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Cephalon shopping spree continues with ChemGenex purchase

Jonathan Gardner

Cephalon has continued its shopping binge with its offer to buy out Australian oncology specialist ChemGenex Pharmaceuticals. Undeterred by share-price losses, the Pennsylvania group seems committed to its strategy of buying high-risk, niche companies even as blockbuster narcolepsy pill Provigil nears the end of its patented life (*Cephalon buys Gemin X but cannot buy investor love, March 22, 2011*).

The deal gives it late-stage blood cancer candidate omacetaxine mepesuccinate, which has already had a rough ride at the US regulator (*Omapro adcom surprise sends ChemGenex shares tumbling, March 23, 2010*). Investors were once again underwhelmed by the deal – Cephalon shares were largely unmoved in early trade today.

Oncology asset

As part of the buyout, Cephalon has converted A$15m of ChemGenex debt into shares and executed options on holdings owned by Stragen International and Merck Sante, giving it a 28% stake in the Geelong-based company. The A$0.70 offer on the shares it does not own constitutes an A$159m ($163m) buyout and values ChemGenex overall at A$225m. Cephalon will use available cash for the purchase.

The transaction chiefly buys Cephalon the chronic myeloid leukaemia drug omacetaxine, previously known by the brand name Omapro. Omacetabine will join CEP-701 in Cephalon's late-stage oncology pipeline. The drug is a potential first-in-class cetaxine, targeting patients who have failed on two or more tyrosine kinase inhibitors.

Initially the company filed for approval in patients with a genetic mutation called T315I , but the FDA sent the therapy back for more work last year after questions were raised about the reliability of the test for the mutation; the application in Europe was also withdrawn. The company intends to reapply in both regions in 2011 as a treatment for TKI-failure patients, regardless of mutation status. Hospira already holds rights to Omapro in Europe.

Unlike all other of Cephalon’s experimental products, omacetabine has some sales estimates attached to it, albeit on the limited side. The only major analyst covering ChemGenex is RBS Morgans, which recently estimated A$97.9m in product sales for ChemGenex's 2013 fiscal year, assuming FDA and European approvals are granted in 2012.

Analysts at UBS wrote today that Omapro could add $140m in sales in fiscal 2015.

Pipeline woes

Investors are currently placing zero value on Cephalon’s pipeline. The group's market capitalisation of $4.36bn is roughly equal to the net present value of its eight marketed and branded products, and today’s investor reaction suggests the ChemGenex deal has not inspired a more vigorous endorsement of Cephalon’s growth strategy.

Shares have fallen one-fifth in a year, and 6% since the beginning of 2011. Meanwhile, one of the bigger recent share price increases came on March 24, a 2.3% gain the day the company fought off a generic challenge to painkiller Fentora, valued at 9% of the company’s market cap, demonstrating where investors believe Cephalon’s value lies.

Shareholders were more impressed and encouraged by the Mepha purchase last year (*Cephalon, looking for sales growth, finds Mepha, February 1, 2010*). The company is forecast to receive $558 million in sales from generics in 2016, limiting the losses from Provigil’s patent expiry in just over a year, although still not a formula for overall growth

While the Mesoblast, Gemin X and ChemGenex deals may pay off in the long run, it seems Cephalon investors still await a deal which addresses the company's more pressing short-term revenue issues.

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