

Novartis to Buy Nestle's Alcon Stakes for \$39 Billion

Novartis AG <NOVN.VX> has agreed to buy Nestle AG's <NESN.VX> 77 percent stake in U.S. company Alcon <ACL.N> in a deal worth up to \$39 billion to boost its eye care business, the Swiss drugmaker said on Monday.

Novartis will acquire a first, 25 percent stake in Alcon for \$11 billion and is set to buy Nestle's remaining 52 percent for a fixed price of \$28 billion between January 2010 and July 2011.

"The margins are higher than our pharma business and are obviously very attractive," Novartis Chief Executive Daniel Vasella told reporters.

Novartis is keen to broaden its business from prescription drugs, which face increasing competition from generic medicines and a tougher path to markets, to non-traditional areas like vaccines, eye care and generics.

The price of the first stake is at a 4 percent discount to Alcon's closing price on Friday.

Novartis, Europe's second-largest pharmaceuticals company by market capitalization, would pay a 22 percent premium to Alcon's closing price if it went ahead with the purchase of the second tranche.

Nestle can force through the purchase of the second tranche, but Novartis can opt out if there is a material change in the business, Novartis said.

The acquisition of the first stake values Alcon at 22.8 times expected 2008 earnings and the possible second step at a 2010 multiple of 22.5, according to Novartis.

The DJ Stoxx European pharmaceuticals sector is trading at an average 2008 multiple of 13.6 times.

The deal represents "a very rich price in our view despite the double-digit growth projected for the company (Alcon)," WestLB analyst Andreas Theisen said in a note.

POSITIVE FOR NESTLE

Nestle, the world's largest food group, said the transaction would have a positive effect on its 2008 earnings per share. Shares in Nestle were 2.5 percent higher at 524.50 Swiss francs by 0838 GMT.

The deal will streamline Nestle, which has long described its stake in Alcon as financial and said it "clearly has financial punch" for acquisitions with the Alcon proceeds.

"We consider Nestle's move as a positive step in its transformation into a 'health, wellness and nutrition' company," said Vontobel analyst Claudia Lenz. "Moreover, the reduction in net debt gives Nestle scope for further share buyback programs."

Novartis shares fell 1.2 percent to 51.80 francs, under pressure from the high price of the deal.

"Alcon's sales and margins are clearly higher than Novartis's. However, the takeover structure may make cost savings difficult for several years," said Landsbanki Kepler analyst Denise Anderson.

"In addition, like all pharmaceutical companies, Alcon has some patent risks. We therefore see the deal as mostly neutral to Novartis," Anderson said.

COMPLEMENTARY

Alcon, which makes medical devices and medicines for eye care as well as contact lens care products, will complement Novartis's own contact lens unit Ciba Vision.

Alcon, the world's largest eye care company with sales of \$5.6 billion, will add to Novartis's own contact lens and eye medicine business, which had 2007 revenues of about \$2.5 billion.

Novartis said it would finance the purchase of the first stake in Alcon from its cash reserves and external short-term financing.

It would finance the possible purchase of the second stake from cash and further borrowing. A Nestle spokesman said on Monday he did not foresee a decision on selling a stake in L'Oreal SA <OREP.PA> before 2009.

The sale of the Alcon stake, proceeds from which would be used to reduce debt, comes just before Nestle's annual shareholder meeting on Thursday.

Outgoing chief executive Peter Brabeck, who led a string of acquisitions to expand Nestle's health focus, is due to hand over the reins to new CEO Paul Bulcke.

Disponível em: <<http://www.nytimes.com>>. Acesso em 7/4/2008.

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