

Pfizer pays up



Jacob Plieth

When even those perpetual optimists, the sellside, are lukewarm about your proposed acquisition it's a pretty safe bet that you're overpaying. Step forward Pfizer, whose knockout \$14bn acquisition of Medivation must have stunned even the most bullish biotech followers today.

In its dynamics, and the mindsets of its participants, the deal bears many similarities to Abbvie's expensive purchase of Pharmacyclics. But with interest rates so low that cash seems virtually free, Pfizer's thinking likely transcended valuation; even a wildly overpriced Medivation buy was not as bad as doing nothing at all.

As such the deal shows both share price accretion and value destruction – smart biotech watchers will know that these metrics are no longer mutually exclusive. The shine has come off the bull market, but what has not changed is big pharma's desperation to fill pipelines at a time where single marketed assets, ideally in oncology, are scarce.

Playing a blinder

Medivation's chief executive, David Hung, knew the strength of his hand, and – rather like Bob Duggan, his opposite number at Pharmacyclics – he played it to the full.

He managed to flush out Sanofi as an early stalking horse, rescuing his group's stock from a collapse in which it had lost half its value over 12 months, and if the French group's \$9bn approach looked generous more was to follow (*[Sanofi's desperation makes Medivation a must-have asset, April 28, 2016](#)*).

Only when Sanofi finally offered almost \$10bn, plus a \$500m contingent value right (CVR), did Medivation open its books, at the same time [signing confidentiality agreements with several other parties](#). These reportedly included AstraZeneca, Celgene and Merck & Co, and [today Pfizer announced](#) that it was paying \$14bn in cash, without even a CVR element.

Similarly to Abbvie, which only bought a 50% share of Pharmacyclics' Imbruvica, Pfizer is getting a US co-promote on Xtandi plus an ex-US royalty. It might seem curious that Astellas did not buy Medivation, just as Johnson & Johnson said no to Pharmacyclics, but then why overpay for something of which you already own half?

Mr Hung must have known that Pfizer's chief exec, Ian Read, had to cough up; having already tried and failed to buy the much bigger Astra and Allergan, he would have been unlikely to survive a third failure. \$14bn might be rich, but it will hardly break the bank for Pfizer, especially if the group can raise debt at 3% or less.

But Bernstein analysts were scathing, today writing that the takeover was both pricey and insufficient to move the needle for Pfizer, adding just 2% or so to group earnings over the next five years.

Indeed, it is hard to get close to \$14bn in valuing Medivation, though valuation likely played second fiddle to Pfizer's idea of putting cheap money to use. Even using an extremely generous 5% cost of capital Medivation's sole marketed asset, Xtandi, looks to be worth only \$7bn to Pfizer.

Valuing Medivation's share of Xtandi*

	2017e	2019e	2021e	2023e	2025e	2027e
Astellas ex-US sales (\$m)	1,509	1,850	2,072	2,193	2,307	2,414
Royalty to Medivation (\$m)	226	296	373	439	484	507
US sales booked by Astellas/Medivation JV (\$m)	1,993	2,229	2,498	2,738	3,019	3,329
Medivation's 50% share of JV's profits (\$m)	498	624	774	890	981	1,082
Total revenue to Medivation at 25% tax rate	543	690	860	996	1,099	1,191
NPV at 7.5% WACC	6,212					
NPV at 5.0% WACC	7,288					
NPV at 2.5% WACC	8,639					

Note: *assumes patent expires in 2028. Source: EP Vantage and sellside consensus estimates.

It is likely that Medivation's two clinical-stage oncology assets, the Parp inhibitor talazoparib and pidilizumab, once thought to have been an anti-PD-1, contributed to the valuation, but it is hard to see them amounting to another \$7bn, even taking into account Pfizer's marketing muscle and opportunity for synergies.

Pfizer had sold a rival Parp inhibitor, rucaparib, to Clovis in 2011. Medivation had acquired talazoparib from Biomarin last year for \$570m, and pidilizumab from Curetech for just \$5m up front.

On a call today Pfizer management was sketchy about pidilizumab's mechanism of action, and spun the possibility of combining talazoparib with Ibrance, but admitted that this was theoretical at present. However, in Ibrance and Xtandi the group said it would have two of the 10 best-selling oncology drugs in 2021.



Top selling oncology assets 2021



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Now that Medivation has been acquired attention will turn to other biotechs with marketed assets – say, Vertex or Actelion – and the much smaller group of those with marketed oncology drugs like Incyte, which opened up 8% this morning.

And if big hitters like Astra, Celgene, Merck and Sanofi lost out on Medivation this means that at least four major groups are now even more desperate to buy a big biotech asset. After 12 months of market uncertainty deal bankers have some mouthwatering prospects again.

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