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NEWS ANALYSIS

Pfizer Loses One Remedy for Its Slump

By ALEX BERENSON

In a meeting with investors just three days ago, Pfizer executives repeatedly promised that Bextra, a painkiller that generated \$1.3 billion in sales last year, would help the company through a difficult transition period.

Guess again.

The Food and Drug Administration forced Pfizer yesterday to stop selling Bextra, citing concerns that the drug can cause a dangerous skin condition and is at least as dangerous to the heart as other painkillers. The F.D.A. also said that it would require Celebrex, another Pfizer painkiller in the same class of drugs, to carry a prominent warning of possible heart risks. That warning could hinder Pfizer's plans to revive Celebrex's flagging sales.

For Pfizer, the world's largest drug company, the forced withdrawal of Bextra is another blot on its image at a moment when Pfizer is already suffering from stagnant sales and slumping profits. Together, Celebrex and Bextra totaled \$4.5 billion in sales last year, 9 percent of Pfizer's total.

Yesterday's withdrawal also raises questions about whether Pfizer's management is attuned enough to the newly aggressive F.D.A., which is under pressure from lawmakers and consumer groups to move quickly against potentially dangerous drugs.

But investors are betting that the withdrawal damages Pfizer's reputation more than its profits. After dumping Pfizer stock yesterday morning when the F.D.A. announced its action, investors had changed their minds by day's end. On a generally strong day for stocks, Pfizer ended trading up 4 cents, or 0.15 percent, to \$26.90.

Analysts said that the initial 4 percent drop in the stock was driven mainly by investors concerned that the withdrawal of Bextra would open Pfizer to lawsuits from people who had taken the drug and suffered heart attacks or strokes. But the F.D.A. blamed the skin rash, not heart problems, for its decision to force Bextra off the market. So while the withdrawal did prompt new plaintiff suits yesterday, it probably will not weaken Pfizer's legal position, analysts said.

"Bextra's being pulled due to a side effect that is not common," said Tony Butler, an analyst at Lehman Brothers.

Mr. Butler noted that the F.D.A. also said yesterday that it would require many other painkillers to carry warnings similar to those on Celebrex. That could help Celebrex sales by diluting some of the stigma on the drug since last fall when it and the other so-called cox-2 inhibitors, Bextra and Vioxx, came under scrutiny for their cardiovascular risks.

Still, yesterday's announcement does little to improve Pfizer's credibility at a time when some investors want the company to be more forthcoming about its plan to cut \$4 billion, or 12 percent, of its annual costs by 2008.

Pfizer said yesterday that it had learned only after a Tuesday investor meeting that the F.D.A. planned to force it to withdraw Bextra. Pfizer said it disagreed with the decision but would suspend sales pending further discussions with the agency.

Even before the F.D.A.'s action, though, many analysts had said that Pfizer's optimism about Bextra and Celebrex was misguided. Studies have linked both cox-2 drugs to serious heart problems, and neither medicine has ever been shown to be more effective than older and cheaper medicines at treating pain. Sales of both drugs this year had already plunged.

"They should have refrained from being bullish on the coxib drugs," said Jami Rubin, an analyst at Morgan Stanley, using industry shorthand for cox-2 inhibitors. "Maybe they should have waited to hold the meeting until they had a final decision from the F.D.A."

Besides its cox-2 issues, the company has other problems. Pfizer - which had \$52.5 billion in sales and \$16 billion in profits last year, before certain one-time charges - faces patent expirations that will cost it \$14 billion in annual sales in the next three years. It loses American patent protection on Zoloft, an antidepressant that is its third-best seller, in 2006, and on Norvasc, a blood pressure medicine that is its second-biggest seller, in 2007.

At Tuesday's meeting, the company said that its profits would fall to \$2 a share in 2005 from \$2.13 in 2004, excluding certain one-time charges.

But Pfizer assured investors that earnings per share - again excluding certain charges - would grow by more than 10 percent in 2006 and 2007, and that Celebrex and Bextra would play a crucial part in that growth.

A spokesman for Pfizer said yesterday that the company was still reviewing how much Bextra's absence would hurt its profits. Before the withdrawal, analysts had predicted that Bextra would account for \$200 million to \$400 million in after-tax profits for Pfizer in 2005, or 3 to 5 cents a share.

Moody's Investors Service said yesterday afternoon that it had placed Pfizer's bonds under review for a possible ratings downgrade, citing the loss of Bextra, the likely reduction of Celebrex sales, the patent expirations and generally rough times for the drug industry. The bonds now carry a rating of Aaa, the highest possible.

A ratings downgrade would not seriously hurt Pfizer's business or its profits. The company is flush with cash. But a downgrade would be one more embarrassment for a company that not too long ago seemed unstoppable.

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