Evaluate Vantage

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Allergan sparks a second liver disease craze

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A 600% premium to yesterday's close is a pretty amazing result for any company's shareholders even if, like Tobira's, they had already seen the vast majority of their investment disappear over the previous 12 months.

Indeed, Allergan's purchase of the NASH specialist, announced today, has much in common with that of Vitae last week and with Horizon's Raptor acquisition; all involved takeouts of highly depressed entities. None of this is to deny that, in spite of Tobira's underwhelming data, Allergan has renewed interest in NASH stocks.

That much is clear from the performance of some of Tobira's NASH competitors today: Conatus was up 34% in early trade, while Genfit and Galmed traded up 16% and 11% respectively. Intercept, which had set off the first NASH craze back in early 2014 courtesy of an academic study of obeticholic acid, climbed 6%.

Intercept, Genfit and Tobira all have underwhelming NASH studies under their belts – positive secondary or exploratory endpoint hits notwithstanding. Cynics could argue that after yesterday's US approval for Sarepta's eteplirsen there is no longer such a thing as a failed study, though Tobira is surely too long a ricochet for the Sarepta bullet.

Valuation floor

But it cannot be denied that enthusiasm in biotech stocks has returned with a vengeance over the past two weeks. Takeovers of Raptor and Vitae show some biotech stocks hitting a floor at which they are interesting to an acquirer, while Sarepta provides evidence of an FDA willing to approve against the odds.

Allergan's move values Tobira at $534m, while a contingent value right, exercisable presumably on development of Tobira's NASH project cenicriviroc, brings the total up to an amazing $1.7bn. At yesterday's close Tobira was worth barely $90m, just under half of which was accounted for by its cash balance.

Cenicriviroc had failed its 289-patient phase II Centaur study in July (*Despite a deck stacked in its favour, Tobira fails in NASH, July 25, 2016*).

Irrespective of the one-year fibrosis improvement secondary endpoint that it did hit, the resulting 50% share price drop left Tobira with no option for an equity raise, so just how it managed to negotiate a knockout deal with Allergan from such a weakened position can only be guessed at.

What seems certain is that Allergan saw great promise in cenicriviroc's effect on fibrosis, which is becoming an increasingly important measure. It might also have been attracted by the mechanistic approach of Tobira's NASH offering: cenicriviroc is a CCR5/CCR2 dual antagonist, while an earlier-stage project, evogliptin, is a DPP-IV inhibitor.

DPP-IV inhibition is a popular strategy for tackling diabetes, and to an extent mirrors Genfit's phase III NASH asset elafibranor, a glitazone. Tobira picked up evogliptin (DA-1229) from Dong-A for just $1.5m, providing another indication of how impressive the Allergan exit is.

New player

Allergan makes a point of stressing that cenicriviroc is phase III-ready. Intercept and Genfit are running 2,000-patient pivotal programmes, Regenerate and Resolve-IT respectively, and Allergan's backing makes a similar-sized phase III trial, with fibrosis improvement as the primary endpoint, possible.

Interestingly, Regenerate includes fibrosis as part of its primary endpoint, but Resolve-IT only has it as a secondary measure. True, it is still unclear what might constitute an approvable NASH endpoint, but if fibrosis is gaining prominence then Genfit investors could be in for a shock.

To be sure, cenicriviroc showing an effect on fibrosis is something the market failed to appreciate back in July. The big NASH players, like Shire, Gilead and AstraZeneca, now have a new competitor to watch.

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