M&A CELG/BMY: Bristol-Myers Aims to Be Immuno-Oncology Leader With $74B Acquisition of Celgene

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Relevant Documents:
Press Release
Transaction Presentation

Takeaways

- Today, Jan. 3, Bristol-Myers Squibb and Celgene announced that they have entered into a definitive merger agreement under which Bristol-Myers Squibb will acquire Celgene in a cash and stock transaction. The equity value of the transaction is approximately $74 billion.
- Bristol-Myers and Celgene have complementary product portfolios, with Celgene's most substantial product, Revlimid, targeting multiple myeloma. Bristol-Myers has a very limited presence in the multiple myeloma space through a joint venture with AbbVie.
- Given the size of the transaction, antitrust reviews in the U.S. and with the European Commission will likely drive the closing timeline.
- The companies said they expect to close the transaction in the third quarter of 2019.

Bristol-Myers Squibb will purchase Celgene in a $74 billion transaction that will combine the biopharmaceutical companies to advance the drugmakers' position in cancer, immunology and inflammation.

The antitrust review process for mergers in the pharmaceutical industry is pretty well-established, noted Clyde Tinnen, a partner at law firm Withers. Given that Bristol-Myers and Celgene have disclosed that they expect to complete the transaction in the third quarter of 2019, Tinnen said he suspects the companies have already concluded that there are no major overlaps among their key products or pipelines.

Even if there are some overlaps, FTC lawsuits to block industry mergers such as the Celgene/Bristol-Myers transaction are rare, said Michael Carrier, a professor at Rutgers Law School who specializes in areas including antitrust and pharmaceuticals. "More likely, the FTC would require a divestiture if the companies have overlapping product lines," Carrier said.

Bristol-Myers and Celgene are required to obtain antitrust approvals from the U.S. and EC, among other jurisdictions likely including Japan. In addition to regulatory approvals, the combination will be subject to the approval by both companies' shareholders.

Celgene shareholders will be entitled to receive one Bristol-Myers share and $50 in cash for each share of Celgene. In addition, Celgene shareholders will also receive one tradeable contingent value right, or CVR, for each share of Celgene. Each CVR will entitle the holder to receive a one-time payment of $9 in cash for the achievement of regulatory milestones related to future FDA drug approvals.

Based on the closing price of Bristol-Myers stock of $52.43 on Jan. 2, the cash and stock consideration is valued at $102.43 per Celgene share and one CVR. The implied value of the cash and stock consideration represents a 54% premium based on Celgene's closing stock price on Jan. 2.

Upon completion of the transaction, Bristol-Myers shareholders will own approximately 69% of the combined company, with Celgene shareholders owning the remaining approximate 31%.

Bristol-Myers and Celgene said they anticipate the transaction will close in the third quarter of 2019.

Complementary Products

Celgene names Bristol-Myers among its numerous competitors in the hematology and oncology areas, along with AbbVie, Amgen, AstraZeneca, Eisai, Gilead, Johnson & Johnson, Merck, Novartis, Roche/Genentech, Sanofi and Takeda. Celgene does not name Bristol-Myers among its several competitors in its inflammation and immunology offerings.

In its latest 10-K, Celgene disclosed that it had approximately $13 billion in net product sales in 2017, the vast majority of which came from its three primary commercial stage products: Revlimid, Pomalyst/Imnovid and Otezla.

Revlimid is an oral immunomodulatory drug approved in the U.S. and multiple international markets to treat multiple myeloma and myelodysplastic syndromes, and is Celgene's most substantial offering. Revlimid alone generated $8.2 billion in net sales for Celgene in 2017, accounting for approximately 63% of Celgene's total net product sales. Similarly, Celgene's Pomalyst/Imnovid product is "a proprietary, distinct, small molecule that is administered orally and modulates the immune system" for the treatment of multiple myeloma. Pomalyst/Imnovid generated $1.6 billion in net sales in 2017 for Celgene. Combined with Revlimid, the two products accounted for approximately 75% of Celgene's net sales in 2017.

In its latest 10-K, Bristol-Myers disclosed that it has only a very limited presence in the multiple myeloma space through its Empliciti product, which the company is co-developing with AbbVie. Empliciti is a humanized monoclonal antibody for the treatment of multiple myeloma, and it generated $231 million in total revenue in 2017. Bristol-Myers and AbbVie are jointly developing Empliciti, with AbbVie funding 20% of global development costs and Bristol-Myers being solely responsible for supply, distribution and sales and marketing activities. In return for its investment, AbbVie shares 30% of all profits and losses in the U.S. and is paid tiered royalties outside of the U.S. Given that Bristol-Myers had $20.7 billion in net sales in 2017, its Empliciti product accounted for only about 1% of its total net sales.

