WARWICK M&A GROUP

Healthcare

Sector Report



Nov 2023
Issue #10

Impact of difficult market conditions and inflational environment

AbbVie's acquisition of ImmunoGen

Zevra Therapeutics' acquisition of Acer Therapeutics

Market conditions cause a slide in global healthcare deal flow in November 2023

November 2023 in numbers

$11.60bn	157	$218.88m
Total deal value	No of deals closed	Average deal value
-17% (YoY)	*-40% (YoY)*	*+30% (YoY)*

Average TEV/Revenue:	2.85x	**Average Day Prior Premium:**	26.51%
Average TEV/EBITDA:	14.26x	**Average Week Prior Premium:**	27.54%
Average P/B:	3.49x	**Average Month Prior Premium:**	25.29%

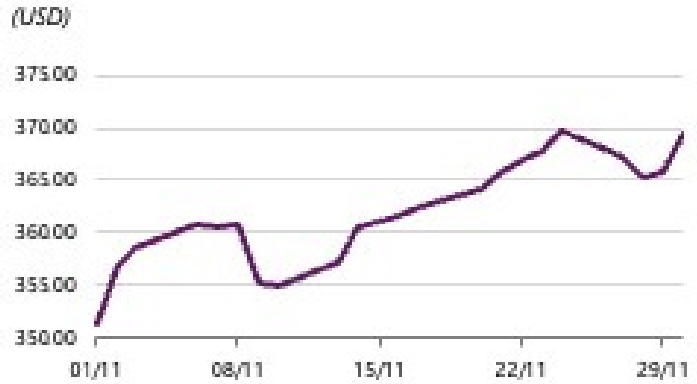
Sectoral insight

- This month represents a period of flux for healthcare M&A. Reduced deal flow is driven by challenging market conditions around the globe, though a few mega deals are still occurring at the same frequency. Over the course of the year, healthcare has bucked the trend of falling M&A activity, particularly in North America and Africa.
- This month is marked by uncertainty due to high inflation rates. Throughout the year, healthcare M&A has focused on replacing expiring patents, and this trend continues this month. Industry experts anticipate a resurgence in deal flow in 2024, fuelled by consistently decreasing valuations and a trend towards consolidation. Moreover, there is an expectation that the proportion of acquirors being private equity firms will decrease in the coming period.

Source: Capital IQ.

MSCI World Health Care 10/40 Index

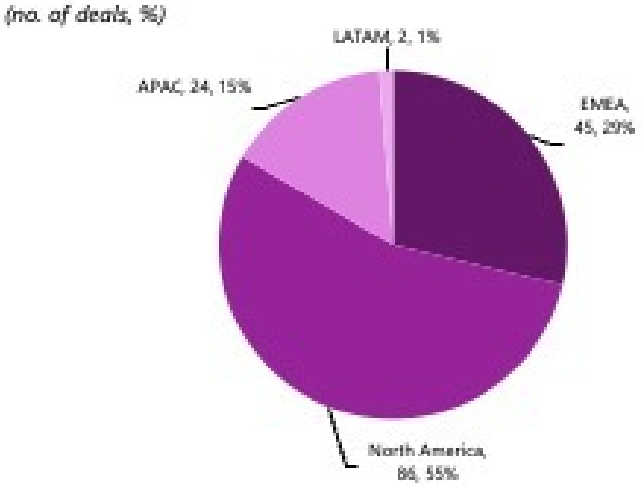
Market is slowly recovering to pre-pandemic levels



Data Source: Capital IQ

M&A Deal Volume in November 2023

North America dominates, while APAC & EMEA recover year-on-year



Data source: Capital IQ

AbbVie acquisition of ImmunoGen

Acquirer: AbbVie

AbbVie is a global biopharmaceutical company that focuses on the discovery, development, and commercialization of innovative therapies to address various medical conditions, particularly autoimmune diseases. It is the sixth largest pharmaceutical company in the world.

Since its spinoff from Abbott Laboratories in 2013, AbbVie has invested ~$55 billion in research to discover, develop and deliver new medicines.

