Evaluate Vantage

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Supernus and Pacira swoop while their targets are down

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Two opportunistic buys today, of Adamas and Flexion, included a contingent value rights component.

The stock market's current slump could provide an opportunity for would-be biopharma acquirers, but only if sellers are willing to accept the new reality. Two takeouts today, of Adamas by Supernus and Flexion by Pacira, suggest that there is a compromise to be made.

Both deals involved targets whose share prices have been in the doldrums, and both also included non-tradeable contingent value rights agreements, with a sum only payable if certain drug sales targets are met. This could be a way of ironing out disagreements over valuation, a particularly relevant element in the current climate.

Gocovri goals

First to Supernus, which is shelling out $8.10 per share, or around $400m, to get its hands on Adamas's marketed Parkinson's drugs, Gocovri and Osmolex ER. Gocovri is the big prize here, if "big" is the right word: the drug, first approved in 2017 for Parkinson's dyskinesia, sold just $20m in the second quarter of 2021.

Hopes had once been higher, and Adamas's stock never recovered from the failure of Gocovri to show a meaningful benefit in walking impairment in multiple sclerosis, which would have expanded its market. Supernus must believe that it can improve on these numbers; it needs new blood to replace its biggest seller, the antiepileptic Trokendi XR, which is to come off patent in 2023.

Adamas shareholders will also hope that Supernus can boost uptake of Gocovri, which was approved for "off" episodes in Parkinson's this year – because, if annual sales hit $150m, they will be due another windfall.

Two CVRs, worth $0.50 per share apiece, will be payable if Gocovri sales reach $150m in any four consecutive quarters by the end of 2024, and $225m in any four consecutive quarters by the end of 2025.

The former might be doable, but it could be tight: Leerink analysts put 2024 sales of Gocovri in dyskinesia at $140m in 2024.

Pain potential

Meanwhile, the rationale for Pacira's purchase of Flexion, for the osteoarthritis knee pain drug Zilretta, is also clear: the former’s lead product, Exparel for post-surgical pain, is facing a challenge from Heron’s rival bupivacaine formulation Zynrelef, as well as contending with Covid-19 headwinds.

Today’s takeout is worth $8.50 per share, or around $425m in total, while the CVR could total $8 per share, with various tiers included within this.

Flexion investors will get $1 per share if annual Zilretta sales hit $250m, $2 for $375m and $3 for $500m. Another $1 per share each is payable on approval of Flexion’s FX201 and FX301, which are in phase 1 for musculoskeletal and postoperative pain respectively. These milestones must be achieved by the end of 2030 for the CVR to pay out.

Sellside consensus, compiled by *Evaluate Pharma*, forecasts that Zilretta, an extended-release formulation of the steroid triamcinolone, will bring in $521m by 2026 – not bad for a drug that did not show a benefit on pain versus generic, immediate-release triamcinolone in phase 3 (*US approval sets up Zilretta for a life of mediocrity, October 9, 2017*).

Zilretta’s 2020 sales were $86m, so the product has a way to go to reach this, however.

For Evaluate Vantage's previous analysis of deals with a CVR component, click here.

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