# MEDIUS DEAL WATCH

**November-December 2018**

## Money, money, money...

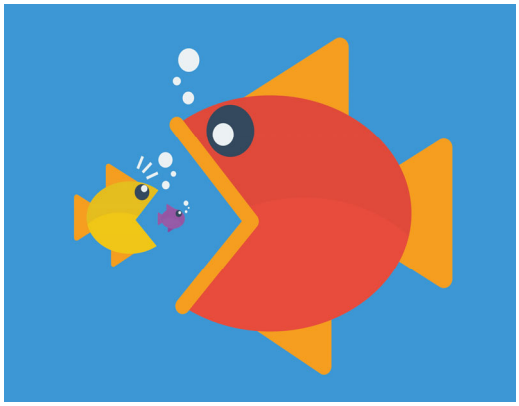
The year end for 2018 came with a cascade of major deals, all of which have been eclipsed by the recent announcement of BMS's acquisition of Celgene with the deal valued at an eye watering £74bn. More about that in the next DW issue!

The major companies continued to splash the cash against the ongoing backdrop of intense strategic realignment. GlaxoSmithKline and Pfizer announced that the companies have agreed to combine their consumer health businesses to form a new joint venture. The ownership of the JV will be held 68% by GSK and Pfizer 32%, combined sales amount to approximately $12.7bn. This announcement comes after much shareholder pressure for GSK to streamline its business. The press release confirms that within three years of deal closure, (anticipated in the second half of 2019) the consumer health business will be separated via a demerger and a flotation of GSK Consumer Healthcare. The end result is that GSK will have two distinct businesses: pharmaceuticals / vaccines (sales of £17.3bn and £5.2bn respectively) and the consumer (sales of £7.8bn including Horlicks).

## Strategic alignment

In a similar vein, there has been much speculation that Bayer will sell its consumer and animal health businesses, and confirmation came in November that it will be exiting animal health. Estimates for the value of the animal health business range from €6-7bn. In the consumer health field, Bayer plans to divest Coppertone and Dr Scholl's, both of which were acquired as part of Merck's consumer portfolio only four years ago at a cost of $14bn. It is hoped that the sale of the consumer products could realise ~ €800m. It is interesting to note that it was only in July 2018 that Bayer sold its prescription dermatology business to Leo (2017 sales of $328 million).

Divestment in consumer healthcare has been a bit of a theme for this period with BMS selling its UPSA consumer health business to Taisho. This deal represents repeat business for the two companies, as back in 2009 BMS sold its Asia Pacific OTC franchise to Taisho in a deal valued at $310m. This time the price tag is a bigger number, the offer coming in at $1.6bn. The offer by Taisho is structured in the form of a *put option* agreement. Under the terms of the agreement, the offer is subject to BMS exercising the put option following consultation with relevant employee representative bodies. On exercise, the companies sign off on a definitive stock and assets purchase agreement under which Taisho acquires all of the issued and outstanding shares of UPSA SAS including assets and liabilities relating to the product portfolio.



Following in the footsteps of Allergan and Teva, Pfizer is tipped to be considering the future for its women's health portfolio which includes brands such as Premarin, Prempro and Premphase. With annual sales of ~$1.2bn it is anticipated that a divestment could bring in $2bn into the coffers. Women's health has suffered from a real lack of innovation and hence has been out of favour for some time, due to the lack of growth potential.

Similarly focusing on high growth potential products, Eli Lilly is thought to be considering the sale of certain off patent products [anti-infectives and CNS treatments] in China. If this proceeds, it is considered that this divestment could accrue some $200m - $300m for the company.

## Hogging the headlines

It has been a rather busy period for GSK; and the move to consolidate its consumer health interests with Pfizer was further rationalised with the sale of its Horlicks brand to Unilever in India. Valued at $3.94bn, GSK Consumer Healthcare will merge with Unilever's Indian subsidiary with the GSK share of ownership decreasing over time. Any funds raised through this deal will however be quickly redeployed, not in consumer health but in oncology. GSK announced the addition to its oncology franchise through the acquisition of Tesaro at a cost of $5.1bn. The Tesaro acquisition includes an oral poly ADP ribose polymerase (PARP) inhibitor, Zejula, which is approved for use in ovarian cancer. The acquisition also brings other pipeline products, antibodies against PD-1, TIM-3 and LAG-3 targets.

