

AP CAPITAL RESEARCH

M&A Deal of The Week

Lundbeck & Longboard Pharmaceuticals



WRITTEN BY
Riccardo Di Silvio
Maariya Rahman
Philip Aikinomioria
Samuel Thompson

EDITED BY
Samuel Thompson

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Executive Summary

M&A DEAL OF THE WEEK

Deal Summary

- Lundbeck, a leading Danish pharmaceutical company specializing in brain health, has made a strategic move by acquiring Longboard Pharmaceuticals, a clinical-stage company focused on neurological diseases for \$2.6 billion.
- The acquisition strengthens Lundbeck's neuro-rare portfolio, particularly with the addition of Belexanil, a late-stage drug for severe epilepsy, which is expected to generate \$1.5 to \$2 billion in annual sales at its peak. This move aligns with Lundbeck's commitment to addressing unmet medical needs in neurological health, reinforcing its competitive position in the growing market for rare disease treatments.
- The acquisition comes with substantial financial metrics, including a 77% deal premium, reflecting the perceived future value of Longboard's assets. Lundbeck's financial strategy appears solid, with a P/E ratio of 17.04 and an EV/EBITDA multiple of 7.49, indicating a fair investment relative to Longboard's clinical pipeline. However, the deal carries risks, particularly in terms of integration challenges, competition, and the high cost of launching Belexanil.
- The global healthcare industry is experiencing significant growth, projected to reach \$20 trillion by 2030, driven by aging populations, chronic illnesses, and advancements in medical technologies. However, challenges such as cybersecurity risks, regulatory pressures, and workforce shortages remain prominent. Lundbeck's acquisition reflects a strategic effort to capitalize on this growth by securing innovative therapies and expanding its market presence.
- Overall, the deal offers substantial growth potential, but its success will depend on Lundbeck's ability to integrate Longboard's operations, launch Belexanil successfully, and navigate the competitive and regulatory landscape.

Key Figures

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|--|---|
| • Deal Value: \$2.6 billion | • Deal premium: 77% |
| • LundBeck EV/EBITDA: 8.29x | • Longboard EV/EBITDA: 7.49x |
| • LundBeck EV: \$5.28Bn | • Longboard EV: \$2.05 Bn |
| • LundBeck P/E: 16.07x | • Longboard P/E: 17.04 |
| • LundBeck D/E: 18.0% | • Longboard D/E: 1% |
| • LundBeck P/S: 1.81x | • Longboard P/S: - |
| • LundBeck Market Cap: \$5.86Bn | • Longboard Market Cap: \$2.3 Bn |



Company Information

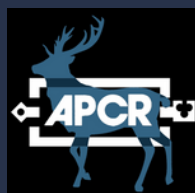
M&A DEAL OF THE WEEK

Lundbeck (CPH: LUN):

- The Danish pharmaceutical company based in Copenhagen, has been at the forefront of treatments for psychiatric and neurological conditions since its founding in 1915. The company specialises in brain diseases, including depression, schizophrenia, and Alzheimer's, and has established itself as a leader in brain health.
- Key products such as Rexulti, Brintellix, and Vyepti target high-need areas, driving significant revenue. In 2023, Lundbeck reported total revenue of DKK19.912 mln, reflecting a 9% increase over the previous year. This growth was largely attributed to the success of its strategic brands, which contributed to 69% of total revenue. Notably, Rexulti saw a 16% revenue growth due to approvals for new indications, while Vyepti's revenue surged by 69% signaling strong market adoption in its category.
- Following its recent growth, Lundbeck continues to focus on global markets, with a primary emphasis on the U.S. as its largest source of revenue. However, the company faces challenges from currency fluctuations and reimbursement policies, varying across different markets. Despite these challenges, Lundbeck has maintained a clear strategy of innovation and expansion, particularly through the launch of new drugs and expanded indications for existing treatments.
- This approach aims to sustain revenue growth and further reinforce its leadership in brain health. By focusing on therapeutic areas with significant unmet needs, Lundbeck positions itself as a vital player in improving mental and neurological health outcomes worldwide.

