

# Horizon Therapeutics acquires Viela Bio in a \$3.05B Deal to expand its rare disease portfolio

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*“This acquisition represents a significant step forward in advancing our strategy – to expand our pipeline in order to accelerate our growth over the long term.”* - Tim Walbert, Horizon Chief Executive Officer

## Deal Overview

- Acquirer: Horizon Therapeutics plc (HZNP)
- Target: Viela Bio, Inc. (VIE)
- Industry: Biopharmaceuticals
- Transaction Amount: \$3.05B
- Announcement Date: March 15, 2021
- Target Advisor: Goldman Sachs
- Acquirer Advisor: Morgan Stanley

While the biopharmaceutical industry gears its short-term focus towards COVID-19 vaccine development, Horizon Therapeutics seeks to extend its

rare rheumatic and inflammatory disease portfolio through the acquisition of Viela Bio. The cash deal amounts to a total of \$3.05 billion, with Horizon acquiring all of Viela Bio’s stock for about \$53 per share. This acquisition adds not only Viela’s approved drug Uplizena to the rare disease portfolio of Horizon, but also brings about two promising mid-stage candidates and one early-stage candidate. Given their overlap in targeted disease areas, we also understand this acquisition as a strategic move, with the expected import of Viela’s deep scientific knowledge of autoimmune and inflammatory diseases having the potential to significantly strengthen Horizon’s R&D capabilities and contribute to the company’s long-term growth. It is reasonable to expect that the acquisition should allow continuous innovation beyond what is included in the combined pipeline.

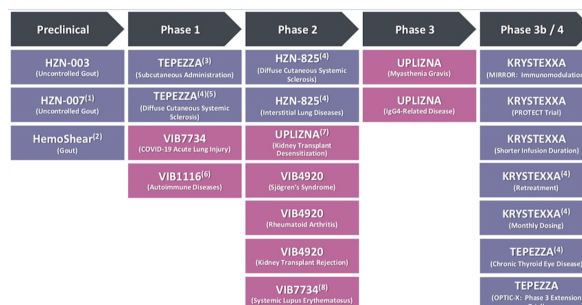


Figure 1: Source: Horizon Presentation (Horizon Acquisition of Viela Bio) Combined Pipeline of Horizon (Purple) and Viela Bio (Pink).

## Companies Overview - Horizon Therapeutics

Horizon Therapeutics focuses its research, development, and commercial activities on rare rheumatic and inflammatory diseases. Since being founded in

2008 as a startup, the biopharmaceutical company has grown to employ over 1,600 people worldwide and to report a record fourth-quarter in 2020 with net sales of \$745.3 million. The acquisition of Viela Bio is only reflective of Horizon’s past efforts to expand its pipeline and disease portfolio. While generating 97% of worldwide sales in US markets, Horizon moved its legal headquarters to Ireland in 2014 to enhance its ability to finance further growth through acquisitions due to a relatively more beneficial corporate taxation. This was exemplified on behalf of avid M&A activity between 2014 and 2017, which allowed Horizon to quickly build its pipeline of rare disease drugs.




Acquisition Target	Price	Announcement Date
River Vision Development Corp.	\$145,000,000	May 8, 2017
 Raptor Pharmaceuticals	\$800,000,000	Sep 12, 2016
 Hyperion Therapeutics	\$1,100,000,000	Mar 30, 2015
 Vidara Therapeutics	\$660,000,000	Mar 19, 2014

Figure 2: Source: Own Illustration - M&A activity of Horizon between 2014 and 2017.

We think it is reasonable to expect that Horizon Therapeutics will see ample sales-driven growth in the next decade as well, with two promising products having the potential to transform the mid-cap rare drug company into a biotech powerhouse: Both Tepezza and Krystexxa exceeded the initially expected annual peak sales of roughly \$250 million tremendously, with Tepezza’s expected sales exceeding \$3.5

billion and Krystexxa's expected sales exceeding \$1 billion today. Consistent with that, Horizon expects its net sales for the full year 2021 to be between \$2.70 billion and \$2.80 billion, which implies year after year growth of 25% at the midpoint. Horizon's Q4 2020 earnings release seems to support those expectations, reporting adjusted earnings of \$1.28 per share (an increase of 56 cents from Q4 2019), as well as quarterly sales of \$745 million (an increase of 105% year after year). As a result of those reports shares of Horizon rose 13.29%. This is in line with the impressive development of Horizon's stock in the past, with the year-to-date growth rate of 181.8% skyrocketing compared to the whole industry's growth of 13.5%.



Figure 3: Source: Zacks Equity Research - Percentage Growth of Horizon Therapeutics (HZNP) (Blue) and Medical-Biomed/Genetics Market (ZSI105M) (Red).

