in Zurich. The shares have risen 3 percent since March 12, when Novartis first said it was exploring a linkup with Aventis. Aventis shares rose EUR 3.05, or 4.9 percent, to EUR 65.8. Sanofi shares rose EUR 1.6, or 3 percent, to EUR 55.85.

Sanofi said it's undeterred by Novartis's entry in the bidding. “We're completely on track with our timetable,” Chief Financial Officer Marie-Helene Laimay said on a conference call. French Prime Minister Jean-Pierre Raffarin has said he prefers a Sanofi-Aventis combination to maintain French control of the country's pharmaceutical industry. Raffarin's office declined to comment on Novartis's announcement.

French Unions Opposed

Novartis Chief Executive Officer Daniel Vasella, 50, also faces opposition from Aventis's labor unions, which today wrote to Finance Minister Nicolas Sarkozy that an Aventis Novartis combination would mean “France would have to give up its independence on products as crucial as vaccines and antibiotics, not to speak of the industrial and research sacrifice.”

“Aventis's unions are ferociously opposed to such a merger and will put everything into place to make it fail,” the unions said in the letter, a copy of which was e-mailed to Bloomberg News.
Novartis also faces concerns about job reductions in Germany, where Aventis has 9,000 employees. Vasella met yesterday with German Economics and Labor Minister Wolfgang Clement, the Economics Ministry said.

Vasella is considering combining with Aventis after failing to persuade family-controlled Swiss rival Roche Holding AG of the merits of combining the two Swiss drug makers. He has repeatedly said he wants Novartis to expand in the USD 400 billion-a-year global drug industry.

“There can be no assurance we will reach an agreement,” Breu said.

Desperation

“Everybody talks about mergers that have failed in the past because of real desperation,” said Denise Anderson, an analyst at Kepler Equities in Zurich who recommends buying shares of Novartis. A merger of Novartis and Aventis “would be the first big combination where there's not really desperation on either side.”

Aventis, based in Strasbourg, has rejected Sanofi's cash and stock bid, currently valued at about 56.70 euros a share, as too low and said patent challenges to Sanofi’s Plavix blood thinner make a deal risky for Aventis shareholders.

Novartis is seeking “negotiations, not exploratory talks,” Breu said. “We have not yet talked about price or any other element of such a combination. Obviously we've done a feasibility study and we know how compelling the project is.”

Aventis's board three weeks ago invited Novartis to enter talks.

Aventis Welcomes Decision

“We welcome this decision by the Novartis management,” said Aventis spokesman Tony Roddam.

Novartis has more than twice Sanofi’s market value, has the only AAA credit rating among Europe's top five drug makers, and has USD 13 billion in cash and marketable securities on hand.

“The next step is an increase of Sanofi's offer for Aventis,” said Jacques-Antoine Breuteil a fund manager at International Capital Gestion in Paris who holds shares of all three companies. “In the coming three to four weeks, Sanofi will have increased its offer.”

Novartis said first quarter net income rose to USD 1.29 billion, from USD 1.06 billion in the year-earlier period, when the company booked a loss on its 33 percent stake in Basel-based Roche. The results were below the USD 1.34 billion expected by 11 analysts surveyed by Bloomberg News.

For 2004, the Swiss drug maker said it expects both net income and operating income to exceed the level in 2003 and “top-line growth ahead of the market and in the high single-digit range in local currencies.”