Evaluate Vantage

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Ionis gives a lesson in financial engineering

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The mystery behind Ionis's decision in 2015 to form Akcea, a wholly owned subsidiary, deepened two years later when a minority stake in the unit was floated on Nasdaq. Yesterday the plot thickened further after Ionis did a partial U-turn and seized greater control of Akcea.

Ostensibly the development puts another Ionis asset in Akcea's hands, but since Ionis continues to control everything the "deal" is illusory. Rather, the transaction is about cash allocation and financial engineering, and the result – Akcea stock surged 38% yesterday – will have deal bankers rubbing their hands with glee.

Bankers pitching similar deals now have an excellent case study to back up the idea that setting up arm's-length units is capable of releasing hidden value: since the minority Akcea stake was floated last July its stock has nearly tripled in value, while that of Ionis is broadly unchanged.

IPO catalyst

It also helps that Novartis is an important ally for two Ionis projects that had been assigned to Akcea – AKCEA-APO(a)-LRx and AKCEA-APOCIII-LRx.

Indeed, the striking of an option deal for these in early 2017 served as the catalyst for the subsequent IPO, in which the Swiss company bought $50m of Akcea stock. The other two assets assigned by Ionis to its Akcea subsidiary were volanesorsen (now filed for familial lipoprotein lipase deficiency) and AKCEA-ANGPTL3-LRx.

The main point of yesterday's transaction was for Ionis to transfer more cash to Akcea – $200m to be precise – in return for an increased equity stake. As an aside Ionis also assigned to its subsidiary another asset, inotersen, which is awaiting approval for TTR amyloidosis and is in phase III studies for familial amyloid polyneuropathy.

Inotersen had been licensed to Glaxosmithkline, but the UK group handed it back to Ionis last year (*Ionis absorbs Glaxo rare disease cull, August 11, 2017*). While at the time names like Pfizer had been bandied around as potential new partners, yesterday's move means that Ionis has had to go it alone – though it has of course been able to dress up its shifting of the asset to Akcea as a worldwide commercialisation deal.

Follow the money: how Ionis and Akcea are related		
Date	**Event**	**Ionis equity interest in Akcea**
Q1 2017	Novartis invests $100m in Ionis equity	100%
Jun 2017	Akcea's 4% credit line from Ionis stands at $106m	100%
Jun 2017	Novartis licenses 4 Ionis assets; $60m cash accrues to Akcea, $15m to Ionis	100%
Jul 2017	$106m credit line is extinguished in IPO of minority Akcea interest	68%
Jul 2017	New shareholders invest $132m in Akcea equity at IPO	68%
Jul 2017	Novartis invests $50m in Akcea equity at IPO	68%
Mar 2018	Ionis assigns inotersen to Akcea for $150m of Akcea equity	71%
Mar 2018	Ionis invests $200m in Akcea equity	75%
Possible in future	Ionis stands to get <$90m of Akcea equity on inotersen approval(s)	>75%
Possible in future	Novartis option exercise: $75m cash accrues to Akcea, $75m to Ionis	>75%
Source: SEC filings.		

There is one final irony about yesterday's transaction: approval of inotersen, expected this year, will trigger up to $90m of what the companies term "milestone payments" from Akcea to Ionis, and these "may be payable in Akcea common stock". Of course this amounts to nothing more than Ionis being assigned a yet greater share of Akcea equity.

So far the markets have been extremely kind to Akcea, enabling Ionis to boast that it now owns majority control of a business that in the space of less than a year has tripled in value. But until Akcea is an unencumbered entity it is unlikely to attract more than short-term investor interest.

And until Ionis moves in the opposite direction – reducing the control it has over Akcea and seeking to spin it off entirely – the minutiae of which group markets which of its drugs will continue to be irrelevant.