
Covidien to Spin Off Pharma Business



Covidien has announced plans to spin off its pharmaceuticals business into a standalone public company. Covidien's pharmaceuticals business is one of the world's largest producers of bulk acetaminophen, the largest United States supplier of opioid pain medications and is among the top 10 generic pharmaceuticals manufacturers in the U.S., based on prescriptions. Since 2008, this business has received U.S. Food and Drug Administration approval for eight new products, including two branded pain products launched in 2010.

In addition, Covidien's pharmaceuticals business is one of the world's leading suppliers of generators used to produce technetium-99m, a critical diagnostic medical isotope. It also is the only manufacturer that offers a fully integrated system of diagnostic contrast media in prefilled syringes and injectors.

"We've evaluated whether to separate these businesses for several years, due to the major differences between the medical products and pharmaceutical industries. We believe that now is the right time to do so because we have significantly improved the operations, performance and pipeline of our pharmaceuticals business," said José E. Almeida, President and Chief Executive Officer. "While both businesses hold industry-leading positions, they have distinctly different business models, sales channels, customers, capital requirements and talent bases. In addition, their respective innovation pipelines differ substantially in length, regulatory approval requirements, possible risks and potential returns.

"This transaction, if completed, would give both businesses greater flexibility to focus on and pursue their respective growth strategies, while potentially providing shareholders with greater value over the longer term," added Almeida.

If a spin-off is executed, the resulting Covidien medical products business would have annual sales of approximately \$9.6 billion (based on 2011 reported sales), about evenly split between the U.S. and non-U.S. markets. The Medical Devices business segment would represent about 80% of the company's sales, with Medical Supplies comprising the remainder. The company would hold the number one or number two market positions in categories representing approximately 90% of its sales¹.

Covidien's pharmaceuticals business currently generates approximately \$2.0 billion in annual sales, with about two-thirds derived from the U.S. market. This concentration in the U.S., where the business holds the significant leadership position noted above, would enable the new company to compete more effectively in the growing pain management category. The spin-off also would give the new company a better opportunity to bring to market innovative products currently in its pipeline and would give it the financial and strategic flexibility to pursue its growth plans, including expansion outside the U.S.

Published on : Tue, 20 Dec 2011