

Allergan's \$2bn Kythera takeout is a short sharp shock



[Elizabeth Cairns](#)

That happened fast. Two days after changing its name from Actavis Allergan has moved on to another deal, taking out Kythera Biopharmaceuticals for \$2.1bn and adding the latter's newly approved double chin-reducing injection Kybella to its facial aesthetics franchise.

The takeover - at a 24% premium to Kythera's share price at close yesterday - is bad news for many investors. Highly unusually for such a bullish market, around a quarter of Kythera's free float was held by [investors taking a short position](#). Even more curiously, short interest had increased since Kybella gained US approval. A lot of people have made a very bad call.

The potential for Allergan to step in was always there: back in February *EP Vantage* pointed out that many of Kythera's management team were former Allergan staff, so for them this is almost like coming home ([Upcoming events: pacritinib in myelofibrosis and an adcom for Kythera, February 27, 2015](#)). Strategically, this is a sensible bolt-on.

80% of the \$75-a-share transaction consideration will be paid in cash, with the remainder coming from new Allergan shares. Allergan said the deal would make no difference to its earnings until 2016 and be accretive thereafter, and reiterated its commitment to achieving debt of less than 3.5 times its Ebitda by the end of the first quarter of 2016.

Leerink analysts believe that Allergan won an auction for the company, with Seamus Fernandez writing that it might have beaten bidders including Galderma, Johnson & Johnson, Merz and Almirall, in order of best strategic fit after Allergan.

Cosmeceuticals

Kybella, formerly known as ATX-101, was approved by the FDA in late April and while not exactly a blockbuster is forecast to sell respectably, with consensus for 2020 revenues of \$500m, according to *EvaluatePharma*, and it has a net present value of \$1.6bn.

It is unclear why so many were shorting Kythera's stock; Botox as well as Allergan's dermal fillers and eyelash growth product Latisse has surely shown that the market for cosmeceuticals is vast.



Before and after pictures illustrating Kybella use

And where Botox has historically been targeted at women, Allergan believes that Kybella might appeal to men

when it is launched in the US next quarter.

Umer Raffat, an analyst at Evercore ISI, says that another important factor in the product's success will be the degree of off-label use. At the FDA adcom in February there was some debate over whether Kybella might also be deployed to reduce fat in "larger body areas".

As well as Kybella, Kythera has a hair growth product in phase I for male pattern baldness. Setipiprant was acquired in February from Actelion, which had studied it in asthma and hay fever, but without success. It has been tested in more than 1,000 patients, so at least Allergan can be assured of its safety. However, Actelion is eligible for up to \$27m in milestones as well as royalties on sales.

Allergan is touting Kybella as completing its facial range - it now has products to treat the forehead (Botox), the eyes (Latisse), the cheeks and nose (Juvederm and Voluma) and the chin. If Seti works out it will have the hair as well.

Arguably it does not really need Seti. Leerink analysts suggest a fair value of around \$70 per share for Kybella alone. If Allergan's sales muscle can get the drug off the ground faster than expected - a filing in Europe is planned for next quarter, which will help - there is no obvious reason to expect the deal to be a bad one for Allergan.

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