

# Merck to acquire Acceleron Pharma: the largest biopharma acquisition of the year

Find our latest analyses and trade ideas on [bsic.it](https://bsic.it)

Merck & Co. (NYSE: MRK) Market Cap as of 8<sup>th</sup> October 2021 – \$204.10bn

Acceleron Pharma, Inc. (NASDAQ: XLRN) Market Cap as of 8<sup>th</sup> October 2021 – \$10.68bn

## Introduction

On Thursday 30<sup>th</sup> September, Merck & Co.'s acquisition of Acceleron Pharma for a total consideration of about \$11.5bn was announced. Merck has agreed to pay \$180 per share in cash, which represents a premium of roughly 2.5% to the stock's closing price on Wednesday.

One of the main drivers of this transaction is the access to Acceleron's rare disease drug candidate Sotatercept, which will help diversify Merck's product portfolio. Once this drug will be approved, it will provide treatment for a rare cardiovascular disease called pulmonary arterial hypertension (PAH), which according to Merck will represent a \$7.5bn market by 2026.

## About Merck

Merck & Co. is a pharmaceutical company operating on a global scale boosting a market capitalization of \$204bn. Its offerings include prescription medicines, vaccines, biologic therapies as well as animal health products. Merck revenue has been growing at a CAGR of 6.2% over the last 3 years and in 2020 total sales stood at \$48bn. The company is structured into two segments, which are Pharmaceutical and Animal Health.

The majority of Merck's revenue is generated by the Pharmaceutical division, which is further subdivided into 10 therapeutic areas. Especially the oncology area, which comprises drug Keytruda, performed well in recent years, generating over \$15bn in revenues in 2020. Vaccines and Diabetes treatments were the next best performing divisions in terms of revenue. Drugs manufactured by Merck are generally sold by description and distributed by wholesalers, retailers, hospitals and government agencies. The Animal Health division provides health products for all major livestock species and supporting animals. Revenues generated by this segment amounted to \$4.7bn.

The company's most prominent product is the lung cancer treatment Keytruda, as it contributed 36.7%, or \$4.18bn, to Merck's total sales in the second quarter of 2020. Revenues from this drug grew impressively in the recent years, from \$7.17bn in 2018 to a total of \$14.4bn in 2020. It is worthwhile to mention that Keytruda is going to lose market exclusivity by 2028. This most recent acquisition is supposed to compensate for this expected drop in revenues as it gives Merck access to Acceleron's portfolio of drugs in development.

Recently, the company has also reported a breakthrough regarding a Covid-19 treatment. It has developed an antiviral pill called Molnupiravir which is to be taken upon infection. According to data from clinical trials the pill is able to reduce hospitalization or death by 50%. Investment bank SVB Leerink expects this newest drug to generate up to \$12bn in revenues until 2025.

## About Acceleron

Acceleron Pharma Inc. is a company active mainly in the US specializing in biopharmaceutical products. Its activities range from research, development, manufacturing and commercialization of treatments against pulmonary and hematologic diseases. More specifically, it engages in the development of protein therapeutics for cancer and orphan diseases.

*All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.*

Its three main offerings are Sotatercept, ACE-1334 and REBLOZYL. Sotatercept, while still only in stage two trials, is the leading prospect in the fight against pulmonary arterial hypertension (PAH) and has the potential to become the go-to therapy for patients with this rare disease. ACE-1334 is still in the early stages of development and is intended to combat systemic sclerosis-associated interstitial lung disease. Finally, REBLOZYL is the first approved erythroid agent for the treatment of anemia in certain blood disorders. It is being developed and promoted by a partnership between Acceleron and Bristol Myers Squibb.

Revenue increased from \$74m in 2019 to \$93m in 2020. However, the firm remains unprofitable with a net loss of \$166m. This is expected to change, once its second drug Sotatercept will hit the market.

## **Industry Overview**

Acceleron operates in the biopharma industry and more specifically in the oncology drugs market, which was valued at \$128bn in 2019 and expected to reach \$222bn by 2027, with a CAGR of 7.4%.

Contrary to other sectors in the pharma industry, the Covid-19 pandemic represented a significant setback for the cancer drugs market for various reasons. First of all, supply chains were disrupted due to restrictions in international trade of pharmaceutical components. Furthermore, patients' access to cancer drugs was reduced as a result of the difficult administration of chemotherapy and similar treatments outside of a clinic. Last but not least, clinical trials were significantly limited due to volunteers' unwillingness to participate in such programs. Covid-19's effect on the research and development of new drugs was likely the most relevant blow to the oncology industry.

Nevertheless, the substantial growth of the global cancer drugs market is majorly determined by the rise in incidence of various cancer conditions, the increase in popularity of advanced therapies, and the surge in geriatric population worldwide. On top of that, a boost to the market growth is likely to come from the rise in cancer awareness and availability of cancer drugs. Moreover, the high potential of developing countries and the increasing number of pipeline innovations are expected to provide new opportunities for the industry in the future. However, the industry might suffer from the increasing development cost of new drugs, coupled with the risk of failure and adverse effects associated with cancer drugs.

