

AbbVie to buy leukemia drugmaker Pharmacyclics for \$21B

March 5 2015, byTom Murphy



This Saturday, Jan. 24, 2015 photo shows the exterior of Abbvie, in Lake Bluff, Ill. AbbVie will spend about \$21 billion to buy leukemia drugmaker Pharmacyclics in its first major deal attempt since walking away from a \$55 billion takeover of Shire last fall, the company announced, late Wednesday, March 4, 2015. (AP Photo/Nam Y. Huh)

AbbVie will spend about \$21 billion to buy fellow drugmaker Pharmacyclics and add another major revenue producer to a portfolio that already includes the world's top-selling drug.

The deal will give the North Chicago, Illinois, drugmaker Imbruvica, a blood cancer treatment that Pharmacylics makes and then markets with Johnson & Johnson's Janssen Biotech. AbbVie executives told analysts on Thursday that their company could reap more than \$7 billion in annual sales from Imbruvica in a few years.

Imbruvica is approved in more than 40 countries and treats three different types of blood cancers including chronic lymphocytic leukemia, which is the most common leukemia in adults. The once-a-day capsule works by blocking a protein that allows the cancer to multiply and spread.

AbbVie Chairman and CEO Richard Gonzalez told analysts Thursday morning that the drug comes with "vast potential."

AbbVie plans to increase sales for Imbruvica's already approved uses, add new uses and make it more of a first-line treatment, which basically means it's the initial thing doctors try when treating a patient. That represents a bigger revenue opportunity.

While AbbVie touted the potential benefits of its latest acquisition attempt, several analysts said the deal price surprised them, and investors pushed the price of AbbVie stock down Thursday. In contrast, shares of Sunnyvale, California-based Pharmacylics jumped in afternoon trading while broader indexes were nearly flat.

Gonzalez told investors that AbbVie outbid two other companies to pull off the Pharmacylics deal, which was announced late Wednesday. He didn't name the other two.

Shares of Pharmacylics had surged earlier Wednesday after London's Financial Times, citing unnamed sources, reported that J&J was close to buying Pharmacylics. That report also cautioned that the J&J deal

might unravel.

A J&J spokeswoman said in an email that her company was looking forward to continuing its Imbruvica collaboration with AbbVie.

AbbVie's winning bid amounted to an offer of \$261.25 for each Pharmacyclics share. That represents a premium of about 21 percent to the closing price of Pharmacyclics shares on Tuesday.

AbbVie will offer a mix of cash and stock to Pharmacyclics shareholders, who will be able to choose either option or a combination of the two.

The offer comes a few months after AbbVie scuttled a roughly \$55 billion deal to buy another drugmaker, Shire, after the U.S. government created new limitations on the tax benefits of reincorporating overseas. AbbVie would have reincorporated on the British island of Jersey, where Shire is incorporated.

Gonzalez said in a statement Wednesday that the latest deal attempt represents a "strategically compelling opportunity" for AbbVie to complement its own pipeline of cancer drugs. Pharmacyclics also has several potential treatments under development.

Imbruvica brought in \$548 million in total global revenue during its first full year of sales in 2014.

In contrast, the anti-inflammatory Humira, the world's best seller, notched more than \$12 billion for AbbVie. But it will start losing patent protection next year and could eventually face competition from Amgen Inc., which is developing a biosimilar version of the drug. Biosimilars are similar, but not identical to, brand-name biologic drugs, which are grown in living cells, rather than made by mixing chemicals.

AbbVie also makes a new hepatitis C treatment, Viekira Pak. Company executives have said that treatment could reach annual sales of \$3 billion by the end of 2015.

The Pharmacyclics deal shows that acquisitions are becoming the only short-term means of growth for drugmakers, as opposed to raising prices or expanding the use of products they've developed, said Steve Brozak, president of WBB Securities.

"We're now seeing drug companies trade like commodities," he said.

Shares of Pharmacyclics Inc. were up more than 10 percent, or \$24.22, to \$254.70 in afternoon trading Thursday, slightly below the new, all-time high they reached earlier in the session. AbbVie Inc., meanwhile, fell 4.5 percent, or \$2.69, to \$57.58.

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