

# H1N1 Pandemic: Multibillion Dollar bonanza for Big Pharma

GlaxoSmithKline: A Swine Flu Windfall?

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GlaxoSmithKline: A Swine Flu Windfall?

British drugmaker GlaxoSmithKline has orders for its swine flu vaccine from 16 countries and is in talks with 50 more By Kerry Capell

Europe Airlines Face Traveler Crash Fears Who Is New Porsche Boss Michael Macht? Intel Appeals EU Antitrust Ruling BP: Iraq Oil Deal is Start of Something Big Europe Issues New Bank Guidelines Story Tools post a comment e-mail this story print this story order a reprint suggest a story digg this save to del.icio.us linkedin connections British pharmaceutical giant GlaxoSmithKline (GSK) is set to reap billions as fear of the swine flu pandemic grows. The world's second-largest drug company has secured orders from 16 countries for 195 million doses of the vaccine it is developing against the H1N1 virus, which has killed more than 740 people worldwide.

The Brentford (England)-based drugmaker began production of its new flu vaccine in June and is on track to begin shipping the first doses in September. At a July 22 briefing to announce the company's second-quarter results, CEO Andrew Witty confirmed the number of orders is expected to be "substantially more" as the company currently is in discussions with 50 countries. While Britain has ordered 60 million doses of the vaccine, according to Witty, the U.S. has paid GSK \$250 million to supply it with "pandemic products" such as the individual ingredients used in the vaccine. These include the antigen that prompts an individual's immune response and GSK's adjuvant technology, a sort of booster used to increase the vaccine's yield and potency.

GSK also announced it expects to increase annual production of its inhalable anti-viral flu treatment Relenza threefold, to 190 million doses, by yearend. Relenza sales for the three months ended June 30 were \$99 million, up from just \$5 million in the second quarter of 2008. Since the beginning of 2006, GSK has invested \$2.5 billion to put in place the technology and capacity needed to meet demand. "Short of putting beds in the labs, we are throwing just about every resource we have into this," Witty says.

The Competition Heats Up Witty reckons continued demand for GSK's flu drug and vaccine will likely boost sales in the second half of this year. GSK is one of several companies, including Novartis (NVS), Sanofi-Aventis (SNY), and Baxter International (BAX), racing to develop a swine flu vaccine.

While Witty says he is confident that GSK will meet its commitments, the company's total production capacity is still unknown. That's because the current strain of the swine flu virus is yielding less of the active ingredient or antigen needed to produce the vaccine than expected. (Because each flu virus varies, different strains produce varying levels of antigens.) Novartis also has conceded that the virus it's growing for its swine flu vaccine is producing a lower-than-expected yield. But Witty says based on current production levels, GSK should still be able to meet its commitments to governments around the world by early 2010.

With countries stepping up efforts to combat the pandemic, GSK's bottom line is likely to get a boost. However, Witty says that margins on both Relenza and the new vaccine are likely to be modest. GSK has a differentiated pricing structure for the new vaccine. Wealthier countries such as the U.S. and Britain will pay just under \$10 per dose, the same price for the seasonal flu vaccine. Developing countries will pay a lower price, while GSK will donate 50 million doses of the vaccine to the World Health Organization for distribution to the world's poorest countries.

Generics Hurt U.S. Sales Still, even the boost in sales of GSK's flu treatment and vaccine were not enough to offset the rapid slowdown in U.S. prescription drug sales due to competition from generic drugs. In the three months ended June 30, GSK's sales rose 15%, to \$11 billion, on the back of the sterling's weakness against major currencies such as the dollar. In constant currency terms, sales fell by 2% mainly due to the performance of the company's U.S. pharmaceuticals business, where sales plummeted by 15%, to \$3.8 billion, as former top sellers such as epilepsy treatment Lamictal faced generic competition. Net profits surged by 12%, to \$2.5 billion.

The results, says Sanford C. Bernstein pharmaceuticals analyst Timothy Anderson, were slightly better than expected in large part thanks to the weakening of the British pound against the dollar. Witty acknowledged "there was still a lot more work to do" but claimed the company was "making progress in the right direction."

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