Elan and Lundbeck deal looks unlikely

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Given the recent flurry of deals that have seen likely and unlikely companies join together one should never say never about bid rumours, but reports that Lundbeck may be tabling a €8 a share, or €3.8bn ($5.05bn), bid for Elan looks as if it needs to be taken with a large shovel of salt.

Yes, the two do have a little in common, as they both specialise in central nervous system products. Their respective market caps are also relatively similar at $3.5bn for Lundbeck and $3.43bn for Elan, which is one among many of the big sticking points about Lundbeck being able to pull off a full takeover.

If the Danish group were to seriously tilt its cap at Elan, with only $559m of cash on the balance sheet it would need to find a very large chunk of funding for the acquisition. When trying to raise the money Lundbeck would have to take into account the not inconsiderable outstanding debt repayments of $1.4bn that Elan has to find by 2011, giving a potential total deal price tag of roughly $6.6bn.

This sum makes Elan look like a step too far in terms of an acquisition, especially as Lundbeck’s chances of raising this money are slim in the current global squeeze on credit. The market also appeared to be giving the rumours little credence today, with Elan shares 8% lower in late afternoon trading at €5.22 and Lundbeck shares 2% higher at DKr99.50.

Necessary disposals

Assuming Lundbeck did finance an acquisition, to recoup some of its outlay it might try to divest some of Elan’s assets, including multiple sclerosis drug, Tysabri, and then hold onto the most valuable product in the pipeline, Alzheimer’s drug bapineuzumab, which is forecast to generate royalties of $1.1bn by 2014.

If Lundbeck were to sell Tysabri to partner Biogen Idec, which has first refusal if Elan changes hands and would probably take advantage of this, it could see $2.5bn from the sale; the treatment’s value according to EvaluatePharma’s NPV Analyzer. A further sale of Elan’s drug manufacturing business EDT might yield another $1bn for the group, but it would still see Lundbeck paying $3.1bn for Elan.

Also how successful Lundbeck would be in its attempts to sell EDT is debateable. Elan has been trying for almost eight months to find a buyer, a feat that has been made harder by the global squeeze on credit that saw interested private equity companies such as KKR and Blackstone walk away from a potential deal (Elan unit sale hurt by credit crunch, October 22, 2008).

Killian Murphy a healthcare analyst with Goodbody Stockbrokers, argues that the lack of available credit would not only hamper a sale of EDT but Lundbeck’s ability to bid for Elan. “If KKR, which has the value equal to the GDP of a small country can’t raise the capital to buy EDT, how is Lundbeck going to raise the money to buy all of Elan?”

Pain for what gain?

There is also the question of whether a deal would really be worth all the effort. Even if it did sell both Tysabri and EDT, Lundbeck would be left with bapineuzumab, a phase III drug that has had mixed and mainly disappointing phase II data (Detailed bapineuzumab data bursts Elan’s bubble July 30, 2008). Sales forecasts for the drug to 2012, to be booked by global partner Wyeth, have also fallen dramatically in the four months between October and February, from $838m to $302m, as analysts have started to question both the drug’s chances of making it to the market and the patient population it would have.

The recent merger between Pfizer and Wyeth could also mean that if the enlarged group opts out of development it would leave Lundbeck holding all the risk and headache of finding the money to conduct the long and costly phase III trials.

No one questions the need for Lundbeck to do something to offset the US patent loss of Lexapro in 2012, which last year accounted for 55% of sales. But many in the market are expecting smaller acquisitions that could give the group access to a US sales force, like its staggered $900m purchase of Ovation Pharmaceuticals (Lundbeck gets its own Ovation from the market, February 9, 2009), rather than large scale acquisition, a
move that would be a better use of its time and money.

**Smaller slice of the pie**

Also, rather than a complete sale Elan has previously stated that its preferred route out of its money troubles is a stake sale ([Elan's strategic review failing to convince, January 13, 2009](#))

This also makes little sense for Lundbeck, which needs more than a share of the sales Elan generated last year. In terms of un-partnered products, it would also only gain access to Elan’s very early stage and therefore risky other Alzheimer’s programmes.

A stake purchase would also make little sense for any other company. Natural buyer Wyeth now has its hands full with its merger with Pfizer, and is unlikely to want to be disturbed from getting on with integration. There is also little reason for Biogen to buy a stake in Elan, as it only gets full rights to Tysabri if there is a change of control at Elan.

As such, despite the resurgence of rumours linking Lundbeck with Elan, the Irish company might be independent for a little bit longer.