Deal Watch

Welcome to the June Deal Watch, our monthly analysis of the top pharma deals. In line with our customary practice, this review focuses predominantly on those deals where financial terms are disclosed during June. So, as we move into the summer of 2014, what’s hot and happening in terms of deals this month?

Deal Values Hotting Up...

Acquisitions lead the way and topping the table at US$42.9bn was the acquisition of Covidien (based in Dublin) by Medtronic. Already a major contender in medical devices, this deal – the largest in the medical device field – means the combined company is a serious competitor to the market leader, J&J. An interesting aspect of the deal is the base of the company being in Ireland, a clear tax benefit which was a key feature in the previous month’s bid by Pfizer to acquire AstraZeneca (AZ) to take advantage of the lower tax rate in the UK compared with that in the US.

It was a busy month for Medtronic as it also announced the signature of a memorandum of understanding with Sanofi to enter into a global strategic alliance in diabetes. It is intended to base the alliance on an open innovation model with Sanofi bringing its extensive insulin portfolio and Medtronic contributing its insulin pumps and glucose monitoring expertise. No financial terms have been disclosed.

Next in the top headlines was the $3.9bn acquisition of Idenix by Merck & Co, representing $24.50 per share in cash and a 239% premium over the share price on the Friday before the announcement. The juggernaut which is the hepatitis C deal machine rolls on with this deal keeping the cost-of-entry price tag up. The Merck & Co acquisition brings three oral hepatitis C compounds which are in clinical development and offers the promise of a triple therapy which could prove effective in all genotypes. With its own products in development, this clearly signals Merck’s long term investment and determination in this field. Table 1 shows the rather expensive range of deals closed in this intensely competitive field over the last few years. The acquisitions are not without risk as BMS found when, seven months after paying $2.5bn, it had to discontinue development of Inhibitex product INX-189 in phase 2 because of safety issues.

Key to any deal price tag of course is the product valuation. Idenix’s negotiation position will have been helped no end by the price and recent US sales of Gilead’s Sovaldi (sofosbuvir); the US price is $84,000 (for a 12-week course) with sales of $2.27bn in the first quarter of this year. It was inevitable that such a high price would attract attention from the regulators, although the UK price is lower than that in the US (the UK list price is £35,983 for a 12-week course), NICE is now questioning Gilead’s data, stating that evidence is lacking in some subgroups and indicating that there are uncertainties in the evidence base. So the jury is out until October when a decision is expected.

Although not commanding quite such a high headline, this month OraSure granted AbbVie exclusive promotion rights to its OraQuick HCV test in the US for $75m. This deal shows Sanofi is clearly not alone in taking a broad approach to franchise management!

A Midsummer Night’s Dream

Now formally off the table and staying unrequited was the acquisition bid made...
by Pfizer for AZ, the failure of which was attributed by Pfizer’s CFO to the sole issue of price.

Clearly not deterred by this, AZ has moved on to build on its respiratory franchise by in-licensing Synairgen’s inhaled beta interferon, SNG001. This product is in development as an immunomodulatory therapy for viral respiratory tract infections in patients with severe asthma. The deal carries a headline value of £232.25m which includes a £7.25m upfront fee. Seeing some success from its partnering, AZ also marked the start of a clinical trial with the antisense drug ISIS-ARRx, in patients with metastatic castrate-resistant prostate cancer, by paying partner Isis Pharmaceuticals a $15m milestone.

Staying in the hostile M&A arena, Allergan declined Valeant’s second takeover bid, so this story still rumbles on but Valeant is not yet giving up. The company announced that an exchange offer for Allergan’s common stock would go ahead and GSK closed a $350m co-development and option deal with Adaptimmune. Adaptimmune develops TCR engineered T-cells and the agreement focuses on co-development around the cancer testis antigen NY-ESO-1, to which GSK has an option on the programme though to clinical proof-of-concept.

Similarly, Pfizer signed up with the French company Cellectis for its CAR-T platform which uses chimeric antigen receptors to re-programme T-cells to target cancers. Under the terms of the agreement, Pfizer secured exclusive development and marketing rights for 15 targets selected by Pfizer. Cellectis has reserved 12 other targets and Pfizer will provide preclinical development assistance for four of these. Deal terms include an $80m upfront payment, R&D funding and up to $185m in milestones for each candidate, giving an estimated headline value of $2.8bn. In addition, Pfizer has agreed to make a 10% equity investment stake purchasing new shares at €9.25 ($12.63) each, representing an estimated $28m. Instead of arriving at a personalised solution by harvesting an estimated $28m. Instead of arriving at a personalised solution by harvesting individual patient’s T-cells, Cellectis is using allogenic CAR-Ts to provide a treatment which should be manufactured and standardised more easily. Cellectis plans to open a research site in the US to work more closely with Pfizer.

Joining the checkpoint modulator fray, Merck Serono formed a partnership with Morphosys to discover and develop antibodies against certain immune checkpoints using the Morphosys

<table>
<thead>
<tr>
<th>Licensor Acquired / Licensee Acquirer</th>
<th>Product</th>
<th>Status at Deal/ Date</th>
<th>Deal Type/Share Price Premium</th>
<th>Headline Value US$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idenix/ Merck &amp; Co</td>
<td>Samtasvir (NSSA inhibitor) + other HCV therapies</td>
<td>Phase 2 June 2014</td>
<td>Acquisition (announced), 239% premium</td>
<td>3,900</td>
</tr>
<tr>
<td>Pharmasset/ Gilead</td>
<td>Solvadi / PSI-7977</td>
<td>Phase 3 Nov 2011</td>
<td>Acquisition, 89% premium</td>
<td>10,800</td>
</tr>
<tr>
<td>Inhibitex/ BMS</td>
<td>INX-189 / BMS-986094</td>
<td>Phase 2 Jan 2012</td>
<td>Acquisition, 163% premium</td>
<td>2,500</td>
</tr>
<tr>
<td>Allos BioPharma/ Vertex</td>
<td>ALS-2200/ALS-2158 (HCV polymerase inhibitors)</td>
<td>Preclinical June 2012</td>
<td>Global licence</td>
<td>1,525 (60 upfront)</td>
</tr>
<tr>
<td>Enanta/ Novartis</td>
<td>EDP-239 (NSSA inhibitor)</td>
<td>Preclinical Feb 2012</td>
<td>Exclusive global licence, US co-promotion</td>
<td>440</td>
</tr>
</tbody>
</table>

Table 1: Major hepatitis C deals
Ylanthia platform. Financial terms were not disclosed but include milestone and royalties. Staying with the mid-caps and turning to prostate cancer, Bayer and Orion entered into a joint development deal for ODM-201. This phase 3-ready, androgen receptor inhibitor therapy will supplement Bayer's oncology pipeline. The phase 2 results showed a decline in PSA levels of more than 50% in the study of 124 patients. Bayer paid €50m ($68m) upfront with further milestones in return for global rights which should complement Xofi go (from the acquisition of Algeta). The companies will jointly fund the phase 3 trials. Orion will retain co-promotion rights in Europe.

Facing the Music
Not all of the deals announced this month are related to innovations and acquisitions. Reflecting some of the news flow, we saw Pfizer make a settlement of $325m for the alleged improper marketing of Neurontin. Pfizer is not the only major pharma in this position; also this month GSK settled US claims of irregular marketing activities in asthma and antidepressants at a reported $105m.

So the deals keep flowing as we move into the summertime. It will be interesting to see how the major acquisitions play out, following the closure of the Pfizer-AZ saga. Could this be the summer of unrequited proposals?