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Lilly Plunges as Investors Listen to Prozac Ruling

By [Dane Hamilton](#)
 Staff Reporter
 8/9/00 3:00 PM ET

You'll excuse **Eli Lilly** ([LLY:NYSE](#) - [news](#)) investors for feeling a little blue today.

The Indianapolis-based drug giant saw its shares plunge 30% Wednesday, shedding more than \$30 billion in market cap, after it lost a bid to maintain patent protection for its top-selling drug, the antidepressant Prozac, for two more years. As a result, generic drugmaker **Barr Labs** ([BRL:NYSE](#) - [news](#)) may be able to begin selling a Prozac knockoff next February. Barr shares jumped 68% on the news.

Lilly also warned that earnings growth would fall to the single digits percentage-wise over the next two years if the ruling stands up.

Lilly, whose main U.S. patent for the longstanding cultural landmark expires next year, sought to prevent generic competition to the drug until 2003 through other "method of use" patents on the molecule. But a federal appeals court in Washington reversed a U.S. District Court ruling that upheld the Prozac patent for an added two years. A Lilly spokesman said the company planned to exhaust all legal remedies, including a possible appeal to the Supreme Court.

The decision comes as drugmakers like Lilly, **Merck** ([MRK:NYSE](#) - [news](#)) and **Bristol-Myers Squibb** ([BMY:NYSE](#) - [news](#)) face a spate of patent expirations for top-selling drugs over the next five years. Meanwhile, generic drugmakers like Barr, **Andrx** ([ADRX:Nasdaq](#) - [news](#)) and **Ivax** ([IVX:Amex](#) - [news](#)) are lining up to sell generic versions of these drugs when patents expire.

Jeffrey Kraws, analyst with **Gruntal**, said he wasn't expecting Lilly to fend off generic competition when the main "substance" patent expires next February. But it's expected that companies like Lilly will employ various legal maneuvers to fend off the competition. Lilly is also developing a newer version of the drug with **Sepracor** ([SEPR:NYSE](#) - [news](#)), but Sepracor shares slid 22% Wednesday on prospects of generic competition.

"It's not hugely negative for the company, but it's likely that the Street will react more negatively to the news than it actually is," says Kraws, who has an outperform rating on Lilly and whose firm does no underwriting for the company.

Prozac was the world's top-selling antidepressant until this year, when **SmithKline's** ([SBH:NYSE](#) - [news](#)) Paxil and Pfizer's Zoloft overtook it. Prozac recorded 1999 sales of \$2.6 billion, though it has faced heavy competition from newer products like Celexa from **Forest Labs** ([FRX:NYSE](#) - [news](#)) in recent years.


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Lilly said if its appeals aren't successful, it may have a six-month respite from generic competition after its patent expires next February. That's because it expects to apply for approval for Prozac to be used in children in a so-called pediatric indication, which by **FDA** rules allows drug companies to gain an additional six months in market exclusivity.

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