Like GSK, Gilead has had a very deal productive autumn. On December 19th, the strategic collaboration with Scholar Rock Holding was announced where the parties will work on the discovery and development of specific inhibitors of transforming growth factor beta (TGFβ) activation in the treatment of fibrotic diseases. Under the terms of the deal, Gilead has exclusive options to license worldwide rights to candidates from three programmes.

| Licensor/ Acquired | Licensee/ Acquirer | Deal type | Product/ Technology | Headline $m |
|---|---|---|---|---|
| Pfizer | GSK | joint venture | Combination of consumer businesses, a new joint venture with $12.7bn sales; GSK owns 68% | 12700 sales |
| Tesaro | GSK | company acquisition | oncology specialist, includes PARP inhibitor Zejula | 5100 |
| BTG | Boston Scientific | company acquisition | portfolio focusing on Interventional Medicine inc oncology, vascular conditions and pulmonary disease | 4200 |
| GSK | Unilever | asset divestment | Indian consumer business including Horlicks | 3940 |
| Antelliq | Merck | company acquisition | specialises in digital ID and tracking for livestock and pets | 3250 |
| AC Immune | Eli Lilly | R&D collaboration | tau aggregation inhibitor, small molecules for the treatment of Alzheimer's disease and other neurodegenerative diseases | 1800 |
| Agenus | Gilead | licence | AGEN1423, five novel immuno-oncology therapies | 1800 |
| Tango Therapeutics | Gilead | licence | a pipeline of targeted immuno-oncology treatments for patients with cancer | 1700 |
| argenx | J&J | licence | cusatuzumab anti-CD70 SIMPLE antibody, for range of blood cancers including AML, myelodysplastic syndrome (MDS), other haematological malignancies | 1600 |
| BMS | Taisho | asset acquisition | UPSA business (BMS's French OTC unit) | 1600 |
| AZ | Sobi | asset divestment | Synagis for RSV infections | 1500 |
| Scholar Rock | Gilead | exc option to licence | inhibitors targeting activation of latent TGFβ1 plus those that target latent TGFβ1 in fibrotic disease, diabetic kidney disease and non-alcoholic steatohepatitis (NASH) | 1500 |
| Arena | United Therapeutics | licence | ralinepag in pulmonary arterial hypertension (PAH) | 1200 |
| Yuhan | Janssen Biotech | licence | third-generation EGFR tyrosine kinase inhibitor (TKI), lazertinib | 1200 |
| Denali | Sanofi | licence | RIPK programme phase 1 asset DNL747 for multiple sclerosis (MS), Alzheimer's and amyotrophic lateral sclerosis (ALS) | 1000 |
| PellePharm | Leo | research collaboration | Patidegib hedgehog pathway-inhibiting topical gel for the prevention of Gorlin syndrome (rare genetic disease increased propensity for basal-cell carcinoma | 760 |
| Zymeworks | BeiGene | R&D collaboration | Azymetric and EFECT platforms in the research and development of three bispecific antibodies. | 722 |
| Intron | Roivant | licence | SAL200 (Tonabacase), biologic based on endolysin derived from a bacteriophage | 667.5 |
| Molecular Partners | Amgen | collaboration and licence | MP0313 (FAP x 4-1BB) bispecific molecule in combination with Amgen drugs | 547 |
| Staten Biotechnology | Novo Nordisk | option to acquire | development of STT-5058 in dyslipidemia | 485 |
| WuXi Biologics | Oxford BioTherapeutics | deal extension | to develop five bispecific antibodies for several cancer types using the WuXiBody platform | 450 |
| Zymeworks | BeiGene | licence | HER2-targeted bispecific antibodies ZW25 and ZW49 | 430 |

The option is exercisable on product candidate nomination at which point Gilead takes over the development. The agreement is field specific with Scholar Rock retaining rights to certain TGFβ inhibitors in oncology and cancer immunotherapy.

The financial terms include $80m upfront, ($50m cash and $30m equity) with $25m due on successful completion of pre-clinical studies and subsequent $1,425m across all three programmes. Tiered royalties high single to low double digit are due on product sales.

