Evaluate Vantage

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EP Vantage Interview – Shire seeking a fourth way

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Shire has been on quite a run recently, its shares doubling in value over the last 18 months, coinciding with Genzyme's fall from grace, to trade at record highs of £15 which values the UK specialty group at an impressive £8.45bn ($13.2bn). There is now much debate amongst analysts and investors alike about where the company goes from here.

In response to such a conundrum, Shire's chief financial officer, Graham Hetherington, tells *EP Vantage* that aside from keeping up the pace of growth at its existing business which are based around three main pillars of ADHD, HGT and GI, the company is actively seeking assets in a fourth therapeutic area to help maintain its momentum. Naturally Mr Hetherington would not be drawn on specific potential target markets but did disclose that Shire "got very close to a very significant transaction at the back end of last year" in one of eight therapeutic areas the company has identified as having the potential to broaden its business model.

A fourth way?

A move into a new therapeutic area would certainly be a significant step in the company's evolution, although to some extent it should not come as a surprise given Shire's history.

Originally built around the success of ADHD drug, Adderall XR, the company gradually added strings to its bow through company acquisitions and licensing deals to develop its HGT (human genetic therapies) and GI (gastrointestinal) businesses.

However, what is intriguing is how much work has been going on behind the scenes and therefore the advanced stage of its strategic review.

"Over the last couple of years we have brainstormed through over 100 therapeutic areas, and refined that down to about seven or eight targeted areas", says Mr Hetherington. "So far we have rejected two or three, are actively researching on two or three areas, and have still got two to three strategic deep dives to do, so it's that active."

Of the deal that didn't quite materialise last year, the "value and risk profile of that asset did not support us going ahead", according to Mr Hetherington.

In terms of how this move into a new therapeutic area might play out, it seems it could be achieved through a company acquisition or a series of licensing deals at a product level. As to what type of therapeutic market Shire could be targeting, Mr Hetherington made it clear the new area will still have to fit with Shire's core business, namely a specialist, symptomatic disease type area requiring a relatively small sales force.

Venture scouts

What could help the company assess and scour these potential new markets, on top of the working groups that have already been established, is the recent creation of a so-called strategic investment group (SIG) within Shire.

Mr Hetherington says that the concept of SIG is still in its infancy and that no money has yet been assigned to the group, but the intention is that it will make a series of small, "single million dollar investments" in early stage assets, to either complement or broaden Shire's portfolio.

An important distinction for Mr Hetherington is that the SIG will not be constrained by having to work within the context of Shire's current areas of therapeutic focus or technological expertise. As such, when it is properly funded and up and running, the SIG could have an important role to play in Shire's quest for a new therapeutic direction.

While it is clear Shire is not jumping on the corporate venture capital bandwagon just yet, the creation of SIG is certainly evidence of some tentative steps along this path.

Decent deal record

Assuming the size and scale of the move into a new therapeutic area could be as significant as Mr Hetherington indicates, it will be intriguing to see how Shire's investors react.

In terms of company acquisitions, Shire has racked up a pretty decent track record of M&A activity so far - just last month there was a ripple of applause from shareholders and analysts alike when it purchased Movetis for $537m to bolster its GI franchise (*Short but sweet public life for Movetis, August 3, 2010*).

Likewise, two of Shire's biggest transactions within the last five years look like decent bits of business, at least on valuation terms.

New River Pharmaceuticals was acquired in 2007 for $2.6bn, yet today Vyvanse, the ADHD drug which was the primary asset driving the deal as a successor to Adderall XR, is valued at $3.92bn to Shire, according to *EvaluatePharma's NPV Analyzer*.

Meanwhile the $1.6bn purchase of Transkaryotic Therapies in 2005 looks like another shrewd move, given the three main orphan drug products it acquired – Elaprase, Replagal and Vpriv – are currently valued at over $4bn.

Only the 2008 acquisition of Jerini for $455m, primarily to gain control of hereditary angioedema drug, Firazyr, looks like it might struggle to provide a tangible financial benefit given the drug is still only valued at $127m to Shire. Firazyr's regulatory progress in the US has stalled while a number of competitors have passed on through for what is a market with finite potential.

As such, if Shire is on the threshold of making a significant move into a new market, investors will be hoping the company draws on the successful experiences from its past and strikes a transformative deal along the same lines as New River and Transkaryotic.

The stakes and risk involved with such bold moves are high, but so can be the rewards.