

## Juno jumps but is Celgene a worthy worshipper?



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Celgene was apparently serious when it reassured investors last week that further deals were on the way. Juno Therapeutics is in its crosshairs – assuming that the rumours are true – and while details are scant the CAR-T specialist's market value rocketed 45% to \$7.6bn on the report.

There are good reasons why Celgene will have to pay more than this to seal the deal. Which raises the question: why spend all this cash on a partner, whose pipeline is already largely accessible? Full ownership will do little to plug a worrying revenue gap on the big biotech's horizon, and this means that if the deal does happen, management could again have to insist that its acquisition spree is not over.

Given that Celgene is one of the most prolific deal-makers in the sector, a pledge to push on with acquisitions is perfectly possible. Salim Syed of Mizuho reckons that the big biotech has purchasing power of around \$25bn, with the recent tax repatriation contributing around \$7.5bn to that figure.

Buying Juno would not exhaust this capacity but the company will not come cheap, and there are many who believe a sum substantially higher than its newly-inflated market value will be required. The Seattle company's management has two benchmarks at hand – Kite Pharma's \$11.9bn takeout valuation and the \$93 per share that Celgene paid for a 10% stake in Juno, back in 2015.

At \$93 per share Juno is valued at \$10.6bn. Rumours of the talks, first reported by the *Wall Street Journal*, contained no details on price.

Valuing Juno - the sellside, the market and Celgene?		
Product	Projected 2022 WW sales (\$m)	NPV (\$m)
<i>Phase II</i>		
JCAR017	828	4,310
JCAR014	95	438
JCAR015	2	8
<i>Phase I</i>		
JCARH125	56	446
JCAR018	6	33
<b>Total</b>	<b>986</b>	<b>5,235</b>
Market cap at Jan 16 close (\$m)		5,206
Market cap at Jan 17 open (\$m)		7,421
Market cap at \$93/share (\$m)		10,612
<i>Source: EvaluatePharma for sales and NPV calculations</i>		

Juno shares opened this morning at \$67.50 – close to the record high of \$69.28 touched during the 2015 biotech boom, just before Celgene and Juno signed their 10-year collaboration. The 10% stake was bought as part of that transaction, which cost Celgene \$1bn and gave it options over most of Juno's oncology and cell therapy auto-immune product candidates ([Celgene goes for broke, 30 June 2015](#)).

While at the time the transaction had many scratching their heads, swift progress in the CAR-T arena has shifted opinions. But the question of whether it is a good use of cash to pay billions for full ownership of these revenue streams is still an important one, particularly as the projects remain high risk.

Celgene has recently said that the Juno assets will not contribute much to the top line before 2020. Revenue growth is a major concern for investors – cash cow Revlimid faces generic threats in 2022 and its 2020 sales guidance has recently been sliced – and there will be more immediate solutions out there to plug these gaps.

### **Buying failure?**

It should also be remembered that Juno Therapeutics is arguably the company that has delivered the most disappointments in the CAR-T space. Its first asset, JCAR015, was ditched in the wake of cerebral oedema deaths, and having been beaten to market by Novartis and Gilead/Kite the company is struggling to shake off an image as a weaker competitor ([Ash 2017 - Transcend fails to prevent Juno's second collapse, December 12, 2017](#)).

Perhaps in the long run, this perception will turn out to be true. But it also cannot be ruled out that Juno emerges as a fast-follower, or takes the lead in another disease area; the field is surely too nascent to make a definitive calls on respective platforms.

Desire on Celgene's part to wholly own a cutting-edge, cell therapy platform is also understandable – CAR-T technology seems to fit much more naturally in Celgene than it does in Gilead.

Investors are right to worry about the premium needed to get this deal done – and there is no guarantee that any agreement will be reached. But if Celgene's management team are really serious about this move, then they must also be looking elsewhere, because buying Juno will not relieve the pressure for long.

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