

Bloomberg Businessweek



Income Statement

1. Revenue from online advertising:

\$76,062,000,000

2. Revenue from Google Glass, venture capital investments, Nest thermostats, smart contact lenses, building-size video screens, seawater-based fuel, broadband internet service, delivery drones, internet balloons, self-driving cars, quadrupedal all-terrain robots, Wi-Fi kiosks, energy-generating kites, the world's most sophisticated artificial intelligence software, possible cure for death:

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◀ biggest—**Ryanair**, **EasyJet**, and **Norwegian Air Shuttle**—have become serious contenders for flights in Europe, luring passengers with rock-bottom prices while charging them for expensive add-ons. No-frills carriers in 2015 had 40 percent of the European market, up from 23 percent in 2005, and Ryanair's stock valuation almost matches that of the big three carrier groups combined. "There is no sign that pressure on European carriers will let up," says Alex Dichter, a McKinsey consultant and former Continental Airlines pilot. "In the long run, the only two outcomes are: You win or you die."

At the same time, the incumbents face challenges on long-haul routes. Government-backed carriers from the Middle East such as **Emirates**, **Qatar Airways**, and **Etihad** are routing more eastbound traffic through their desert hubs, offering white-glove service on brand-new planes. From 2008 to 2014, the three Persian Gulf carriers expanded their share of traffic from Europe to India and Southeast Asia from 22 percent to 34 percent, according to CAPA. Meanwhile, the likes of Norwegian and Iceland's **Wow Air** are moving into more profitable long-haul routes with supercheap flights lacking the extras—free meals and checked bags—that traditional airlines have been reluctant to pull from transatlantic service.

Like Lufthansa, Air France-KLM has expanded its low-cost business, though even there it has a pair of brands—KLM's Transavia and Air France's Hop!—that date to the era when it was two separate companies. Anger at a plan to cut jobs and funnel more business to those discounters boiled over last year as workers assaulted executives, shredding their shirts before the managers climbed a fence to escape.

Only at **International Consolidated Airlines Group**, created in 2011 after British Airways took over Spain's Iberia, has cost-cutting matched that of U.S. carriers. One possible reason: The company endured five strikes spanning 22 days in 2010 before winning concessions such as smaller cabin crews on long-haul flights and tying some staff bonuses to performance. In 2013 it bought Vueling, a low-cost airline

based in Spain, to better compete with the likes of Ryanair and EasyJet. And last year it acquired Ireland's **Aer Lingus**, adding another transatlantic hub in Dublin to relieve pressure at London's Heathrow. Says Chief Executive Officer Willie Walsh: "We're not afraid to say that we're proud to be cutting costs." —*Richard Weiss*

The bottom line Like their U.S. rivals, many European airlines have merged into three giant groups, but they remain far less profitable.

Pharmaceuticals

J&J Plays the Spurned Suitor



▶ **Despite a \$27 billion bid, Actelion's founders want to stay put**

▶ **"It's not a question of money. We have enough money"**

Jean-Paul and Martine Clozel represent the dream of just about every pharmaceutical researcher. After the multinational that employed them declined to pursue a compound they discovered, the Clozels founded a company to develop the drug. That startup birthed a blockbuster that has improved the lives of heart patients worldwide—and made the Clozels rich. For **Johnson & Johnson**, that's a problem.

The Clozels' company is **Actelion**, a Swiss biotech for which J&J has offered more than \$27 billion, people familiar with the talks say. The Clozels rejected a lower proposal, and while negotiations are continuing, they've shown little enthusiasm for cashing out. "I don't see why I should" sell, Jean-Paul said before the J&J bid was revealed. "What would it bring? It's not a question of money. We have enough money."

J&J is open to arrangements other than a complete takeover. French drugmaker **Sanofi** is considering a counterbid, according to people with knowledge of the matter. The deal talk has propelled Actelion shares to a record, valuing the Clozels' stake at more than \$1 billion.

Jean-Paul, 61, rose to vice president in **Roche Holding's** cardiovascular department, where he oversaw a team of 40 scientists. Martine, also

a researcher at Roche, in 1990 discovered a potential drug for pulmonary arterial hypertension (PAH), a life-threatening condition that limits the heart's ability to pump blood to the lungs. PAH afflicts fewer than 50 people out of every 1 million, too small a population to interest a giant such as Roche. In early 1997 the Clozels approached Roche Chief Executive Officer Franz Humer about forming a startup to take over the project. Humer agreed but wouldn't fund it.

The Clozels licensed the rights to two compounds from Roche and founded Actelion. Jean-Paul initially focused on research and development, then became CEO in 2000 when the company went public. "He's more a scientist than a commercial guy," says David Ebsworth, an industry consultant and veteran pharmaceutical executive. Martine, 60, now oversees drug discovery as the biotech's chief scientific officer.

The Clozels' strategy was risky: Despite industry failures in PAH compounds, Actelion stayed focused on the disease. And Actelion didn't license its medicine to a larger pharma company, as biotechs often do, instead marketing the drug on its own.

Actelion's first product, Tracleer, wildly exceeded expectations. In 2002, Wall Street projected its annual sales would peak at \$300 million to \$600 million. Instead, it's generated more than \$1.5 billion some years and over \$15 billion cumulatively. The company's market value plunged by almost half in 2011, to \$4.2 billion, after a failed attempt by a hedge fund to force a sale, followed by an unsuccessful mid-stage trial for a successor to Tracleer. But another study in 2012 paved the way for that drug to hit the market, helping send Actelion's stock value to almost \$16 billion in early 2016. Of the dozen or so compounds Actelion is now developing, "maybe two or three will work," and that may be enough, Jean-Paul says. "I would not exchange my pipeline for any other." —*Johannes Koch, Albertina Torsoli, James Paton, and Naomi Kresge*

The bottom line Actelion became an attractive takeover target after sales of its Tracleer lung drug vastly exceeded early forecasts.