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January 17, 2013

M&A bankers should take the hint from Onyx

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If you are an investment banker and for some reason have not done so already, now is the time to pick up the phone and pitch your biotech M&A idea. If you have already tried and been rebuffed, try again; given the amount of cash thrown at biotech companies in the past week several could go on the prowl for acquisitions.

When a company like Onyx Pharmaceuticals – hardly desperate for a handout and boasting three marketed drugs – goes out and raises $359m in equity you know that we are still in a bull market, last October's wobble notwithstanding. The pure M&A angle aside, more traditional reasons for raising cash are of course still in play too.

Companies desperate to extend their cash runways to reach a key data or regulatory inflection point should, like Aveo Oncology, strike now while the iron is hot. Are there any out there besides InterMune, Theravance and Pacira with debt that comes due in the coming few years? If so now could be the time to refinance.

Overheating?

As the dust from the JP Morgan conference settles it is clear that biotech investor sentiment – at least in the US – remains undiminished in spite of the vastly inflated valuations of several constituents of the Nasdaq biotech index (*Big beasts exert influence as biotech comes back from the dead, November 30, 2012*).

Just yesterday four companies – Onyx, Theravance, InterMune and Alnylam – priced fund-raisings worth a combined $962m. Onyx had $555m in gross cash at the end of the third quarter but says it needs another $359 (excluding overallotments) to fund R&D, sales and marketing; the layman might think that the company is spending beyond its means.

It is more likely, though, that Onyx is building an acquisition war chest – a smart move given its 2012 share price performance. Considering its current increased valuation and the extra money being raised the company itself is even less of an acquisition target than it was, and its partner Bayer should now be kicking itself even harder for not having pulled the acquisition trigger (*A chill pill for the Onyx buyout bulls, July 3, 2012*).

Onyx has $171m of 2016 senior debt on its balance sheet, and swapping this for cheap equity might also make sense. Refinancing is certainly the main idea behind InterMune's mixed $228m net convertible debt and equity offering – its $350m of cash is offset against a $240m current convertible – and bankers will be glad to hear that acquisitions are also on the agenda. InterMune must have jumped at this funding opportunity at a time when its stock is 80% off a 2011 peak.

Convertible offerings were also the funding vehicle of choice for Theravance ($250m) and Pacira, which priced a $100m raise on 15 January. Theravance, which in the third quarter had $273m of cash, needs more money to fund milestone fees that will become due to GlaxoSmithKline if jointly developed projects like Relvar/Breo are approved, and already has a $172m convertible on its books.

Traditional needs

Corporate financiers will also take heart in the fact that recent days have seen companies raise cash for more traditional reasons, with Aegerion closing a $68m deal to fund the launch of the recently approved Juxtapid.

Clearly bankers must realise that it is time to seize the moment. Alnylam, the US biotech that can seemingly do no wrong, gave no specific reason why it needed to boost its $228m cash balance by another $125m gross, but its shares rose 10% on the news.

Even the strongly out of favour Aveo raised $50m – presumably taking advantage of the favourable climate now rather than waiting until after the hoped-for US approval of its much-criticised kidney cancer candidate tivozanib, whose potential commercialisation it will fund with Astellas Pharma.

A corporate finance opportunity like this might not come around again for another decade.

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