Cubist right to inject caution into much-needed acquisition spree

Amy Brown

With one eye on the loss of its almost-blockbuster Cubicin a couple of years down the road, Cubist has made two acquisitions that should go some way to plugging the hole. The acquisitions of Optimer and Trius – for up to $1.6bn in total – have been made primarily for Dificid and tedizolid, considered two of the most promising novel antibiotics around.

Investors liked the deals: Cubist shares jumped 10% to $62.72 in early trade, a 12-year high. But the company now faces a big challenge in making these products successful in heavily genericised markets; concerns already exist that demand for Dificid, launched in 2011, has been sluggish.

Generous premium

Cubist bought Trius largely for tedizolid, or TR-701, a second generation oxazolidinone antibiotic that will be filed for US and European approval in the coming months. It agreed to pay $13.50 a share and a further $2 per share if certain sales milestones are hit. That represents premiums of 15% and 19%, respectively, over yesterday’s closing share price, and values the deal at $707m or $818m at maximum. Trius shares had already more than doubled this year, from $4.78, making that premium look even more generous.

Tedizolid is an improved version of Pfizer’s blockbuster Zyvox, which is considered standard-of-care for pneumonia and goes off patent in 2015. The Trius agent is viewed as more potent and safer, with more convenient dosing. Initial filings will be made in skin infections with approval possible next year in the US.

Assuming Cubist can stick to these timelines, it should have at least 12 months to establish the product before generic Zyvox hits the market. Analysts are currently forecasting sales of $95m in 2016, according to EvaluatePharma. Under the terms of the CVRs, sales in the US, Canada and Europe have to hit $125m for shareholders to see any more money.

Challenges ahead

Dificid provides a good example of the struggles that new antibiotics can face when they reach the market, even when they are armed with data establishing them as superior to the incumbents. Although there is high demand for novel agents in the face of rising antibiotic resistance and challenging hospital acquired infections, novel agents are expensive. Because of this, and due to their scarcity, they are often reserved as last resort treatments, a situation that will likely be exacerbated as huge antibiotic franchises like Zyvox go off patent.

Dificid, which treats diarrhoea caused by the hospital infection Clostridium difficile, has been on the market in the US since mid-2011, and Cubist has been co-promoting it with Optimer since its launch. Despite data showing it has a better record at preventing recurrent infections, analysts have been trimming forecasts as quarterly sales figures have failed to impress, expressing concern that the high price of the drug is hampering uptake given that much of the competition is generic.

As a partner, Cubist will be well aware of the challenges facing Dificid, and this perhaps explains why the terms of the deal do not look as generous as the Trius transaction. And of course Optimer, with $77.5m in the bank and quarterly operating expenses of around $50m, was not in a strong position to haggle over the price.

Cubist has agreed to pay $10.75 per share with another $5 per share on the table, again based on certain sales milestones, valuing the deal at $535m or $801m at maximum. The upfront price represents a 19% discount to yesterday’s $13.29 closing share price. However, Optimer’s share price has jumped from $10.72 since February, when the company effectively put itself up for sale and bid rumours started to emerge. If the full payout is made, the price represents a 19% premium over yesterday’s closing price.

Optimer said yesterday that second-quarter sales of Dificid grew 25% on the same period last year, to $19m. Sales are seen reaching $291m by 2018, according to EvaluatePharma. If consensus forecasts are reached Optimer shareholders should receive the full $5 payout, but the numbers suggest it could be close. The CVR is based on cumulative net sales in the US and Canada between July 1, 2013 and December 31, 2015, which
must exceed $300m for the $5 pay out to be made – consensus numbers have this figure hitting $324m.

The need for new antibiotics is great, but hospitals and pharmacies are proving increasingly reluctant to pay for these novel agents unless absolutely necessary. Cubist needed to do something to broaden its product offering, but these products will take some selling. So it was right to hedge these acquisitions with contingent value rights, meaning it will only be paying top dollar if its new assets hit sales targets.

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