Merck snaps up Cubist in $9.5bn antibiotic play

Rumours that had been swirling since Friday of a possible takeover of Cubist Pharmaceuticals by Merck & Co were today confirmed with a $9.5bn deal, highlighting the resurgent interest in antibiotics by big pharma.

Merck today announced that the companies had entered into a definitive agreement under which the US giant would acquire Cubist for $102 per share in cash, representing a 35% premium to Cubist’s shares before market speculation began on Friday.

New life for antibiotics

With their large development costs and limited duration of treatment antibiotics had fallen out of favour among big pharma groups, leaving the industry heavy lifting to the likes of smaller companies such as Cubist and Actavis, which themselves had recently become acquirers of even smaller antibiotic companies.

What seems to have driven Cubist and Actavis and now Merck in antibiotic M&A is increasing pressure from governments and health organisations to develop new products and the incentives that have been put in place to drive innovation.

Under the Generating Antibiotics Incentives Now (GAIN) act products that achieve qualified infectious disease product (QIDP) status gain an extra five year’s additional patent protection, pushing out patent expiry by 10 years.

Actavis’ $645m takeout of Durata in October was probably influenced by the company achieving QIDP status for its lead project, Dalvance, the first QIDP designated product to reach the US market.

Cubist has also gotten in on the act, with its 2013 purchase of Trius Therapeutics, whose lead asset Sivextro, also has QIDP status. It is this commercial advantage that may have attracted Merck, which also on Monday cited its previously documented focus on acute care.

Buying growth

In buying Cubist, Merck will be picking up reasonably good short-term growth – the target’s portfolio is forecast to sell $1.3bn in 2015, according to EvaluatePharma. Merck estimates that the transaction will be neutral to earnings next year and “significantly accretive” in 2016 and beyond.

But benefit from Cubist could be limited due to potential generic competition for Cubicin, which is forecast to account for 80% of 2014 revenues. Cubist does, however, have other products in the pipeline, including Zerbaxa (CXA-201).

In addition to the long earnings tail offered by the QIDP products, the deal also offers Merck an opportunity to fold Cubist’s products into its existing hospital-targeted line that already includes anti-infectives in Invanz and Noxafil.

Products prescribed in acute care are inherently more cost-effective to market as there are fewer hospitals than doctors, although it takes longer to achieve significant uptake as they often have to be cleared by hospital pharmacy and therapeutics committees – and Merck may be in a stronger position to demand higher prices when those panels raise questions than a mid-sized player like Cubist.

A date on the calendar that could vindicate Merck’s decision to take out Cubist is next week: the FDA’s decision date on Zerbaxa. This agent works on Gram negative infections and is first targeting intra-abdominal and urinary tract infections-consensus forecasts $733m in sales in 2020, making it a probable blockbuster.

With US big phamas now nervous about deals to achieve tax savings after a clampdown on overseas inversions, the next chapter in the M&A story could be deals like Merck and Cubist. Finding the next good-value deal may not be as simple as buying an address, but the need to achieve growth may demand it.

To contact the writers of this story email Lisa Urquhart or Jonathan Gardner in London at