

Morphosys mortgages its future



[Elizabeth Cairns](#)



And Royalty Pharma has paid a king's ransom.

It is worrying when a company once known for in-house development apparently has to resort to buying in late-stage development candidates – and perhaps more so when it raises the cash to do so by pawning the family silver.

Certainly this is how Morphosys shareholders have reacted to the group's \$1.7bn buyout of Constellation Pharmaceuticals, funded via a royalty-sharing deal with Royalty Pharma; Morphosys shares fell 16% at the open. But an analysis of *Evaluate Pharma* data suggests that this deal might not be all that unwise.

The purchase

Morphosys is paying \$34 per share in cash for Constellation, a cancer-focused group whose lead candidate is pelabresib (CPI-0610), a BET inhibitor in a [phase 3 trial in myelofibrosis](#). Constellation also has CPI-0209, an EZH2 inhibitor, in [phase 2 in solid tumours and lymphoma](#), plus a couple of preclinical programmes.

Though the price per share came in at a 68% premium to Constellation's close yesterday it is worth noting that Morphosys waited until its target was off the boil. In mid-February Constellation's stock was trading at nearly \$37.

Upon the Constellation acquisition closing, Morphosys's other deal kicks in. Royalty Pharma will hand over \$1.4bn up front and give Morphosys access to up to \$350m in development funding bonds, which can be drawn over the course of a year, plus potential milestones.

The price

In return, Royalty Pharma gets a generous share of Morphosys's income: all of its royalties on Tremfya, the psoriasis blockbuster licensed to Johnson & Johnson, for a start. It will also receive shares of any future royalties on three of Morphosys's clinical projects as well as two of Constellation's.

But a look at the net present value of these assets, as calculated by *Evaluate Omnium*, suggests that Royalty has either paid over the odds or has major faith in what these projects can achieve.

Crunching the numbers on Morphosys's Constellation deal

Project	Phase and indication	NPV attributable to Morphosys	% to go to Royalty Pharma	Total
Tremfya	Marketed, plaque psoriasis and psoriatic arthritis	\$731m	100% royalties	\$731m
Otilimab	Ph3 in rheumatoid arthritis; Ph2 in Covid-19	\$82m	90%*	\$74m
Gantenerumab	Ph3, Alzheimer's	\$4m	60% royalties	\$2m
Pelabresib/CPI-0610 (Constellation)	Ph3, myelofibrosis	\$1,548m	3% of sales	\$46m
CPI-0209 (Constellation)	Ph1/2, solid tumours and diffuse large B-cell lymphoma	N/A	3% of sales	\$0m
NPV attributable to Royalty Pharma				\$854m
Total paid by Royalty Pharma				\$1,425m
*80% royalties & 100% of milestones to go to Royalty. Source: Evaluate Omnium, clinicaltrials.gov & company release.				

If the sellside's forecasts for these compounds are accurate Royalty's up-front fee alone is worth \$571m more than its share of their royalties is likely to bring in.

Does Royalty know something equity analysts do not? It must reckon that the assets still in R&D can succeed beyond what the sellside models - a brave bet indeed considering that one of them, gantenerumab, is in development for Alzheimer's.

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