

# Elan enters \$1B royalty deal with Theravance

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Irish drugmaker Elan Corp. PLC plans to pay \$1 billion for the right to future royalties from four respiratory treatments being developed by Theravance Inc. and GlaxoSmithKline.

The deal announced Monday will give Elan 21 percent of the future royalties that South San Francisco, California-based Theravance receives from Glaxo, a British drugmaker.

Theravance shares climbed \$5.62, or 16.1 percent, to \$40.56 in afternoon trading. Earlier the stock reached an all-time high of \$40.70.

Drugs named in the deal include Breo Ellipta, a once-a-day inhaled treatment that just received approval from the U.S. Food and Drug Administration, and two treatments that have entered late-stage testing. The treatments also include Anoro Ellipta, for which the drugmakers have filed for regulatory approval in both the United States and Europe.

On Friday, the U.S. Food and Drug Administration said it approved Breo Ellipta for long-term use and to control flare-ups in patients with chronic obstructive pulmonary disorder, often called smoker's cough. The drug will be named Relvar Ellipta in Europe, where regulators are still reviewing it.

The companies expect to close the royalty agreement at the end of June if Elan shareholders approve it. Elan plans to use 20 percent of the sales it receives from this agreement to pay shareholders a cash dividend.

Elan has recently received takeover bids from Royalty Pharma, a private, New York-based company that buys royalty interests in drugs and late-stage drug candidates.

Royalty offered in February to buy Elan for \$11 per share, or about \$6.5 billion. It later raised that offer

to \$11.25 per share, or about \$6.7 billion. Last month, Elan said its board unanimously rejected the takeover bid, with company leaders saying the price was too low.

U.S.-traded shares of Elan lost 24 cents, or 2.1 percent, to \$11.54.

Moody's Investors Service said Monday that it is placing Elan's credit ratings on review for a possible downgrade. Moody's said Elan has spent a lot of cash recently without getting back anything that will generate immediate earnings or cash flow. The firm currently rates Elan's credit at 'Ba3'. That rating is non-investment grade, three notches into "junk" status.

"Although Breo Elipta could become a blockbuster, its rate of market acceptance is not certain and substantial returns to Elan could be protracted," said analyst Michael Levesque.

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