Icahn wields influence with rejection of BMS's offer for ImClone

Vantage News Team

Although most observers saw Bristol-Myers Squibb's offer for ImClone as purely an opening gambit, likely to be sweetened at some stage, a statement issued by ImClone yesterday raised some intriguing pointers as to why the pharma giant has made its move now, and suggests the biotech's reasons to object could run deeper than simply a disagreement over price.

ImClone's swift rejection of BMS's $60 per share offer was always likely, given that the biotech's stock immediately jumped to around $65 and that the group's chairman and significant shareholder is a certain Carl Icahn, notorious for attempting to ramp up the value of biotech deals. In fact, it would have been very surprising if Mr Icahn had not thrown a large spanner in the works, and the tabled deal progressed without revision or hitch.

Sticking point

Apart from the fairly standard statement that BMS's offer "substantially undervalues ImClone", common when two companies start price negotiations, the biotech made an interesting revelation that it was already considering splitting Erbitux from its pipeline businesses to maximise value.

Central to ImClone's objections appears to be concerns that a BMS senior vice president, John Celentano, who also sits on the biotech's board, could have been privy to the information about a potential break-up. This would mean BMS misses out on the rights to a potentially important competitor to Erbitux, IMC-11F8.

The development and commercial rights to this follow-on antibody have been the subject of intense wrangling between BMS, ImClone, and its European partner Merck KGaA. ImClone won back all of Merck's rights to the product after litigation success in 2006, but based on statements from BMS and ImClone yesterday, the dispute over US rights are far from being resolved.

Break-up value

Whilst Erbitux, a marketed anti-cancer monoclonal antibody with blockbuster-level sales, is reasonably easy to assess in terms of its market worth, ImClone believes its antibody pipeline may attract a higher value through greater exposure as a separate business.

Analyst consensus data from EvaluatePharma would appear to support ImClone's theory. Erbitux has a combined net present value to ImClone and BMS of $6.05bn, according to EvaluatePharma's NPV Analyzer, whilst the biotech's mid-stage pipeline of 15 antibodies has yet to attract any value from analysts.
## ImClone Systems - clinical stage pipeline summary

<table>
<thead>
<tr>
<th>Market Status</th>
<th>Product</th>
<th>Pharmacological Class</th>
<th>Indication Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phase II</strong></td>
<td>IMC-11F8</td>
<td>Anti-EGFr MAb</td>
<td>Colorectal cancer [Phase II]</td>
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<td></td>
<td>IMC-1121B</td>
<td>Anti-VEGFr MAb</td>
<td>Breast cancer [Phase II]; Renal cell carcinoma (RCC) [Phase II]; Melanoma [Phase II]; Hepatoma, liver cancer [Phase II]; General eye disorders [Pre-clinical]</td>
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<td>IMC-A12</td>
<td>Anti-IGF-1R MAb</td>
<td>Colorectal cancer [Phase II]; Prostate cancer [Phase II]; Solid tumour indications [Phase II]; Head &amp; neck cancers [Phase II]; Hepatoma, liver cancer [Phase II]; Pancreatic cancer [Phase II]; Soft tissue sarcoma [Phase II]; Lymphoma [Phase I]</td>
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<td>CDP-791</td>
<td>Anti-VEGFr MAb</td>
<td>Non-small cell lung cancer (NSCLC) [Phase II]</td>
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<tr>
<td><strong>Phase I</strong></td>
<td>IMC-18F1</td>
<td>Anti-VEGFr MAb</td>
<td>Solid tumour indications [Phase I]; Atherosclerosis [Abandoned in R&amp;D]; Arthritis, general [Abandoned in R&amp;D]</td>
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<td>IMC-3G3</td>
<td>Anti-platelet-derived growth factor receptor (PDGFr) MAb</td>
<td>Prostate cancer [Phase I]; Breast cancer [Phase I]; Ovarian cancer [Phase I]; General cancer indications [Phase I]</td>
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### Timing is everything

Most observers agree with the rationale for BMS’s move for ImClone, to take control of Erbitux and book a larger share of profits, whilst acquiring a mid-stage pipeline of cancer antibodies and all the associated high-value technology.

The increasing dominance of biotech products in the industry is illustrated by the fact the top three best-selling drugs in 2014 will all be antibody products; Avastin, Humira and Rituxan.

However, like Roche’s recent attempt to acquire Genentech, questions are being raised as to the timing of the deal, given BMS’s 17% stake in ImClone was always likely to evolve into a takeout and that the biotech’s shares were significantly lower in 2002 and 2003. (See EP Vantage *BMS surprises with bid for ImClone*, July 31, 2008.)

Like Roche, BMS is having to tread a fine line between offering a price that suggests the group has real confidence in its key partner’s products, whilst trying not to pay over the odds for such a high value technology platform, with recent biotech company premiums often in the 50-100% range.

### Strong mind

Upon his appointment as chairman in 2006, Mr Icahn identified two clear goals for himself: firstly to identify and recruit a new chief executive with suitable biotech expertise, and second to investigate the reasons why the relationship between ImClone and BMS had “seriously deteriorated” over the previous three years.

Mr Icahn’s first objective was achieved in August 2007 with the appointment of John Johnson as chief executive, who was previously a president of Ortho Biotech and senior manager at Johnson & Johnson.

Although it is not clear the extent to which Mr Icahn has been able to identify and attempt to resolve the differences between the two companies, yesterday’s strong objection to BMS’s advances may hark back to these relationship issues.

The key question now for investors in both companies is how much of Mr Icahn’s posturing is genuine and how much is a game simply to get BMS to significantly raise their offer. After all, as long as BMS maintains its majority stake in ImClone, the pharma giant remains ImClone’s only realistic hope of cashing in on an acquisition premium.