Evaluate Vantage

September 18, 2013

On a wing and a prayer, Clovis calls the top

Jacob Plieth

Hats off to Clovis Oncology's management team, which, with a mandate to build the company up and sell it, seems to have recognised the top of the market.

Still, with the group's valuation breaching $2bn on what is basically a wing and a prayer, it could be argued that it would be surprising were a trade sale not being considered. Investors, especially those who bought into the stock yesterday sending it up 7%, should probably not hold their breath for a large premium.

Rumours that the company has appointed Credit Suisse to find it a buyer remain unconfirmed, but they make sense given a share price that is up over 350% since January. Clovis's chief executive, Patrick Mahaffy, and its finance chief, Erle Mast, previously headed up Pharmion, a business they managed to sell to Celgene for $2.9bn.

But Clovis is no Pharmion. The latter company boasted two marketed drugs, whereas Clovis's portfolio comprises just two projects in the early stages of clinical development, albeit in the hot area of oncology.

Weathering the storm

That said, the biotech group has fared remarkably well, and last November's phase II failure of its lead project, CP-4126, in pancreatic cancer is now a distant memory.

This is largely thanks to recent study successes with both of Clovis's remaining pipeline projects, the EGFR tyrosine kinase inhibitor CO-1686 and the PARP inhibitor rucaparib (*Asco – Clovis price is twice as nice following double cancer win, June 4, 2013*).

But both studies were extremely early. The former compound showed partial responses in four of six NSCLC patients who had already failed on an EGFR inhibitor like Tarceva or Iressa, while the latter yielded a clinical benefit in eight of nine ovarian cancer patients.

Rucaparib has been boosted by a resurrection in interest in PARP inhibitors, but it is CO-1686 that analysts see as potentially the more lucrative compound, hoping that in time it could seize a subset of NSCLC patients with the T790M mutation, who are resistant to Tarceva and Iressa.

But even the sellside is still cautious with forecasts, and rightly so. *EvaluatePharma* consensus data reveal that even at a ridiculously unrealistic 100% probability of success the projects' combined NPV amounts to just $1.5bn; for now it is clear just how much Clovis's market cap already prices in.

Next year CO-1686 should generate data from an expanded study in second-line NSCLC, followed by a first-line NSCLC trial that has yet to begin. Phase II and III trials of rucaparib in platinum-sensitive ovarian cancer could start later this year, but results – including on vital endpoints like survival – are clearly some way off.

Clovis's clinical pipeline

Project	Peak sales ($m)	rNPV ($m)	Study	Trial ID	Catalyst
CO-1686	903	421	Phase I/II, 2nd-line NSCLC (enlarged for T790M patients)	NCT01526928	Results 2014
			Phase II, 1st-line NSCLC	–	Starts 2014
Rucaparib	144	118	Phase I/II, ovarian cancer	NCT01482715	Ends March 2014
			Phase II (Ariel2), ovarian cancer	NCT01891344	Starts Q4 2013
			Phase III (Ariel3), ovarian cancer	–	Starts late 2013

Given such limited data and few immediate catalysts, it is hard to see any obvious big pharma companies wanting to pull the acquisition trigger at anywhere near the current price. If anything Clovis might serve as an interesting starting point for a Japanese firm wanting to establish an oncology foothold in the US – rather like Astex Pharmaceuticals did this month for Otsuka Holdings.

It should also be noted that Clovis had obtained rucaparib from Pfizer, thus some might be expecting this major player to be interested.

However, beyond Novartis's takeover of Speedel, there is little to suggest that big pharma is keen to buy back divested

projects. Usually, when pharma hives off assets it does so for a reason.

If any bids near the current market cap do materialise, no doubt Clovis management will be smart enough to take a leaf out of Astex's book: grab the money and run.

To contact the writer of this story email Jacob Plieth in London at jacobp@epvantage.com or follow @JacobEPVantage on Twitter