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# Glaxo and Merck go on the big pharma diet

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**Glaxosmithkine and Merck & Co succumb to the urge to demerge, joining other big drug makers in pruning their businesses.**

With the "productivity problem" that plagued big pharma at the beginning of the last decade apparently solved – for some companies at least – management teams are preoccupied with focusing attention on growth stories.

Astrazeneca has been enthusiastically selling off non-core assets for a couple of years, while Pfizer rejected this piecemeal approach for a more definitive move, merging its established drugs division with Mylan. Today Glaxosmithkline and Merck & Co unveiled their respective plans to rid themselves of slow-growing products.

### Glaxo sheds its skin division

While Glaxosmithkline's split into two divisions is not new – the UK group announced the separation of the innovation mothership from consumer health way back in December 2018 – today's news added some meat to the bones of the idea, with the announcement that one of the casualties of the split would be prescription dermatology.

Although dermatology is not a big money spinner, the whole division generating just $445m of sales in 2019, the move highlights the group's resolve to slim down into something the market not only understands but can get behind.

Glaxo has been under pressure for years from some of its biggest shareholders, who have argued that the company's underperformance was driven by keeping the slow-growing, but dependable, consumer health division under the same roof as the more dynamic, but riskier, drug discovery arm.

With the restructuring of the consumer division now almost complete following the Pfizer deal, and the group taking back control of their $13bn joint venture with Novartis in the same year, the focus will now turn to New GSK: "A biopharma company with an R&D approach focused on science related to the immune system, use of genetics and new technologies."

Glaxo is forecasting £700m in annual savings by 2022 following the split, which will come at a one-time cost of £600-700m, largely relating to the expense of setting consumer healthcare up to be a standalone company.

While today Emma Walmsey, Glaxo's chief executive, highlighted approvals in oncology, HIV, and speciality and respiratory medicine, in all these fields the group either lags much of the competition or will be increasing its exposure to pricing pressure.

As such, there will be intense scrutiny on not only how the strategy for the two standalone companies continues to shape up before they are launched two years from now, but any M&A moves the company might make more immediately to shore up its pipeline.

**The key to growth**

Merck's separation involves spinning out the company's women's health, legacy and biosimilars businesses into a new company, and focusing the established group on oncology, vaccines and animal health. The new business will be independently run and listed, and take the tried and tested form of a tax-free distribution of new shares to existing holders.

Much of today's fourth-quarter call saw Merck executives talk up the move as a way for the company to become more focused and agile, and to improve its efficiency. However, one statistic says more about it than any other: while the new company's products account for about 15% of current group sales they consume a much larger share of its costs.

As such, the spin-out really comes down to increasing investor exposure to the blockbuster Keytruda franchise while effectively selling Merck's pedestrian activities for a one-off $8-9bn dividend.

On the one hand this is understandable, especially as Keytruda last year generated $11.1bn of revenue, outpacing Revlimid as the world's biggest-selling cancer drug. On the other it causes obvious concerns: how much longer can the Keytruda juggernaut keep growing at its current rate?

For momentum to be maintained Keytruda needs to show broad utility across cancer types well beyond NSCLC and likely in adjuvant settings too. So far the drug is approved in adjuvant melanoma, and has scored a positive result in the adjuvant and neoadjuvant triple-negative breast cancer setting of the Keynote-522 study.

However, Leerink recently outlined several threats to the franchise, including low-cost rivals in China and pricing pressures in a US election year. Competitor studies due to read out could also pose a threat, including Bristol-Myers Squibb/Exelixis's Checkmate-9ER, and full data on CTLA4 combos in Checkmate-9LA and Astrazeneca's Poseidon, which recently read out positively.

**Who's next?**

If this really is a new trend other big demergers on the horizon could include a move from Abbvie, which after sealing the deal to buy Allergan is likely looking to carve off certain areas. Some even expect the medical aesthetics business to be separated, something that Allergan was under pressure to undertake.

Still, the sector has not exactly been bereft of big acquisitions, with the takeouts of Allergan and Celgene last year following the buyout of Shire in 2018. The only party guaranteed to make money whatever happens are the deal bankers, but smart investors will look to benefit too.

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