

Daiichi pays handsome price for Plexxikon

Daiichi Sankyo's \$935m purchase of Plexxikon challenges the long-held notion that striking early stage and broad deals with big pharma can limit your strategic options further down the line.

To many observers Swiss healthcare giant Roche appeared to have ring-fenced the California biotech by securing global rights to its franchise of BRAF inhibitors, including the jewel in its pipeline, PLX4032 (RG7204), in phase III for melanoma. Yet Daiichi's swoop proves otherwise and was undoubtedly helped by Plexxikon's recent move to gain US co-promotion rights back from Roche over PLX4032. And with Daiichi paying \$805m upfront, the biggest deal for a privately-held discovery stage biotech (see table), Plexxikon's investors are receiving a handsome return on the \$67m invested over the last ten years.

Handsome gains

Indeed, Plexxikon has been able to raise the relatively modest \$67m in three financing rounds over a ten-year period because it received nearly \$200m in non-dilutive funding from product partnerships. Although Roche is Plexxikon's main partner today, the company previously struck a number of deals with the likes of Wyeth, Genentech and Servier.

Roche struck the first of two deals with Plexxikon in 2006, when PLX4032 was still in pre-clinical testing. The targeted, oral small molecule has made rapid and impressive progress through the clinic and represents one of a number of encouraging new treatments for melanoma ([Therapeutic focus - Melanoma awaiting breakthrough but data approaching, September 10, 2010](#)). Regulatory filings in the US and Europe are expected this year and sales could reach \$350m by 2016, according to consensus forecasts from *EvaluatePharma*.

Plexxikon's biggest shareholders include Alta Partners, Advanced Technology Ventures, and Walden International, while it is interesting to note an existing Japanese connection having received investment from Astellas Venture Capital and Daiwa SMBC Capital. The return on their respective investments is likely to be significant and emphasises that although the IPO window is open for fledgling biotechs, the real money is still in trade sales.

The table below shows that the two biggest deals for private biotechs have occurred within the first few months of 2011, with Amgen's \$1bn purchase of Biovex just ahead of Plexxikon in total deal terms ([Amgen provides BioVex investors a welcome early exit, January 25, 2011](#)). And with Gilead Sciences' \$600m acquisition of Calistoga Pharmaceuticals last week, trade sales are looking increasingly attractive and valuable for private biotechs.

Top 10 private biotech acquisitions

| Rank | Acquiring Company | Target Company | Total Deal Value (\$m) | Upfront Fee (\$m) | % Upfront Fee | Deal Date |
|------|----------------------|----------------------------|------------------------|-------------------|---------------|-----------|
| 1 | Amgen | BioVex | 1,000 | 425 | 43% | 2011 |
| 2 | Daiichi Sankyo | Plexxikon | 935 | 805 | 86% | 2011 |
| 3 | Onyx Pharmaceuticals | Proteolix | 851 | 276 | 32% | 2009 |
| 4 | Eli Lilly | Avid Radiopharmaceuticals | 800 | 300 | 38% | 2010 |
| 5 | Celgene | Gloucester Pharmaceuticals | 640 | 340 | 53% | 2009 |
| 6 | Novartis | Corthera | 620 | 120 | 19% | 2009 |
| 7 | Gilead Sciences | Calistoga Pharmaceuticals | 600 | 375 | 63% | 2011 |
| 8 | Sanofi-Aventis | TargeGen | 560 | 75 | 13% | 2010 |
| 9 | Astellas Pharma | Agensys | 537 | 387 | 72% | 2007 |
| 10 | Sanofi-Aventis | Fovea Pharmaceuticals | 515 | 128 | 25% | 2009 |

What is impressive about the Daiichi-Plexxikon deal is that 86% of the total value is being paid upfront, a clear reversal of recent trends for back-end loaded deals with a significant portion attached to earn-outs, or so-called contingent value rights (CVR) ([Sanofi-Genzyme deal throws spotlight on CVRs, February 18, 2011](#)). In this case, Daiichi will pay Plexxikon shareholders the remainder based on launch and commercial milestones for PLX4032.

As such, the \$805m paid upfront by Daiichi is almost double the amount Amgen will pay to Biovex, in a deal where less than 50% was committed upfront.

Cancer remains hot

As for Daiichi, the move on Plexxikon is another attempt to build an oncology franchise, complimenting its phase III lung cancer kinase inhibitor candidate, ARQ 197, licensed from ArQule in 2008 ([Poor response to ArQule deal illustrates market's refusal for optimism, November 12, 2008](#)).

It also represents Daiichi's first major acquisition since purchasing a majority stake in Ranbaxy Laboratories in 2008 for \$3.95bn, and is the Japanese company's first real M&A activity in the biotech scene.

Although the consensus among analysts seems to be that Daiichi's move on Plexxikon is well-founded, there is some concern they have paid a high price, particularly that the deal has little hedging against risk should PLX4032 run into regulatory roadblocks. The high price could be down to Daiichi having to fight off significant external interest in Plexxikon.

Nevertheless, Daiichi has plenty of cash to fund such a deal - \$4.8bn as of the end of December 2010 - and following recent oncology deals by its peers in Astellas Pharma, Eisai and Takeda, it is clear that Japanese pharma's desire for hot cancer assets continues to grow.