Market Cap:	$271.0bn
Net Debt:	$47.9bn
LTM Revenue:	$55.1bn
EV/ LTM EBITDA:	10.8x

Target: ImmunoGen

ImmunoGen, Inc. is a biotechnology company focused on the development of antibody-drug conjugate (ADC) therapeutics for the treatment of cancer. ImmunoGen was founded in 1981.

An ImmunoGen ADC contains a manufactured antibody that binds to a target found on cancer cells, with one of the company's potent cell-killing agents attached as a "payload".

Market Cap:	$7.9bn
Net Debt:	($521m)
LTM Revenue:	$287m
EV/ LTM EBITDA:	-

Transaction Summary

- AbbVie will buy ImmunoGen for $10.1 billion in cash, the latest major drugmaker to acquire a maker of promising "guided missile" cancer therapies as its top-selling treatment Humira faces newer rivals.
- AbbVie has offered $31.26 per ImmunoGen share held, representing a premium of 94.6% to the stock's last close. ImmunoGen's shares surged 83% to a near 23-year high of $29.34 in morning trading on the news.

NYSE: IMGN Share Price



Announcement date:	30th November 2023
Offer per share:	$31.26
Transaction value:	$10.1bn
Implied Premium:	94.6%
Acquirer adviser(s):	Morgan Stanley, JPMorgan
Target adviser(s):	Goldman Sachs, Lazard

Source: Capital IQ, MergerMarket, Company Disclosures.

AbbVie acquisition of ImmunoGen

Rationale and Outlook

- With the deal, AbbVie is taking a meaningful step to close the revenue gap from the loss of patent exclusivity on its lead drug, Humira. ImmunoGen's Elahere treatment for fallopian tube cancer is a potential multi-billion-dollar revenue stream for the company.
- Elahere is the true prize of the acquisition with the drug already providing annual sales of 400m and further are expected as it receives approval for a wider number of uses towards the end of the 2020s. The drug extends ovarian cancer patient survival by 4 months compared to chemotherapy and has a favourable safety profile with fewer side effects.
- Interest in **antibody-drug conjugate** (ADC) makers have surged over the past year. Pfizer is in the middle of buying ADC pioneer Seagen in a $43 billion deal while Merck last month said it would pay Japanese drugmaker Daiichi Sankyo $5.5 billion to jointly develop three ADCs.
- The acquisition, expected to close in mid-2024, bolsters AbbVie's business as it looks to expand further into the solid tumour treatment space. It also complements AbbVie's internal efforts in developing ADCs such as Teliso-V which has shown promising results recently.
- AbbVie has established a strongly diversified replacement strategy for Humira with Rivoq and Skyrizi improving sales. Elahere will be an excellent complement to these drugs.
- Although expensive, the tender offer of $31.26 is a reasonable price for ImmunoGen and it is unlikely to spark a bidding war amongst other Big Pharma companies. AbbVie has no other treatments for ovarian cancer or rare blood cancers and so there is unlikely to be regulatory approval issues.

Diversifying Revenue Streams



Zevra Therapeutics' acquisition of Acer Therapeutics

Acquirer: Zevra Therapeutics

Zevra Therapeutics is a clinical-stage specialty pharmaceutical company that specializes in developing **prodrugs**, which are biologically inactive compounds that can be converted into active drugs within the body.

This prodrug approach aims to improve the delivery, efficacy, and safety of existing drugs. The company is now focusing on rare disease medicines and was renamed to Zevra from KemPharm in February 2023.

Market Cap:	$200m
Net Debt:	($111m)
LTM Revenue:	$16.5m
EV/ LTM EBITDA:	-

Target: Acer Therapeutics

Acer Therapeutics is a pharmaceutical company focused on the development and commercialization of therapies for rare and life-threatening diseases.

The company's product development portfolio consists of four candidates currently in clinical stages. The company's key product is the OLPRUVA drug for treatment of urea cycle disorders.

Market Cap:	$15m
Net Debt:	$47m
LTM Revenue:	$372k
EV/ LTM EBITDA:	-

Source: Capital IQ, MergerMarket, Company Disclosures.

Transaction Summary

- On August 31, 2023, Zevra offered 2.96 million Zevra shares valued at $15m- equivalent to 0.121 Zevra shares per Acer share.
- The deal also contained **Contingent Value Rights** (CVRs), with which Acer has the the potential to receive $76m if its OLPRUVA and EDSIVO drugs meets certain commercial and regulatory milestones.
- Additionally, Zevra acquired Acer's **senior secured debt** at a discount for $28.5 million from Nantahala Capital.

