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GW succumbs to a Jazz overture

[Jacob Plieth]

A focus on rare diseases and regulatory acceptance of cannabis make GW the subject of a $7.2bn buyout.

Less than 10 years ago GW Pharmaceuticals was a tiny UK biotech with a failing drug for treating multiple sclerosis spasticity called Sativex. But its transformation into a US company with a focus on rare childhood epilepsy was today rewarded with a buyout by Jazz Pharmaceuticals worth $7.2bn.

True, there was also the matter of the US government's softening stance on the cannabis-derived therapeutics that have always been GW's bread and butter. This undoubtedly made the group economically viable, and turned it into a must-have asset for Jazz, which now adds epilepsy as a third pillar to its business.

The other two pillars are Jazz's original focus of sleep disorders, and a more recently built out oncology division. Deal bankers will note how Jazz has grown through licensing and M&A, signing oncology transactions with Celator, Pharmamar, Immunogen and Redx before buying out GW today.

Epidiolex

The latest takeover is primarily driven by Epidiolex, the cannabis-derived epilepsy drug that has been GW's primary focus since 2013 (*GW's Nasdaq glory provides a blueprint for European biotech, October 8, 2013*).

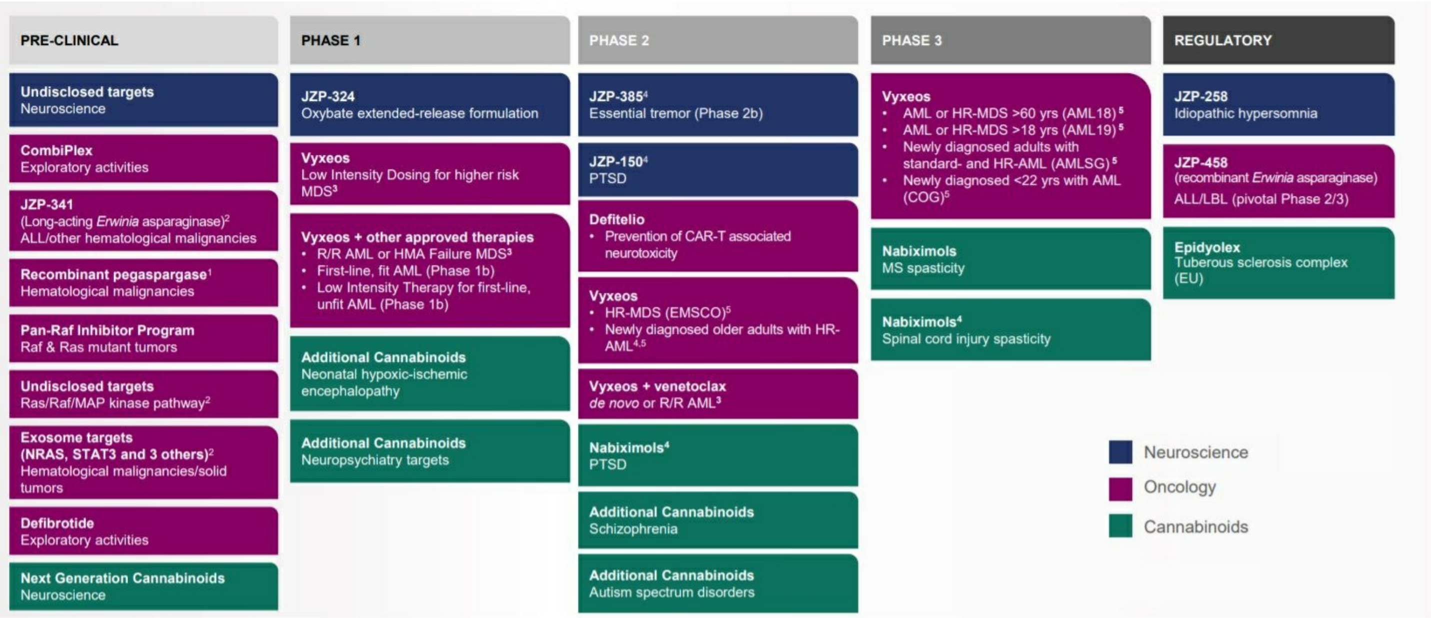
This remains the only US FDA-approved cannabis product, and its sales last year reached $510m, thanks to a strong 2018 launch and broad insurance coverage. Its approved indication is seizures associated with Lennox-Gastaut syndrome, Dravet syndrome and tuberous sclerosis complex.

On an analyst call today Jazz said it expected Epidiolex to become a blockbuster, and the sellside agrees: *EvaluatePharma* consensus forecasts see sales breaching the $1bn barrier in 2022, and hitting $1.6bn in 2026.

Still, a $7.2bn takeout, $6.5bn of which is in cash, prices in more than just one blockbuster. "It's more than Epidiolex," insisted Jazz's chief executive, Bruce Cozadd, highlighting GW's pipeline, whose next hope is nabiximols, a cannabis derivative that could be filed with the US FDA within the next two years.

Of course, nabiximols is nothing more than Sativex, which generates modest revenues in some European countries and Canada. The first targeted indication in the US is MS spasticity, followed by spinal cord injury, post-traumatic stress disorder and other forms of spasticity, indications for which US pivotal trials will start reading out this year.

Behind nabiximols GW is working on novel synthetic molecules for schizophrenia and autism, but these are not yet in the clinic. These represent a departure from GW's original focus on plant-derived products: Epidiolex is a purified and Sativex/nabiximols a complex botanical.



The combined Jazz/GW pipeline. Source: Jazz presentation.

However promising these new projects might be, some Jazz investors will wonder to what extent their company has included such preclinical assets in its NPV calculations. Indeed, similar valuation issues had started to trouble GW holders, and the target company's stock had sold off after hitting an all-time high 18 months ago.

As it stands, for Jazz this weakness provided the perfect opportunity to launch a takeout that GW would accept, giving GW investors what Stifel analysts called a great exit. The optimism even stretched to GW's Dravet competitor Zogenix, which this morning crept up 10%, with a valuation still below $2bn.

Meanwhile, the one-time UK investors who had jumped at the chance to exit GW's UK-listed stock as soon as its Nasdaq flotation provided lots of keen buyers are left wondering what might have been.