AstraZeneca pays $4.1 billion for diabetes buyout (Update)

December 19 2013, by Danica Kirka

Anglo-Swedish drugmaker AstraZeneca PLC will buy out Bristol-Myers Squibb Co.'s stake in their partnership to develop and sell diabetes drugs in a deal worth $4.1 billion—seizing an opportunity to serve the projected explosion of patients suffering from the disease.

The package announced Thursday includes $2.7 billion to buy Bristol-Myers' 50 percent share, as well as up to $1.4 billion in regulatory, launch and sales related payments. Bristol-Myers will also receive royalty payments based on net sales through 2025. Payments of up to $225 million may also be made after the transfer of certain assets and royalty payments.

"Together with Bristol-Myers Squibb we concluded that consolidating ownership of the diabetes portfolio would benefit both companies and allow us to better serve the needs of diabetic patients," said Pascal Soriot, chief executive officer of AstraZeneca. "Today's announcement reinforces AstraZeneca's long-term commitment to diabetes, a core strategic area for us and an important platform for returning AstraZeneca to growth."

AstraZeneca's share price rose 1.1 percent in London to close at 35.99 pounds.

Despite the broadly positive response to the news, investors had a reminder of the uncertainties of the business. AstraZeneca said it would incur a $1.7 billion pretax charge connected to the diabetes drug

Bydureon whose sales were below expectations. However, it remains confident in the drug's commercial future.

The buyout comes as AstraZeneca undergoes a major research and development re-organization to offset the expiration on patents for drugs like cholesterol medication, Crestor. The plan is meant to reduce costs and make research programs more productive amid big drops in revenue and net income last year.

Like other big pharmaceutical firms, AstraZeneca has faced the pinch from rising research costs, a surge in generic competition and the demands of government health programs to hold down spending.

But in diabetes, the company sees the possibility of as many as 550 million people being affected worldwide, particularly in emerging markets, where the company has a strong presence.

"Diabetes is rapidly becoming a global challenge of epidemic proportions," Soriot said.

Once the deal is completed, AstraZeneca will own rights for drugs such as Onglyza and Kombiglyze XR, which are used for type 2 diabetes. Type 2 diabetes accounts for the vast majority of diagnosed diabetes in adults.

It expects about 4,100 Bristol-Myers Squibb employees working on diabetes issues will eventually transition to AstraZeneca, though some will remain to support the transition.

Alex Arfaei, the pharmaceutical analyst for BMO Capital Markets in Toronto, described the deal as a boost to the profile of Bristol-Myers—and a sign of confidence in its cancer drugs.

"Bristol probably believes that it has a high opportunity cost and doesn't want to compete in the increasingly competitive diabetes market, which is mostly a primary care market requiring intensive promotion," he said.

He said the royalty structure of the deal offers is also a boost to Bristol-Myers.

"The deal allows Bristol to put more resources into cancer immunotherapy during the next 2-3 years, while it continues to get significant economics from the diabetes franchise," he said.

Bristol-Myers' share price was up 3 percent at $54.19.