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Biopharma takeovers show quantity, if not quality


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Second-quarter deal values plummeted as Covid-19 spread and the prices of target companies spiralled.

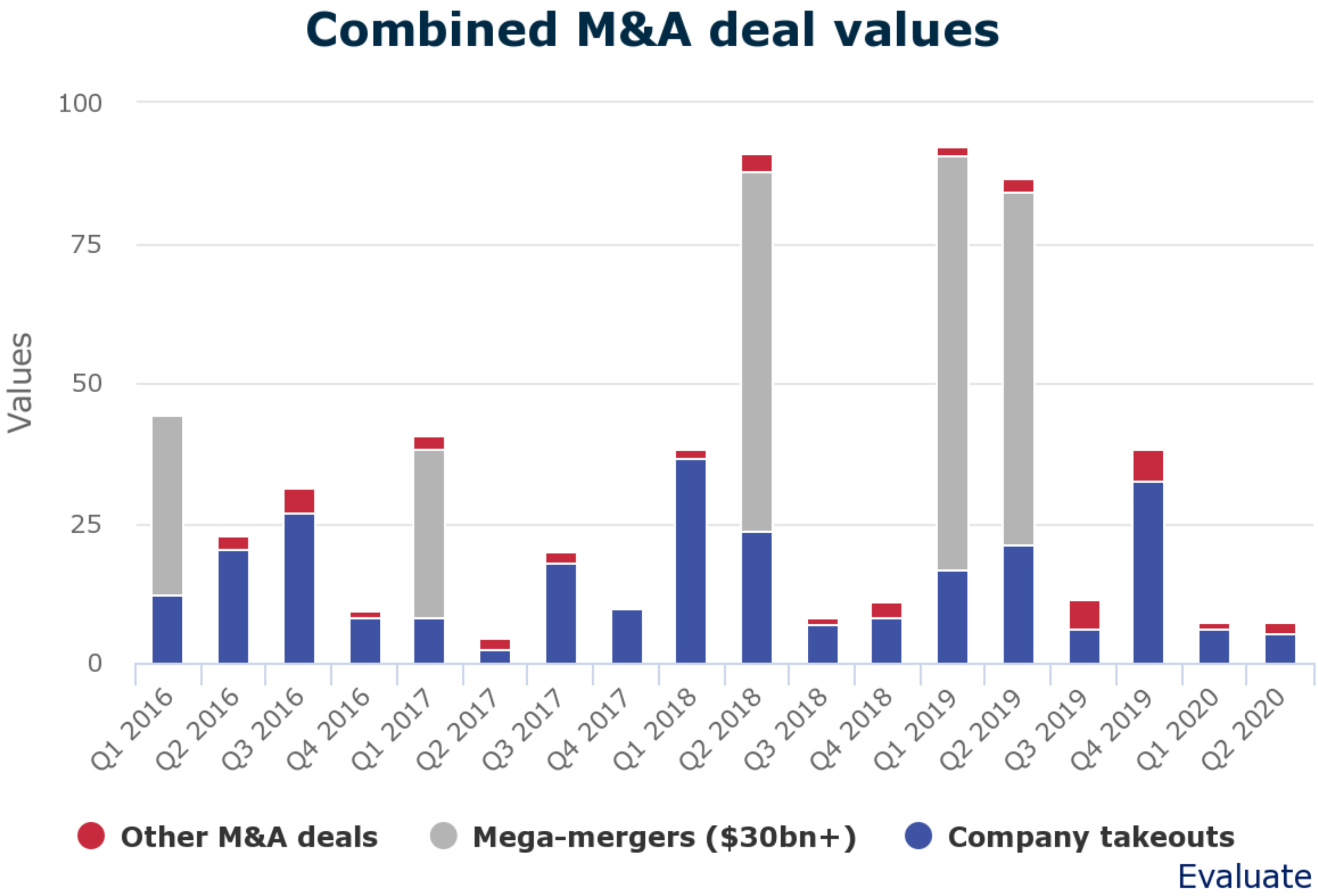
With the coronavirus pandemic turning 2020 into a year unlike any other investors have piled into biopharma, helping the sector avoid the spreading doom and gloom. One area not helped by this surge of sentiment, however, is mergers and acquisitions.

The second quarter continued the pattern of the first: acquisitions are happening in only slightly reduced numbers, *Evaluate Vantage* data show, but with no large deals the combined M&A value has haemorrhaged. It is worth asking whether Covid-19-induced apathy on the one hand and spiralling asset prices on the other have put some aspects of M&A on hold.

It is often said that surges in investor sentiment, and the resulting valuation increases, rarely coincide with upticks in big M&A activity. True, pharma pipelines are apparently forever in need of restocking, but acquirers need to be disciplined, and once a target's price exceeds what is reasonable a deal will not happen.

The overall quarterly deal value trends over the past few years lends some support to this theory. 2016, when the markets cooled off from the investor binge that peaked in 2015, was reasonably healthy for M&A, as was last year, during much of which the Nasdaq biotech index trod water.

2020, however, has been a different story: the index today is at an all-time high, up 17% since January. And the last time quarterly acquisitions came in lower than the $7.1bn recorded in the period just ended was the second quarter of 2017; it might be coincidental, but three years ago the Nasdaq biotech index was standing up 19% year to date.

