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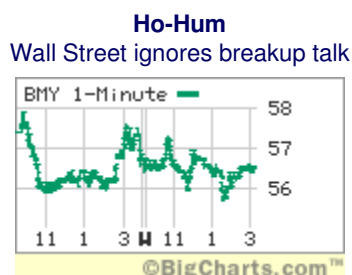
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Stock News: Biotech/Pharmaceuticals

Market Has Bristol-Myers Splitting Up as Wall Street Yawns

By [Dane Hamilton](#)
Staff Reporter
9/27/00 6:54 PM ET

Speculation that **Bristol-Myers Squibb** (BMY:NYSE) is poised to break itself up elicited a ho-hum reaction from Wall Street Wednesday.



Shares in the giant drug maker traded down 69 cents at \$56.50 on the view that the company needs to do more than sell a few assets or cut costs to boost growth. As everyone knows, new drug development is key for drug stocks, and Bristol-Myers has had its

share of setbacks.

Breakup speculation was prompted when Bristol-Myers abruptly scheduled an analyst meeting for Thursday morning in New York -- its first such meeting since 1997. It said CEO Charles Heimbold Jr. and other top executives would outline the company's "strategy for growth."

Prayer Meeting?

Of course, all companies need a strategy for growth, and "corporate focus" is the business school standard these days. By that reasoning, Bristol-Myers should offload nonpharmaceutical divisions like Clairol Hair Care products, Zimmer medical products and the infant formula division, which is led by flagship brand Enfamil. These noncore units made up about a third of Bristol-Myers' \$20.2 billion in 1999 revenue.

But given that these divisions are profitable, albeit less so than pharmaceuticals, the rationale looks somewhat less convincing. A prayer to the gods of drug development might be more effective.

"This debate has gone on forever," says Jeffrey Kraws, analyst with **Gruntal**, which has a market perform rating on Bristol-Myers and does no corporate finance work for the company. "But these are parts of the business that generate cash flow, and you need cash cows to fund R&D."

Kraws wouldn't speculate on what Bristol-Myers may discuss Thursday, nor would company spokespeople. But other analysts said the discussion could involve new earnings targets, research-and-development updates, or cost-cutting moves like workforce reductions and asset

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divestitures. Some cynics said the meeting could simply rehash previous company statements brimming with confidence about prospects.

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Bristol Blue

The No. 3 U.S. drug maker has had a wrenching spate of setbacks in recent years, most notably with Vanlev, a potential blockbuster hypertension drug that was sent back to the clinic for more tests just before it was slated for FDA review. Helped by company assessments, most analysts forecasted the drug could generate at least \$1.5 billion in yearly sales. Bristol-Myers stock fell a whopping 22% to \$50.70 on April 19 when the delay was disclosed.

But it also faces earlier-than-expected patent expiration for Taxol, a major cancer drug, along with expected generic competition to Buspar, an antidepressant, and Glucophage for diabetes this year. Combined, the three drugs generated \$3.4 billion in 1999 sales, about a quarter of all drug sales at the company.

While every drug company these days has a basic strategy that includes fighting generic competition in the courts, introducing promising replacements to drugs going off patent and jacking up research and development, the last is perhaps most crucial for Bristol-Myers.

The delay in Vanlev left a big hole in planned 2001 drug introductions, leaving products with lower potential to drive growth in the next few years, such as Orzel, a colorectal cancer treatment that **Lehman Brothers** forecasts will generate peak revenue of \$700 million, and Glucophage XR, a diabetes treatment that could sell \$400 million worth a year. But drug companies get little credit these days for developing drugs that probably won't generate at least \$1 billion a year.

Pipeline

"The product pipeline is still key to the turnaround for Bristol," **PaineWebber** analyst Jeff Chaffkin wrote in a note to investors, maintaining a neutral rating on the stock. But, he says, "2001 is shaping up as an unusually challenging year."

Like other analysts, Chaffkin said selling Bristol's nondrug divisions wouldn't do much for the stock in the short term. Hence the stock reaction Wednesday. That's because the company would have to sell the assets at a relatively high price to offset the loss of earnings. Bristol's medical-devices business, for instance, would have to sell for five times 2000 sales to offset the earnings drop. A similar recent medical products business to sell, DePuy, went for only 4.5 times sales.

That analysis may not stop Heimbolt from announcing a dramatic move to dazzle investors Thursday as a preface to his retirement next year, however.

"A divestiture of nonpharma businesses would be viewed as a major strategic positive," says Chaffkin, whose brokerage hasn't done recent finance work for the company, "but it will be difficult to make these transactions nondilutive."



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