Smid-cap Biopharma M&A activity

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Summary:

- BPIQ monitors M&A of smid-cap biopharmas
- There has been an uptick in biopharma M&A since May 2022
- Q2 2023 started off with a bang with GSK acquiring BLU for $2B and MRK acquiring RXDX for $10.8B
- These deals and prior biopharma M&A reveal key characteristics of biopharma acquisition targets
- Here we look at overall M&A activity in recent quarters including acquisitions per quarter, size of acquisition & acquirer, and the indication area of the company as well as these key attributes
- Investors can use this info to profit by owning shares of companies that have these characteristics and thus are more likely to be acquired & we identify some of these companies in this post
- See more info on M&As in our paid BPIQ Pro forum HERE after subscribing!

At BPIQ we monitor mergers and acquisitions (M&A) involving smid-cap biopharma*. While there were not many M&As in 2021 or the first quarter of 2022, M&A activity in the biotech sector has heated up since May 2022. Biotech stocks have been struggling since early 2021, but since mid-June the biotech sector is making a comeback. This has been driven by an increase in smid-cap biopharma M&A since May 2022. See our post on what drives XBI HERE.

As we are almost halfway through the second quarter of 2023, we are on track to see the greatest activity per year for mergers and acquisitions in the last two years. While there were 38 acquisitions announced in 2022, there are already 24 announced as of May 4, 2023.

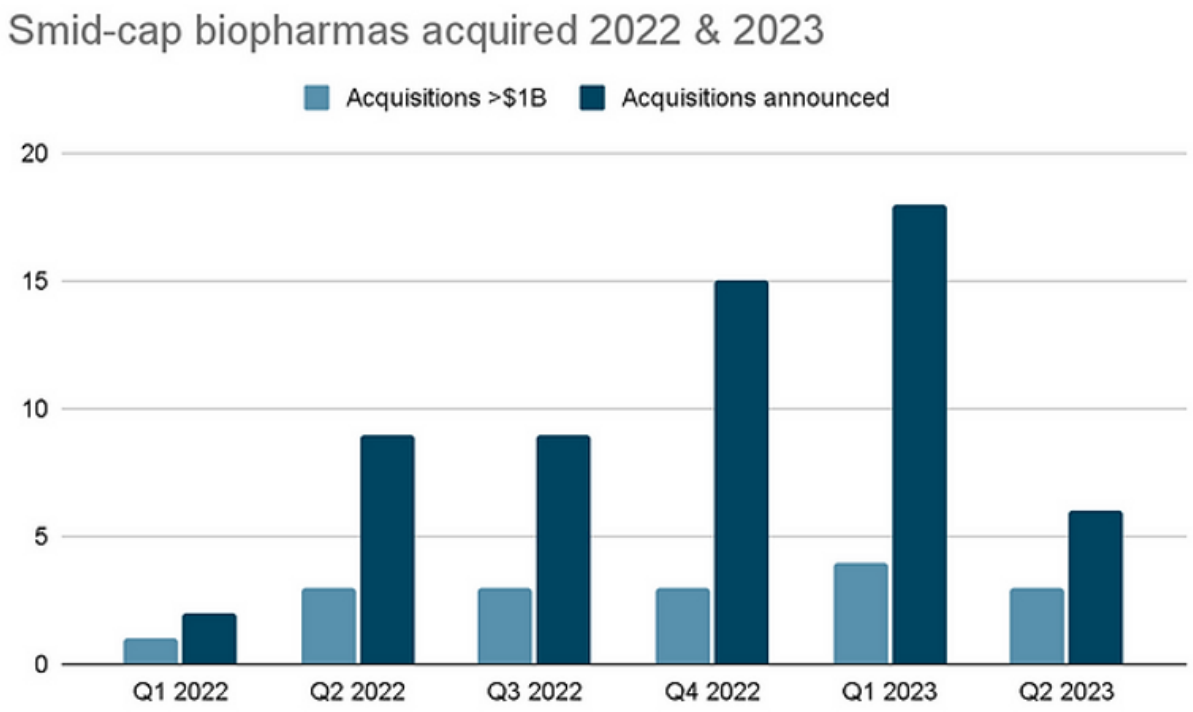
The largest acquisition announced in Q1 '23 was that PFE will acquire SGEN for $43B!

In Q1 '23 there were 13 acquisitions announced and 5 mergers announced. 13 M&As were completed, including the $1.7B acquisition of MYOV by Sumitovant. Then on March 13, PFE announced they will acquire SGEN for $43B! This is big news especially after the fallout of the possible acquisition of SGEN by MRK announced in 2022. So far in Q2 '23 there have been 6 M&As announced and 2 completed. MRK plans to acquired RXDX for $11B.

