

Emergent seeks diversity in Trubion purchase



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Emergent Biosolutions' purchase of Trubion Pharmaceuticals in a deal worth up to \$135.5m is a bid to help the vaccines manufacturer free itself from a dependence on government contracts. In purchasing the autoimmune and oncology specialist Emergent says it is getting a company with innovative technologies, promising candidates and big pharma partnerships, which will allow it to diversify its research pipeline that currently sits exclusively in the infectious diseases space.

The deal was structured as a cash-and-share purchase worth \$4.55 for every Trubion share, which closed at \$3 yesterday, before the bid was announced. Emergent shares were down 5% in early trading today, likely reflecting caution about dilution and the company breaking into a new field. Trubion shares opened nearly 50% higher, nearing Emergent's purchase price.

It is a good time for Emergent to strike a deal paid for in stock. Since receiving a \$107m contract from the Department of Health and Human Services to complete a Michigan manufacturing facility in July, Emergent shares have increased in value 24%. Meanwhile, Trubion has been reeling since Pfizer scrapped rheumatoid arthritis candidate TRU-015 ([Trubion's RA candidate gets the chop in Pfizer's R&D cull, June 15, 2010](#)); its shares were down 12% since that setback.

Government contracts

Emergent's one marketed product is BioThrax, a prophylactic anthrax vaccine it supplies to the US government's strategic national stockpile in a multi-year procurement contract worth \$400m, which expires in September 2011. The strategic national stockpile is a biodefense programme that has seen increased attention since the events of September 11, 2001, and subsequent anthrax cases.

Sales of BioThrax are projected to be \$204m in 2010 and \$283m in 2016, according to consensus forecasts from *EvaluatePharma*, giving a net present value of \$828m, in excess of Emergent's market capitalisation of \$579m at market close Thursday.

In its clinical stage pipeline is a polyclonal sera for anthrax treatment, vaccines for typhoid, hepatitis B, tuberculosis and group B strep, along with a recombinant next-generation prophylactic anthrax vaccine for which analysts from JP Morgan expect a five-year, \$250m contract to be issued later this year.

While a steady source of income, the government as a customer has the potential to be fickle as administrations change and competition can be fierce. Still, analysts have taken as a vote of confidence the recent HHS contract that will increase the company's annual output from 7 million to as much as 25 million doses.

Diversify

On an analyst call Thursday executives of the Maryland firm acknowledged that its tight infectious diseases focus is a weakness that will be addressed by purchasing Trubion, based in Seattle. Fuad El-Hibri, Emergent's chief executive, said the company had undergone a strategic review to identify new therapeutic areas to pursue based on opportunities for biologics, short development timelines, clear approval paths and degree of specialist focus. Oncology and autoimmune diseases scored highest based on those criteria, Mr. El-Hibri said.

In purchasing Trubion, Emergent is getting a company with two clinical stage compounds, TRU-016, a CD37 inhibitor in chronic lymphocytic leukaemia and non-Hodgkins lymphoma, which is partnered with Abbott Laboratories, and SBI-087, a CD20 inhibitor in RA and systemic lupus erythematosus, which is partnered with Pfizer. Following the TRU-015 cull, Pfizer expressed continued support for SBI-087 and committed to funding development costs.

Analysts have yet to pencil in sales forecasts for the two products, which may be another reason why Emergent's investors were cautious today. Yet Emergent's executives pointed to milestones that may come with success in those programs, along with the technology platforms that come with the purchase as reasons to endorse the purchase. Indeed, Emergent's executives said Trubion's work in autoimmune disorders and

blood cancers will enhance its own infectious diseases line.

Given the relatively early stage of Trubion's candidates and its setback this year, Emergent's investors are rightly cautious about this purchase. But the acquisition does not look expensive, particularly given the \$44m in cash Trubion had in the bank at the end of March. And Emergent is wise to seek to expand its customer base.

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