

Why J&J shouldn't buy Actelion



[Madeleine Armstrong](#)

Confirmation that Johnson & Johnson is interested in buying the Swiss group Actelion sent the target's shares up as much as 14% this morning, but a deal looks unlikely – at least at its current value. At CHF19.6bn (\$19.3bn) Actelion's market cap far outstrips the \$7.3bn net present value the sellside attributes to its products, as calculated by *EvaluatePharma* (see table below).

There are other factors that make the acquisition improbable. Perhaps most importantly, one driver of US companies' foreign acquisitions, the need to use offshore cash, could soon be removed with President-elect Donald Trump's proposed repatriation holiday. Of course, a deal cannot be ruled out entirely.

The repatriation tax break, if it goes through, would not kick in for a while; and in the meantime J&J has the most offshore cash among its peers, \$38bn ([Repatriation windfall could spur US M&A, November 15, 2016](#)). J&J also has more experience than many in acquiring groups outside its domestic market, including the Swiss orthopaedic specialist Synthes – still its biggest deal to date – and the Dutch vaccines player Crucell.

Overvalued

Even so, it is hard to see [why Actelion would tempt J&J](#) at this sky-high price. Most of its value comes from already marketed products, and one of these, Tracleer, is already off patent, with sales expected to drop off dramatically in the next couple of years.

Some believe that its best seller, Opsumit, is underappreciated and could soon be bolstered by label expansion. Bryan Garnier analysts put peak revenues at over \$2bn, citing [positive results](#) from the Merit study in inoperable chronic thromboembolic pulmonary hypertension, and upcoming data from the Maestro trial in Eisenmenger syndrome, but even this would not come close to justifying Actelion's valuation.

The value of Actelion's products			
Product	Therapy category	2022e sales (\$m)	Today's NPV
<i>Marketed</i>			
Opsumit	Other anti-hypertensives	1,662	3,365
Uptravi	Other anti-hypertensives	1,918	1,775
Tracleer	Other anti-hypertensives	103	507
Valchlor	Alkylating agents	130	396
Velettri	Other anti-hypertensives	129	353
Zavesca	Other therapeutic products	56	145
Ventavis	Other anti-hypertensives	29	72
<i>Phase III</i>			
Ponesimod	Immunosuppressants	112	362
Cadazolid	Anti-bacterials	42	157
<i>Phase II</i>			
Cenerimod	Immunosuppressants	21	89
ACT-541468	Other CNS drugs	15	47
Total		4,217	7,268
<i>Source: EvaluatePharma.</i>			

Perhaps potential buyers see more promise in its pipeline contenders, such as the phase III multiple sclerosis candidate ponesimod, than is currently ascribed by the sellside. The project is the most advanced sphingosine-1-phosphate 1 (S1P) receptor agonist behind Novartis's Gilenya, according to *EvaluatePharma*, but results from the Optimum trial in relapsing MS are not due until 2019 so it will be some time before it becomes clear how ponesimod squares up.

In the meantime, the industry's S1P pipeline is extremely crowded, so the pressure is on for it to differentiate itself strongly. Actelion also has six clinical readouts due next year including phase III data for the *Clostridium difficile*-associated diarrhoea project cadazolid.

Uncharted territory

Actelion is a perennial takeout candidate, although so far all the speculation over the past few years has come to nothing. The group has carved out a niche in pulmonary arterial hypertension, but attempts to extend its reach into other disorders is uncharted territory.

"What J&J may be able to bring is a further depth of medical expertise that falls outside Actelion's natural PAH territory," wrote Panmure Gordon & Co analysts. "This could help accelerate the R&D programmes in the other therapeutic areas."

True, J&J's pharma division is outgrowing its other businesses, which could be used to argue both in favour of a deal – if it wants to keep expanding this unit – and against it. In addition, last year's best seller, Remicade, has been one of the first biologicals to face US biosimilar competition.

But J&J has tended to be a disciplined buyer, and at this price the potential reward is less clear. The bigger company would be wise to stay on the sidelines – unless of course Actelion's valuation comes down dramatically.

Drug	Study	Trial ID
Opsumit	Maestro	NCT01743001
Ponesimod	Optimum	NCT02425644
Cadazolid	Phase III trial	NCT01987895
Cadazolid	Phase III trial	NCT01983683

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