Evaluate Vantage

May 10, 2023

Sobi strikes again

Jacob Plieth

CTI Biopharma sees an unlikely end to its 32-year rollercoaster existence.

Sobi's plan to build a haematology/rare disease business through a series of disparate licensing deals and acquisitions has seen it embark on possibly its boldest move yet, with the group today buying CTI Biopharma for $1.7bn in cash.

This is the Swedish company's biggest deal, eclipsing the $1.5bn it spent on US rights to Astrazeneca's infectious disease drug Synagis in 2018. For CTI, one of the longest-standing small US biotechs, this is quite the conclusion, crowning a long history of ups and downs that featured last year's accelerated US approval of the myelofibrosis drug Vonjo.

CTI is effectively a one-drug company, so Vonjo is the clear reason for Sobi pulling the acquisition trigger. And, as blood products make up about half of Sobi's revenues, on the face of it adding Vonjo makes sense. But myelofibrosis is a new departure: Sobi's haematology franchise mainly comprises the haemophilia factor VIII and IX products Elocta and Alprolix.

What is more, Vonjo is not off to a great start since its March 2022 launch, with Cowen last month reining in forecasts, citing lower than expected sales. *Evaluate Pharma*'s sellside consensus shows revenues reaching $822m in 2028, the year before Vonjo patents start to expire, yielding a current NPV of $1.2bn – below CTI's takeover valuation.

A valuation for Vonjo								
	2022	**2023e**	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**	**2029e**
Sales ($m)	54	144	280	367	512	665	822	822
COGS ($m)	(10)	(27)	(47)	(59)	(86)	(114)	(142)	(142)
SG&A ($m)	(54)	(99)	(107)	(107)	(107)	(133)	(164)	(164)
Pretax profit ($m)	(10)	18	126	201	319	418	516	516
WACC	11.5%							
NPV ($m)	***1,221***							
Source: Evaluate Pharma consensus of sellside analysts.								

A key question for Sobi, therefore, will be how the group can put things back on track in a market where the dominance of Incyte's Jakafi is being challenged, not least by GSK's momelotinib, which has a June Pdufa date. Momelotinib, Jakafi (ruxolitinib) and Vonjo (pacritinib) have broadly similar mechanisms, with activity against tyrosine kinases including Jak2.

A risk to Vonjo is that its US approval is conditional on phase 3 data, expected to come courtesy of the Pacifica study, due to read out by the end of 2026. One comfort is that, should this trial fail, by then it would put at risk just three years of Vonjo's patent-exclusive lifetime.

The CTI acquisition is the latest in a series of Sobi deals that have included rights to ADC's Zynlonta, Selecta's SEL-212 and Novimmune's Gamifant, in addition to Synagis. Meanwhile, the 2019 acquisition of Dova Pharmaceuticals for $915m gave Sobi rights to the haematology drug Doptelet.

Setbacks

Still, things have by no means gone smoothly, and months after the Selecta deal the gout project SEL-212 failed in phase 2, though in March Sobi claimed success in the phase 3 Dissolve studies. Gamifant has been launched, for primary haemophagocytic lymphohistiocytosis, but as expected it has proved tricky to sell.

Indeed, the perception is that Sobi, which last year reported a $258m profit on sales of $1.8bn, is basically being driven by Synagis, an RSV drug that could soon be challenged by Astra/Sanofi's Beyfortus, on which Sobi will receive royalties. In 2021 Agnafit Bidco, a venture formed by several funds, launched an $8bn bid for Sobi, but this fell through after getting insufficient shareholder support.

That was despite being backed by Sobi's 35% holder, Investor AB. And now Investor AB seems to be driving the CTI takeover, committing to take up fully its allocation in a rights issue that will refinance half the debt Sobi is taking on to pay for CTI.

If Sobi has had its share of setbacks so has CTI. That company was formed in 1991, known first as Combined Therapeutics and then as Cell Therapeutics, and floated in 1997. It got the cytotoxic drug Pixuvri approved for lymphoma in the EU after pulling a US filing, but this then failed a confirmatory trial and was divested to Servier.

Pacritinib itself went on US clinical hold in 2016, and a separate myelofibrosis project, tosedostat, was discontinued in phase 2. Remarkably, US and EU pacritinib filings, then under the proposed brand name Enpaxiq, were withdrawn, before the Persist-2 trial was used to secure last year's accelerated label.

While virtually all of CTI's value at float has been wiped out this is a theoretical consideration, and medium-term holders have been rewarded: Sobi is buying the group at a valuation not seen since 2016.