BTG makes second UK consolidation move

Amy Brown

BTG’s seemingly single-handed consolidation of the UK life science sector continues. Two years after swallowing Protherics the company has agreed to buy Biocompatibles in a £177m ($282m) deal, once again largely funded by shares.

The move brings a profitable specialty oncology portfolio into the fold which BTG believes has the potential to grow strongly over the coming years, and crucially a useful pile of cash. Biocompatibles’ £26m will swell BTG’s projected year-end cash balance to at least £70m, funds that will come in very useful as two important phase III programmes are currently underway.

Offer on the table

The offer on the table is 1.67 BTG shares and 10p cash for each Biocompatibles share. Based on BTG’s share price of 251p yesterday this values Biocompatibles’ stock at 430p, a 40% premium over the share price before offer talks were announced.

The 10p cash is optional and relates to a deal Biocompatibles struck with AstraZeneca over a diabetes candidate, CM3, currently in early-stage testing. Should the pharma giant elect to take a full license a €25m signing fee will be paid, so shareholders are being given the choice of 10p cash today, or hold out for a potential 56 cents per share.

Shares in BTG dropped 8% today to 230p; considering the dilution to existing shareholders this relatively mild reaction suggests the deal has gone down well with investors. The stock has certainly had a good run; even after today’s dip BTG shares have gained 32% in the last 12 months.

Analysts were certainly supportive, who broadly believe the deal makes financial and strategic sense.

Echoes

Although Protherics and Biocompatibles are very different companies this deal has certain echoes.

Biocompatibles has a portfolio of drug-eluting beads on the market; its DC Beads deliver doxorubicin and are becoming a standard treatment of primary liver cancer – sales climbed 41% to £9.1m in the first half of the year. BTG said it believes this franchise has much potential, to expand in Asia and to other indications.

These bead products are sold in the US via partners and the opportunity to take this all in-house is approaching. This is what BTG is in the process of doing with the Protherics portfolio of anti-venoms which were previously sold by Nycomed.

Leveraging an existing sales infrastructure with more specialty products, building critical mass, is clearly a motivation for this acquisition. BTG already has a broad portfolio of products bringing in sales and royalties, this deal diversifies the company further. Previous success in integrating Protherics gives confidence that the addition of Biocompatibles will also go smoothly.

Boosting growth

Still, it is likely that a significant proportion of the company’s cash pile will go to fund phase III trials of Varisolve, a varicose vein treatment that will enter a third pivotal trial before the end of the year. Safety concerns meant the development of this product is already years behind original plans, and the lack of partnering interest from big pharma means BTG has taken on all the development risk and cost of this product alone.

Results might not be reported until 2012, but this product is likely to remain a key focus in the years to come.

Nearer term, the submission of Voraxaze for approval in the US should complete next year, the treatment for methotrexate toxicity which will sit comfortably with the new Biocompatibles portfolio.
The progress of these two products in the coming years will be tracked with interest, however in the meantime the impact of Biocompatibles will be immediately clear: on a rough proforma basis, the new combined company would have proforma revenues of £125m and add to BTG’s earnings in the first full year.

Previously, analysts were expecting BTG to generate revenues of £91m in the current financial year, with the top line growing to £132m by 2013, according to consensus data from EvaluatePharma.

BTG currently has a market value of £650m; should the consolidation go to plan this deal is great news for the UK life sciences sector, which has struggled to produce growing, profitable companies in the last few years.

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