

3M drug division sold in \$2.1B deal; Sale affects 300 Maplewood jobs as company sheds sluggish unit

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3M Co.'s pharmaceutical division, once considered a critical component of the company's future, is being sold to two drug companies and two private equity firms.

The \$2.1 billion deal gives the purchasers around the world the regional rights to 3M's line of brand-name pharmaceutical products, including Aldara skin cream.

The sale will affect about 300 jobs at 3M's Maplewood headquarters and an additional 750 worldwide.

Other notable drugs in the deal include Duromine diet pills, Maxair asthma inhalers and Metrogel-Vaginal, an antibacterial gel.

"These are great brands and products, and we believe they will thrive in today's very competitive pharmaceutical marketplace under the direction of their new owners," said Brad Sauer, executive vice president of 3M's Health Care business.

The pharmaceutical division, which accounted for about 20 percent of the company's health care division's business, had fallen out of favor within 3M in recent years. During the first nine months of 2006, sales in that unit grew 4.7 percent — slower than any other 3M unit. Sales growth, though substantial for some of the drugs, was sluggish compared with expectations within 3M and on Wall Street. Finally, concerns about Aldara's side effects also started receiving increased scrutiny.

In April, 3M announced its intent to sell the division. News reports earlier this week indicated that drug companies from India also had bid on the unit, but none of the buyers is from there.

The buyers are:

- Graceway Pharmaceuticals Inc. in Bristol, Tenn., will acquire 3M's pharmaceutical operations in the United States, Canada and Latin America for \$875 million.
- Meda AB, a Sweden-based drug-marketing company, is buying the European part of the business for \$857 million.
- Ironbridge Capital and Archer Capital are buying 3M's drug business in the Asia Pacific region, including Australia and South Africa, for \$349 million. Both are Australian private equity firms.

The deals are expected to close by the end of the year. Thursday's news did little for 3M's stock, which finished the day at \$78.90, down 52 cents. The stock is up 2.2 percent from a year ago.

"The critical size needed to remain a player in the pharmaceutical industry has increased lately," said Chris Kummer, an expert on mergers and acquisitions at Webster University in Vienna, Austria.

3M's division, with annual sales estimated at \$800 million, was under-sized in that regard. "3M would have needed to do acquisitions as well," Kummer said in an e-mail exchange, "but that would have been a risky strategy to pursue."

Back in April, 3M employed 1,500 people worldwide in its pharmaceutical division. Since then, 450 have moved on to other jobs or found new positions within 3M, a company spokeswoman said. The 300 employees still working in Maplewood will have a chance to seek jobs with the new buyers, apply for jobs in other 3M divisions or look outside the company. Those employees who don't find jobs at 3M within a couple of months would receive severance pay and outplacement services.

The pharmaceutical division sale marks the end of a long and aggressive effort by 3M to become a player in the highly competitive world of drug makers. Starting with the 1970 acquisition of Riker Laboratories, 3M put its scientists to work on new pharmaceuticals.

Aldara, a cream used to treat genital warts and cancerous skin conditions, was thought to have the potential for \$1 billion a year in sales until a couple of years ago. Sales in 2005 were estimated at near \$256 million. Aldara is one of 3M's immune response modifier molecules — a family of drugs that 3M hoped would have broad commercial potential.

As part of Thursday's deal, Graceway Pharmaceuticals will also get the rights to certain IRM molecules.

Marketing missteps were thought to be part of the problem. But inflammation and discoloration of skin can accompany Aldara use, and some users have complained of flu-like symptoms or worse. Those claims had the attention of some in the pharmaceutical industry even as 3M was trying to sell its division.

A month ago, a Texan who operates a Web site that documents the damaging side effects of Aldara saw an increase in activity, including visits from pharmaceutical companies such as Johnson & Johnson. On Sept. 30 alone, Richard Beasley's www.aldara1.com recorded 52,000 page views of a document that describes research he's compiled on the dangers of using Aldara.

The \$2.1 billion gain from the division's sale isn't earmarked for anything in particular at 3M, said spokeswoman Jacqueline Berry. "But the overall strategy for the company is investing in growth," she said, adding that could include acquisitions.

In 3M's first year under the direction of new CEO George Buckley, the company has made 15 acquisitions. The deals, totaling \$95 million, focused on small companies that fit into 3M's "bolt-on" strategy, i.e. they complement existing 3M operations.

Dmitry Silversteyn, an analyst who covers 3M for Longbow Research in Cleveland, noted that 3M's net debt is close to zero and that he'd like to see a dividend for shareholders coming out of the sale. "But they'll probably put it in the war chest for more meaningful acquisitions down the road," he said.