Leo gets more skin in the dermatology game

Leo Pharma might be a relatively low-key, privately owned group, but it has quietly been making good on its promise to build a dermatology business through acquisitions. Yesterday came its biggest takeover ever: of Astellas’s skin drugs for €675m ($724m).

For Astellas, which this week bought the US stem cell company Ocata Therapeutics, the move is stranger. Taken together Astellas has shifted from a safe, profitable business towards a largely unproven and controversial early-stage technology, though the clue probably lies in the dermatology products’ limited shelf life.

Sales of two of the key products in the portfolio, Protopic and Locoid, are already declining, for example. The former, to which Leo has only gained rights outside Japan, where Maruho remains the licensee, lost its patent in September 2014, while the latter went generic two years ago.

Leo says the acquired products also include Locobase and Zineryt, and comprise prescription as well as OTC drugs. The only one for which revenues are available is Protopic, which sold $198m in the 12 months ended March 2015 – down 21% year on year; ex-Japan revenue probably accounted for some 85% of the 12-month total.

Maia Søchting, a Leo spokesperson, said the deal included other Astellas products, but the focus was on the four “big ones” above. She confirmed that sales of some were now falling, but said this was not a big issue since revenue would decline gradually as these were well-known brands, and Leo would look at line extensions.

The company had told EP Vantage three years ago that it was on the hunt for dermatology acquisitions (EP Vantage Interview – Leo on the prowl for derma deals, June 26, 2012). That was after it paid $1bn to regain US rights to a range of psoriasis drugs and a dermatology pipeline that it had earlier licensed to Warner Chilcott.

The Astellas transaction is therefore smaller in value than the Warner Chilcott deal, though in terms of revenue added the Japanese portfolio wins. Astellas dermatology will add about 20% to Leo’s group turnover, implying that the portfolio sells about €300m a year.

Deal flurry

At around the same time that Leo reacquired the Warner Chilcott products it bought the Australian business Peplin for $288m. A flurry of licensing deals followed, though the cash up front was limited.

Leo paid $7m for Virobay’s preclinical psoriasis project VBY-891, an undisclosed amount for Japan Tobacco’s JAK inhibitor JTE-052 and $10m for rights to Antares Pharma’s marketed psoriasis agent Otrexup, and struck a chronic inflammation research alliance with Argenx worth €4.5m. The Antares deal was scrapped after a legal challenge by Medac Pharma.

Ms Søchting would not reveal the source of the funds for the €675m Astellas deal, though it is a safe bet that Leo has this much in the bank; the group had boasted some €2bn of cash on hand in 2012. What is more, Leo is pursuing further licensing deals and acquisitions, Ms Søchting said, though with Astellas it has its hands full for a while.

As for why Astellas sold, the clue might lie in Valeant, which could once have been relied on to blaze a trail in rolling up the dermatology space. But of course Valeant has its own hands full with a problem of an entirely different sort, so now might be the right time for Astellas to get out.

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