

*The Avexis Buyout and What It Means for the Pharma Industry as a Whole*

On April 9, 2018, Avexis announced in a press release that they were being acquired by the Swiss pharmaceutical giant Novartis<sup>1</sup>. Novartis agreed to pay Avexis \$8.7 billion dollars, which is ~80% premium on the market cap of the company. During open hours that day, Avexis traded at ~\$205 up ~77% from the previous close of ~\$116. Avexis is a mid-cap gene therapy company that currently has one candidate in a phase III clinical trial called AVXS-101 which is being developed as a treatment for SMA type 1. Additionally, they have plans to expand into Rett syndrome and ALS later on in 2018. Avexis is run by CEO Sean Nolan, who has held the position since June of 2015.

Novartis has recently been in the hot seat for allegations of government bribes in its Greece location and also has been under suspicion for similar incidents in China. As the fourth biggest pharmaceutical company by revenue, Novartis is looking to move past Pfizer and/or Roche to reach a top three position. Thus, the execs at Novartis decided to acquire the most advanced gene therapy developer in Avexis. This decision was soundly made: Avexis has shown that their management is very good delivering results of their clinical trials in addition to their stellar commitment to driving up value for stockholders. An assimilation into the Novartis pipeline will not be a very difficult process because of this. Vasant Narasimhan, who became CEO of Novartis earlier this year in February 2018, is no doubt looking to put the past failures of his company behind him and wants to insert Novartis as a leader in the gene therapy category. In fact, Narasimhan favors “smaller “bolt-on” acquisitions that advance specific therapeutic areas with a special treatment candidate”<sup>2</sup>. There is one small obstacle standing in Novartis’s way, which is the potential for an antitrust veto. Since Novartis holds such a large stake in the market, the US government may have some problems with this proposed buyout. If they deem that an acquisition will create an anti-competitive environment in the industry, they may bring down the anti-trust hammer and forcibly break the contract. If this is indeed what happens, then by the terms of the deal, Avexis is to receive \$437 million from Novartis as a “reverse termination fee”. This would be a blow to Novartis considering what has been outlined above. If Avexis was to break the contract themselves, Novartis is to receive \$284 million, a little more than half of the vice versa. Unfortunately for Novartis, \$284 million is not enough to balance the problems of the past. Thus, Novartis’s status quo in the industry very much depends on the outcome of this partnership. If Narasimhan wants to reinstate the respect of his company, he needs to do everything in his power and more to keep this deal moving forward favorably.

Something interesting to think about is “what will Biogen do in response to this news”? Biogen, has, in the past, taken an interest in Avexis, but did not present an offer. Now that Novartis may threaten Biogen’s share of the gene therapy category, Biogen should be engaging in internal talks about either outbidding Novartis or expanding its gene therapy department some other way. Biogen, of course, is not as big of a pharmaceutical giant as Novartis, nor does it have as much money. For Biogen to make a move on the scale of Novartis’s, it will be a very heavy

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<sup>1</sup> <http://investors.avexis.com/phoenix.zhtml?c=254285&p=irol-newsArticle&ID=2341482>

<sup>2</sup> <https://www.genengnews.com/gen-news-highlights/novartis-to-acquire-gene-therapy-developer-avexis-for-87b/81255677>

and impactful fork for the company. However, unlike Novartis, Biogen doesn't have anything they need to make the industry forget about. There is no need for the Cambridge, Massachusetts based company to make a quick decision. In fact, it will likely be better for the industry, and the company itself, to make the right decision, even if it takes a lengthy period of time. Additionally, Biogen still has Spinraza, their own SMA solution, to give them a little bit of a buffer and some wiggle room for options.

Unfortunately for almost every pharmaceutical giant other than Novartis, Avexis is the leader in cost effective SMA solutions by far. Biogen's Spinraza is very expensive and has too many side effects. Roche's Olesoxime only works for SMA Type 2 and has a later projected approval date<sup>3</sup>. This means that Avexis holds the cards, and now the only thing to do is wait and see what they want to do with them. The overall best-case scenario for Avexis is to be the subject of a bid war between a couple or more large companies. They would stand to gain higher premiums and would gladly forfeit their termination fee for a greater payout. The absolute worst thing that could happen would be Novartis pulling out of the deal for whatever reason, and even then Avexis would still gain a giant sum of money that could be used to reinforce their department and up their value to potential buyers.

The Avexis buyout is very good news for shareholders of the company. At a premium of ~70%, no owner should be complaining about the event. If Avexis was to stay independent and bring AVXS-101 to market on their own, it's doubtful that their stock price would rise by that amount, even if AVXS-101 becomes a blockbuster. This is because currently, Avexis has no pathway for scaling, just initial plans. Those who are cautious will have sold the instant the announcement was made for a little under the specified share amount, and those who like a little risk will be waiting for another bid to drive potential earnings even higher.

Unlike for the shareholders, the Avexis buyout is not good at all in the point of the view of the industry. The most apparent reason is the loss of competition. Since Avexis is now on the way to being absorbed, they are removed from the industry as an additional player and instead will bolster Novartis (or whatever company they decide on) and make an industry giant even larger. All of healthcare is in need of competition, and competition is good, especially when sky-high prices and external criticism plague its perception. The idea of Avexis becoming a modern Regeneron is now defunct.

In summary, the Avexis buyout stands to push Novartis to the top in gene therapy treatment, as well as escalating it even further in general rankings. Additionally, any competitors of Novartis should be wary of potential opportunities to stay in the game. Companies similar in scale to Avexis will be looking to capitalize on the openings that Avexis has made for them. Finally, while the industry weeps in the early-mid game, hopefully the situation creates possibilities for new companies and creates a better future later on.

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<sup>3</sup> <https://en.wikipedia.org/wiki/Olesoxime>