30 Aug 2010 14:24 GMT **=DJ Roche Seen Under Pressure To Slash Costs After R&D Setbacks**

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ZURICH (Dow Jones)--Roche Holding AG (ROG.VX) is likely to come under pressure to slash costs after a string of drug development setbacks has raised doubts about the Swiss pharmaceutical giant's product pipeline and its ability to boost future sales and profit, investors and analysts said Monday.

Concerns about a necessary and imminent revamp rose over the weekend after Swiss weekly Sonntag on Sunday reported Roche is evaluating a massive cost cutting program that could lead to thousands of job cuts. Roche said it was too early to specify the size of potential job cuts that could come as part of its efficiency efforts.

Although Roche doesn't face immediate patent expiries like many of its peers, its shares have dropped more than 20% since the start of the year due to setbacks such as the discontinuation of experimental drug ocrelizumab in rheumatoid arthritis and the failure to extend the use of cancer drug Avastin in areas such as gastric cancer.

"This is a new situation for Roche," said Stephane Dutu, asset manager at Geneva-based Vernes & Associes. "Although Roche has still a comparatively strong pipeline, the recent setbacks will make it necessary for Roche to react. It will be important for the firm to strike the right balance between cost management and keeping healthy R&D operations," Dutu said.

Roche has already started to curb costs but has so far abstained from making deeper cuts. "Roche has outlined at the half year that there is room for improvement as far as productivity is concerned and that these improvements are important to secure our long-term success," said Roche spokesman Alexander Klauser. He said "it's too early to provide details on the size and structure of these improvements."

The cost cuts, however, won't trigger a change in the company's strategic outlook and its push to develop new drugs. "The ultimate goal is to dedicate resources in a more focused way to science and projects in our pipeline. We are standing by our strategy of innovation," Klauser said.

Roche has one of the industry's highest R&D budgets, having spent nearly 10 billion Swiss francs ($9.72 billion) in 2009. Its product pipeline includes blockbusters such as cancer drugs Avastin, Mabthera and Herceptin. The drugs' patent expiry is years away. Its late stage drug pipeline also includes more than half a dozen experimental medicines that, if successful, could reach annual sales of more than CHF1 billion.

But the recent failure to receive priority review from the U.S. Food and Drug Administration for experimental breast cancer drug T-DM1 and the delay of the U.S. approval filing of experimental diabetes medicine taspoglutide has put doubts over the health of its pipeline and Roche's effort to broaden its franchise.

As a consequence, Roche shares, which had traded at a premium to the sector in recent years, are lagging the market. Roche shares currently trade at a price-earnings ratio--which reflects a stock's relative value and profit growth potential--of 12.15, compared with a European industry average of 16.63, according to Reuters data. At 1421 GMT, the shares were up 0.4%, or CHF0.6, at CHF138.4.

On top of the pipeline setbacks, there are growing worries that government health care reforms and austerity programs in the U.S. and Europe risk shaving off sales and profit. The recent rejection of Roche's Avastin in bowel cancer by the U.K. regulator due to cost concerns has increased the urgency to act.

"The recent product delays and drug development failures have put pressure on its share price," said Andrew Weiss, analyst at Bank Vontobel. "The question now is, whether Roche wants to cut these costs because of shareholder pressure or if the recent drug development failures and pricing pressure need to be counteracted."

"Roche needs to reduce costs significantly after the recent development disappointments," said Karl-Heinz Koch, analyst at brokerage Helvea. "Cost cuts are possible in R&D as well as in sales," he said, adding that "the cost cuts are also needed to reduce Genentech-related debt."

Roche's $47 billion takeover of Genentech in 2009 has inflated the company's debt. The company's net debt stood at CHF27.5 billion at the end of June. Although Roche has been able to pay back part of its debt pile quicker than planned, analysts see room for a faster repayment. Due to overlap with Genentech in the area of R&D and sales force, some analysts say Roche could save between CHF2 billion to CHF3 billion in costs.

"Pressure from governments to save costs will force all companies in the pharma sector to reduce their cost base," said Robert Scholl of asset manager Aargauische Pensionskasse. "Roche is no exception to this. But the cuts should only go so far as not to endanger their R&D efforts. Roche is fully aware of the importance of a strong R&D."