

Eli Lilly to acquire Loxo Oncology for \$8 billion

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This April 26, 2017, file photo shows the Eli Lilly & Co. corporate headquarters in Indianapolis. Eli Lilly is buying Loxo Oncology for about \$8 billion as it continues to broaden its cancer treatment efforts. Loxo Oncology Inc. is a biopharmaceutical company focused on the development and commercialization of highly selective medicines for patients with genomically defined cancers. (AP Photo/Darron Cummings, File)

Pharmaceutical giant Eli Lilly announced Monday it will acquire Loxo Oncology for around \$8 billion, the latest big transaction aimed at

developing and monetizing new treatments for cancer.

The deal supplements Eli Lilly's pipeline of cancer-oriented medicines with assets from Loxo, which was incorporated in 2013 and has a number of promising treatments at various stages of development.

Under the terms of Monday's deal—which follows last week's \$74 billion announced takeover of Celgene by Bristol-Myers Squibb—Eli Lilly will pay \$235 per share in cash, or about \$8 billion, for Stanford, Connecticut-based Loxo.

The deal, which represents a premium of some 68 percent over Loxo Oncology's closing share price on Friday, is expected to close by the end of the first quarter, the companies said in a statement.

"Using tailored medicines to target key tumor dependencies offers an increasingly robust approach to cancer treatment," said Daniel Skovronsky, Lilly's chief scientific officer.

Loxo's portfolio "creates new opportunities to improve the lives of people with advanced cancer," he added.

A note from Morningstar said the Loxo assets "should fit well with Lilly's strong position in oncology with already approved cancer drugs," adding that while Loxo's products are tailored to narrow patient groups, the "strong efficacy of the drugs should support continued pricing power and robust sales."

Loxo's product pipeline is centered on treating patients when there is an inappropriate DNA change that can be discovered through genomic testing. The company aims to develop targeted therapies that can impede the progression of these diseases.

A key driver for the deal because of near-term commercial potential is a treatment for lung, thyroid and some other tumors, Eli Lilly executives said on a conference call.

The treatment was granted the "Breakthrough Therapy" designation by the Food and Drug Administration with a potential launch in 2020, the companies said in the news release.

New cancer treatments

The Loxo treatments are reflective of a generation of newer cancer remedies that treat specific populations suffering from a particular strand of a cancer, said Anupam Jena, an associate professor at Harvard Medical School.

Whereas a decade ago most patients with lung cancer might have been treated with chemotherapy, a drug being developed by Loxo could be used by fewer than five percent of patients with a particular strand of lung cancer, Jena said.

"We're moving towards therapies that are targeted towards specific mutations," Jena said. "So we are seeing smaller companies developing therapies for specific cancers and then licensing those products or being acquired by larger companies."

One downside of pharma mergers is an increase in prices that usually follows, while an advantage is that higher prices incentivize innovation, Jena said.

Eli Lilly executives said the company could still do additional acquisitions in the coming period.

"We'll continue to look in oncology, as well as other therapeutic areas,"

Eli Lilly Chief Executive David Ricks said on a conference call with analysts.

"It just so happens that in oncology there are many more opportunities to look for biotech acquisition and pipeline additions because of how the science is really changing the treatment of cancer and so many venture-backed companies are exploiting that.

"But that doesn't mean we'll exclude our other areas of interest either."

Besides last week's Bristol-Myers Squibb acquisition, other recent pharma deals focused on cancer included GlaxoSmithKline's \$5.1 billion acquisition of Waltham, Massachusetts-based Tesaro, an oncology-focused company with a treatment for ovarian cancer.

Shares of Loxo shot up 66.3 percent to \$232.65, while Eli Lilly rose 0.5 percent to \$115.28.

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