
Gilead Tops List of Drugmakers That Need to Make M&A Splash
2020-01-10 18:48:23.996 GMT

By Bailey Lipschultz

(Bloomberg) -- Gilead Sciences Inc. has so far been silent on plans to diversify its pipeline as investors clamor for a repeat of last year's biotech deal boom.

The drug developer leads a group of biopharmaceutical companies that Wall Street expects to join in the sector's acquisition spree. Earlier on Friday, Eli Lilly & Co. snatched up Dermira Inc. and its skin disorder drug for \$1.1 billion. Earlier on Friday, Eli Lilly & Co. snatched up Dermira Inc. and its skin disorder drug for \$1.1 billion.

That news comes as investors and management flock to San Francisco for the JPMorgan Healthcare Conference, which kicks off on Monday. The meeting is viewed as the crown jewel of sell-side events and is a hotbed for companies to announce deals and provide product updates.

Read more: The year's biggest health event promises drug news, possible deals

Here are some of the companies that Wall Street expects to be active in deal-making this year and what they may be looking for:

Gilead Sciences Inc.

Has: Foster City, California-based Gilead has changed the treatment landscape across diseases like HIV and hepatitis C, resulting in a number of blockbuster medicines. Bulls cheered its \$5.1 billion Galapagos NV pact as a move that built out its pipeline without jeopardizing its capacity to further make deals.

Needs: Chief Executive Officer Daniel O'Day didn't deliver the growth year that some on Wall Street envisioned when he took the helm last March. Failures in studies of the fatty liver disease known as NASH have sparked questions about how the company plans to attack the disease.

What's next: The shares have been left in the dust by the rally in biotech and the broader market over the last few months. "It's possible that they could do a big oncology partnership, kind of like the Galapagos situation," Jefferies analyst Michael Yee said. Genmab is a company that could make

sense for some form of deal, he said.

Amgen Inc.

Haves: A portfolio of more than five blockbuster drugs paired with a plethora of cash and newly acquired Otezla have positioned Amgen more in-line with large pharma firms than a biotech heavyweight. BMO analyst Do Kim wrote that Otezla can provide revenue growth while its pipeline gets more productive with a number of data readouts due this year.

Needs: Baird's Brian Skorney sees "an acquisition of a transformative technology" as among potential interests, though it isn't really Amgen's style. Arrowhead Pharmaceuticals is a name that could make sense for Amgen, he said. The company tends to have a more cautious deal-making nature.

What's next: While Otezla and Amgen's maturing pipeline have pushed the drugmaker's market value above \$140 billion, disappointing sales for Aimovig and Repatha along with drugs set to face copycat competition present some concern.

Biogen Inc.

Haves: The drugmaker boasts a solid portfolio of blockbusters led by multiple sclerosis medicine Tecfidera. The company's plans to file for U.S. approval of its Alzheimer's disease drug early this year remain a topic of investor conversation.

Needs: Biogen could build out its focus across areas like multiple sclerosis, movement disorders, neurology and ophthalmology. Raymond James estimates the company has roughly \$32 billion in deal capacity after recent share repurchase plans.

What's next: Biogen is among the most likely companies to make a deal in 2020, according to analysts. Baird's Skorney expects FDA interactions will hold back the company from doing any major deals, though mid-cap biotech company Ionis Pharmaceuticals Inc. could be a target. Skorney has also floated the idea that Biogen could become a target itself were things to "really go south" for the company.

Merck & Co.

Haves: Merck's top-selling cancer drug, Keytruda, has become the envy of Wall Street with sales expected to be almost

\$15 billion in 2020. Merck also agreed to snap up ArQule Inc. at a massive premium in December.

Needs: Bolt-on deals across the board could be in play given the ArQule move, according to Wall Street. But some skeptics say buying expensive, small companies won't fix its over-reliance on Keytruda.

What's next: Biotech investor Brad Loncar has said Merck's Keytruda problem is similar to the Patriots' "Tom Brady problem," given its capacity to deliver strong growth. While analysts say smaller deals would continue to win praise, Merck is among the sector's most equipped companies to make a mega-merger splash. Bloomberg Intelligence analyst Sam Fazeli estimates it has more than \$40 billion in deal capacity.

Alexion Pharmaceuticals Inc.

Haves: Alexion's Soliris is expected to account for more than two-thirds of 2020 drug sales, but competition has been intensifying. Sales of next-generation Ultomiris are picking up steam as the company works to switch over patients to the newer drug.

Needs: Alexion in October announced plans to buy Achillion Pharmaceuticals in an all-cash deal to better protect and complement its Soliris and Ultomiris franchises. Raymond James estimates the company may have roughly \$18 billion in deal capacity remaining.

What's next: "We anticipate more business development in 2020 as Alexion continues to execute on its strategy to bolster its core franchise and diversify its pipeline," BMO analysts wrote this week. Anything Alexion does will come under the microscope after it said last month that it opposed activist money manager Elliott Advisors' recommendation to seek a buyer for the company.

Vertex Pharmaceuticals Inc.

Haves: Continued dominance in cystic fibrosis drove shares to new highs this week. Wall Street expects the cystic fibrosis franchise to top out around \$10 billion annually, according to Citi, compared to expectations for \$3.7 to \$3.75 billion in sales for 2019.

Needs: Vertex is viewed as a bit of a dark horse to make a major splash given its share trajectory and booming sales. Expansion beyond cystic fibrosis could benefit the company.

Analysts have speculated that a purchase of partner Crispr Therapeutics AG would be a logical next step.

What's next: Advancing drugs for diseases outside of cystic fibrosis will be welcomed as the company looks to "avoid Gilead and Celgene-like concerns," BMO's Kim said. A bevy of study data for new medicines and sales for a newly launched drug combination are the key focus for investors.

To contact the reporter on this story:

Bailey Lipschultz in New York at blipschultz@bloomberg.net

To contact the editors responsible for this story:

Catherine Larkin at clarkin4@bloomberg.net

Richard Richtmyer