

Novartis hits acquisition trail

Swiss drugmaker Novartis has announced 5.65bn euros (\$7.4bn; £3.9bn) of purchases to make its Sandoz unit the world's biggest generic drug producer.

Novartis, which last month forecast record sales for 2005, said it had bought all of Germany's Hexal. It also acquired 67.7% of Hexal's US affiliate Eon Labs, and offered to buy the remaining shares for \$31 each. Novartis said that it would be able to make cost savings of about \$200m a year following the acquisitions. Novartis' shares rose 1% to 57.85 Swiss francs in early trading.

The deal will see Novartis' Sandoz business overtake Israel's Teva Pharmaceuticals as the world's biggest maker of generics. Based on 2004 figures the newly merged producer would have sales of more than \$5bn, the company estimated. Novartis said that it would merge a number of departments, adding that there may be job cuts.

"The strong growth outlook for Sandoz, which will create jobs, is expected to partially compensate for necessary reductions in the work force," the firm said in a statement. Generic drugs are chemically identical to their more expensive branded rivals. Producers such as Sandoz can copy the branded products usually after their patent protection expires and can sell them more cheaply as they do not have to pay research and development cost.

There are more than 150 generic drugmakers worldwide and analysts have predicted consolidation in a market that they call fragmented. However, not all analysts were initially convinced about the deal. "This is a very expensive acquisition," Birgit Kuhlhoff, from Sal Oppenheim investment bank, told Reuters. "I find it strange that they are making acquisitions in exactly those markets where they suffered price pressure."