Pfizer likely to be broken up into 2 different entities

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PFIZER'S industry-leading profit margins and disposal of non-drug businesses still haven't closed the valuation gap with rival drugmakers. No wonder its chief executive officer is contemplating a full breakup.

CEO Ian Read said last week that he may consider separating Pfizer's branded medicines from its generic products businesses as part of his strategy to slim down the world's largest drugmaker. Despite already divesting animal health and infant nutrition units from one of the most profitable pharmaceutical companies, Read still is faced with a stock that trades for a lower price relative to earnings than almost 80 per cent of similar-sized peers, according to data compiled by Bloomberg.

Splitting New York-based Pfizer in half may help investors better gauge the true value of its two businesses, which Goldman Sachs estimates to be about $35 billion more than its market capitalisation of $201 billion. A breakup would follow similar moves by companies such as Bristol-Myers Squibb, which fetches a valuation that's two-thirds higher than Pfizer's as a pure-play drugmaker after having spun off baby formula maker Mead Johnson Nutrition four years ago.

"If you're on Pfizer's board of directors, you're scratching your head and thinking, 'Why is this happening? We're a great operator,'" Peter Sorrentino, a senior fund manager at Huntington Asset Advisors in Cincinnati, said in a telephone interview. "Investors play it cautious and put less of a premium on businesses when there are too many things to understand and analyse. Pulling them apart, you can probably do the shareholders better."

Strategic move

- Firm may consider separating its's branded drugs from generic products businesses
- Splitting Pfizer in half may help investors better gauge the true value of its 2 businesses

Speculation of a full Pfizer breakup was renewed when Geno Germano, president of the company's specialty care and oncology businesses, told Bloomberg News in a January 8 interview that Pfizer's four drug units are "probably going to evolve to two, where there's the innovative business and the value business." Pfizer's units cover oncology, primary care, specialty drugs, and so-called established products, which are medicines that have lost patent protection and face competition from generic versions. The possible structure Germano described would separate the branded drugs, considered the innovative business, from the generic, or value, division.

Read echoed Germano's comments last week on an earnings conference call. "We will look at it," Read said, when asked about the possibility of a bigger breakup of the company. "We will move towards a separate management, and at that point we'll be able to evaluate whether shareholders would prefer to have the option to invest in two distinct companies or not." For now, Read said, "there's not really a lot of point" in speculating on a split.