

Pfizer vaccines boosts presence with low risk Baxter acquisitions

LONDON, UK----4th August 2014----ExpertREACT. Pfizer vaccines, spurred on by acquisitive activity from an EU rival makes a low risk acquisition of two stable revenue streams in the *meningococcal* serogroup C and tickborne encephalitis markets. It should recover its outlay quickly.

2014 has proved to be an interesting year so far in terms of mergers and acquisitions for the otherwise quiet vaccine industry. Back in April, GSK Biologicals made a surprising acquisition of the Novartis vaccines business (excluding influenza vaccines) for \$5.25 billion upfront in cash and potential milestone payments (1). In late July Pfizer vaccines, then announced that it has taken advantage of a smaller corporate divestiture from Baxter international Inc's portfolio of vaccines for \$635 million (2).

The vaccines business of Baxter for 2013 was estimated to be just below \$300m, which comprises a very small portion (~2%) of Baxter total sales (\$15.25 bn). Vaccines sat within the Baxter biosciences division (~\$6.5 bn) alongside many diverse areas such as haemophilia, biotherapeutics and biosurgery. The key products acquired by Pfizer were a *meningococcal* serogroup C vaccine, NeisVac-C, and a vaccine against tickborne encephalitis (TBE), FSME immun. Pfizer, as part of the transaction will also acquire an interest in Baxter's facility in Orth, Austria, where the vaccines are manufactured. Baxter, stated that the divestiture was part of a portfolio optimisation program and its plans to make its bioscience division and independent entity (3). It also made clear that it was still exploring partnering options for its R&D development programs, focused on influenza and Lyme disease.

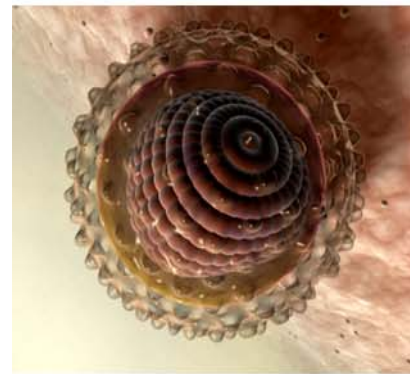
The expansion of Pfizer's vaccine portfolio has been long awaited. Since the acquisition of Wyeth back in 2009, Pfizer vaccines has remained essentially a one product company deriving all of its revenues from its Prevnar/Prevenar-7/13 franchise which recorded just under \$4 billion in 2014. Pfizer did attempt to make an acquisition of UK based Astrazeneca in May 2014 where it would have acquired the Quadrivalent influenza vaccine (QIV), FluMist/Fluenz, however, this acquisition, which was shrouded in political controversy, was abandoned in late May due to lack of support from the AstraZeneca board (4).

Despite its limited product portfolio, Pfizer vaccines has been building an interesting and diverse R&D portfolio which includes a vaccine for *Clostridium difficile*, *Staphylococcus aureus*, *meningococcal* serogroup B (BLA submitted), Asthma and smoking cessation (5). This pipeline, may not have the size and diversity of industry giants such as Sanofi Pasteur and GlaxoSmithKline, but in light of our continued analysis of the vaccine industry these are key future areas albeit with Pfizer's characteristic pro-Western market focus.

Pfizer's hesitancy to make external vaccine based acquisitions and alliances has been partly due to a low appetite for financial risk, but also possibly a strong internal voice from its head of research and development, Emilio Emini Ph.D, who seemingly favours "in house" programs. It is probably not since agreements with Georgia-based Inhibitex Inc earlier in the decade around *Staphylococcal* vaccines that Pfizer has made explicit external arrangements, especially for significant sums of upfront cash. Inhibitex was then acquired by Bristol-Myers in 2012, mainly for a small molecule program for the treatment of hepatitis C (6).

Pfizer's acquisition of a *meningococcal* serogroup C vaccine and vaccine for tickborne encephalitis is still generally of low risk. According to our analysis, both NeissVac-C and FSME Immun revenues are not expected to change substantially in the next 10 yrs due to stable competitive market dynamics. FSME-immun (est \$184m, 2013), the market

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leader within the TBE vaccine category is followed by Novartis/GSK's Encepur (~\$45m). Although, Novartis has previously made statements it would increase Encepur supply following upgrade of its Marburg, Germany site, which could satisfy additional private demand in Russia and Eastern Europe, the GSK acquisition could affect the timeframe of this increased penetration cementing FSME-immun's market leading position in the short term.

For *meningococcal* serogroup C vaccines (MCC), Novartis' Menjugate is the market leader, followed by NeisVac-C and Meningitec, which interestingly was divested by Pfizer itself to U.S.-based Nuron in December 2012 (7). It is assumed that inherent Pfizer knowledge of *meningococcal* vaccine market will be transferred onto the Baxter product but the logic behind exiting and re-entering the same market must be one of opportunism for the deal spurred on by GSK's Novartis activity. Potential EU adoption of an adolescent MCC vaccine booster dose (similar to the UK) may provide some market upside, although this will be offset to some extent by reduction of the number of doses at infant stages.

Pfizer apparently did not choose to take the Baxter Lyme disease program or the influenza business. Although according to stakeholders a Lyme disease vaccine is greatly needed and has a reasonable commercial potential, the past experience with GSK's Lymerix, however unfounded, does cloud the opportunity. Similarly for influenza, with the EU withdrawal of Baxter's seasonal vaccine PREFLUCEL and a rather erratic pandemic business, confer a risk level that certainly would have appeared too high for conservative Pfizer. If, Novartis itself has not yet been able to offload its influenza vaccine business, which records at least \$500m per year, at the moment the Baxter assets do not look attractive.

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