Pfizer gobbles up cancer drug maker in $14 billion deal

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Drugmaker Pfizer is set to acquire the biotech company Medivation for $14 billion. The primary aim of the deal was to secure Medivation's cancer drug Xtandi in order to better position Pfizer within the lucrative market for oncology medications.

Numerous drug companies have been circling around Medivation since April, like sharks after raw meat, including Sanofi, Merck, Celgene and Gilead, as well as Pfizer. The acquisition price of $81.50 per share represents a 118 percent premium over the company's share price prior to March 30, when Medivation hired consultants for a possible takeover.

At the start of the year, Pfizer raised eyebrows when it increased the prices of 60 of its branded drugs by an average of 10.6 percent, while eight of the company's products saw price increases of 20 percent or more. Similar price hikes can be expected for Xtandi, which is currently priced at $129,000 per year.

Xtandi, which works by inhibiting the androgen receptor, was approved in 2012 for treating prostate cancer patients who have failed to respond to first-generation cancer drugs. It has generated about $2.2 billion in worldwide sales over the past year, with US sales increasing by 69 percent. The drug is jointly marketed with the Japanese firm Astellas Pharma, which sells the drug outside the U.S.

"The product is just at the beginning of its growth cycle," Pfizer CEO Ian Read told analysts. He believes that the drug will generate bigger sales if it gets approved for earlier use and is prescribed by urologists.

Along with Xtandi, the purchase will also give Pfizer access to two experimental drugs that the company says have high therapeutic potential: talazoparib, a PARP inhibitor being developed to treat cervical, lung, and ovarian cancers; and pidilizumab, an immunotherapy being developed to treat blood cancer.

The acquisition will double the size of Pfizer's oncology business to about $5 billion. The company's breast cancer drug Ibrance, priced at nearly $120,000 a year, is one of Pfizer's biggest growth drivers.

Pharmaceutical companies are interested in developing (or acquiring) new cancer drugs because of their potential for bringing in exceptional returns—based on charging extraordinarily high prices. Thus, last year Abbvie purchased Pharmacyclics for $21 billion to gain shared ownership (with Johnson & Johnson) of the blockbuster cancer drug Ibruvica, priced at $130,000 a year.

The rise in the price of cancer treatments is truly astonishing. Between 1995 and 2013, the average launch price of anticancer drugs rose by 10 percent ($8,500) each year, adjusting for inflation and health benefits, reported an article last year in the *Journal of Economic Perspectives.*

A 2014 article in the *Journal of Oncology Practice* noted that the price of patented cancer drugs since 2000 has increased between five- and ten-fold. The average annual costs of cancer therapy have risen from $10,000 before 2000, to between $30,000 and $50,000 in 2005, to over $100,000 in 2012. Drug companies, the article's authors note, compete over everything except the price of the new therapies. In many cases, they seek to prevent or delay the entry of generic products after patent expiration through "pay-for-delay" arrangements.

There are no restrictions in the US on how much a company can charge for a drug. Moreover, the Medicare Reform Act of 2003 prevents Medicare from negotiating prices, while US law forbids individuals from importing prescription medicines from abroad. A friendly political and regulatory environment—despite the occasional outcry by legislators—is ensured by a bevy of lobbyists. In 2012, the pharmaceutical industry employed 2,500 lobbyists and spent $306 million on lobbying.

Not surprisingly, US cancer patients pay between 50 and 100 percent more for treatments than patients in other countries. A year's worth of the chronic myeloid leukemia drug imatinib, for example, is priced at $92,000 a year in the U.S., but only $46,000 in Canada and $29,000 in Mexico. Similarly, as a group of US senators noted earlier this year, while Xtandi costs $129,000 per year in the U.S., it goes for $39,000 in Japan and Sweden and $30,000 in Canada.

A 2013 article, "Market spiral pricing of cancer drugs," published in the journal *Cancer*, put the matter bluntly:

"What determines the escalating prices of cancer drugs? Pharmaceutical experts often cite the high research costs and the benefit or added value of the new cancer drug. We believe that neither argument is well-founded and that pharmaceutical companies may be using a third strategy: constantly raising

prices on last year's drugs and then pricing new ones above the new market price level; this is known as the Market Spiral Pricing Strategy."