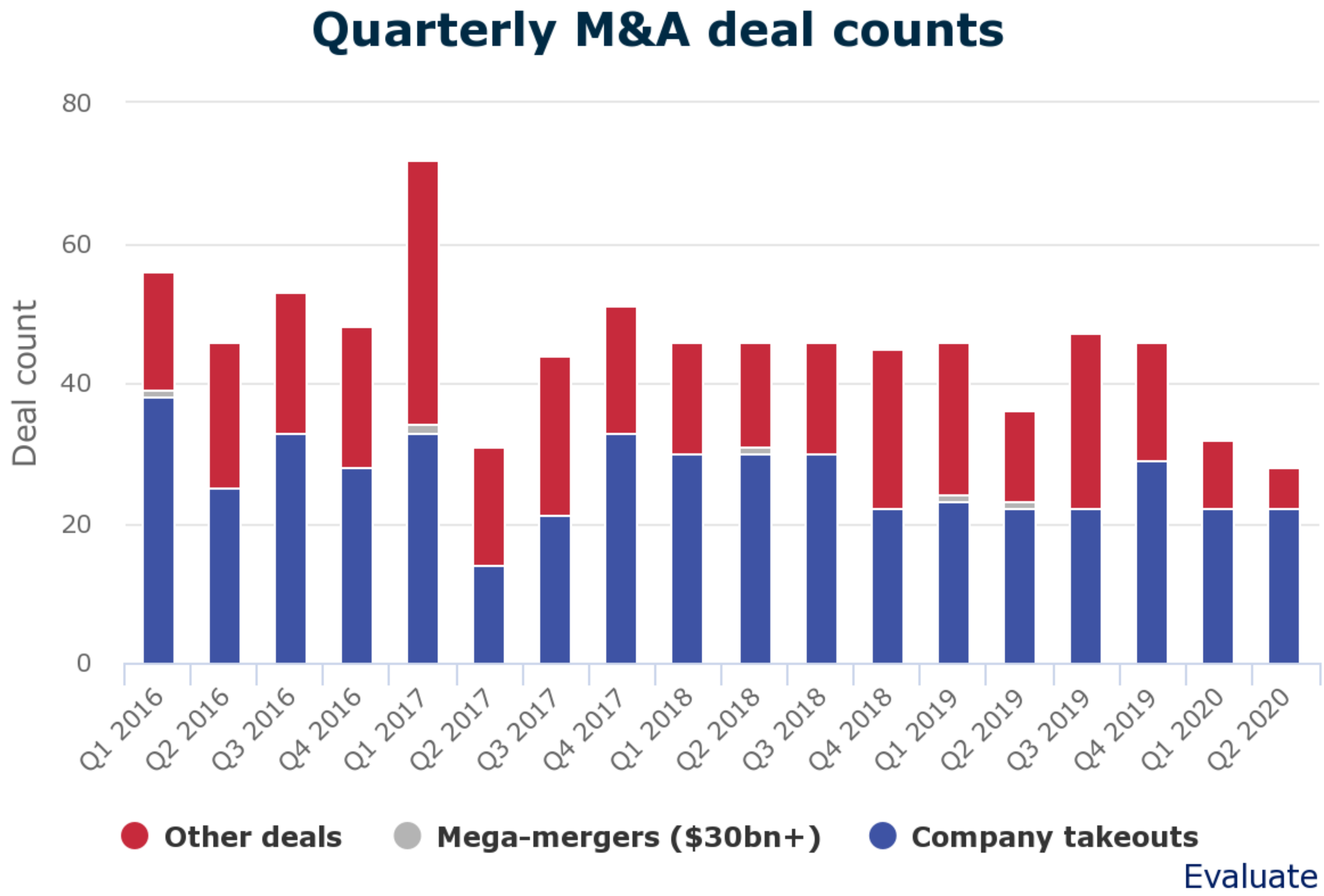


The biggest deals of the most recent quarter are unlikely to linger in the memory; Novo Nordisk's $2.1bn takeout of Corvidia for its anti-IL-6 antibody ziltivekimab, and Gilead making a $1.7bn move on the preclinical oncology player Pionyr are even less impressive than they might seem at first sight.

The Corvidia deal was worth just $725m on signing, while Gilead acquired only a 49.9% stake in Pionyr, and that was for $275m up front. Accordingly, the biggest second-quarter takeout in actual cash on the table was Portola, which Alexion bought for $1.4bn.

The first quarter's biggest takeover was Gilead's $4.9bn buyout of Forty Seven (*Biopharma acquisitions slow, but it's not Covid-19's fault yet, April 7, 2020*).

As with *Vantage's* first-quarter analysis, the latest data include minority and majority stake purchases, acquisitions of business units and options, and these are aggregated in "other deals". And the numbers concern deals only between dedicated drug makers.



Also included are reverse mergers, such as Adicet/Restorbio and Aduro/Chinook in the second quarter. And among the 22 straight takeouts in the period at least one, that of Tetraphase, might play out over some time yet; La Jolla has now increased its bid twice, and there are two other suitors.

That total of 22 takeovers is only slightly below the quarterly average of 27 since the start of 2016. The difference is the reduction in money being spent, an effect that might continue for some time yet.

Top 5 biopharma acquisitions, Q2 2020			
Buyer	**Target**	**Deal type**	**Price ($m)**
Novo Nordisk	Corvidia	Acquisition	2,100*
Gilead	Pionyr	Minority stake + option	1,740**
Alexion	Portola	Acquisition	1,405
Menarini	Stemline	Acquisition	677
Shionogi	Tetra	Acquisition	500
*Note: *up-front amount was $725m; **up-front amount was $275m, for a 49.9% stake. Source: EvaluatePharma.*			