Antisoma–Roche deal—a new kind of buyout?

The $500 million strategic alliance signed in November 2002 between European biotech Antisoma (London, UK) and pharma giant Roche (Basel, Switzerland) suggests the conventional model for pharma-biotech partnering deals could be changing.

In the agreement, Antisoma licensed to Roche virtually its entire product pipeline, including Pemtumomab, its lead anti-cancer monoclonal antibody currently in phase 3 trials for ovarian cancer. In return, Antisoma receives $43 million in up-front cash and equity payments, and a promise of royalty payments ranging from 10% to 20% on any resulting products Roche brings to market.

It is easy to understand why Antisoma accepted the offer, which at a stroke solved its cash shortage problems and gave a big boost to its seriously depressed share price. Its market valuation more than doubled overnight, albeit starting from a dismal £0.12.

Richard Parkes of ING Barings (London, UK) says the deal marked a defining point for the European biotech industry: "We believe it to be the largest such agreement ever signed in Europe." He compared it to the 1990 Roche-Genentech strategic alliance in which Roche took a 60% majority stake in Genentech, leading to the launch of the anti-cancer drugs Rituxan and Herceptin and making Genentech one of the largest biotech companies in the US.

Bankers SG Cowen (London, UK), which acted as sponsor in Antisoma's rights issue earlier this year, said Antisoma's risk premium had been substantially reduced, although it admitted the potential reward profile has also been lowered.

But the wider question is: given that Antisoma's whole oncology pipeline is now under Roche's control, why was Antisoma not simply acquired by the Swiss company? Is the long-awaited snapping-up of weakly-priced biotech firms by big pharmaceutical companies not going to happen after all?

One impediment to acquisitions appears to be a "reality gap" between the valuation set on a biotech firm by its investors, and its value as perceived by a pharmaceutical bidder. Biotech share prices are currently sitting at the bottom of a veritable Marianas Trench, with most of their investors having bought in at much higher levels. For example, Antisoma investors paid around £0.25 per share in a rights issue early in 2002, and watched the share price decline to just over £0.11 in November. These investors do not want to sell out while they are so deeply underwater, and so will demand that a potential bidder pay a premium price—at least 100% of the current share price, estimates London-based analysts ING Barings.

But this premium makes such an acquisition look much less attractive to the pharma company than a wide-ranging partnership. "Antisoma's existing investors would not have been happy to see an acquisition at the kind of price likely to have been on offer from Roche," says Julie Simmonds, biotech analyst at brokers Evolution Beeson Gregory (London, UK). "This partnership gives Roche more choice—it gives them all the upside and very little of the downside. They get their hands faster and cheaper on whatever products they would like."

Roche's reluctance to buy is likely to be shared by the rest of the pharmaceutical industry, according to brokers WestLB Panmure (London, UK). WestLB believes the internal unrest within big pharma companies—especially poor return on R&D investment, linked to the desire not to stifle the creativity and productivity of biotech companies—means they are unlikely to make any acquisitive moves in the direction of European biotech.

This effect is reinforcing a new pragmatism on the part of cash-short biotech companies, which are now looking to generate an earlier, if lower, revenue stream through earlier out-licensing. This could then be reinvested in new products, to be out-licensed later, says WestLB. The generation of a constant flow of licensing deals, in combination with the money saved by not taking products into phase 3, could result in a smoother cash profile and lessen the chances of the company running seriously short of money. As a result, R&D collaborations are a far more likely future model than acquisitions, WestLB predicts.

But the killer argument that will convince big pharma against acquisition is the associated accounting. Acquiring a biotech firm lands the pharmaceutical company with additional costs flowing through its profit-and-loss account (P&L), hitting its earnings per share (EPS), and investors are now looking much more critically at pharma companies' quarterly EPS figures than they did in the boom times. One analyst estimated that taking over Antisoma would have sliced up to $140 million off Roche's P&L over 5 years, as compared to the $37 million up-front cost of the licensing—a no-brainer choice.

Whether Antisoma will be satisfied in the long term is problematic. Its share price certainly benefited, but still left it with a valuation far below its historical highs. "People are surprised by the muted reaction of the share price," says one analyst. "Antisoma now has a market capitalization of only £50–60 million, which hardly reflects the ground-breaking deal it has been portrayed as." Other companies likely to be offered similar deals—thought by analysts to include PowderJect, Alizyme, and Oxford BioMedica—are expected to track Antisoma's market capitalization with care.

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Puzzling industry response to ProdiGene fiasco

In December, officials from the US Department of Agriculture (USDA; Washington, DC), working with the Food and Drug Administration (FDA; Rockville, MD), imposed a $250,000 fine against ProdiGene (College Park, TX) for violations of the Plant Protection Act. Meanwhile, the US Biotechnology Industry Organization (Washington, DC) caved in to intense political pressure and revised a previous statement calling for outcrossing biopharmaceutical crops not to be planted in the US corn belt. These awkward developments come at a delicate moment for companies working to develop plants that produce pharmaceutical or industrial products.

Food producers are calling for stronger regulations that will keep pharmaceutical crops not meant for human consumption entirely separate from the food supply.

Federal officials are penalizing ProdiGene for two similar incidents involving its test plots of GM corn being raised under contract by local growers, one farm in Nebraska and another in Iowa. In the Nebraska case, officials realized that some 500,000 bushels of harvested soybeans were contaminated with small amounts of GM corn, which had been grown during 2001 on the same plot, because the farmer did not weed "volunteer" plants from the field in which the soy