Cardiome delivers a deal worth waiting for

Cardiome’s Pharma’s long promised deal over its oral atrial fibrillation treatment, vernakalant, appears to have been worth waiting for. Merck & Co have bought global rights for $60m upfront and up to $640m in potential milestones, a big vote of confidence for the product.

Shares in the Canadian drug maker surged 20% to C$4.75 in early trade. The news should re-invigorate interest in the stock, which has left investors weary over the last two years with regulatory delays to the first-generation intravenous version of vernakalant, and trouble finding a partner for the oral formulation. Although it will not be plain sailing from this point, having Merck on board should make things a whole lot easier.

Cardiome is all about vernakalant. The novel medicine works by the selective blockade of multiple ion channels in the heart that are known to be active during episodes of atrial fibrillation, or irregular heart beat. There is a huge need for effective treatments for the disorder. Sanofi-Aventis’ Multaq, which could reach the market in both the US and Europe later this year, is forecast to generate sales of $1.2bn by 2014.

Delays in the development of vernakalant mean forecasts are much lower, barely scrapping $100m. The IV drug is partnered with Astellas Pharma in the US, but the Japanese company has struggled to win FDA approval since it was filed at the end of 2006. An update from the regulator is anticipated any day soon.

Better progress

Cardiome and its investors will be hoping Merck makes swifter progress. As part of the deal, the US pharma giant also bought ex-US rights to the IV drug, so comparing its progress with European regulators with Astellas’ wrangles with the FDA will be interesting.

Whether Astellas also wanted rights to the IV drug in this region is unclear, however, having just lost CV Therapeutics to Gilead Sciences, if the group was interested, it might need to re-think its bidding tactics (Gilead follows its heart and sweeps CV away for $1.4bn, March 12, 2009).

With Merck on board, plans for phase III trials of the oral pill can now commence at full steam, and trials are expected to start in 2010. The drug is seen as far more valuable than the IV version as it would address a wider audience. Because a primary care sales force will be needed to promote the product, should it make it to market, many analysts had ruled out Astellas as a taker for the oral pill, because of its focus on specialist hospital products.

This did not prevent takeover speculation circulating, however, and some investors might be disappointed that today’s deal was only a licensing deal. As EP Vantage reported earlier this year when Cardiome shares fell below C$4 for the first time, rumours of this deal were said to be to blame, amid disappointment at the lack of a takeout (Cardiome slumps as investors appear to lose patience, February 23, 2009).

Future upside

However, this might not be the case for long. On a conference call today Cardiome said there is only a standstill clause covering one part of the Merck deal. Should oral vernakalant progress well, investors could yet see Cardiome receive a bid approach.

Also interesting were management's comments about not wanting to commit now buoyant resources to R&D. The fact that a $100m credit line came as part of the deal is also worthy of note.

If the company sees drug development as too risky, what is it going to spend the cash on? One answer could be share buybacks. Because although today's deal is certainly good news, Cardiome shares are still trading close to record lows. A share buy back would be even better news, and if it comes alongside long awaited progress on vernakalant IV, then the stock could really make a recovery.