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Roche, Novartis Feed On GlaxoSmithKline Castoffs

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ZURICH -(Dow Jones)- Two Swiss drug companies found a cost-effective way to boost revenues Thursday by picking up scraps from the wedding feast of U.K. rivals SmithKline Beecham PLC (SBH) with Glaxo Wellcome PLC (GLX).

SmithKline is selling the rights to antiviral drugs Famvir and Vectavir/Denavir to Novartis AG (NVS) for $1.63 billion in cash. SmithKline is also selling rights to chemotherapy drug **Kytril** to **Roche** AG (Z.ROC) for $1.23 billion in cash.

SmithKline will also pay **Roche** $400 million in cash for exclusive U.S. rights to heart drug Coreg, currently co-marketed by the two groups in the U.S. and by **Roche** in Canada.

Sales of the **Kytril**, Famvir and Vectavir rights are required by regulators for SmithKline to complete its merger with Glaxo, which is expected to close in late September. Glaxo already markets chemotherapy drug Zofran and antivirals Zovirax and Valtrex.

Analysts agreed **Roche**'s acquisition makes a lot of sense, but they were divided on the wisdom of Novartis' purchase.

Share price reactions reflected this view.

Roche was up CHF35, or 0.2%, at CHF15,675 early Thursday, while Novartis was down CHF12, or 0.5%, at CHF2,620. The overall market was 0.4% lower.

What is true in both cases is that "when you buy a drug that has already been successfully marketed there is no risk compared to big spending on research and development for new products," said Denise Anderson, analyst at Bank Sarasin.

Roche's purchase of **Kytril** is in line with its strategy to focus on oncology products - the drug complements its already broad portfolio of cancer drugs.

Kytril, which will lose **patent** protection in 2006, achieved sales of CHF550 million last year.

"Although **Kytril** is already well established, **Roche** will probably be able to boost Kyrtil sales due to synergy effects," said Birgit Kuhlhoff, analyst at Bank Odier Lombard & Cie.

Anderson agreed. She pointed out that **Roche** has a stronger presence than SmithKline in the U.S. hospital market, which should also help boost sales.

But operating margins are lower in the hospital market than in the market for sales to general practitioners, which may explain why **Roche** is paying less than Novartis for a drug with higher annual revenues.

The herpes drugs acquired by Novartis had combined annual sales of CHF351 million last year.

"The drugs fit into Novartis' portfolio of immunology and infectious diseases and they can market them with existing sales forces," said Anderson.

Still, that is looking at the drugs portfolio taking a very broad point of view, another source said, who questioned whether SmithKline's herpes drug really fit into Novartis' current franchise.

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