

The trigger for a Seagen buyout



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Seagen is vulnerable to takeover, but whether a deal happens - and at what price - depends on at least one catalyst.

Mid-cap biotechs boasting marketed drugs plus a pipeline are pretty rare, so to find one that fits this bill as well as sailing rudderless without a chief exec is indeed special. Little wonder that many think a takeover of Seagen is now inevitable, with Merck & Co cited as the likeliest buyer.

But some analysts are warning not to expect an imminent takeout. One reason for such caution is arbitration between Seagen and Daiichi Sankyo over the technology that lies behind Enhertu; most expect this case to go Seagen's way, but the extent of the win will have a large impact on Seagen's valuation, potentially to the tune of \$5bn.

Evercore ISI's Umer Raffat expects Merck to move carefully, suggesting that the group is still scarred by its 2014 acquisition of Cubist, which [lost a key patent case just hours after that deal was announced](#). "The arbitration should be set in stone," he told a recent investor webinar. "From Merck's perspective it's critical to have that understanding."

Win likely

Interestingly, the question is not whether Seagen wins against Daiichi or not. [Seagen has already prevailed in a jury trial](#), securing a modest \$41.8m for Daiichi's "wilful infringement" of the so-called '039 patent. The arbitration is separate, but it concerns the same issue, and among the patents relevant to it is '039.

The dispute arose because the two companies had [collaborated on developing antibody-drug conjugates \(ADCs\) in 2008](#). Though this deal ended a few years later Daiichi continued working on ADCs, and Enhertu - a [drug that looks to redefine breast cancer treatment](#), and was licensed to Astrazeneca for \$1.4bn - is one result of this effort.

Seagen's main claim is that the linker used in Enhertu is merely an "improvement" on technology that Daiichi had licensed in 2008, but which Seagen continues to own. Thus Seagen demands a share of the economics of Enhertu, and of the related Daiichi ADCs patritumab (anti-Her3), datopotamab (Trop2) and DS-7300 (B7-H3).

A vital difference between the court win and the arbitration is that the '039 patent, the subject of the former, expires in 2024. Arbitration could additionally give Seagen royalties arising from other patents, some going out as far as the late 2030s. Thus it is vital for any bidder to know the potential term of the royalties Seagen might be owed.

A decision in the arbitration case is expected by mid-2022, and the difference in Seagen's valuation, depending on which scenario is held to apply, is around \$5bn.

A bull case for Seagen's ADC windfall

	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Enhertu sales (\$m)*	1,052	1,701	2,561	3,393	4,519	5,533	6,452
Datopotamab deruxtecan sales (\$m)*	15	58	218	479	922	1,211	1,547

Scenarios for valuing the windfall's NPV (\$m)

	3% royalty	5% royalty	8% royalty
Royalty only on '039 patent (to 2024)	147	245	392
Royalty on patents to 2037	1,934	3,224	5,158

Note: *based on Evaluate Pharma sellside consensus to 2028, extended beyond the base case 2031 patent expiry; assumes WACC of 6%; no sellside consensus is available for patritumab deruxtecan or DS-7300.

Seagen's market cap might be nearly \$33bn, but \$5bn either way is not a mere rounding error. A buyer would of course have to decide how much is baked into a valuation, and to account for Seagen's marketed workhorse Adcetris, the disappointing Tukysa and the up-and-coming Padcev.

It is also important to bear in mind that Seagen's market cap has risen by around \$5bn since the Wall Street Journal reported bid interest two weeks ago and later said Merck was pushing forward with a possible approach. Interest was likely catalysed by the departure in May of Seagen's founding chief executive, Clay Siegall, amid domestic abuse allegations.

But the reason Merck in particular might be interested is that it already has around a 3% stake in Seagen, under a [2020 tie-up covering Tukysa plus another disappointing asset, the anti-Liv-1 ADC ladiratumab](#). Evercore, for one, speculates that Merck might have tried and failed to buy Seagen back then, and seeing a new opportunity is now preparing another go.

Other catalysts?

The rationale is simple: Keytruda will lose patent exclusivity some time after 2028, and Merck needs to fill this \$30bn-a-year hole. Seagen would give it the Enhertu royalty, Adcetris, Padcev – itself a potential \$5bn drug – and an ADC platform that might yet have more to deliver.

Still, this brings up a second catalyst whose outcome Merck might want to see before tabling a bid: readout of [cohort K of the EV-103 study](#). This result, expected in the third quarter, could determine whether Padcev, currently approved second line, moves into front-line bladder cancer as part of a Keytruda combo, adding over \$1bn to peak sales.

And with Padcev comes a further consideration, namely Merck's own [Leap-011 study, of Keytruda plus Lenvima](#) in front-line bladder cancer. Not only will this affect the Padcev opportunity, it would attract antitrust scrutiny were Merck to bid for Seagen.

Would anyone other than Merck be interested? Astra or Daiichi, or a joint bid by both, are possibilities, for instance to avoid the ADC royalty payaway. Still, at this point it would take nerves of steel to bid before the arbitration outcome is known.

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