Over the last few years M&A in the biopharma industry has been booming, with one of the main drivers being the acquisition of a target's pipeline of new developing drugs. Biopharma companies have been supporting their R&D through dealmaking to avoid the decreasing returns on innovation efforts and to reduce patent cliff risk. For example, Merck's blockbuster cancer drug Keytrude is set to lose patent protection in 2028. Even if this sounds like far away in the future, it is a relatively short time in the industry, given that it takes on average 10 years and \$2.6bn to develop a new drug from initial discovery to the market access, with just slightly above 10% of applications being eventually approved.

## **Deal Structure**

Under the terms of the agreement, Merck will acquire, through one of its subsidiaries, 64m shares at a cash offer price of \$180 per share, corresponding to a premium of 2.65% compared to the target's stock price on the day before the announcement. However, when compared to the average price in the previous month, the offer price represents a premium of 35.58%. The transaction values Acceleron's equity at \$11.56bn, which corresponds to an enterprise value of \$10.96bn given a positive cash position of around \$600m. The exit multiple according to these terms is a staggering 118x Acceleron's revenue of \$92m, even though the company has not been profitable yet.

*All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.*

The closing of the deal will depend on various conditions, including the tender of shares representing at least a majority of the total number of Acceleron's outstanding shares. The transaction is expected to complete by Q4 2021 after regulatory approvals. Find out latest analyses and trade ideas on [bsic.it](https://www.bsic.it)

## **Deal Rationale**

One of the most important reasons that prompted Merck to execute the acquisition is the inevitable patent cliff of its most well-known drug Keytruda that the company will face as soon as in 2028. The reliance of the company to its flagship drug that has successfully transformed the cancer immunotherapy and that only last year was accountable for a 30% increase in Merck's revenue, has become a concern to its investors for whom the eventual decline in sales after the loss of patent protection started to appear at the horizon of 8 years from now. According to the SVB Leerink consensus market estimates Merck's revenues will reach almost \$70 bn in 2028 only to drop to less than \$60 bn within the following two years, with Keytruda revenues accounting for the decrease.

In order to prevent the rivals from launching a cheaper version of the drug, the company has filed 129 patents linked to Keytruda with hopes to extend the period of exclusivity to 2036 and beyond. However, Merck's recently-appointed chief executive Rob Davis has decided to undertake additional measures to diversify the company's portfolio with the acquisition of Acceleron Pharma marking the introduction of his new strategy.

Acceleron is expecting to introduce a blockbuster drug to treat pulmonary arterial hypertension as soon as in 2024/2025, which would allow Merck to start generating additional revenue before Keytruda's loss of patent protection. The target being a later stage company is of a great importance for Merck as eight years in the pharma industry is a relatively short time. In fact, to introduce a new drug to the market it takes on average a decade and \$2.6bn of investment, not to mention that just one in eight drugs entering clinical trials is eventually approved. Therefore, pursuing acquisitions of early stage companies would be a risky move for the company. What is more, global regulators announced only this year they would take a closer look at whether big pharma deals are reducing competition in the market for prescription drugs. This automatically makes aiming for bigger targets less likely in the near future.

In addition to the currently small product portfolio, the company has so far failed to launch any Covid-19 treatment which in turn caused Merck's shares to stay behind its competitors' for the last one and a half years. Yet, this situation might change soon due to the recent positive data regarding the clinical trials of the antiviral pill the company has developed. However, even with the successful Covid-19 treatment in the portfolio, the company most probably will not be able to replace Keytruda revenues without further diversification.

## **Market reaction**

In the week prior the announcement the shares of Acceleron rose substantially, increasing from a closing price of \$139.55 on September 20<sup>th</sup> to \$167.65 on Friday, 24<sup>th</sup>. After the deal's announcement Acceleron's share price decreased 3.4%, while Merck's rose 1.8% showing appreciation from Merck's shareholders for the new business development strategy.

## **Advisors**

Merck's financial advisors are Credit Suisse and Goldman Sachs while Centerview Partners and J.P. Morgan are acting as financial advisors to Acceleron.

TAGS: [COVID-19](#) [healthcare](#) [pharma](#) [Pharmaceutical](#) [Merck](#) [M&A](#) [Acceleron](#)

*All the views expressed are opinions of Bocconi Students Investment Club members and can in no way be associated with Bocconi University. All the financial recommendations offered are for educational purposes only. Bocconi Students Investment Club declines any responsibility for eventual losses you may incur implementing all or part of the ideas contained in this website. The Bocconi Students Investment Club is not authorised to give investment advice. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Bocconi Students Investment Club and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. Bocconi Students Investment Club does not receive compensation and has no business relationship with any mentioned company.*