

Human Genome agrees to GlaxoSmithKline takeover (Update)

July 16 2012, by LINDA A. JOHNSON

(AP) — U.K. drug maker GlaxoSmithKline has secured its takeover of longtime partner Human Genome Sciences after agreeing to pay more, a move to expand GSK's drug portfolio in crucial areas: biologic drugs and treatments for the hundreds of millions of people with diabetes and heart disease.

The two companies said Monday that GSK will pay \$3.6 billion, or \$14.25 per share, for the U.S. biotechnology company. Directors of both companies have approved the deal.

Human Genome Sciences, based in Rockville, Md., agreed to the acquisition following a prolonged battle in which it had put up a "poison pill" defense. That would have diluted holdings if anyone attempted to acquire 15 percent or more of Human Genome stock without board approval.

The final price is up from GSK's previous offer of \$13 per share, and almost double the \$7.17 closing price for Human Genome shares on April 18, the last trading day before Glaxo's initial offer was publicly disclosed.

"This is a natural next step in our nearly 20-year relationship with HGS, and we look forward to working with HGS to integrate our businesses and to realizing the full value" of its approved and experimental drugs, GSK Chief Executive Sir Andrew Witty said in a statement.

Under the agreement, GSK gains full ownership of two experimental drugs plus Human Genome's only marketed medicine, Benlysta.

That's the first new drug approved in about 50 years for lupus, a chronic immune disorder believed to affect about 5 million people around the world. Most other treatments either simply reduce inflammation and pain, take months to improve symptoms or can cause a host of significant side effects.

Benlysta, a biologic drug produced in living cells, is meant to block or limit immune system attacks on the patient's cells and tissue, which cause inflammation and damage to organs. The drug contains a substance that reduces the number of a type of white blood cells believed to be involved in causing that damage.

"Glaxo is smarter than the whole industry," said analyst Steve Brozak of WBB Securities, noting the deal shows GSK knows it must increase sales and the profit margin for Benlysta.

"It realizes more than its competitors that it must also access the broadest biotech pipeline," for which Human Genome is well known, he added.

The deal also brings GSK two promising experimental drugs in late-stage human testing, albiglutide for Type 2 diabetes and darapladib, a heart drug being tested for prevention of stroke and heart attack.

Diabetes and heart disease are both core areas for GSK that once were lucrative but have seen revenue plunge due to generic competition or safety questions.

Two older GSK heart drugs, Coreg and Arixtra, now have only a few hundred million dollars in annual sales due to generic competition, and its anticlotting medicine Fraxiparine produced just under \$100 million in

first-quarter sales.

Meanwhile, GSK's key diabetes drug, Avandia, had been a blockbuster until it was linked to risk of heart attack. That led to sales being banned in the European Union and severely restricted in the U.S.

GSK's higher offer followed news of positive results on albiglutide from a study of cardiac safety — an issue that's now crucial for winning U.S. approval of many types of new drugs, including for diabetes.

Last week, GSK said it planned early next year to apply for approval of albiglutide, which helps control both blood sugar and appetite, helping diabetics lose weight. The drug is in the same class, GLP-1 agonists, as two popular injected diabetes drugs, Byetta and Bydureon.

"After a thorough analysis of strategic alternatives, HGS has determined that a combination with GSK is the best course of action for our company and the best way to maximize value for our stockholders," H. Thomas Watkins, president and CEO of HGS, said in a statement.

GlaxoSmithKline said it expects the deal to add to core earnings beginning next year and to produce at least \$200 million in cost savings by 2015. The company said the deal will not disrupt its current program to repurchase shares worth 2 billion to 2.5 billion pounds, or \$3.1 billion to \$3.9 billion, in 2012.

Earlier this month, GSK agreed to pay the U.S. government \$3 billion in fines — the largest health care fraud settlement in U.S. history — for criminal and civil violations involving improperly marketing and concealing the risks of medicines taken by millions of patients, including Avandia.

GlaxoSmithKline shares rose 30 cents to close at \$45.30 Monday.

Human Genome shares jumped 61 cents, or 4.5 percent, to close at \$14.19.

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