

Nektar and Puretech make strange bedfellows



Jacob Plieth



It is hard to see a combination of the two businesses as much beyond a defensive move in troubled times.

If you are wondering what the logic is behind merging an inhaled drug delivery specialist that turned to oncology with a holding company that has a portfolio of disparate healthcare assets you are probably not alone. This morning's market reaction suggests that investors, too, are puzzled by Nektar's preliminary approach, [confirmed today](#), to Puretech Health.

However, the companies do have things in common: they have decidedly mixed track records, have been punished heavily by the markets, and also boast healthy cash balances relative to their shrunken market caps. Merging them could give much-needed scale, backed by over \$1bn of cash in the bank, as well as allowing some of their less promising holdings to be jettisoned.

But there must surely be fears that Puretech investors will be lowballed – at a \$900m market cap their company is worth around half of what it was 18 months ago – and that a deal will mostly comprise stock. Perhaps this explains the market's reaction to news that Puretech had “exchanged indicative, non-binding proposals with Nektar regarding a possible ... offer for share capital of Puretech”. Puretech shares had climbed 15% yesterday as rumours of a possible takeover spread, but this morning those gains were erased.

Fall from grace

Nektar is smaller than Puretech, capitalised at just over \$600m, with its mid-year cash balance accounting for almost the entirety of this. And Nektar's own shares have had an even more spectacular fall from grace, off 75% year to date, largely because of the [blow-up of bempegaldesleukin](#). They are trading an astonishing 97% below their 2018 peak.

If Nektar has masterminded the approach to Puretech it has certainly not done so from a position of strength.

Mizuho analysts suggest a more prosaic reason for tying the companies up: Puretech's president is Bharat Chowirria, and he had once served as chairman and chief business officer of Nektar. Still, back then Nektar was focusing on inhaled insulin, and had yet to turn to oncology, the strategy that yielded bempegaldesleukin.

On a purely technical level a merger would result in an entity with pro forma cash of \$1.1bn, and would allow each business to be streamlined further. Nektar has already been restructured, cutting 70% of its workforce in the wake of bempegaldesleukin's discontinuation, and its Nasdaq listing could give Puretech more liquidity than it currently enjoys in the US.

But bringing a deal about would not be easy, even if you ignore the valuation problems. Puretech has set up portfolio companies in which it retains stakes of varying sizes, as well as having an R&D pipeline of its own, and it has not been plain sailing for this somewhat complex business. The sellside regularly touts Karuna as indicating the strength of Puretech's model, but this is [just one resounding success](#) among various duds and mediocrities.

It is hard to see Puretech jumping at the chance of adding Nektar to the stable; but, now that Nektar's cover has been blown, maybe a better buyer for Puretech will emerge.

Puretech's selected successes and failures			
Entity	Equity stake	Focus	Comment
Success...			
Karuna	4.3%*	Schizophrenia project KarXT	Pivotal trial succeeded, filing due mid-2023; stock 14x above IPO price
...not so much...			
Akili	14.7%	Video game for therapeutic use	Went public via Spac, now off 75%
Gelesis	23.4%	Anti-obesity device	Went public via Spac, now off 90%
Vor	8.3%	Cell therapy	Trading 80% below IPO price
Vedanta	40.5%	Microbiome	Private; recently cut 20% of staff
Restorbio	Was ~25%	Failed in respiratory tract infection	Reverse merged with Adicet
...and too soon to tell			
LYT-100	NA**	Deuterated pirfenodone for idiopathic pulmonary fibrosis	Topline data from registration-enabling study due by end 2023
Follica	75.9%	Regenerative medicine	Private; FOL-004 said to be "ph3 ready" for alopecia
Sonde	42.7%	Voice-based tech	Private
Entrega	73.8%	Drug delivery business	Private; preclinical
<i>Note: *stake now thought to be ~3.5% after Puretech sold shares after the phase 3 success; **in-house R&D project, all others are/were Puretech subsidiary companies. Source: Puretech.</i>			

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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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