Longboard Pharmaceuticals Inc. (NASDAQ: LBPH):

- Established in 2020 in La Jolla, California, Longboard Pharmaceuticals is a clinical-stage biopharmaceutical company focused on developing novel therapies for neurological diseases with high unmet medical needs. The company was spun off from Arena Neuroscience and leverages G protein-coupled receptor research to design selective, innovative therapies.
- Despite reporting a net loss of \$24.5 million in Q3 2024, due primarily to R&D expenses, Longboard's financial foundation remains strong with approximately \$288.4 mln in cash and investments. This financial stability enables the company to continue advancing its clinical pipeline, including key assets like Bexicaserin (LP352) for epilepsy-related seizures and LP659, a receptor modulator intended for other neurological disorders.
- Longboard's business model focuses on orphan drug designations and pediatric plans to streamline regulatory and clinical pathways. With a specialized workforce of around 50 employees, the company is strategically positioned for growth within the highly competitive neuroscience sector.
- While it faces the typical challenges of regulatory hurdles and extensive clinical funding requirements, Longboard's targeted approach and cash reserves provide a solid foundation for potential expansion. By addressing significant unmet needs in neurological health, Longboard aspires to make substantial contributions to patient care, with the goal of becoming a leader in innovative neurological treatments.



Deal Rationale and Risk

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Rationale – Building a Neuro-Rare Franchise

Expansion

Lundbeck's acquisition of Longwood Pharmaceuticals strengthens its focus on treating rare neurological disorders. The deal includes Belexanil, a late-stage drug for severe epilepsy, helping Lundbeck expand its portfolio and enhance its position in the growing market for treatments targeting rare diseases. This move also reinforces Lundbeck's ability to compete in a crowded biopharmaceutical industry.

Reinforcement

The acquisition supports Lundbeck's commitment to developing innovative treatments for patients with limited options. By acquiring Longwood's expertise and technologies, Lundbeck can build on its strengths while avoiding the risks associated with earlier-stage drug development. This positions Lundbeck for sustainable growth in the neuro-rare market.

Revenue and Synergy Gains

Lundbeck expects the deal to boost its revenue significantly, with Belexanil forecasted to generate \$1.5 to \$2 billion in annual sales at its peak. The company also plans to use its existing resources and networks to bring the drug to market more efficiently, maximizing the benefits of the acquisition.

Risk

High cost and competition

This acquisition required a large investment, and Lundbeck will face stiff competition from other companies developing similar therapies. The company will need to execute its plans carefully to ensure it achieves the expected returns and maintains its competitive edge.

Integration concerns

Integrating Longwood's operations and successfully launching Belexanil could stretch Lundbeck's resources. Any delays in these processes could affect the company's ability to achieve its revenue and growth goals in this competitive market.

Synergies

While Belexanil offers significant potential, the costs of launching and marketing the drug and industry competition highlight the importance of careful planning and execution. Achieving the expected synergies will be essential for Lundbeck to benefit fully from this deal.



Precedent Transactions Analysis

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EV/EBITDA Analysis

The EV/EBITDA multiples in these deals range from -81.95x (Alpine Immune Sciences) to 68.29x (Shockwave Medical), illustrating significant variability. Shockwave commanded a higher multiple due to its strong earnings growth, while early-stage targets like Alpine Immune Sciences (-81.95x) and Reata Pharmaceuticals (-19.19x) reflect negative EBITDA, typical in biotech.

P/E Ratios

The P/E ratios further reveal market sentiment on profitability. Shockwave Medical had a high P/E of 78.54x, reflecting optimism for sustained earnings growth, while companies like Alpine Immune Sciences (-95.45x) and Cerevel Therapeutics (-16.43x) show negative ratios, common in early-stage firms with limited profitability.

Deal Premium

Deal premiums, ranging from 4.70% (Shockwave Medical) to 78.60% (Biohaven Pharmaceuticals), underline strategic intent. Higher premiums like Biohaven (78.60%) and Longboard Pharma (77.00%) emphasize the perceived future value, while Shockwave's lower premium aligns with its established growth.

