BUSINESS

Cheap at any price?

As AstraZeneca shells out $15 billion for a mid-sized US biotech firm, **Heidi Ledford** reports on the startling cost of staying in the drugs business.

MedImmune's FluMist vaccine might work for kids like Danielle Holland — but its sales are weak.

C. GARDNER/AP

When MedImmune, a Maryland biotechnology company, announced on 12 April that it was looking for a buyer, market watchers were unsurprised. Shareholders had long been calling for just such a sale as the best remedy for the company's poor stock performance and sluggish revenue growth — and rumours of an impending deal were already doing the rounds. But when the company emerged from negotiations less than two weeks later, with a price tag of $15 billion ($58 a share) around its neck, eyebrows were raised.

How could a company with annual sales of $1.3 billion, and profits of just $75 million, together with a mixed record of drug development, be worth so much?

"We were really surprised," says Eun Yang, an analyst at Jefferies & Company, the New York investment bank, who had predicted the price might be $43 per share. "We said there's a distinct possibility that the actual price would go up higher, but not up to $58. I think that surprised everybody."

AstraZeneca's purchase is only the latest in a string of acquisitions by large pharmaceutical companies struggling to replenish their dwindling drug pipelines and strengthen their standing in biotechnology. The company, whose main operations are split between Sweden, the United Kingdom and the United States, has been reeling from the failure of two late-stage anti-stroke drugs last year — and faces the expiry of two major patents by 2011.

"We're seeing a much bigger reliance on big pharma getting access to small- and mid-tier companies." — Kenneth Kaitlin

"Across the board, we're seeing a much greater reliance of big pharma on getting access to small- and mid-tier companies," says Kenneth Kaitin, director of the Tufts Center for the Study of Drug Development in Boston, Massachusetts. As demand increases, it's only logical to assume that the value of such outfits will rise.

Even so, the markets' verdict was that MedImmune's price was too high: after the announcement, the biotechnology company's stock rose by 18%, but AstraZeneca's fell by 5%. Some shareholders at the latter's annual meeting in London on 26 April spoke out against the purchase — one called it "an act of desperation". Some analysts agreed. "It is difficult to rationalize today's price," said an analyst report from CIBC World Markets in Toronto, Canada. But others saw the deal as a smart move in the long term. Analysts at Bear Stearns said: "In our view, the MedImmune acquisition makes sense, financially and strategically."

MedImmune was reckoned to be the seventh-largest independent biotechnology company in the United States. The company, founded in 1988 by immunologist Wayne Hockmeyer, after a 20-year career as a US Army officer and researcher, employs more than 2,500 people. It has several products already on the market, including Synagis, the first monoclonal antibody approved to fight infectious disease and used to treat a respiratory virus in children. But revenue from FluMist, an inhalable flu vaccine that was widely regarded as MedImmune's most promising product, peaked in 2004 at only $53.5 million. Beyond that, MedImmune has several interesting, but preliminary, assets including three anti-cancer therapies and three candidate drugs to fight inflammatory disorders, none of which has yet made it beyond stage II trials.

"There aren't that many companies out there with that level of a biologic programme in their pipeline," says Philip Nadeau, an analyst at Cowen and Company, another New York investment bank. AstraZeneca will benefit from the cash flow that MedImmune's current products provide, particularly because they hold fresher patents and therefore will not be challenged by generics in the near future. As well as providing biotechnology expertise, MedImmune will provide AstraZeneca with an entry into the vaccine market. AstraZeneca may also have been drawn to MedImmune's manufacturing capacity, according to Yang.

But the biggest factor of all in setting such a high price may have been competition from other suitors. The bidding for MedImmune is said to have been fierce, with pharmaceutical companies such as Eli Lilly and Merck reportedly entering the fray. Such companies are clamouring for new acquisitions, and there are few setups of MedImmune's stature to feed that appetite. The past year had already seen a spate of smaller purchases, such as Merck's purchase of Sirna for $1.1 billion — twice the market value of the Californian RNA-interference company before the deal was announced.

That demand could continue to drive up the valuation of biotech companies, fuelling more big sales. "It's a seller's market," says Kaitin. "These small companies hold the cards in terms of attracting the interest of big pharma and getting a high price." ■