Table 1 summarizes the number of smid-cap biopharma acquisitions per quarter since Q1 2021, along with a breakdown of companies by the price of acquisition and the size of the acquirer. There is a clear uptick in the number of smid-cap biopharma M&A announcements starting in Q2 2022, especially compared to Q2 2021 and Q1 2022. As of March 30, 2023, there have been 18 M&As announced in Q1 2023 and 13 completed. Also see Figure 1 for a graph of total acquisitions per quarter since Q1 2022 and acquisitions over $1B.

Table 1. Smid-cap biopharmas acquired by quarter (updated May 4, 2023)

Figure 1. Total acquisitions per quarter and acquisitions over $1B



If we focus on acquisitions with values greater than $1B, there were 3 smid-cap biopharma acquisitions in Q2 2022 by our count, 3 in Q3 2022, 3 in Q4 2022, and 4 in Q1 2023! While there was an uptick in acquisitions throughout 2022, the increase appears to be driven by

smaller deals. Maybe this isn't surprising since the valuations of most smid-cap biopharma companies have been severely reduced over the past 1.5 years. In 2023 there have already been 4 acquisitions >$1B announced, so it will be interesting to see how acquisition size compares for the rest of the year! In Q1 the majority of the acquisitions have been larger than in previous quarters, with 1/2 of the acquisitions over $500M.

Key Target Attribute 1: A Late Stage (or Registrational Trial) or Approved Asset

It is especially noteworthy that in 2021, the number of acquired companies with a Phase 3 or registrational trial was >70% and in 2022 07% of acquired companies have a Phase 3 or later stage asset. This shows the importance of later stage and/or approved clinical assets for acquisition candidate companies. Clearly smid-caps that have a Phase 3, or registrational trial, or commercial asset are the key targets for M&A. Thus, investors looking to profit by holding stock in a company when it announces it is being acquired should focus on companies with stage 3 or later assets.

Table 2 details the companies that have been acquired since the beginning of 2022. The percentage of these companies with Phase 3 or later trials is >85%. The acquisition price is included to show the average size of acquisition, as well as the latest stage trial for each company acquired/to be acquired. See Table 2 for additional info including the tech type of company lead assets, announcement and acquisition dates, and disease indications.

Table 2. Acquired smid-cap biopharma companies since 2022

In Q1 2023 the majority of the acquisitions have been mid to large acquisitions with over 50% of the acquisitions above $400M. While the trend in 2022 was many acquisitions made up of small offers, 2023 may see a change.

Multiple acquisition announcements last quarter were from companies with approved products including AVEO, HZNP, MYOV, and OYST. Two announcements in January were also for companies with recently approved products (ALBO product approved 2021 and AMYT product approved 2020). The confirmed future acquisition of SGEN by PFE further shows the importance of these late stage trials/approved products for acquisition targets. This once again shows the importance of companies with approved products as their lead assets.

See Table 3 for all BPIQ companies with products approved since 2019 with additional info including if the company is in our Amp portfolios and the most recent quarters' revenue for products. These companies thus have a key characteristic as possible future acquisition targets.

Table 3. Smid cap biopharmas with recently approved products

It makes perfect sense that M&A targets have late stage or approved assets, as large biotech companies need to continue to find ways to drive more revenue and profits, and it is very expensive and risky to develop a major therapeutic. Furthermore, it is very efficient to load the "bag" of products for sales reps with more products that target medical practices that they are already calling on.

In late November chatter started about a possible acquisition of MRTX. The MRTX PDUFA for KRAS mutant NSCLC treatment was approved and is a competitor to an Amgen approved product. This could make MRTX interesting to multiple big pharmas, both those with KRAS mutant NSCLC assets and those without. HZNP also announced on 11/29 discussions with several big pharmas about a possible future acquisition; and on 12/12 they announced that they are entering into a $28B acquisition with AMGN!

Key Target Attribute 2: Strong Patent Protection

It makes sense that good targets have a recently approved commercial asset, but this likely means that there is a lot of life left on patent protection of that asset. This is a second key attribute for an acquisition target. Investors who are not patent attorneys, can at least look at company statements and public articles on patent positions of these companies to at least have an idea of the strength of their patent position. Ideally, a company would have composition of matter patent protection going out at least 10 years, and no indication in the public domain of questions of the validity of such patents.

Of course, composition of matter protection for at least 10 more years, is an ideal situation, and good acquisition targets often don't have ideal patent positions. For example having method of use protection that is difficult for competitors to circumvent and that goes out for at least 5 years, could drive a big deal. #AMRN provides an example of this, although in a negative way. AMRN was often seen as an outstanding target for M&A based on its approved therapeutic, Vascepa, and method of use patents protecting the use of Vascepa in reducing triglycerides, until those patents were invalidated. Even without patent protection, it is possible that valuable trade secrets that are hard to independently discover could drive a big deal. However, this is a rare situation in biopharma.