However, while Horizon's share price appears to be locked into an upward trajectory as a result of Tepezza's rapid outperformance, one must not overlook the fact that this is partly due to a lack of competition. With Immunovant (IMVT), a clinical-stage biopharmaceutical firm, attempting to provide a potentially market-disrupting injection, further growth of Tepezza's revenues, and thus Horizon's skyrocketing share price, is jeopardized. We also

want to highlight the risks associated with Horizon's policy of focusing on acquisitions to expand its biologics pipeline. While previous projects were successful, and Viela's acquisition suggests promising trajectories, Horizon's ability to repeat those deals appears to be uncertain, particularly in an industry that is consolidating and facing uncertainty about how long the current short-term emphasis on vaccine production can last.

### Companies Overview – Viela Bio

Viela Bio is a young but promising company focused on developing medicines for patients with a wide range of autoimmune and severe inflammatory diseases. After being founded in 2017, Viela came to become an acquisition target priced at \$3.05 billion within only three years. In hindsight, two factors seem responsible for Viela's ability to speed through the typical milestones of commercial drugmakers in such a short time: an unusually large amount of initial funding and six promising molecules acquired from AstraZeneca in 2018. Following its IPO in 2019 at \$19 per share, which led to a capital raise of around \$150 million, the company also secured the approval for Uplizna, which was able to generate \$2.3 million and \$9.4 million in net sales in its first two quarters on the market. Key-value drivers of the firm and possibly key acquisition incentives for Horizon however go beyond the approval of Uplizna. Despite having only 170 employees (with 60 employees being part of the R&D team), Viela distinguishes itself through strong early-stage research, a mid-stage biologics pipeline including four potential candidates enrolled in nine development programs as well as deep scientific expertise in autoimmune and inflammatory diseases.

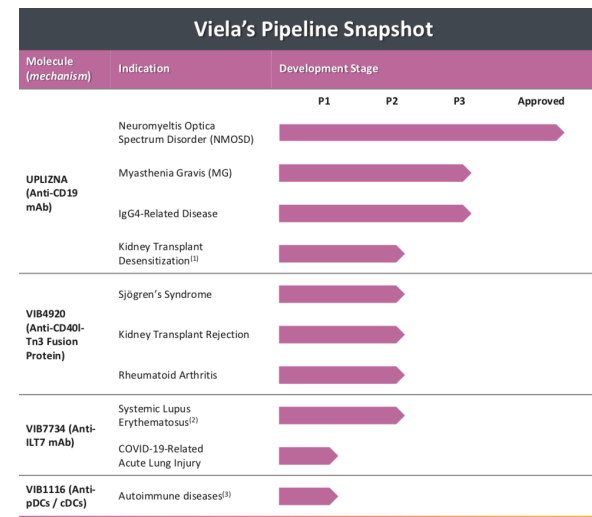


Figure 4: Source: Horizon Presentation (Horizon Acquisition of Viela Bio) - Viela's Pipeline Snapshot.

### State of the Industry – Biopharmaceuticals

Recent decades blessed the biopharmaceutical sector with strong growth, creating widespread industry knowledge and experience as well as stable trends within the industry. It is to be assumed that this surely benefits long-term confidence and planning, which is crucial for an investment heavy industry depending on novel bioprocessing technologies and drugs making it through the R&D processes and the regulatory pipeline. Data of Mordor Intelligence for example supports those expectations: While total revenue increased from \$4.4 billion in 1990 to \$275 billion today, forecasts project total revenue to reach \$496.71 billion as of 2026 (CAGR of 7.32% over the forecast period). It is to be said that growth rates differ, with Asia and Australia seeing stronger growth rates than Europe and America.

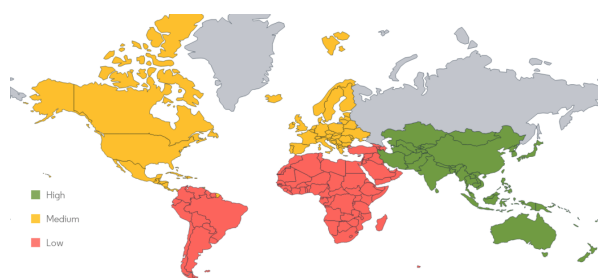


Figure 5: Source: Mordor Intelligence - Biopharmaceuticals Market - Growth Rate by Region (Green = High, Yellow = Medium, Red = Low).

External drivers of those growth expectations include an aging population, increasing chronic diseases, and an explosion of demand for quickly developed and approved drugs. Data from the United Nations World Population Prospects 2019 for example projects, that the percentage of people aged over 65 will increase from roughly 9% in 2019 to 17% in 2050 worldwide, with the most extreme excesses in the key markets Europe and Northern America (25% over 65 in 2050). What can be seen as an early anticipation of those developments and proactive preparation for this increasing demand is the accelerating focus on research and related investment by key players within the industry, leading to progress in manufacturing efficiency, increases in bioprocessing productivity, and more products and players through the use of biosimilars. Data suggests that those trends have also shaped the response of the biopharmaceutical industry to COVID-19, with companies responding faster than ever to emerging health threats.