NASDAQ: ACER Share Price



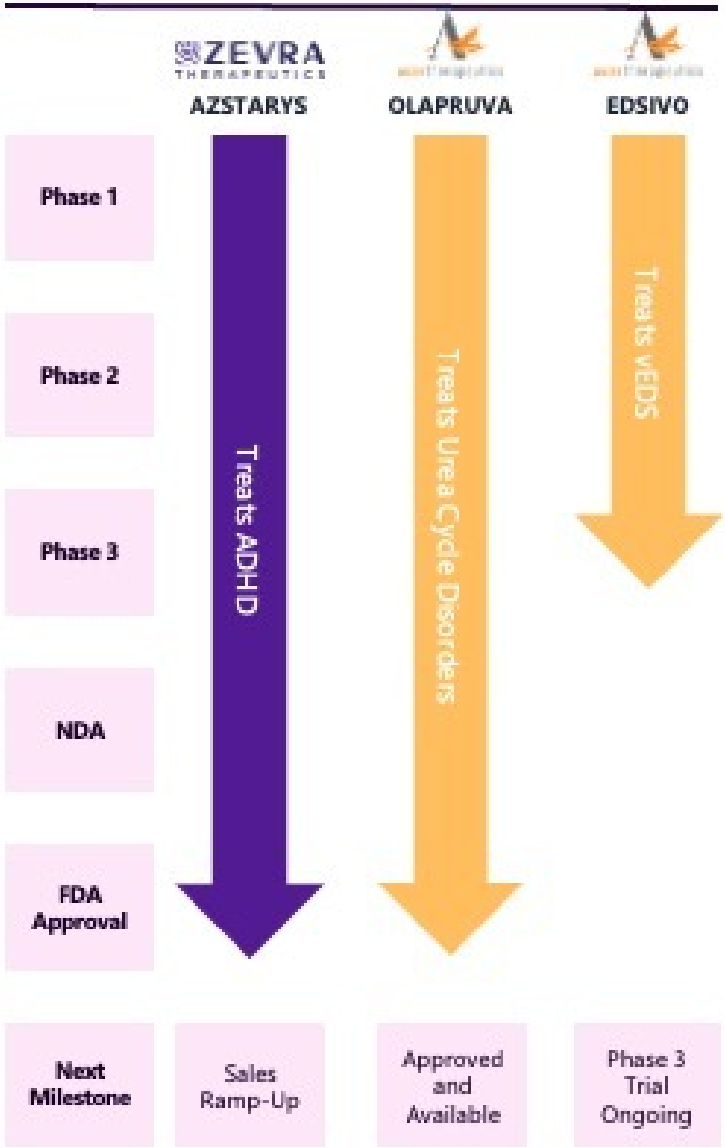
Announcement date:	31st August 2023
Offer per share:	$0.64
Transaction value:	$123m
Implied Premium:	-11.13%
Acquirer adviser(s):	Canaccord Genuity
Target adviser(s):	William Blair & Co

The acquisition will expand Zevra's clinical pipeline

Rationale and Outlook

- The acquisition of Acer will broaden Zevra's rare disease portfolio, particularly in vEDS (Ehlers-Danlos Syndrome) with the EDSIVO drug and Urea Cycle Disorders (UCDs) with OLPRUVA.
- Enhancing the variety in Zevra's portfolio offers the additional benefit of increasing revenues and expanding outreach among their common customer base. The CEO of Zevra has explicitly highlighted Acer's distinctive rare disease operations and capabilities would form the basis to facilitate the advancement and commercialisation of Zevra's pipeline.
- Acer as a drug discovery company is specifically focused on investigating and discovering new therapies and medicine that could cure rare diseases while Zevra provide commercial and marketing strategies afterwards, creating a win-win situation.
- Furthermore, as a part of the acquisition, Zevra anticipates gaining significant net operating loss (NOL) tax assets, offering potential tax savings for future earnings.
- The new deal indicates that Zevra will assume the control of the continuing Phase 3 programme on therapeutic candidates for the EDVISO drug that is seeking FDA approval in the short-medium term.
- Acer's key product OLPRUVA is already FDA-approved and revenue generating and has patent protection through to 2036, establishing another flagship product for the Zevra over the next decade.
- Both companies are strongly dedicated to the development and commercialisation of therapies for rare diseases, remaining steadfast in their commitment in providing support to communities that currently have limited or no therapeutic resources.