For instance, the price of the older cancer drug Gleevec has more than tripled in price since 2001. More recently, in 2012, 12 of the 13 cancer therapies approved were priced at over $100,000 per year. This is despite the fact that only one of these therapies improved survival by more than two months.

The article in the *Journal of Oncology Practice* estimates that 85 percent of basic research on cancer is funded by the public. This means that patients buying these high-priced treatments, if they can afford them, are essentially paying for them twice.

Donald W. Light, a professor of comparative healthcare systems at the University of Medicine and Dentistry of New Jersey, estimates that overall 78.7 percent of basic research funds dedicated to drug research in the U.S. come from the government and public programs, with industry contributing 12 percent and foundations 3.8 percent.

Basic research includes investigations into how a disease works, techniques for identifying potentially active agents against the disease and identifying good disease targets. Most of the research conducted by pharmaceutical companies involves applied research and development—such as biological screening and testing during clinical trials—building off the basic research funded by taxpayers.

Light wrote in 2006, "taxpayers are in effect partners in developing every drug, because their elected representatives have chosen to provide various tax deductions and credits to pharmaceutical companies that in effect mean that other taxpayers make up for what drug companies do not pay or receive as credits."

The history of Medivation's Xtandi is a case in point. The drug was identified in the early 2000s by Charles Sawyer, then a professor of medicine at UCLA and an investigator at the Howard Hughes Medical Institute. Sawyer then collaborated with UCLA biochemistry professor Michael Jung who, along with his team, designed and synthesized Xtandi. This work was funded with public research grants. UCLA then licensed the experimental drug's patent to Medivation in 2005.

In March of this year, 12 members of Congress requested that the NIH and the US Department of Health and Human Services (HSS) exercise its "march-in rights" to lower the drug's price. The 1980 Bayh-Dole Act, which explicitly encourages universities to patent inventions developed using federal funding, allows the government to ignore the patent exclusivity of inventions developed with federal funds if the drugmaker fails to satisfy certain criteria such as the "health and safety needs" of patients.

The NIH and HSS refused to do so and, in fact, the federal government has never once sought to exercise its march-in authority.

Pfizer's acquisition of Medivation, which the two companies expect to be completed by the end of the year, follows Pfizer's failed $160 billion merger with the Ireland-based Allergan as part of its tax-inversion strategy. By shifting the company to Ireland, Pfizer would have lowered its tax-rate and freed up billions of dollars that it holds overseas to avoid paying US taxes. The companies called off the deal earlier this year after the Obama administration introduced new rules making corporate tax inversions less attractive.

This past May, Pfizer purchased Anacor Pharmacetuicals for $5.2 billion to gain access to that company's eczema gel. Last year, Pfizer acquired Hospira, which sells generic hospital supplies, for $17 billion.

Pfizer's acquisitions are part of the recent proliferation of merger and acquisition (M&A) activity both within the pharmaceutical sector and throughout US industry as a whole. There were 166 pharmaceutical M&A deals announced in 2015, up from 137 in 2014. The number of deals worth more than $1 billion was 30 in 2015, compared to 26 in 2014 and 20 in 2013, according to data published last month in *The Pharma Letter*.

The size of M&As in US industry as a whole have reached record highs. Last year set a record of $5 trillion in M&A value, beating the previous record in 2007 just before the onset of the financial crisis. Mergers and acquisitions this year, although lower than in 2015, were already valued at $642 billion in June (compared to $786 billion in June 2015), reports *Fortune.*

The rise in the number and value of M&As within the pharmaceutical industry is partly explained as a response to the loss of revenue from patents expiring on blockbuster drugs, and the ongoing crisis in research and development productivity.

More generally, the growth in merger activity is driven by financial investors seeking greater returns and efficiencies (i.e., job cuts) amidst the economic slowdown, the availability of cheap debt financing due to the Federal Reserve's decision to keep interest rates at historically low levels, and the need to keep up with competitors who are also consolidating.

US companies are current sitting on a cash hoard in excess of $2 trillion. Instead of putting the money to work through productive investments in the real economy, companies have been using it to fund share-buybacks, M&As, and pay raises for executives.

The merger frenzy is an expression the growth of financial parasitism in the US, reflected in the decline in manufacturing, the emergence of new speculative bubbles, and the vast redistribution of wealth upwards since the 2008 financial crisis.