January 03, 2019

Bristol-Myers Squelgene makes its pre-JP Morgan splash


Jacob Plieth

The New Year is not yet three days old, but deal-hungry investors looking forward to next week's JP Morgan conference already have a megamerger on their hands.

Anyone analysing last year's performance of big biopharma stocks would have spotted two clear laggards: Bristol-Myers Squibb, off 15%, and Celgene, down a massive 39%. Today's move by the former to buy the latter looks like an attempt to cure one company's shortcomings by taking on a business mired in even bigger problems.

In fairness, however, Celgene's woes stem from poor management and overpriced acquisitions, which the 39% share price fall has rendered less important. But this is not to say that the deal is cheap: its $74bn value makes it the fourth-biggest pharma megamerger of all time, and a lot is now riding on the Celgene pipeline.

Bristol today highlighted six key "near-term launch opportunities" with over $15bn of potential future sales. This estimate looks high, however, even by the sellside's standards: the five Celgene candidates and one Bristol asset are forecast to bring in just over $5bn by 2024, according to *EvaluatePharma*.

The projects' combined NPV, too, is some way off the deal's $74bn price, and presumably Celgene's cash cow Revlimid will be relied on to make up much of the shortfall. On this morning's analyst call Bristol said Celgene would make it the number-one oncology company, adding to its leading position in cardiovascular disease.

$15bn sales potential? Bristol-Myers Squelgene's near-term launches		
Project	**2024e sales ($m)**	**NPV ($m)**
Ozanimod	1,511	5,615
Liso-cel/JCAR017	1,496	8,664
Luspatercept	911*	3,778**
bb2121	548*	3,714**
Fedratinib	470	2,091
BMS-986165	459	1,355
Total	***5,395***	***25,217***
*Note: luspatercept licensed from Acceleron, bb2121 licensed from Bluebird; *includes all in-market sales; **Celgene's share of NPV only. Source: EvaluatePharma.*		

The market was unimpressed, sending Bristol stock down 12% this morning, meaning that the shares have lost more than 25% of their value over the past 12 months. Considering this fall, the cash and stock elements of Bristol's takeover value Celgene at around $95 per share, a 50% premium to yesterday's close.

Caution

One reason for caution is how much is riding on Celgene's presence in CAR-T, a technology that so far has proved very hard to commercialise. JCAR017, the project Celgene gained with its acquisition of Juno, has been delayed, and even if approved it could struggle to gain traction against competing anti-CD19 CARs like Novartis's Kymriah and Gilead's Yescarta, which themselves have disappointed.

And Celgene is doubly exposed here with bb2121. This project, licensed from Bluebird, could struggle to make a mark against increasing competition in the BCMA-targeting space.

A separate point is that Bristol has no expertise in cell therapy. Today the group insisted that it had been looking to gain a foothold here for some time, seeking to broaden its oncology offering with a "leading franchise". The company also played up CAR-T's possibilities in combination therapies.

In addition to cash and Bristol stock Celgene holders will receive a tradeable contingent value right that will pay out an additional $9 per share if the following assets are all approved in the US: JCAR017 and ozanimod by the end of 2020, and bb2121 by the end of March 2021.

In addition to the JCAR017 hiccups, things have not gone smoothly for ozanimod, which had been forecast to be one of the biggest launches of 2018 before being knocked back by the FDA in February. And Celgene's credibility has also been hit by an apparent delay to fedratinib, which the group had previously promised to file by the end of 2018; even if the company can blame the US government shutdown that started on December 22 it was still cutting it fine here.

Bristol must think that it can avoid these kinds of missteps, something that might not be a tall order judging by Celgene's recent history. And at least Bristol will now have projects on which to focus: the fact that the group only highlighted one in-house pipeline asset might be a telling sign of the state of its R&D.

Not about Revlimid?

On this morning's call Giovanni Caforio, Bristol's chief executive, worked hard to highlight the potential for the pipeline to be acquired, insisting: "This deal is not about Revlimid." However, the importance of this drug, which accounts for two thirds of Celgene's sales, is obvious.

He accepted Celgene's assumptions that the first generic version of Revlimid would be launched by Natco in 2022, four years before full generic entry, but said Bristol was taking a more conservative view. The protestations aside, it cannot be denied that Revlimid is a hugely profitable blockbuster, and will have played a major part in the valuation of Celgene.

And that valuation has been making Celgene look increasingly affordable: as *Vantage* pointed out, Celgene was already trading close to its worst-case scenario last May (*Celgene trades close to its doomsday scenario, May 22, 2018*).

However, it will not go unnoticed that the stock needed to fall another 16% before Bristol pulled the acquisition trigger. Some investors might make the link here with Tesaro, which, while clearly a much smaller company, still had to fall 85% from its peak before Glaxosmithkline decided to buy it last year.

And yet even that move has come in for criticism for being overpriced. Thus investors will now cast an eye at Celgene peers like Gilead and Biogen, and ask themselves whether their own declining valuations have now put them in the acquisition frame, or whether they have further still to fall.

As JP Morgan gets under way next week expect this to dominate conversation in the corridors of the Westin St Francis.

Biopharma's biggest deals			
Acquiring company	**Target company/business unit**	**Deal date**	**Deal value ($bn)**
GlaxoSmithKline	GlaxoWellcome + SmithKline Beecham	Dec 2000	189
Pfizer	Warner-Lambert	Jun 2000	90
Novartis	Ciba-Geigy + Sandoz	Dec 1996	79
Bristol-Myers Squibb	**Celgene**	**Jan 2019**	**74**
Actavis*	Allergan	Mar 2015	71
Pfizer	Wyeth	Oct 2009	68
AstraZeneca	Astra + Zeneca	May 1999	67
Takeda	Shire	May 2018	64
Sanofi	Aventis	Aug 2004	63
Pfizer	Pharmacia	Apr 2003	60
**Now known as Allergan. Source: EvaluatePharma.*			