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Nektar delivers the sweetest deal

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Rising valuations could explain why Nektar is still independent as it pockets almost $2bn in a licensing deal with Bristol-Myers Squibb.

Are sky-high valuations preventing the takeout of promising biotech companies? The huge licensing deal unveiled by Bristol-Myers Squibb and Nektar Therapeutics today surely demonstrates that this is the case.

Nektar managed to extract $1.85bn up front and a pledge for a further $1.78bn from Bristol, in return for kind-of-exclusive access to the phase I project NKTR-214 and only 35% of profits down the road. The deal's initial outlay ranks as the largest since 2000, according to *EvaluatePharma* data, providing further proof that the immuno-oncology bubble is driving asset prices to previously untested levels (see table below).

These terms can only have been made possible by Nektar's bloated market cap, which peaked at $14bn earlier this month. Bristol might have just handed over an awful lot of money, but the price of a takeover would have been even richer – and very hard to justify for an asset with so much still to prove.

NKTR-214, a CD122-biased agonist, is being tested in four phase I/II studies, and while some data have emerged the profile and potential of this asset is far from fully known. The largest study is the ongoing Pivot trial, which is testing the Nektar asset plus Bristol's Opdivo in 250 patients with various solid tumours, as part of a 2016 collaboration between the two groups.

The hope is that NKTR-214 will enable patients with PD-1-negative tumours – a substantial majority – to receive treatment with checkpoint inhibitors. Early response rates have been very impressive, and updates from the trial have caused Nektar's valuation to more than triple in the past three months (*SITC – Nektar's plan to make cold tumours blossom, 14 November 2017*).

Commanding terms

Bristol has paid through the nose for limited exclusivity – as Nektar's chief executive, Howard Robin, stressed in a call to analysts, saying: "This is a collaboration, not an outlicence." The big pharma partner has 14 months to begin pivotal trials in nine indications, including many for which PD-(L)1s have already been approved. Moreover, the exclusivity period is only for three years or until first commercial launch, whichever is last.

And Nektar's rights to seek partners outside the checkpoint inhibition space are not impeded. Mr Robin highlighted work under way in combination with the toll-like receptor agonist NKTR-262 and possible combos with CAR-T agents.

Nektar's R&D contributions are limited to $125m a year, and it will be responsible, up to that cap, for a third of costs in Opdivo combo trials and 22% of costs in Opdivo-Yervoy triple combinations. Should all go well, Bristol will be responsible for commercialisation in Opdivo/Yervoy combinations, but Nektar will have rights to market NKTR-214 separately.

On the whole, it is hard to say that this is not a positive deal for Nektar, given the resources Bristol will put in. The expectation was for a chunky takeout, and the price Bristol paid for an equity stake – $102.60 a share, a 40% premium to yesterday’s close – signals the sort of level at which takeover talks would have started. Even so, Nektar's shares are up 8% in early trade, showing how this company can do little wrong at the moment.

The terms certainly dazzle. A look at the biggest deals this century, over research-stage assets, reveals little of comparative size. The use of an equity stake complicates the picture somewhat – in the analysis below these were excluded from the up-front cash figure.

Including these would have propelled Bristol’s notorious 2001 deal with Imclone Systems over Erbitux into the top five; under this deal the pharma giant spent $1bn on the biotech’s stock, and handed over around $330m in a signing fee.

To get to the terms over NKTR-214, Bristol must have considered the deal a necessity. And, with Merck & Co increasingly looking like an unassailable rival, it must have concluded that a bold move was required to keep itself in the I-O game.

Splashing the cash – biggest upfronts for R&D assets this century

Product	Pharma class	Company	Deal partner	Cash up-front ($m)	Total deal value ($m)	Deal year
NKTR-214 (phase II)	CD122-biased cytokine	Bristol-Myers Squibb	Nektar	1,000	3,630	2018
Bavencio (phase II)	Anti-PDL1 antibody	Pfizer	Merck KGaA	850	2,850	2014
Mongersen (phase II)	SMAD7 antisense	Celgene	Nogra Pharma	710	2,575	2014
Cemiplimab (phase I)	Anti-PD1 antibody	Sanofi	Regeneron	650	1,025	2015
BI 655064 (phase I)	Anti-CD40 antibody	AbbVie	Boehringer Ingelheim	595	595	2016

Source: EvaluatePharma

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