Key Target Attribute 3: Partner Takes a Stake in Target

When MRK and SGEN were previously in discussions about a possible acquisition, one thing that was noticed was that MRK had stakes in SGEN. And MRK is one of its current collaboration partners and previously took a $1B stake in SGEN. This is a third key characteristic that appears to lead to a good acquisition target: a large biotech partner that takes a significant stake in its smaller partner. This is perhaps one of the best characteristics that investors can identify as a differentiator of a possible acquisition target company, because it is likely a much less common attribute. Another example of this profile is Novo Nordisk's acquisition of Dicerna (announced in Nov 2021). Dicerna not only had a late stage therapeutic, but Dicerna and Novo commenced a partnership several years before the acquisition that included a $50M investment of Novo in Dicerna (Novo Nordisk reaches $3.3B deal to acquire RNAi partner Dicerna Pharma).

Additional Key Target Attributes: Deeper Pipeline And Leader in Cutting Edge Technology

Additional attractive attributes are a robust deeper pipeline of promising drugs or a drug that is a pipeline in a molecule, and a leader in a cutting edge, highly promising and specialized technology. Both SGEN and Dicerna possessed those attributes when they were acquired. Another example of this is ARNA, acquired by PFE earlier in 2022. ARNA had a late stage (Phase 3) asset (etrsasimod) that is a pipeline in a molecule, and several earlier stage assets too (Pfizer to Acquire Arena Pharmaceuticals), although we are not aware the PFE had any stake in ARNA when it acquired it.

CARA remains one of our Amp favorites, in part because it has a number of characteristics of a good acquisition target. It has a recently approved commercial asset, Korsuva, in a major indication (pruritis associated with CKD) and a partner who owns a stake in them (Cara signs $540M deal with Fresenius and Vifor Pharma to commercialize Korsuva). Plus, that asset is a portfolio in an asset with current phase 3 trials in Pruritis in CKD and atopic dermititis, and phase 2 trials in liver diseases and notalgia paresthetica. Now that CSL acquired Vifor earlier this year, and CSL appears committed to its CARA/Korsuva partnership, CSL becomes a key possible acquirer for CARA. The challenge in the CARA situation, is that the indications in development for Korsuva, are for an oral version. And there is huge value, but still huge risk in the oral version of this drug. Which likely delays any possible acquisition.

Companies that Fit this Model

At BPIQ, possible M&A targets that we focus on include companies with:

- Early commercial products with a lot of revenue
- Late stage assets/commercial assets that can compete with big pharma assets (same MoA in the same indication)
- Tickers that are held in many hedge funds
- Licensing agreements

While Table 2 shows all recently approved products, we further looked into these newly approved products (as well as late stage assets) to see which companies could fit this model for M&A stock picks. See Table 4 for a list of these companies that fit the model and could be potential M&A targets!

Table 4. M&A stock picks - Potential M&A targets that fit these key attributes!

Concluding Remarks

Of course, when all said and done, the target and acquirer have to agree on a price (Merck's Talks to Acquire Seagen Hit Snag Over Price). While the acquisition discussion between MRK and SGEN fizzled out because of the price, PFE actually announced in March the future acquisition of SGEN for $43B (higher than the original price first suggested to MRK)! In our view, the current biopharma valuations, which now are more in a mid-range of historical valuations, should present a good place for acquisitions. When valuations are too low, as they were earlier this year, targets want to hold out for better base valuations. When valuations are too high, acquirers are reluctant to pay high premiums. In our speculation, when XBI is in a range of $80-$100, that should be good market biopharma valuation range for M&A activity. Of course, there are lots of other factors at play

In summary, the recent increase in biopharma M&A activity has helped to rejuvenate this sector. Biopharma companies with at least one approved clinical asset that was approved in the last 3 years, is a good starting point for identifying companies that are worthy of deeper analysis for possible addition to your portfolio. Table 3 provides a list of such companies that you can use to start your diligence. Analysis of the company's in that table against the other key attributes provided in this article, can help investors identify good long-term additions to their portfolio.

Although at Amp we don't invest in a company for the primary reason that we hope it will be acquired, the characteristics of a good acquisition target, are overall good characteristics for a long-term, high performing biopharma. Of course in the end, differentiating clinical results for its lead assets is at the core of the value of any smid-cap biopharma company.

Footnotes:

*Depending on the acquiring company, we may remove acquired company assets from our database as we do not track large cap companies currently. However, if a smid-cap company is the buyer company, we will continue to track the assets under the new company ticker.

This article is NOT legal, investment or tax advice. Please do your own diligence before making any investment decisions.

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