

Who's next after Medivation?



Jacob Plieth

Pfizer's \$14bn takeout of Medivation sent the Nasdaq biotech index up 2% yesterday, supposedly presaging a buying spree among big pharma groups desperate to restock pipelines. At least that's what deal bankers and biotech bulls will be hoping for.

Actually, the optimists might have a point. The Medivation auction revealed big companies that, having lost out, might now be keener than ever to buy. Yesterday's stock rises in Incyte, Biomarin and Exelixis point to several possible targets, and an analysis of *EvaluatePharma* reveals others (see table below).

Of course, what makes an ideal target might not immediately be obvious, and a disciplined buyer should use various cashflow assumptions to guide valuation. But Medivation had three key characteristics: it was a mid-cap biotech, focused on oncology, and had a single marketed drug.

Finding similar companies is simple, and only three fit the bill: Seattle Genetics, Exelixis and Incyte. Little wonder then that yesterday these closed up 3.7%, 4.0% and 7.7% respectively.

Demanding

However, their being such obvious takeover candidates means that they have demanding valuations to match. Seattle and Incyte are trading at 13 and 15 times forecast 2022 net earnings, implying a long and risky wait for a return on investment.

Exelixis is cheaper, but its sole drug, Cometriq, is hardly a needle-mover. In contrast, Seattle's Adcetris and Incyte's Jakafi represent important oncology advances and, though much success is already priced in, they have follow-on projects waiting in the wings.

Sanofi, which clearly refused to table a knockout bid for Medivation, [claims to be a disciplined acquirer](#), but with a patent hole opening up its pressing need to buy is clear. And, as Pfizer demonstrated, when debt is cheap fundamental valuation metrics matter less ([Pfizer pays up, August 22, 2016](#)).

Looking for the next Medivation: mid caps* reliant on a single, marketed drug

Company	Market cap	Top drug's share of 2015 sales	Top drug	Top drug's 2015 sales	Top drug's 2015-22 CAGR
Alexion	\$30.6bn	100%	Soliris	\$2.6bn	12%
Incyte	\$15.4bn	100%	Jakafi	\$601m	17%
Seattle Genetics	\$6.6bn	100%	Adcetris	\$226m	26%
Exelixis	\$2.6bn	100%	Cometriq	\$34m	46%
Alkermes	\$6.9bn	97%	Vivitrol	\$144m	15%
Indivior	\$3.3bn	86%	Suboxone	\$867m	-9%
Jazz	\$8.2bn	73%	Xyrem	\$955m	9%
The Medicines Company	\$2.7bn	66%	Angiomax	\$212m	-48%
Vertex	\$25.0bn	63%	Kalydeco	\$632m	5%
Actelion	\$18.2bn	59%	Tracleer	\$1.3bn	-28%

*\$2.5bn-\$35bn market cap. Source: EvaluatePharma.

Given the paucity of marketed oncology targets it is worth casting the net a little further. The above *EvaluatePharma* analysis of all Western companies valued between \$2.5bn and \$35bn shows several more that, while not boasting just one marketed product, do rely to a large extent on sales of a single drug.

In this broader top 10 The Medicines Company and Indivior, the Suboxone seller spun out of Reckitt Benckiser, might make less obvious targets given their reliance on new products over the next six years.

On the other hand Alexion, Jazz, Vertex and Actelion are by no means cheap but could fit the bill. Actelion, which lost out on ZS Pharma, could be in play along with Galenica, which recently picked up ZS's rival Relypsa.

Special mention must also be given to Biomarin, which while not being a single-asset company traded up 6.7% yesterday - quite a result for a group that had sold Medivation an important bargaining chip, talazoparib, for just \$570m.

Buyers?

While Sanofi had made its interest in Medivation clear, the involvement of Celgene, AstraZeneca, Merck & Co and Gilead was only rumoured; indeed, even if they did enter into due diligence, this need not necessarily mean that they would have entered the bidding.

Neither is it certain that a company like Incyte could be bought easily, given the presence of Novartis as its partner for Jakafi. A similar case could be made for Regeneron, which has key partners in Bayer and Sanofi, though its size - \$43bn - puts it outside the scope of this simple analysis.

Of course, Medivation and Pharmacyclics were both sold with a partner in situ, but each deal has different change-of-control provisions. A partner makes an obvious acquirer, but there is no need to overpay for something you already partly own, as Johnson & Johnson and Astellas demonstrated with Pharmacyclics and Medivation.

A final consideration is that there will likely be other interested buyers whose names did not surface in the Medivation auction, and Pfizer itself could still have a much bigger move on its mind. The coming months are likely to see more bidding wars as big biotech gauges the level of pharma's desperation.

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