Evaluate Vantage

February 16, 2017

Clozel’s takeover masterclass

Jacob Plieth

To achieve a vastly overblown price in an acquisition it helps to have numerous interested parties bidding furiously against each other. Not so for Actelion, whose takeover document today revealed that there were only ever two bidders: Johnson & Johnson, which won, and “Company A”, widely assumed to have been Sanofi.

The offer prospectus also details the extra cash J&J has committed to Actelion’s R&D spinout, which seems to have been a turning point in nailing down the takeover. It all suggests that Actelion’s chief executive, Jean-Paul Clozel – armed with nothing more than a stubborn view of his company’s value – held an M&A masterclass for other companies facing unwanted buyer interest.

The first approach, from J&J’s chief scientific officer, Paul Stoffels, came all the way back in January 2016, today’s prospectus reveals. Remarkably, 11 months later, with Actelion stock up 65%, J&J was still the only interested party.

Months of talks

This followed months of talks between the two management teams, two rebuffed non-binding proposals from J&J, and a subtle campaign by some involved in the bidding to leak information into the public domain, of course pushing up Actelion’s stock. Formal confirmation of the talks only came last November, and Actelion’s R&D demerger started to be discussed shortly afterwards.

It was almost as an afterthought that Actelion managed to generate interest from Company A, with which the R&D spinout idea was also discussed. Two offers from this second bidder resulted in a proposal that Actelion reveals was “approximately equivalent” to the $278 per share J&J wanted to pay at the time.

This calls into question Sanofi management's recent dismissal of media reporting of a bid by the French firm for Actelion as containing “a lot of inaccurate information. You should not have trusted everything you see printed” (*JP Morgan day two roundup – all talk, very little action, January 11, 2017*).

Crucially, Actelion showed Company A’s proposal to J&J. Irrespective of J&J’s approach already being favoured on the grounds of offering “significantly greater transaction certainty”, the US group threw in an additional $2 per share to seal the deal (*J&J sets benchmark with massive Actelion price, January 26, 2017*).

If there was a turning point in Mr Clozel’s thinking, the offer prospectus suggests that it was formation of Actelion’s R&D spinout, which effectively gives him a new company to run – backed with over $1bn of cash. This comprises a SFr580m ($580m) convertible debt and $250m loan, both from J&J, and SFr420m of cash from Actelion.

The spin-out will collect an 8% royalty on the phase III assets ponesimod and cadazolid, and its development will focus on ACT-132577, a metabolite of Opsumit, the blockbuster hypertension drug that is the main reason for J&J’s Actelion takeout. But even ACT-132577 will be underwritten by a possible future opt-in by J&J, which would cost it $230m plus an extremely generous 20-35% royalty.

The offer prospectus suggests that such an amazing outcome came about thanks largely to Mr Clozel’s dogged persistence to see Actelion remain independent – heedless of prevailing logic and of the $1bn of personal wealth that the deal would bring him. The stalling made J&J increasingly desperate, and as a bonus the leaks attracted another similarly frantic company to the table.

Maybe Mr Clozel just got lucky; it is just as well that J&J did not call his bluff.

To contact the writer of this story email Jacob Plieth in London at jacobp@epvantage.com or follow @JacobPlieth on Twitter