Date	Acquirer	Target	Target Ticker	Target EV (Billions USD)	Premium	EV/Sales	EV/EBITDA	P/E
Oct-24	Lundbeck	Longboard Pharma	LBPH	\$2.60	77.00%	1.96	7.49	17.04
Oct-24	Vertex Pharmaceuticals	Alpine Immune Sciences	ALPN	\$4.90	67.00%	73.61	-81.95	-95.45
Mar-24	Pfizer	Seagen Inc	SGEN	\$43.00	33.00%	18.28	-63.40	-57.07
Apr-24	Johnson & Johnson	Shockwave Medical	SWAV	\$13.10	4.70%	15.63	68.29	78.54
Aug-24	AbbVie	Cerevel Therapeutics	CERE	\$8.70	22.00%	0.00	-15.70	-16.43
Dec-23	Bristol Myers Squibb	Karuna Therapeutics	KRTX	\$14.00	48.00%	17,333	-23.02	-28.11
May-22	Pfizer	Biohaven Pharma	BVHN	\$11.60	78.60%	0.00	-4.92	-4.74
Jan-24	Eli Lilly	Dicerna Pharma	DCRA	\$3.60	42.00%	12.89	-21.29	-23.51
Jan-24	Gilead Sciences	Arcus Biosciences	RCUS	\$0.96	37.00%	1.78	-1.66	-5.02
Jul-23	Biogen	Reata Pharma	RETA	\$6.50	59.00%	278.30	-19.19	-72.69
High				\$43.00	78.60%	17333.00x	68.29x	78.54x
75th Percentile				\$12.73	65.00%	59.78x	-2.48x	-4.81x
Average				\$10.90	46.83%	44.50x	-15.54x	-20.74x
Median				\$7.60	45.00%	14.26x	-17.45x	-19.97x
25th Percentile				\$3.93	34.00%	1.83x	-22.59x	-49.83x
Low				\$0.96	4.70%	0.00x	-81.95x	-95.45x



Industry Analysis

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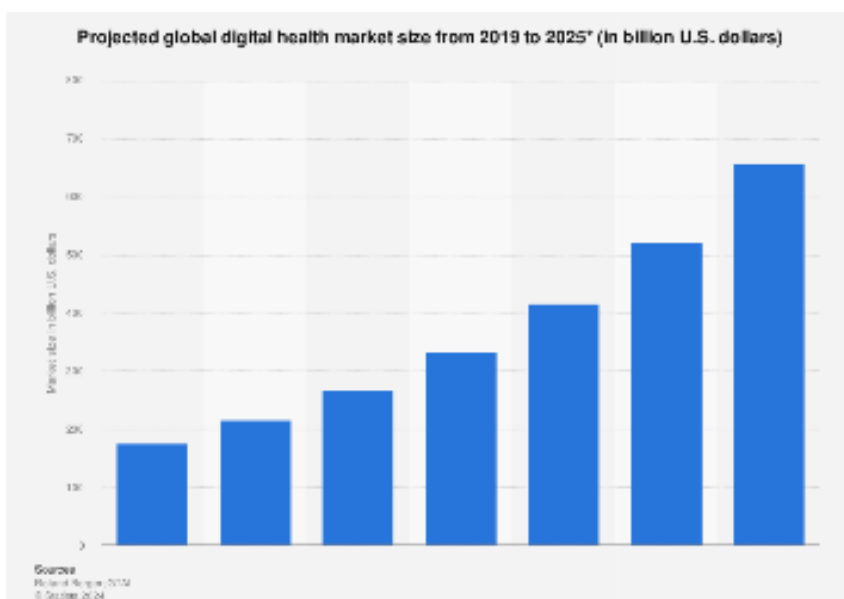
The Healthcare industry

The Healthcare industry is the improvement of health, this plays an essential role in improving and sustaining global well-being. Offering services such as medical treatment, preventive care, and health management through various technologies.

The global healthcare market was valued at \$12 trillion in 2022, with projections indicating steady growth. With demand increasing for accessible and advanced medical services, the sector is expected to reach around \$20 trillion by 2030. This may be driven by factors such as ageing populations, the rise of chronic illnesses, and breakthroughs in medical technology as treatments become more effective and new solutions are introduced to the market.

Key Trends

Global healthcare spending is forecast to exceed \$10 trillion in 2024, driven by technological advancements like AI and telemedicine. The sector aims to tackle challenges such as affordability, workforce shortages, and accessibility. Sustained investment in innovation is set to enhance care delivery, making healthcare more efficient and personalized.



