

## Interest in Australian pharma sector continues to grow

Cephalon is obviously not deterred by long distance relationships ([Cephalon shopping spree continues with ChemGenex purchase, March 29, 2011](#)). Striking its third deal in Australia in as many years, the US company's business development team 'down under' is keeping busy.

In fact, the number of deals involving Australian drug developers has noticeably ticked up in the last few years, with 10 sizeable transactions worth \$1.4bn taking place in 2010, *EvaluatePharma* data shows. And with just 16% of the country's active pipeline of 223 candidates out-licensed, licensing and M&A activity in Australia is likely to remain buoyant (see tables below).

Australian M&A Deals since 2000, split by target and acquirer						
	Australian Target		Australian Acquirer		Total M&A	
Year	Deal Value (\$m)	Deal Count	Deal Value (\$m)	Deal Count	Deal Value (\$m)	Deal Count
2011 (YTD)	231	1	-	-	231	1
2010	1,215	6	203	4	1,418	10
2009	510	5	24	4	534	9
2008	-	-	-	-	-	-
2007	247	2	-	-	247	2
2006	2,108	2	12	1	2,120	3
2005	-	-	884	7	884	7
2004	-	-	925	1	925	1
2003	-	-	80	1	80	1
2002	-	-	-	-	-	-
2001	1,360	1	152	1	1,512	2
2000	-	-	-	1	-	1
<b>Total</b>	<b>5,670</b>	<b>17</b>	<b>2,280</b>	<b>20</b>	<b>7,950</b>	<b>37</b>

Australia's public sector is dominated by CSL, the \$18.5bn blood plasma and vaccines giant, which tried and failed to get even bigger a couple of years ago. Antitrust concerns scuppered its attempt to buy Talecris two years ago, and then concerns about oversupply in the blood plasma market caused growth to falter, although the company's shares managed to edge higher over 2010, suggesting the outlook is improving now ([Shares in plasma companies bleeding value over slowdown fears, April 26, 2010](#)).

The S&P/ASX 300 pharma and biotech index only contains five stocks: CSL, Mesoblast, Acrux, Biota and Pharmaxis. As CSL dwarfs all others, the index's performance essentially reflects this company's performance.

However, excluding CSL the country now has 13 drug developers worth at least \$100m, the table below shows.

Mesoblast, in which Cephalon bought a 20% stake last year for \$280m, is now a sizeable player by international standards, with a market value topping \$2bn following a stellar share price performance last year.

Other Australian success stories include Pharmaxis, which hopes to win European and possibly US approval for its cystic fibrosis therapy, Bronchitol, later this year. Meanwhile Acrux and partner Eli Lilly won US approval for testosterone replacement therapy Axiron last November, triggering a substantial \$87m milestone payment.

The absence of sizeable venture capital industry providing larger and later finance rounds means Australia has a lot of small, publicly-traded companies. These firms have to seek investment from public investors – a buoyant and enthusiastic retail or non-professional investor sector also helps. Approximately a quarter of the country's biotech sector is listed, according to some estimates.

According to *EvaluatePharma*, there are 29 Australian drug developers in the sub \$100m bracket – 21 of these are valued at less than \$20m. From companies like cardiovascular diagnostics group Agenix to DNA-directed RNAi specialist Benitec to neurology firm Neurodiscovery, the country's nano-cap sector is broad.

### Top 20 Australian Public Companies by Market Capitalisation

		Market Capitalisation (\$m)	Cash raised from equity (00 - 10) (\$m)	Share price performance (A\$)		
				2009	2010	Change %
1	CSL	18,499	n/a	32.49	36.29	+12%
2	Mesoblast	2,204	431	1.36	4.67	+243%
3	Pharmaxis	607	196	2.72	2.98	+10%
4	Acrux	606	52	2.18	3.54	+62%
5	Sigma Pharmaceuticals	539	119	0.99	0.40	-60%
6	SIRTeX Medical	305	1	7.44	6.05	-19%
7	Starpharma	276	44	0.69	0.84	+21%
8	Prima BioMed	193	30	0.15	0.17	+13%
9	QRxPharma	184	-	0.78	1.48	+89%
10	Biota	179	41	2.41	0.99	-59%
11	Alchemia	131	64	0.72	0.63	-13%
12	ChemGenex Pharmaceuticals	124	83	0.99	0.46	-54%
13	Halcygen Pharmaceuticals	104	-	0.66	0.69	+5%
14	CBio	101	39	0.26	0.22	-17%
15	Phosphagenics	86	38	0.07	0.12	+71%
16	pSivida	81	79	4.26	4.72	+11%
17	Prana Biotechnology	65	55	0.15	0.13	-17%
18	Clinuvel Pharmaceuticals	56	68	2.70	2.07	-23%
19	Avexa	51	133	0.16	0.04	-76%
20	Probiotec	33	-	2.48	0.60	-76%

Still, unsurprisingly the deals struck in the last couple of years have been between more advanced companies and products. Of the ten struck last year, six of which involved an Australian company as target, the most significant was Aspen Pharmacare's acquisition of Sigma Pharmaceutical's generics unit, followed by Cephalon's deal with Mesoblast and Perrigo's swoop on OTC specialist Orion Laboratories for \$48m.

Australian companies were also the buyers; Mesoblast bought sister company Angioblast Systems prior to the

Cephalon deal, while Pharmaxis bought Canadian respiratory specialist Topigen Pharmaceuticals for \$20m.

Recent share price gains for the country's bigger-listed companies will fuel overseas ambitions - only this week Biota announced a strategic review, signalling a desire to capitalise on its success with flu anti-viral Relenza which has left the company with \$76m in the bank and a second generation antiviral, laninamivir, only licensed so far to Daiichi Sankyo in Japan.

Meanwhile, the analysis of Australia's drug pipeline, below, reveals a number of candidates remain available for willing partners in several territories. For example, QRxPharma has retained worldwide rights to a phase III candidate for post-operative pain, flupirtine, while Viralytics has a virus-based targeted therapy in phase II trials for melanoma, Cavatak.

As such, Cephalon is unlikely to be the only international player looking 'down under' for deals.

<b>Active R&amp;D Pipeline of Australian Companies</b>			
<b>Phase</b>	<b>Product Count</b>	<b>Licensed</b>	<b>% licensed</b>
Filed	3	1	33%
Phase III	10	5	50%
Phase II	44	10	23%
Phase I	33	5	15%
Pre-clinical	84	10	12%
Research project	49	5	10%
<b>Total</b>	<b>223</b>	<b>36</b>	<b>16%</b>

All data sourced to EvaluatePharma.

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