The following day brought another press release confirming an immuno-oncology partnership with Agenus for up to five therapies. Under the terms of the agreement, Gilead secured worldwide exclusive rights to AGEN1423 plus an exclusive option to license two additional programs, AGEN1223 (IND filed) and AGEN2373 (IND estimated first half of 2019). Agenus will be responsible for developing the option programmes up to the option decision points, at which time Gilead may acquire exclusive rights to the programmes on option exercise. For one of the option programmes, Agenus has the right to opt-in to shared development and commercialisation in the US. Gilead also has the right of first negotiation for two additional, undisclosed pre-clinical programmes. In return, Agenus will receive $150m comprising $120m upfront and a $30m equity investment. Future milestone payments and fees may reach $1.7bn.

In a packed press release, the Vancouver based biotech, Zymeworks announced two deals with BeiGene. The first, an exclusive licence and collaboration covers ZW25 [clinical stage] and ZW49 [pre-clinical] in Asia excluding Japan, Australia and New Zealand. The development is focused on HER2-expressing solid tumours, including gastric and breast cancer. The second research and licence agreement is for Zymeworks' Azymetric and EFECT platforms; BeiGene has global rights for up to three bispecific antibody therapeutics directed to selected targets.

The financial terms for ZW49 and ZW25 include upfront payments of $40m with up to $390m development and commercial milestone payments. For the research and licence platform agreement, Zymeworks receive an upfront of $20m and milestones of up to $702m for up to three bispecific product candidates. In addition, both deals include tiered royalties on future sales.

## Reductions and cost savings

A direct consequence of these various mergers and acquisitions will be the commensurate cuts in jobs as well as portfolio adjustments. Sometimes this takes a while to work through, Boehringer Ingelheim has announced the loss of about 300 jobs from the asset swap back in 2016 (BI's consumer health for Sanofi's veterinary). Similarly Sanofi is planning 670 *voluntary departures* in France over the next couple of years mostly in human resources, IT and finance departments.

As part of its realignment, Bayer will also be cutting ~ 1250 jobs from its pharmaceutical division, part of a wider staff-reduction scheme for the loss of ~ 12,000 positions worldwide by the end of 2021. The aim is to liberate resources for investment in external innovation and collaborative research. The cuts continue across Europe with Novo Nordisk restructuring its workforce with 1300 reductions intended by the end of the year, in Denmark, China and the US.

Turning to product divestments, the closure of the Takeda Shire deal has resulted in clear indications of sales of noncore assets to help fund the buyout, potentially reaching up to $10bn. Products that have been identified include Shire's eye drug Xiidra and the inflammatory bowel disease pipeline medicine SHP647 plus some OTC assets in Europe.

**Sharon Finch,** the founder of Medius, has extensive business development experience working both in industry and for over 20 years with Medius. Sharon works primarily on partner searches, due diligence and transactions.

She is the Editor of the Business Development and Licensing Journal and is the Course Director for the PLG MSc in Pharmaceutical Business Development & Licensing run by the University of Manchester.

## Biosimilars

Biosimilars remain in the headlines with the FDA approving the first Rituxan biosimilar for the US; Truxima will be marketed by Celltrion and Teva. Roche's oncology blockbuster products (Rituxan, Avastin and Herceptin) together account for ~$20bn sales last year, of which 20% are Rituxan sales in lymphoma.

With Humira biosimilars being launched in October, AbbVie is trying to stay ahead of the game by offering an 80% discount on its European price for Humira. With a $4bn European sales base to defend AbbVie clearly hopes this will limit the damage from cheaper biosimilar competitors.

Confirming that it is all to play for, Genentech has filed a lawsuit against former staff for allegedly leaking trade secrets (analytical methods, formulation know-how, quality acceptance criteria, and manufacturing protocols) to the Taiwanese biotech firm JHL. The scheme targeted Rituxan, Herceptin, Avastin and Pulmozyme; the staff concerned have been indicted and the company is seeking an injunction and damages.

## Pricing pressures

In the US another initiative for price control is under consideration. The "Prescription Drug Price Relief Act", the threat of allowing generic competition if drug manufacturers charge more in the US than is charged on average in Canada, the UK, Germany, France and Japan. This Act is likely to face significant opposition but it remains a clear indicator that drug pricing remains firmly on the agenda.

Pricing threats (*aka cost saving initiatives*) are not simply confined to the government; in November, insurer United Healthcare offered patients incentives to work with doctors to select lower cost HIV medication put the pressure on Gilead's portfolio which already is coping with a decline in its hepatitis C franchise.

So moving into 2019, it will be interesting to see how the impact of the biosimilars develops during the year. We may well see the ancient Chinese curse at work – *may you live in interesting times!*

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