There have long been calls for the numerous smaller UK biotech and pharma companies to take the plunge and merge to form not only more financially viable entities attracting more investment, but ones with increased scale and lower risk profiles. Sources naming BTG as one of the mystery bidders for Protherics has on this occasion got some in the market questioning that desire.

The rationale put forward for BTG running the slide rule over its fellow London-based colleague is the fact that royalty revenues on BTG’s biggest income generator, BeneFix, a treatment for haemophilia B, expire in 2011. This point corresponds with Protherics starting to regain the rights to its two best-selling products CroFab and DigiFab, so a takeover of the company would provide a handy replacement income stream.

Last year, BeneFix earned BTG $35m in royalties and supply fees. The combined 2007 sales of snake venom antidote, CroFab, and digoxin overdose treatment, DigiFab, reached $84m and are likely to hold steady at this rate for at least seven years, a sum that would be more than enough incentive for BTG to be wooing Protherics.

Pros and cons to matrimony

But the recent falls in both Protherics and BTG’s share prices indicates that some in the market are struggling to see if this is enough of a reason to attempt a deal. While the combination of the two would create a company with a broader pipeline and scale, there are hurdles to a match.

Steady income aside, Protherics does not fit in with BTG’s strategy of expanding in niche areas such as pain, sleep and neurology, that already exist in the pipeline and where is it possible to take products to market with relatively small and inexpensive trials.

Outside of CytoFab, a sepsis treatment that is partnered with AstraZeneca, the rest of the pipeline consists of a blood pressure vaccine and various oncology projects including Acadra, treatment for leukaemia, which have notoriously long and expensive development times.

The power of paper

Additionally, although BTG also has one of the strongest cash positions out of all the UK specialty pharma groups, with $114m on its balance sheet as of March 31, it would have to offer a premium of at least 30% of Protherics’s share price to do a deal. As Protheric’s market cap is currently running at £169m ($298m) it is likely that a deal would either have to be all paper, or one with only a light cash element.

Just how willing Protherics’ shareholders would be to accept BTG stock is also debateable, even with its history of growth through stock deals, including its formation in 1999 following the share-for-share deal between Proteus and Therapeutic Antibodies.

At the moment BTG shares, which have more than doubled since the beginning of the year on a raft of good news, look over valued. As there are few predicted catalysts on the horizon, with the exception of a possible partnering deal for varicose vein treatment Varisolve, the shares are expected to eventually drift down, meaning a deal structured solely around the stock could find it harder to win shareholder approval.

Premature

It is these difficulties that have led some in the market to speculate that while the two companies may have been talking, they were very preliminary discussions. Leaks of this resulted in the stock market regulators forcing them to make an announcement perhaps sooner than either side would have wished.

If this is the case and BTG is really one of the bidders for Protherics, and not the other potential buyers (Protherics gears up for tug of love with partners, August 14,2008) then rather than expecting a hasty marriage shareholders might have to be patient while the two negotiate the terms of their nuptuals, that will
see them get over these hurdles.