Evaluate Vantage

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Bavarian’s chance to draw a line under oncology

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The Danish group seizes an opportunity to focus on what it does best, but its ill-fated flirtation with oncology continues.

Today’s acquisition by Bavarian Nordic of two of Glaxosmithkline’s non-core vaccines makes a lot of sense given the two companies’ profiles: the latter is ramping up activities in high-growth areas like cancer, while the former should focus on its core competency of prophylactic vaccine development.

Surprisingly, however, Bavarian today said it would still pursue development of a “broad and deep cancer immunotherapy portfolio”. This is despite its efforts here consistently firing blanks, including the notorious failure of Prostvac in prostate cancer, and that of the follow-on asset CV301 just last week.

CV301 is an anti-Muc1 and CEA vaccine in mid-stage studies for several cancers. On Friday Bavarian revealed that one of these trials, combining CV301 with Roche’s Tecentriq in bladder cancer, had failed to meet the criteria for expanding enrolment. Tecentriq is approved as monotherapy for this condition.

Prostvac, meanwhile, crashed in pivotal development two years ago, partly owing to its poor mechanistic rationale, and partly because the standard of care in prostate cancer had changed over the course of its development. Several combination trials are continuing, presumably because it would be unethical to close them down.

Prophylactic vaccines

With such a track record Bavarian might have been expected to seize the opportunity presented by the acquisition of two of Glaxosmithkline’s prophylactic vaccines, Rabavert/Rabipure for rabies, and Encepur for tick-borne encephalitis.

These, together with Bavarian’s Jynneos, which last month got US approval for smallpox, will give the group three marketed products, and cut from five to two years the time it hopes it will take it to become profitable. Nevertheless, on an analyst call today Bavarian said its cancer immunotherapy plans remained “on track”.

The deal will cost Bavarian €301m ($336m) up front, and is backed by what it thinks the two products are capable of achieving in their key markets of Germany and the US.

Rabavert/Rabipure and Encepur are expected to bring in a combined €175m in revenue this year, and Bavarian says they are growing at low to mid, and mid to high single digits respectively. The group is banking on Ebitda margins growing from a current 30-40% to over 50% from 2025.

Plugging those figures into a spreadsheet and applying a 10% cost of capital yields an NPV of €552m. In addition to the €301m up-front fee Bavarian is on the hook for a further €495m in milestones, though without knowing precisely what these relate to it is impossible to gauge how much it will actually have to pay.

Valuing Rabavert/Rabipure and Encepur							
	2019	**2020e**	**2021e**	**2023e**	**2025e**	**2027e**	**2029e**
Rabavert/Rabipure sales (€m)	105	109	112	120	129	138	148
Encepur sales (€m)	70	75	80	92	105	120	138
Combined EBITDA (€m)	61	46	67	74	117	129	143
NPV at 10% WACC (€m)		552					
Source: Vantage Analysis based on Bavarian's forecasts.							

Unfortunately Bavarian is also providing short sellers with a neat timeline. Current cash will fund €150m of the consideration, and a €270m bridge facility is in place; next year it says it plans to carry out a €350m rights issue to replace the bridge loan – a dilutive event that would be expected to send its stock down.

Today Bavarian’s share price was off 9%. The group also has a US priority review voucher, gained along with Jynneos’s approval, and says it wants to sell this on to boost its cash balance.

Other cancer assets in its pipeline include BN-Brachyury, in trials for chordoma, and rMVA-CD40L, a high-risk project targeting CD40L. Given the failure rate of cancer vaccines investors would do well to ignore these in valuing the company.

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