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Lilly jumps the gun with Dermira deal

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The $1.1bn that Lilly is paying for lebrikizumab looks low ball, but competing against Dupixent will not come cheap. And then there are the Roche payments.

With biopharma braced for a flood of deal news next week, Lilly decided to grab some attention for its takeout of Dermira by unveiling the move today. At $1.1bn the acquisition is small fry for the big pharma group – and expectations are high for much bigger takeouts to be unveiled at the JP Morgan healthcare conference next week.

Whether investors' wildest dreams will be fulfilled is far from certain, of course. But if the Dermira deal ends up being the biggest, disappointment will be palpable. The acquisition appears to have been struck at almost zero premium, though the biotech's stock had mysteriously climbed 25% this week and had doubled since the beginning of December.

Leaky Chinese walls are the obvious explanation here, though a couple of potential competitors to lebrikizumab, an antibody being developed for autoimmune conditions like atopic dermatitis, fell by the wayside towards the end of 2019. In November Anaptysbio's etokimab missed the primary endpoint in a phase IIb trial for atopic dermatitis, while the real boon for Dermira was what were taken to be underwhelming results from Leo Pharma's tralokinumab.

The private Danish developer has yet to release actual data on the IL-13 targeting antibody, but its low key statement was widely interpreted to mean that results were weak, competitively speaking. Lebrikizumab, which also targets IL-13, looks like it could hold its own again this space's big beast, Sanofi and Regeneron's Dupixent (*Dermira delivers it to Dupixent, March 18, 2019*).

Capping the premium

Presumably Lilly has not seen the tralokinumab results, so this project remains something of a wild card. And there are still other contenders hoping to grab some of the multi-billion dollar sales that Dupixent is generating, with the Jak-1 class in particular looking strong. Pfizer's abrocitinib is due to release head-to-head data vs Dupixent in the coming weeks.

The autoimmune space that lebrikizumab is aiming at is already hugely competitive, and is only getting more so – surely a factor that put a lid on Dermira's valuation. Running the trials that will be needed to carve out a position will also be expensive. *EvaluatePharma Vision's R&D Costs* module estimates that Dupixent's developers will spend almost $3bn in total on the drug's clinical programme, with atopic dermatitis trials accounting for around half of this.

As well as considering these future expenses, Lilly also had to factor in the payments that are due to Roche, from which Dermira had licensed lebrikizumab in 2017. Milestones still due include $180m on regulatory approval and commercialisation, while sales-related payments could reach $1bn. Royalties range from high single digits to mid teens.

Payments from Almirall, which bought rights to the project in Europe last year, could provide some income for Lilly, but of course this also means that the US company will not capture the full economics in this region, assuming that lebrikizumab is commercially successful.

Perhaps the most remarkable fact about this deal relates to the huge sums of money with which lebrikizumab has been associated so far. The $155m that Dermira has paid Roche so far and the $88m received from Almirall will be dwarfed by the $1.1bn cheque that Lilly is about to write. Add to this development costs: Dermira must have invested well over $100m, going by its R&D bill, while Roche must have spent much more as its clinical programme included four phase III trials.

These sunk costs matter little to Lilly, of course, which must have seen the potential to make money here. But it is clear that this is a space in which a lot more cash still needs to spent.