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Sanofi’s desperation makes Medivation a must-have asset

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Give credit where it’s due: Sanofi’s chief executive, Olivier Brandicourt, has realised his company’s need to innovate, and will now stop at nothing to fix its sparse pipeline through licensing deals and acquisitions.

Whether today’s unsolicited move on Medivation is overpriced – and the signs are that it almost certainly is – is therefore beside the point. The French group is in a similar position to AbbVie when that company bought Pharmacyclics: it must do a deal because not getting one done could be perceived as far worse than paying over the odds.

There are other similarities too, like the presence of key partners that seemed or seem unwilling to pull the M&A trigger themselves. For Pharmacyclics that partner was Johnson & Johnson, while for Medivation it is Astellas.

Then again, there is no need to overpay for the remainder of something you already own half of; if anything a third party paying top dollar reinforces the value of a partner’s stake in an asset, which in Medivation and Astellas’s case is the hugely successful prostate cancer drug Xtandi.

(Almost) all about Xtandi

And Xtandi is mainly why Sanofi wants to own Medivation, though it is problematic in that this asset has long been fully valued by the market (*As Xtandi Prevails, Medivation stays ahead of the curve, January 29, 2014*).

The clock is ticking on Xtandi’s generic exclusivity, set to expire in 2027, but this is not to say that its prospects have not recently improved. Key developments have seen it move earlier in prostate cancer treatment, and show promise in triple-negative breast cancer (*Shifting prostate landscape underpins Sanofi’s Medivation offer, April 28, 2016*).

Still, it is quite a stretch to get to an Xtandi valuation of $9.3bn, in line with Sanofi's proposal, let alone what the valuation might have to be with a significant premium. On current sellside forecasts Medivation stands to book about $2.3bn of Xtandi revenue in 2022, which with a relatively low cost base and 9.5% cost of capital translates into an NPV of just $4.8bn.

To justify a much higher valuation Sanofi could bank on success in breast cancer – current forecasts have only 20% of Xtandi revenue coming from this indication. It could also add significant contributions from Medivation’s PARP inhibitor talazoparib, taking a cue from AstraZeneca’s surprise success with Lynparza in this class.

Moreover, Medivation might warrant a far lower cost of capital than 9.5% as part of Sanofi, which could probably raise debt at 3% to do a deal. On the other hand it is also important to remember one threat to Xtandi: J&J’s rival anti-androgen JNJ-927, acquired with Aragon Pharmaceuticals, is waiting in the wings.

But there clearly are ways for Sanofi to try and justify a knockout bid. And last month’s $1.4bn acquisition by Royalty Pharma of a tiny royalty stream from Xtandi’s academic inventors will have endorsed bullish revenue forecasts.

Will it happen?

Of course, a Medivation takeover is far from assured. All Sanofi has done is go public with a $52.50-a-share approach it put to Medivation on April 15, having been rebuffed on March 25.

Back then Medivation stock was trading at just $38, having slumped 45% over the previous 12 months. Rumours of a bid were duly leaked, and the group’s stock climbed to close at $52.05 yesterday; with the market valuing a bid-free company at such a level Medivation can hardly agree to a takeover that offers a paltry 1% premium.

So the horsetrading is just beginning, and even in a depressed market it seems unlikely that Medivation would agree to anything less than 20% above where it stock peaked last year – say around $80 a share. But such a price would value Medivation at $13bn, putting it even further into unrealistic territory.

Yet again the idea of contingent value rights could present itself as a bridge between a valuation mismatch, though this instrument has not proved particularly popular. What is certain is that, with Sanofi desperate to acquire, Medivation will drive a hard bargain.

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