

## JP Morgan 2019 - Lilly fans the M&A flames with Loxo Oncology deal



[Jonathan Gardner](#)



**Deal adds a marketed small molecule and three pipeline agents, although Lilly will share revenue from Vitrakvi and LOXO-195 with Bayer.**

If the first seven days are any indication, 2019 could represent a turning point in biopharma M&A. Lilly's \$8bn deal to buy Loxo Oncology brings the total committed so far to more than \$80bn, following last week's megamerger of Bristol-Myers Squibb and Celgene.

Other than timing there are few similarities between Lilly and Bristol. Lilly is in a stronger position in new drug development, and the Loxo buy allows it to deepen its work in small-molecule targeted oncology agents. The Indiana group missed out on the first wave of immuno-oncology, but seems poised to be a player in the next round of cancer advances.

The deal lifted shares across the targeted oncology space, with Clovis Oncology, Blueprint Medicine, Epizyme and Agios benefiting as investors saw the potential for more takeouts.

### **Bayer no buyer**

The case for Vitrakvi, which received the US FDA's first small-molecule approval as a tissue-agnostic, biomarker-driven agent, was strong enough that Lilly was prepared to ignore the fact that Loxo had signed 50% of the profits to Bayer in 2017. The same arrangement exists with the phase I asset LOXO-195 which, like Vitrakvi, targets TRK; the groups hope that '195 will be effective in patients who acquire resistance to TRK inhibitors like Vitrakvi.

This shared revenue situation is reminiscent of Lilly's \$6.5bn acquisition of Imclone, which had previously signed over certain rights to Erbitux to Bristol-Myers Squibb. That deal was the subject of a bidding war between Bristol and Lilly in which the Indiana-based group prevailed.

If Bayer made an offer for Loxo it has not stated so publicly. However, the size of the deal, which came at a premium of 68% over Loxo's Friday closing price, suggests that there might have been competition. The combined net present value of Loxo's assets is \$4.5bn, as calculated from *EvaluatePharma's* consensus of sellside analysts, so Lilly needs to hope that the Loxo portfolio outperforms expectations.

The biggest hope in Loxo's pipeline is the RET kinase inhibitor LOXO-292, with an NPV of \$2.7bn thanks to its status as an unpartnered asset. This phase II project is being tested in RET-fusion positive non-small cell lung

cancer, thyroid cancer and medullary thyroid cancer. The phase II Libretto-001 trial is due to read out more substantive data this year, and Lilly said success here would allow it to submit a US filing by the end of 2019.

### Looking for upside

Evercore ISI analyst Umer Raffat wrote today that LOXO-292 likely accounted for \$3.3bn of the \$8bn of Lilly's valuation of the smaller group, with the rest accruing to Vitrakvi and LOXO-195. Thus, should earlier-stage projects – the BTK inhibitor LOXO-305 and a preclinical fibroblast growth factor receptor programme – perform well, the deal could look a lot better, Mr Raffat wrote.

LOXO-292 could face competition from Blueprint's RET inhibitor BLU-667, but at the moment the Blueprint asset is behind in development ([\*American Thyroid Association – Ret competitors move to thyroid cancer, October 8, 2018\*](#)).

Two big deals in the space of a week – in the wake of Glaxosmithkline's \$5.1bn takeout of Tesaro in December – should give the sector hope that big biopharma is pulling out its chequebook once again, especially as hundreds of executives rub elbows in the same hotel in San Francisco. The year-end slide in biotech values might have made them a little more confident of justifying M&A expenditures.

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