

Market crash throws up a rich deal for Cullinan



Jacob Plieth



Trading well below cash hasn't stopped Cullinan from extracting more from Otsuka, when a low-ball buyout might have been on the cards.

As biotech investors grapple with plummeting valuations and wonder whether these might prompt audaciously underpriced deal approaches, this morning brought reason for optimism. A tie-up between Otsuka and Cullinan appears to be rooted in the reality of six months ago, when the target was worth double what it is now.

Otsuka's Taiho subsidiary, from which Cullinan had licensed ex-Japan rights to CLN-081 three years ago, has bought these back for \$275m up front. But yesterday Cullinan was valued at just \$330m, so Otsuka could easily have bought it in full. Instead, the biotech is left with an early pipeline – and nearly \$700m of cash.

CLN-081 is a small molecule for lung cancer, specifically targeting the EGFR exon 20 insertion niche. [This space is highly competitive](#), featuring Takeda's marketed Exkivity and Dizal's impressive sunvozertinib/DZD9008, and has also seen Spectrum fail with poziotinib and Black Diamond scrap BDTX-189.

Why?

Last November [Blueprint paid Lengo Therapeutics \\$250m for the preclinical asset LNG-451](#), and today's Otsuka deal has a broadly similar up-front value. The obvious question is why Otsuka was willing to give \$275m for only part of a company carrying an enterprise value of minus \$80m.

One possibility is that the buyback terms had been specified in the companies' original 2019 ex-Japan deal, though SEC filings do not suggest this. Another is that a third party was interested in CLN-081; [the original deal](#) did specify that Otsuka had rights of first-refusal, so perhaps a rival bid focused its mind, and drove up the price.

Why might a deal have arisen at all? The latest data for CLN-081's phase 1/2 study, presented in March, showed a 41% confirmed remission rate at 100mg twice daily, the fourth of five doses. However, at 150mg there was a grade 4 liver enzyme elevation, and those patients were switched to 100mg; the FDA later asked for a food effect study with the 150mg dose.

An update will feature at an oral presentation at next month's Asco meeting, as will further data on Dizal's sunvozertinib.

Small niche

The level of industry activity in EGFR exon 20 lung cancer raises questions over just how many ways this small

cloth can be cut. Evercore ISI analysts say exon 20 insertions account for just 2% of EGFR mutations, which in turn drive some 23% of NSCLC cases; there are already two marketed drugs: Exkivity and Johnson & Johnson's Rybrevant.

CLN-081 was being developed by Cullinan's 80%-owned Cullinan Pearl subsidiary, which Otsuka will now acquire in full. On an investor call today Cullinan boasted at having invested just \$42m in CLN-081's development, and received a \$20m up-front from Zai Lab for a China deal, before Otsuka's \$275m.

This will take its pro forma cash balance to \$685m, extending its runway from 2024 to 2026. Though Cullinan traded up 20% this morning this gave it a market cap of barely above \$400m, illustrating the widening disconnect with its cash position.

Cullinan is left with a very early oncology pipeline that will now need funding, and investors will have to hope that sufficient data are generated to attract additional licensing partners.

Cullinan's remaining pipeline*

Project	Mechanism	Subsidiary (ownership)	Status
VK-2019	EBNA1 inhibitor	Apollo (71%)	Ph2 terminated**
CLN-049	Anti-Flt3 T-cell engager	Florentine (92%)	AML trial started Dec 2021
CLN-619	Anti-MICA/B IgG1	MICA (24%)	Solid tumour trial started Dec 2021
CLN-617	Collagen-binding IL12-IL2 fusion protein	Amber (90%)	IND-enabling studies
CLN-978	Anti-CD19 x HSA trispecific T-cell engager	Nexgem (undisclosed)	IND-enabling studies
Deal with Hutch	TCR versus senescence & cancer-related protein pMHC complex	Jade (undisclosed)	Preclinical
Unnamed	Anti-PD-1 x 4-1BBL fusion protein	Opal (undisclosed)	Preclinical
HPK1	Protein degrader	Option from Mt Sinai	Preclinical

*Note: *Cullinan retains rights to milestones and a 50/50 profit share on CLN-081; **academic-sponsored study ongoing. Source: company presentations.*

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Evaluate HQ
[44-\(0\)20-7377-0800](tel:44-020-7377-0800)

Evaluate Americas
[+1-617-573-9450](tel:+1-617-573-9450)

Evaluate APAC
[+81-\(0\)80-1164-4754](tel:+81-080-1164-4754)

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