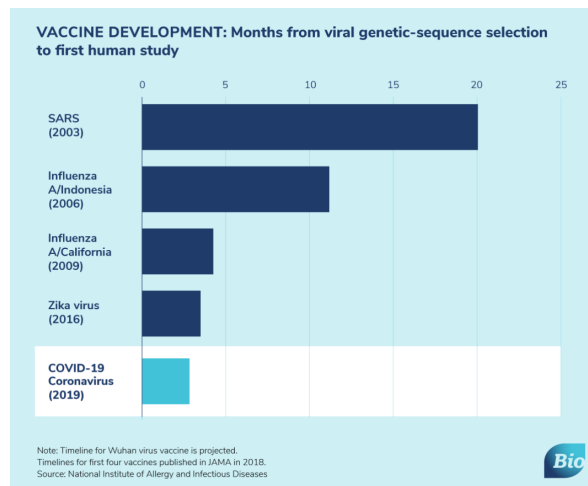


Figure 6: Source: BIO (Biotechnology Innovation Organization) - Vaccine Development.

Meanwhile, we think it is yet unclear to which degree and in which ways the ongoing pandemic of COVID-19 may shape the industry in the long term. While short-term considerations lead companies to strongly focus on vaccine development against the virus, it is yet questionable to which degree long-term R&D activity may be influenced, especially since promising candidates rely on traditional-type vaccines (inactivated and attenuated products, DNA, RNA, and protein subunit vaccines).

### Deal Structure

In a cash deal amounting to a total of \$3.05 billion, Horizon acquires all of Viela Bio's issued and outstanding stock for about \$53 per share. While shares of Horizon were down marginally in light of the opening bell, Viela's was already up 53.4%. The deal was structured as a two-step cash tender offer, which left shareholders to agree on selling 54%

of shares upon the expiration offer on March 12, 2021. The payment will be facilitated by Teiripic Merger Sub, Inc., an indirect wholly-owned subsidiary of Horizon, which leads to Viela becoming a wholly-owned subsidiary of Horizon. Starting with a year-end cash balance of \$2.08 billion, Horizon makes use of \$1.3 billion in external debt and cash to finance the deal, which implies a cash position of approximately \$700 million after the deal is facilitated (neglecting other factors that influence Horizon's cash position) and an increase of total debt to \$2.3 billion (financing commitments from Citigroup Global Markets and Morgan Stanley Senior Funding). Regarding the income statement, Horizon anticipates the transaction to significantly reduce its adjusted EBITDA by \$140 million, with the main driver being increased investment in Research and Development. Three years after Viela's founding, investors face a quick exit with strong returns in light of the deal. Especially AstraZeneca, which played an important role in Viela's establishment in 2017, held a 26,7% stake and expects to see net profits rise to \$780 million through their complete divestment in the process of Horizons acquisition.

### Potential Risks & Potential Upsides

The acquisition of Viela Bio by Horizon Therapeutics has potential upsides that appear to be very straightforward as well as potential risks that appear to be more implicit and disguised. Given the significant overlap in targeted disease areas, the transferred assets in the spotlight are likely to be used highly productive, with the commercial expertise and infrastructure of Horizon being likely to accelerate both the expansion of Viela's pipeline expansion and sales of Uplizna. From a mere financial

perspective, the additions to Horizon's commercial rare disease portfolio promise immediate positive effects concerning sales and profits. Viela's approved drug Uplizna for example accounted for net sales of \$2.3 million in its first quarter and \$9.4 million in its second quarter. Revenue predictions for 2021 accumulate to \$55.6 million and seem achievable to most. From a strategic perspective, the acquisition promises to positively influence both developments in current R&D capabilities as well as the overall volume of Horizon's biologics pipeline. Both factors are expected to yield over the long term: while the strengthening of R&D capabilities is most likely due to the import of human capital and intellectual property through the addition of a team with strong early-stage research and deep scientific expertise in autoimmune and inflammatory diseases, the strengthening of Horizons pipeline is derived from Viela's deep, mid-stage biologics pipeline, which includes four potential candidates enrolled in nine development programs. With those outlooks in mind and the analysis of Horizon's previous successful acquisitions, it is all the more difficult to find risks that convincingly question the acquisition of Viela. Fundamentally it is to be hoped by investors that typical negative synergies can be avoided, such as a potentially unsuccessful integration of Viela with higher costs than expected, more time-consumed than planned, and with the expected benefits of the transaction not occurring. This includes, despite the promising outlook described above, the uncertainty of the financial performance of Viela's candidates and the time horizon as well as the degree to which the acquisition will become accretive to Horizon's adjusted EBITDA. It is reasonable to expect that if the anticipated upsides predicted by investors and

analysts do not occur in absolute measures and in the expected time frame, the ordinary share price of Horizon will decline. In this regard, it makes sense to consider the COVID-19 pandemic, as public interventions to slow its spread could have an impact on Horizon's business through effects on drug development and sales, as well as delays in the clinical trial phase.