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Slow Q3 For Biopharma M&A Boosted By Biogen/Reata

by Joseph Haas

Biogen's acquisition of Reata lifted the third quarter's M&A value above \$13bn, but data from Evaluate show that acquisition activity cratered in both August and September.

A heady start for biopharmaceutical M&A during the first half of 2023 slowed to a crawl during Q3 and particularly the months of August and September, as data recorded by Evaluate show. [Biogen, Inc.](#)'s \$7.3bn acquisition of [Reata Pharmaceuticals, Inc.](#) in July accounted for more than half of the quarter's M&A valuation of slightly more than \$13bn, with only three other acquisitions valued at \$1b or higher during Q3.

The 24 biopharma M&A transactions during the third quarter mark the lowest total since the 23 announced during Q2 2021. Each quarter since had seen at least 30 biopharma M&A deals, according to Evaluate, including 35 in Q1 2023 and 33 in Q2 2023. A 1 October analysis by Stifel determined that M&A activity during the first half of 2023 put the sector on pace for its second-largest M&A year by dollar value after the \$328bn recorded in 2019. But the Q3 decline now sees 2023 on pace for about \$143bn in biopharma M&A activity, a middling total for the last 10 years – though still \$16bn higher than 2022's total.

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Acquisitions during Q3 had an aggregate valuation of \$13.08bn, down from more than \$29bn in the second quarter. Valuation is always tricky to assess, however, because many deal announcements do not provide detailed figures – only 11 of Q3's 24 included publicly disclosed valuations – and some of the valuation information provided consists of earnouts such as

milestone payments and sales royalties that may never be realized.

Evaluate's tracking of biopharma sector venture capital fundraising hints at part of the reason for the M&A slowdown – Q3 saw \$3.95bn in aggregate VC funding, down from the totals of both Q1 and Q2 2023. (Also see "[Q3 Shows Ongoing Venture Fundraising Challenges In Tough Financial Market](#)" - Scrip, 5 Oct, 2023.) The plodding pace of initial public offerings in biopharma has created downward pressure causing investors to use their money to prop up their portfolio companies while awaiting a better financial environment for exits, whether by IPO or M&A transactions. (Also see "[Biotech IPOs Get Bigger, But Not Necessarily Better](#)" - Scrip, 4 Oct, 2023.)

Two other factors that likely held down M&A in biopharma are the uncertainties around drug pricing in the US as industry adjusts to the Inflation Reduction Act provisions enabling the Centers for Medicare and Medicaid Centers to negotiate prices. (Also see "[Executives On The Move: BioCryst, Abivax and More](#)" - Scrip, 14 Jul, 2023.) At the same time, US Federal Trade Commission oversight that delayed the closing of 2022's biggest M&A deal – the \$27.8bn [Amgen, Inc.](#) buyout of [Horizon Therapeutics plc](#) – also may be giving potential acquirers pause, even though Amgen and the FTC reached a settlement that allowed that merger to close. (Also see "[Podcast: How Will Greater FTC Scrutiny Affect Biopharma M&A Activity?](#)" - Scrip, 3 Oct, 2023.)

Biogen/Reata Comprises More Than Half Of Quarter's M&A Spend

All of those factors did not prevent Biogen from acquiring Reata and its Skyclarys (omaveloxelone), the only approved drug for Friedreich's ataxia, for \$172.50 per share, a 58% premium and the third largest M&A deal of 2023. The transaction, which closed on 26 September, only two months after Biogen's offer was publicly revealed, is expected to help Biogen return to growth following a challenging period driven by the flop of its Alzheimer's disease drug Aduhelm (aducanumab) and the impact of generic competition to Tecfidera (dimethyl fumarate). (Also see "[Biogen Buys Time For Leqembi Ramp-Up With Reata Acquisition](#)" - Scrip, 28 Jul, 2023.)

Near-term revenues expected for Skyclarys, which is approved by the US Food and Drug Administration and under review at the European Medicines Agency, are expected to give Biogen time to ramp up sales for its more recent Alzheimer's drug Leqembi (lecanemab), partnered with [Eisai Co., Ltd.](#), and for Qalsody (tofersen), its therapy for a genetically defined subset of amyotrophic lateral sclerosis (ALS) patients. (Also see "[Eisai/Biogen's Leqembi Will See Broadened Access To Majority Of Patients](#)" - Scrip, 6 Jul, 2023.)

The three other M&A deals valued at \$1bn or more during Q2 all are contingent on earnout payments, although in each case the amount of upfront cash was not disclosed publicly. Therefore, it may be that Biogen/Reata was the only deal during the July-September period that included hard cash of \$1bn or more up front, although more than half of the quarter's M&A deals did not disclose financial terms.

Weight-Loss Race Spurs Deals By Lilly, Novo Nordisk

The heightened competition within the weight-loss space – with [Novo Nordisk A/S](#) and [Eli Lilly and Company](#) the current top players – drove some of Q3's bigger deals as Lilly made one acquisition to increase its cardiometabolic R&D holdings and Novo Nordisk signed off on two such deals.

The quarter's second-largest deal by valuation was Lilly's purchase of [Versanis Bio](#) on 14 July. The transaction, which closed one month later, will bring Versanis's backers up to \$1.925bn although neither company disclosed the size of the upfront cash or detailed the development and sales milestones included in the deal. (Also see "[Lilly Looks To Complement Mounjaro, Obesity Pipeline With Versanis Buyout](#)" - Scrip, 14 Jul, 2023.) Central to the transaction is Versanis's Phase IIb obesity candidate bimagrumab, an antibody that binds the activin type II A and B receptors.

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Q3's third-largest deal was Novo Nordisk's \$1.075bn takeout of [Inversago Pharma Inc.](#) on 10 August. (Also see "[Novo Bets On 'Chequered' CB1r Approach In Diabetic Kidney Disease With Inversago Buy](#)" - Scrip, 10 Aug, 2023.) The Danish pharma is looking to bolster its strength in metabolic disease with Inversago's lead pipeline candidate, INV-202. The oral CB1 inverse agonist demonstrated weight loss potential in a Phase Ib study and now is in Phase II for diabetic kidney disease. (Also see "[Novo Bets On 'Chequered' CB1r Approach In Diabetic Kidney Disease With Inversago Buy](#)" - Scrip, 10 Aug, 2023.) The deal, which closed on 9 September, includes development and commercial milestones that Inversago's pipeline candidates must achieve to reach full valuation.

That was one of two significant acquisitions by Novo Nordisk, the sponsor of type 2 diabetes and weight-loss titan semaglutide (Ozempic/Rybelsus for diabetes, Wegovy for obesity), during the quarter along with its 30 August takeout of Embark Biotech in a deal with potential value of \$515m, including a \$16.3m upfront payment. The transaction brings Novo Nordisk additional pipeline assets for type 2 diabetes and obesity and represents the closing of a circle, as Embark spun out of the Novo Nordisk Foundation's Center for Basic Metabolism Research in 2017.

The other \$1bn M&A deal recorded in Q3 was [Novartis AG](#)'s purchase of San Diego-based [DTx Pharma](#), an antisense specialist that has lead program DTx-1252 in preclinical development for the treatment of Charcot-Marie-Tooth disease Type 1A (CMT1A). Under the 17 July deal, Novartis paid \$500m up front for DTx, whose investors can earn another \$500m based on the achievements of prespecified milestones. (Also see "[Novartis Bets On Buybacks Due To Limited M&A Options](#)" - Scrip, 18 Jul, 2023.)