Celgene's other substantial product offering is Otezla. Otezla is an oral small-molecule inhibitor of phosphodiesterase 4 used for the treatment of psoriatic arthritis and psoriasis. Celgene's Otezla product generated $1.3 billion in net sales in 2017, or approximately 10% of Celgene's net sales.

Bristol-Myers does not appear to have any material product offerings in the psoriatic arthritis and psoriasis areas. Its five most significant products are its (1) Opdivo, (2) Eliquis, (3) Orencia, (4) Sprycel and (5) Yervoy offerings, which are used in the treatment of cancer, strokes, rheumatoid arthritis/prostate conditions, Philadelphia chromosome-positive CML and metastatic melanoma, respectively. Together, these five products accounted for $15.6 billion in total revenues, which was approximately 75% of Bristol-Myers' total revenues in 2017.

According to Tinnen, even if there are no key overlaps between the companies, a couple factors could slow the review and approval process. First, there is the potential for political opposition given the ongoing sensitivity to pharmaceutical prices and the newly installed Democratic majority in the U.S. House. Second, the overall size of the transaction is significant. "This would be the largest merger between two U.S. pharmaceutical companies since Pfizer and Wyeth in 2009," said Tinnen.

Timing

The timing of many large pharmaceutical deals is driven by antitrust reviews. In the U.S., antitrust enforcement actions in the pharma industry typically result in consent decrees, as opposed to litigation or abandonment of a transaction. In the matters listed below, the FTC's vote to issue the complaint and accept the proposed consent order was unanimous, reflecting agreement among commissioners on the need for a consent and the nature of the remedies.

FTC Pharma Consents			
Transaction	**Date Announced**	**Date Consent Filed**	**Duration in Days**
Amneal/Impax	Oct. 17, 2017	April 27, 2018	192
C.H. Boehringer Sohn/Sanofi	Dec. 15, 2015	Dec. 28, 2016	379
Mylan/Meda	Feb. 10, 2016	July 27, 2016	168
Teva/Allergan	July 26, 2015	July 27, 2016	367
Hikma/Boehringer Ingelheim Corporation (Roxane Laboratories)	July 28, 2015	Feb. 26, 2016	213
Lupin/Gavis Pharmaceuticals and Novel Laboratories	July 23, 2015	Feb. 19, 2016	211
Endo International/Par Pharmaceutical	May 18, 2015	Sep. 25, 2015	130
Pfizer/Hospira	Feb. 5, 2015	Aug. 24, 2015	200
Eli Lilly/Novartis Animal Health	April 22, 2014	Dec. 22, 2014	244
Novartis/GlaxoSmithKline	April 22, 2014	Nov. 26, 2014	218
Prestige Brands Holdings/Insight Pharmaceuticals	April 25, 2014	Aug. 28, 2014	125
Actavis/Forest Laboratories	Feb. 17, 2014	June 30, 2014	133
Valeant Pharmaceuticals/Precision Dermatology	Jan. 31, 2014	July 3, 2014	153
Akorn/Hi-Tech Pharmacal	Aug. 26, 2013	April 14, 2014	231
Endo Health Solutions/Boca Pharmacal	Aug. 27, 2013	Jan. 31, 2014	157
Mylan/Strides Arcolab	Feb. 27, 2013	Sep. 26, 2013	211
Actavis/Warner Chilcott	May 19, 2013	Sep. 27, 2013	131
Watson Pharmaceuticals/Actavis	April 25, 2012	Oct. 15, 2012	173
Novartis/Fougera Holdings	May 1, 2012	July 16, 2012	76
Valeant Pharmaceuticals/Dermik Laboratories	July 15, 2011	Dec. 12, 2011	150
Valeant Pharmaceuticals/Ortho Dermathologics	July 15, 2011	Dec. 12, 2011	150
Teva/Cephalon	May 1, 2011	Oct. 7, 2011	159
Perrigo/Paddock Laboratories	Jan. 20, 2011	July 26, 2011	187

Reviews generally have taken longer in recent years, with many pending for more than six months. In contrast, many reviews prior to 2013 resulted in consent decrees in a shorter time frame.

--Patrick Flavin, Hannah Deichman and Ryan Lynch