Threats

Cyber security risks

The healthcare sector faces growing cybersecurity risks as it adopts digital technologies like electronic health records (EHRs), telemedicine, and Internet of Medical Things (IoMT) devices. These tools enhance care delivery but expose systems to threats such as ransomware, phishing, and data breaches. Attackers often exploit outdated systems and IoMT device vulnerabilities to access sensitive patient data. In 2023, healthcare accounted for a substantial portion of reported data breaches, leading to operational disruptions, financial losses, and loss of patient trust. To address these risks, organisations must prioritise strict cybersecurity measures, such as encryption, multi-factor authentication, and IoT security protocols, alongside regular employee training and adherence to frameworks like HIPAA and GDPR.

Regulatory and compliance pressures

Regulation in the healthcare sector ensures patient safety, data protection, and high-quality care. Key standards include the Health Insurance Portability and Accountability Act (HIPAA) in the U.S., which secures patient information, and the General Data Protection Regulation (GDPR) in Europe, addressing global data security needs. Agencies like the Food and Drug Administration (FDA) oversee the safety and efficacy of medical devices, drugs, and therapies. Additionally, accrediting bodies like the Joint Commission enforce clinical standards for patient care. These regulations uphold ethical and effective healthcare practices, with noncompliance potentially leading to penalties or loss of accreditation, highlighting the importance of maintaining regulatory adherence.

Final Thoughts

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Phillip Aikinomioria

In my view, the success of the deal depends on Lundbeck's ability to fully leverage the strategic and financial potential of acquiring Longboard Pharmaceuticals. The 77% deal premium signals Lundbeck's strong commitment to Bexicaserin, a late-stage therapy. However, its value will be justified only if the product achieves clinical and commercial success. The acquisition is strategically aligned for Lundbeck, as it strengthens its neuro-rare pipeline and enhances its competitive edge. With a near-commercial product, Bexicaserin offers a quicker solution to top-line pressures than earlier-stage assets. The main risk lies in the premium, which increases pressure for commercial success, and potential market challenges could affect returns. Overall, the deal holds significant promise, provided execution aligns with expectations.

Maariya Rahman.

Lundbeck's \$2.6 billion acquisition of Longboard Pharmaceuticals presents a strong opportunity for strategic growth. Longboard's lead asset, Bexicaserin, is a promising treatment for rare neurological conditions, with potential peak sales of \$1.5–2 billion, which could significantly bolster Lundbeck's revenue. This acquisition allows Lundbeck to expand its presence in the neuro-rare disease market. In addition to Bexicaserin, Lundbeck gains access to another early-stage candidate, LP659, which has potential applications in Parkinson's disease, Alzheimer's disease, and multiple sclerosis. These additions to Lundbeck's portfolio offer significant long-term growth opportunities in the high-demand neurology sector. The deal further strengthens Lundbeck's competitive position, increasing its ability to deliver innovative treatments to patients worldwide.

Riccardo Di Silvio.

In my opinion, Lundbeck's acquisition of Longboard Pharmaceuticals is a bold and forward thinking move. It reflects Lundbeck's dedication to expanding its innovative pipeline and reinforcing its position as a leader in neurological health. By integrating Longboard's promising clinical assets, Lundbeck has a chance to accelerate its development of therapies targeting unmet needs, potentially broadening its market reach.

Samuel Thompson.

Lundbeck's acquisition of Longboard Pharmaceuticals is a bold strategic move that underscores its commitment to addressing unmet needs in the neuro-rare disease sector. Belexanil, with projected peak sales of \$1.5–2 billion, has the potential to transform Lundbeck's portfolio and financial outlook, while Longboard's LP659 offers long-term growth opportunities despite regulatory challenges. The 77% deal premium reflects confidence but amplifies the pressure for seamless integration and execution, making this acquisition a high-stakes bet on innovation and market leadership.



PHILIP AIKINOMIORIA
Analyst
paikinomioria@gmail.com



MAARIYA RAHMAN
Analyst
Maariyarahman287@gmail.com



RICCARDO DI SILVIO
Analyst
rd01004@surrey.ac.uk



SAMUEL THOMPSON
Director
Sjbt2015@gmail.com

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