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## Intercell and Vivalis seek safety in numbers with merger



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It is often said that two heads are better than one, and, in the case of the proposed “merger of equals” between the Austrian biotech Intercell and French group Vivalis to form Valneva, the logic of turning two low-key companies into a bigger, brighter prospect certainly looks good.

Intercell for its part could do with a change in focus. The group has in recent months struggled after pipeline setbacks, and more recently has seen sales disappoint for its one marketed product. This had led many to believe that the company would remain in the doldrums for the foreseeable future ([Intercell resets strategy as staph vaccine fails](#) June 08, 2011).

### Doing the maths

Under the deal Intercell shareholders will get 13 Vivalis shares for every 40 Intercell shares, which at the companies' respective share prices as of Friday is a 38.5% premium for Intercell stockholders and values the company at about €133m.

When the deal is closed, an event expected in May, Vivalis shareholders will have a 55% stake in Valneva and Intercell shareholders the remainder.

The deal is likely to go ahead given that almost two thirds of Vivalis shareholders have given it the nod, including the influential Groupe Grimaud. On Intercell's side the union has been blessed by Novartis, which is the biggest shareholder in the group with a 15% stake.

### Complementary business

On the surface this looks like a sensible move for both of the companies, which have apparently been in talks for several months. It makes two rather middling, loss-making businesses a more attractive proposition, especially if they can achieve the synergies of €5m-€6m a year they have outlined.

To date Vivalis's focus has been on the EB66 cell line that enables the creation of more cost-effective vaccines. The group also has screening technology focusing on the discovery of monoclonal antibodies.

In turn, Intercell has commercialised its Japanese Encephalitis vaccine, Ixiaro, and has a number of promising, if risky projects in the pipeline, including its *Pseudomonas aeruginosa* drug, IC43, and a phase II prophylactic tuberculosis vaccine.

### External blessing

So far analysts have welcomed the move. Gary Waanders of Nomura said the deal would provide a more resilient base for future growth than either company had alone.

The same logic applies to the group's two pipelines as there will be two revenue streams in the form of Ixiaro and Vivalis's EB66 cell line. This should help to de-risk the rest of the pipeline and it will also see two complementary vaccine and antibody technology platforms come together under one roof.

The newly formed Valneva will also benefit from an improved balance sheet, with proforma cash reserves of €94m as of September 30. Also, to get the new company off to a good start in life, a dowry is being provided in the form of a €40m rights issue, which will be launched once the deal completes. This has already been supported by Fonds Stratégique d'Investissement, to the tune of up to €25m.

But it is this dilutive financing that could be behind the almost 6% fall in Vivalis' shares this afternoon to €6.96. Intercell shares were up 14% to €1.98.

### No white knight

But the deal will have no doubt disappointed Intecell shareholders, who must have been secretly hoping for a takeout by IC43's development partner, Novartis. There had been hopes that the Swiss giant might have made

its move for Intercell if data from the group's phase II/III trial had been positive. The first readout is expected in the middle of 2013.

Given that the likes of UBS had been attributing more than two thirds of Intercell's target share price of €6 to IC43, shareholders might well have got a much better valuation multiple. But Novartis has instead backed the Vivalis deal, committing its 15% equity stake, indicating that a takeout was never really on the cards.

Intercell shareholders, however, will get to share in any upside if IC43 does come good. They are set to receive 13 preferred shares for every 40 Intercell shares, and these will convert into 0.481 new Valneva share if and when IC43 is approved.

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