Drug Development Pipeline



We selected 4 deals with potentially biggest impact on the industry

August 28th, 2023 — **$1.2bn**

PureHealth reached an agreement to acquire Circle Health Group

Stage of the deal: ○●●●○ **Chances of success:** High

Comment: The deal expands PureHealth's portfolio as part of a commitment to maintain a larger global footprint, having recently also acquired firms in the US. Circle Health Group would broaden the treatment options available to UAE-based patients, whilst also providing opportunities for enhanced collaboration across organisations.

Circle Health Group is estimated to add over $1 billion in revenue to PureHealth, and this is projected to remain steady over the next few years, in part due to Circle's position as the second-largest private hospital operator in the UK.

September 6th, 2023 — **$5.5bn**

Froedtert reached an agreement to merge with ThedaCare

Stage of the deal: ○●●○○ **Chances of success:** Medium

Comment: The merger will create an 18-hospital system in Wisconsin, the latest in a line of Midwestern hospital mergers. With the two firms' operations not currently overlapping, it places the new system on a greater scale and provides both firms with a larger statewide reach.

The firms are aiming to broaden their respective offerings, whilst leveraging their respective partnerships with the Medical College of Wisconsin to position the new entity as a leading rural system in the state.

November 9th, 2023 — **Undisclosed**

TEKNIPLEX Healthcare reached an agreement to acquire seisa medical

Stage of the deal: ○●●●○ **Chances of success:** High

Comment: The acquisition of Seisa Medical will significantly extend TekniPlex's technology solutions platform in its limited minimally invasive and interventional therapies devices sector. It specifically enhances the firm's process and materials science technologies to create a more integrated system.

TekniPlex's CEO feels that it moves the company "squarely into the CDMO (contract, development, and manufacturing organisation) segment", allowing them to provide a more complete system to global customers, thus improving patient outcomes.

December 2nd, 2023 — **Unknown**

Cigna are exploring a merger with Humana

Stage of the deal: ○●○○○ **Chances of success:** Low

Comment: Cigna and Humana's merger aims to create a $140 billion U.S. health insurance giant, enhancing their competitiveness against larger industry groups.

Cigna is more active in the commercial market, whilst Humana has strong government contracts, and so these complementary and different lines of business would help the firms overcome antitrust scrutiny. Whilst this would also involve the sale of Cigna's Medicare Advantage business, the main regulatory sticking point would be both firms' key Pharmacy Benefit Manager organisations, which neither look likely to sell.

Source: Capital IQ, MergerMarket, Company Disclosures.

Glossary

Autoimmune Disease: Disorders where the immune system erroneously attacks the body's tissues.

Antibody-Drug Conjugate (ADC): Targeted cancer therapy linking monoclonal antibodies to cytotoxic drugs.

Prodrugs: Inactive drug forms that transform into active agents within the body.

Contingent Value Right (CVR): Financial instruments granting benefits upon predefined conditions, often linked to specific events.

Senior Secured Debt: Debt with collateral taking precedence over other debts in bankruptcy.

vEDS (Vascular Ehlers-Danlos Syndrome): Rare genetic disorder causing fragile blood vessels and organs due to collagen production defect.

Urea Cycle Disorder: Inherited metabolic disorders impacting ammonia elimination, leading to toxic buildup.

FDA (U.S. Food and Drug Administration): Federal agency ensuring safety of food, drugs, and medical products.

CDMO (Contract Development and Manufacturing Organization): Companies providing pharmaceutical services, including drug development and manufacturing, on a contractual basis.

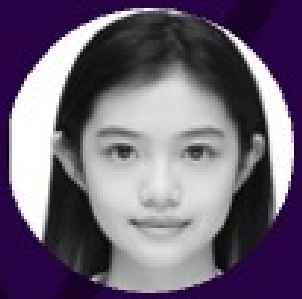
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