

Forest bids to dominate both ends of IBS market



Jacob Plieth

Here is something unusual: a biopharma takeover that's not driven by tax advantages. Forest Labs' planned acquisition of Furiex is actually based on the senior group's desire to become a leader in gastroenterology and the latter company's pressing need for cash.

If the deal goes through Forest will own highly promising treatments for both the constipation and diarrhoea-predominant forms of irritable bowel syndrome. Furiex, meanwhile, was basking in the glory of a pivotal trial success but was liable for milestone payments to Johnson & Johnson, so selling itself at a premium is a logical move.

The maximum possible value of the takeover puts Furiex at \$1.5bn. Since this is a fairly generous 56% premium to Friday's close - and as of Friday the stock had already climbed 91% year to date - Furiex investors should be more than happy with the outcome.

That said, \$360m of the price is structured as a contingent value right based on the outcome of the US Drug Enforcement Administration's scheduling of Furiex's IBS-D project eluxadoline, which is to be filed for approval this year.

Primary focus

It is clear that eluxadoline is Forest's primary focus in the takeover, since the group is proposing to divest Furiex's only other significant asset, the diabetes drug alogliptin, which is marketed by Takeda.

Forest, which is in the process of being acquired by Actavis, is selling the Takeda payments to Royalty Pharma, along with the relatively negligible royalty it gets from Lilly under a deal covering the premature ejaculation product dapoxetine. Royalty already held a small interest in alogliptin through rights to a patent estate it had bought from Astellas Pharma.

The \$415m price Royalty is proposing to pay Forest is below *EvaluatePharma's* \$556m estimate of the NPV of Furiex's interest in alogliptin, though the latter figure is based on sellside consensus numbers, which are probably highly optimistic.

So why is Forest so interested in eluxadoline? The answer probably lies in the pivotal data that in February positioned eluxadoline as the most important asset to watch in IBS-D ([Therapeutic focus - Diarrhoea-predominant IBS market firms up, February 6, 2014](#)). A US filing is due by the end of the third quarter, presumably after scheduling has been hammered out with the DEA.

Just over a year earlier Forest had launched Linzess, a drug for the constipation-predominant form of the disease (IBS-C), and the company obviously sees gastroenterology as the cornerstone on which to build its speciality focus. Aptalis Holdings, the group Forest bought for \$2.9bn from private equity this year, also had GI assets.

Exit for cash

Furiex, meanwhile, needed money. The company does generate revenue, mainly from the Takeda royalty, but operates a loss-making business and had been running low on cash, ending 2013 with just \$29m in the bank.

Consensus is for eluxadoline to reach blockbuster sales in 2020 and, given how Forest has bulked up, in its hands the product should have a decent shot at the market. Before that, however, Furiex might have had to pay up to \$45m to Johnson & Johnson in eluxadoline regulatory milestones, so an equity raise, licensing deal, or other transaction was on the cards.

For Furiex's investors, a straight buyout with a premium is clearly a neat outcome.

To contact the writer of this story email Jacob Plieth in London at jacobp@epvantage.com or follow [@JacobEPVantage](https://twitter.com/JacobEPVantage) on Twitter

