Will Lilly rescue ImClone?

Vantage News Team

ImClone may have a white knight after all and the shining armour appears to be resting on Eli Lilly’s shoulders. Although the identity of the rival bidder to Bristol-Myers Squibb’s hostile approach and offer price are still to be revealed, Carl Icahn’s aggressive tactics to extract maximum value from the sale of the biotech seem to be paying off.

On one level a move for ImClone by Lilly is somewhat surprising given its historical aversion to big acquisitions, but it makes sense on many other levels, such as complimenting a decent oncology portfolio while attempting to fill a large patent hole, starting to open up in 2010. While the rationale for the deal is clear and Mr Icahn is likely to strongly recommend this rival bid, Lilly’s chances of acquiring ImClone remain in the balance given BMS’s determination to takeover its long-term partner.

Organically-driven growth running out of steam

Eli Lilly has a long and proud track record of growing its business by organic means, focused on a strong neurology franchise through the development of blockbusters such as Prozac, Zyprexa and Cymbalta.

However, with the patent expiry of Prozac in 2001 and the impending loss of Zyprexa in 2011 and Cymbalta in 2013, Lilly’s share price has been in freefall and now trades at ten-year low levels of $43.70.

With 70% of Lilly’s $18.6bn in pharmaceutical revenues this year expected to be exposed to generic competition within the next five years, and recent concerns over the commercial potential of key pipeline drugs Effient and Byetta LAR, a move on ImClone would represent an admission by new chief executive John Lechleiter that Lilly’s pipeline is simply not going to compensate for the massive loss in revenues.

Complimentary oncology portfolio

Although some commentators have questioned ImClone’s “fit” with Lilly, 15% of the US pharma giant’s revenues come from cancer drugs such as current blockbusters Gemzar and Alimta and oncology represents the group’s third most valuable therapy area.

The acquisition of ImClone would add the colon cancer drug Erbitux to this portfolio, although the benefits would only affect the bottom-line as the drug will still be promoted by BMS in North America and by Merck KGaA in Europe, Asia and the rest of the world.

Erbitux is currently worth $3.71bn to ImClone, according to EvaluatePharma’s NPV Analyzer, and would therefore become Lilly’s sixth most valuable drug and help raise the group’s total NPV to $62.4bn, significantly ahead of its current market capitalisation of $49.7bn.

High price

With Mr Icahn hinting that a rival offer may reach $70 per share, compared to BMS’s $62 per share bid, ImClone may be worth as much as $6.1bn. This would represent a pretty decent premium, with a particularly high value placed on ImClone’s early-to-mid stage pipeline of cancer antibody therapeutics.

The problem in assessing the value of ImClone’s pipeline is that none of the antibodies has yet attracted a definite sales value from analysts, whilst there remains uncertainty over who holds the rights to a follow-on antibody to Erbitux, IMC-11F8, the successful development of which could have serious implications for the commercial future of Erbitux.

No finance required

ImClone has stated that the rival offer is not subject to financing. With Lilly expected to hold around $5.6bn in cash by the end of this year, the group may have to liquidate some of its longer-term assets to support this deal.
Conversely, BMS appears to be in a much stronger cash position, ending the year with $8.37bn in the bank, mainly due to the $4bn it received from the disposal of its Convatec medical technology business in August.

So, if it does come down to a bidding war, BMS appears the most likely victor.

Fighting for it

Although BMS has yet to make a formal comment on this latest development, it is highly unlikely the group will step aside and let ImClone slip through its fingers.

Already holding a 17% share of ImClone, BMS launched a hostile bid for the biotech last week which simply served to crank up the war of words between Mr Icahn and BMS’s chief executive, James Cornelius.

Time will tell whether Mr Icahn has simply used Eli Lilly as a pawn in the big game of chess he appears to be relishing with Mr Cornelius.