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In licensing, you don’t always get what you pay for


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To access the right asset a licensor needs to be prepared to pay top dollar up front, not to mention agreeing to hand over significant fees as milestones are met. But how well are the industry’s bets panning out?

EP Vantage has looked at *EvaluatePharma’s* deal data for alliances done in the phase II licensing sweet spot – an analysis that reveals some expensive failures, as well as pinpointing ongoing projects to which analysts nevertheless have yet to assign any value. On the other hand, some big marketed drugs were picked up at phase II for a song (see tables below).

In the analysis *EP Vantage* has considered only those deals done at phase II since it is here that most is at stake, with projects yet to show definitive promise at phase III, but already able to boast safety and preliminary efficacy data. It is here that biotech frequently chooses to bow out, leaving big pharma to make the big phase III bet.

A project’s NPV, as determined by sellside consensus data compiled by *EvaluatePharma*, is then compared against the up-front fee paid to strike the deal. Deals where the signing fee has not been disclosed are, for obvious reasons, excluded.

An unexpected winner

Somewhat surprisingly, the top deal on this metric turns out to be a now largely forgotten 1997 alliance between GlaxoSmithKline – SmithKline Beecham as it was then – and the Virus Research Institute to develop the oral rotavirus vaccine that later became Rotarix. A year later Virus Research was acquired by Avant Immunotherapeutics (now known as Celldex).

Of course, this analytical approach is somewhat limited, given that it captures neither the subsequent milestone fees that the senior partner might have had to hand over, nor the often considerable R&D investment needed turn an idea into a marketed drug. However, the NPV expressed as a multiple of the total biodollar deal value does address at least this first point.

The top 10 NPV multiples for deals done at phase II							
Product	**Licensee**	**Licensor/originator**	**Up-front fee ($m)**	**Deal value ($m)**	**Today's NPV ($m)**	**Current status**	**NPV multiple of up-front**
Rotarix	GlaxoSmithKline	Virus Research Institute (Celldex)	0.5	19.0	2,126.2	Marketed	4,252.4x
Tasimelteon	Vanda Pharmaceuticals	Bristol-Myers Squibb	0.5	40.5	253.3	Filed	506.6x
Xiaflex	Auxilium Pharmaceuticals	BioSpecifics Technologies	2.5	15.5	555.7	Marketed	222.3x
Rolapitant	Tesaro	Opko Health	6.0	121.0	1,149.1	Phase III	191.5x
Cleviprex	The Medicines Company	AstraZeneca	1.0	6.0	92.4	Marketed	92.4x
AZD4694	Navidea Biopharmaceuticals	AstraZeneca	5.0	22.5	235.3	Phase III	47.1x
Pacritinib	Cell Therapeutics	S*BIO	15.0	147.5	523.1	Phase III	34.9x
Yondelis	Johnson & Johnson	Grupo Zeltia	20.0	20.0	647.1	Marketed	32.4x
Seebri Breezhaler	Novartis	Arakis (Sosei)/Vectura	30.0	405.0	920.0	Marketed	30.7x
Eylea	Bayer	Regeneron Pharmaceuticals	75.0	320.0	1,927.7	Marketed	25.7x

Other marketed drugs that stand out include the long-acting muscarinic antagonist Seebri Breezhaler and the macular degeneration drug Eylea, which is set to breach blockbuster revenue this year yet was picked up by Bayer for $75m.

True, projects yet to be launched likely carry NPVs based on analyst forecasts that in the current biotech bubble are exaggerated. This might be the case for Tesaro’s anti-emetic rolapitant and Cell Therapeutics’ JAK-2 inhibitor pacritinib, both of which in any case need to be licensed out further (*A few stars shine among the most valuable unpartnered assets*, *May 31, 2013*).

Nevertheless, in the case of big pharma licensing projects from biotech, up-front payments do mark the stage at which the senior partner gains a grip on an asset, and as such the data highlight many of the oaks that have grown from tiny acorns.

Blunders and unrealised value

On the debit side, meanwhile, deals on several once promising but now discontinued agents feature prominently – none more so than Abbott’s costly blunder with bardoxolone (*Reata bursts Abbott’s bubble*, *October 19, 2012*).

The 10 costliest phase II deals by current NPV						
Product	**Licensee**	**Licensor/originator**	**Up-front fee ($m)**	**Deal value ($m)**	**Today's NPV ($m)**	**Current status**
Bardoxolone methyl	Abbott (AbbVie)	Reata Pharmaceuticals	450.0	800.0	0.0	Abandoned - phase III
OBP-601	Bristol-Myers Squibb	Oncolys BioPharma	286.0	286.0	0.0	Phase II
TC-5214	AstraZeneca	Targacept	200.0	1,240.0	0.0	Phase II (failed phase III)
Lu AE58054	Otsuka Holdings	Lundbeck	150.0	825.0	0.0	Phase II
JTT-751	Torii Pharmaceutical	Keryx Biopharmaceuticals	120.0	200.0	0.0	Filed
Motesanib	Takeda	Amgen	100.0	275.0	0.0	Phase III Japan (failed elsewhere)
Fostamatinib	AstraZeneca	Rigel Pharmaceuticals	100.0	1,245.0	0.0	Abandoned - phase III
Ataluren	Genzyme (Sanofi)	PTC Therapeutics	100.0	437.0	0.0	Phase III
MOR202	Celgene	MorphoSys	92.0	910.0	0.0	Phase II
RG1583	Roche	Ipsen	91.1	569.4	0.0	Abandoned - phase III

However, perhaps more interesting are projects still in development that, despite being brought in for hefty amounts of cash, have no value assigned to them by equity analysts.

These include Oncolys Biopharma and Bristol-Myers Squibb’s anti-HIV compound OBP-601 and PTC Therapeutics’ ataluren, for which Genzyme paid $100m up front before handing rights back after a failed muscular dystrophy trial. MorphoSys’s MOR202 has yet to generate any human data, but despite this Celgene recently handed across €71m ($92m), largely on the strength of the results of Genmab/Johnson & Johnson’s competitor daratumumab.

Others, like Lu AE58054 and JTT-751, have no value assigned to them by analysts covering their Japanese licensees, who do not view them as significant enough. In the case of the former, analysts covering Lundbeck do assign sales equivalent to an NPV to the Danish company of $168m, and indeed forecasts could move higher with the project’s entry into phase III in Alzheimer’s disease (*Lundbeck Alzheimer’s data justify Otsuka’s exuberance, July 17, 2013*).

Unless a project has actually failed, a large up-front fee cannot be written off as wasted money, and all it takes is a subsequent success to reduce the disconnect between the cash staked and a project’s perceived potential. Investors in MorphoSys and Lundbeck will hope that the gap closes soon.

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