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BTG

Pharma & biotech

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The BTG acquisition: Small fly, big ointment

Following our note on BTG's interim results, the proposed £3.3bn all-cash acquisition by Boston Scientific was announced. Further, on 21 November, BTG and its partner Johnson & Johnson (J&J) failed to prevent the launch of generic competition to Zytiga (28% of BTG's H1 revenue). We examine the potential impact of generic Zytiga on the transaction.

Logical acquisition of interventional volume

US medical device company Boston Scientific announced the recommended offer for BTG of 840p in cash or £3.3bn. There are no break-up fees for UK-listed takeovers and further details on the terms of the transaction have not yet appeared in Boston's SEC filings. The 37% premium to BTG's 19 November share price should be warmly welcomed by at least the 75% of the shareholders required to approve the transaction.

Are imminent Zytiga generics a complication?

One of the bear points from our previous note was the potential for generic competition to Zytiga (abiraterone) – a blockbuster oral drug to treat prostate cancer. The day after the proposed acquisition of BTG by Boston Scientific was announced, a US Appeals Court ruling allowed generic abiraterone launches while the invalidation of Zytiga's last valid US patent is being appealed.

The effect of Zytiga generics on the acquisition

The key reason for Boston's acquisition of BTG was to add volume and therapeutic breadth to its interventional medicine franchise (c 35% of BTG's total H1 revenue). The royalties from Zytiga are non-core to a medical device company and their divestment after completion may already have been investigated. It is not yet possible to know if Zytiga generics represented a material adverse event for the deal, but the risk to the whole transaction is probably small, although perhaps not negligible in light of there being no break-up fee. A renegotiation on the price of the transaction would probably require a new agreement and, with Boston already having secured funding for the acquisition, we view such a move as unlikely.

Valuation: Academic after Boston's acquisition

Based on I/B/E/S estimates before the acquisition was announced, BTG traded at a FY19 P/E of 17.3x, which we argued was probably more a reflection of the uncertainty of BTG's future revenues, including the Zytiga royalties. Since the announced acquisition by Boston, this multiple has risen to 23.2x.

Consensus estimates

Year end	Revenue ($m)	PBT ($m)	EPS ($)	DPS (c)	P/E* (x)	Yield (%)
03/17	742.9	134.1	0.30	N/A	35.6	N/A
03/18	822.3	212.0	0.43	N/A	24.8	N/A
03/19e	967.8	269.2	0.46	N/A	23.2	N/A
03/20e	965.5	285.3	0.47	N/A	22.7	N/A

Source: Company data, Thomson Reuters I/B/E/S estimates. Note: *PE values 17/18 are averages.

Price	828p
Market cap	£3,206m
	£:US$1.29

Share price graph

Share details

Code	BTG
Listing	LSE
Shares in issue	387.1m

Business description

BTG is a medical technology company with products for minimally invasive procedures in oncology patients and in vascular medicine. BGT was originally a technology licensing company that licensed IP and collected pharmaceutical royalties on products such as Campath and Zytega, but more recently, BTG has grown through the acquisitions of Protherics and Novate Medical. Boston Scientific has proposed to acquire BTG.

Bull

- One of the few public UK life sciences companies that is profitable.
- $285m of cash at the end of H119.
- Diversified portfolio of product segments and licensing revenues.

Bear

- Interventional medicine is a commoditised market with bigger players influencing market share.
- Lower-cost competition to CroFab could intensify.
- Genericisation of Zytega in the medium term.

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