VALUATION INSIGHT
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Immunomedics: Fire Sale Price for its Crown Jewel Therapy?

> The dispute over Immunomedics' license with Seattle Genetics raises key issues for the valuation of late-stage therapeutics.
>
> Does the Seattle deal appropriately trade risks for immediate returns, or could new management and a shift in strategy increase shareholder value?

A Hotly Contested Deal for a Promising Therapy

On February 10, 2017, Immunomedics, a clinical-stage biopharmaceutical company, announced that it had entered into an exclusive license agreement with Seattle Genetics for Immunomedics' proprietary cancer therapy, Sacituzumab Govitecan (IMMU-132). IMMU-132 is an antibody-drug conjugate (ADC) in late-stage trials targeting several cancers, including triple negative breast cancer. Considered a promising therapy, IMMU-132 has received breakthrough designation from the FDA. The consultancy Health Advances projects $32B in cumulative revenue from IMMU-132 through 2030.

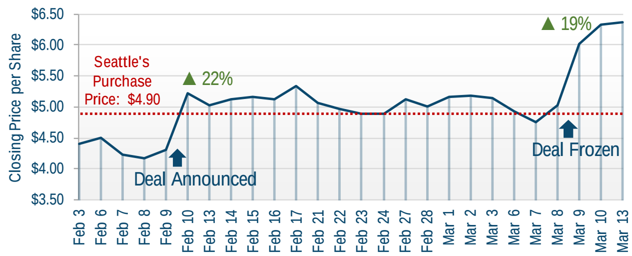
Through this license, Immunomedics would effectively divest control of IMMU-132, as Seattle would manage all clinical and commercialization efforts. Pursuant to the deal, Immunomedics would receive cash and contingent payments totaling up to $2B, plus double-digit royalties on net global sales. Seattle would receive up to a 9.9% equity stake in Immunomedics.

Terms of Immunomedics–Seattle Deal	
Immunomedics Receives:	**Seattle Receives:**
• $2B in potential payments, including $250M cash upfront • Double-digit royalty on net sales, up to 20% • Right to co-promote • Six day go-shop period	• Exclusive rights to develop & commercialize IMMU-132 • 2.8% stake in Immunomedics at $4.90/share • 3-yr warrant for 7.1% stake in Immunomedics at $4.90/share • Right to match go-shop offers

Following the deal announcement, Immunomedics' stock price increased from $4.30 to $5.23, a 22% jump (see chart at right).

Despite this positive market reception, the deal faces intense opposition from venBio, Immunomedics' largest shareholder with a 9.9% equity interest. venBio, a first-time activist investor, claims that Immunomedics' Board of Directors is attempting to give away

Immunomedics' Common Stock Price



"*the Company's crown jewel and only commercially viable asset [] at a steep discount.*" In November 2016, venBio had launched a proxy contest to replace Immunomedics' Board. After the deal was announced, venBio filed for a restraining order in Delaware Chancery Court to halt the transaction. A temporary restraining order was granted on March 9, 2017. Immunomedics' stock price rose again. Immunomedics retaliated with a lawsuit in the District of Delaware. Both matters are still pending.

Immunomedics Argues that the Seattle Deal Maximizes the Value of IMMU-132

Defending the deal, Immunomedics argues that continuing development of IMMU-132 would cost $300M and would be risky given that it lacks the infrastructure needed for commercialization.

The Right Partner at the Right Price: Immunomedics points out that Seattle's equity purchase was at a 10% premium over the 15-day average of Immunomedics' stock prior to the deal. Furthermore, the license provides immediate liquidity, plus the contingent payments offer upside if Seattle can capitalize on its history of successfully commercializing ADC therapies.

Procedural Diligence: Immunomedics further contends that the Seattle deal was the culmination of a 13-month marketing process for IMMU-132. Greenhill & Co, financial advisor to Immunomedics, contacted 45 parties regarding a possible transaction, reaching advanced diligence with 18 of them.

Immunomedics' Computation of Consideration		
(In millions, excluding per share)	**Total**	**Per Share**
Upfront Payment	$250	$2.12
Seattle Common Stock Purchase	15	0.13
Exercise of Convertible Warrant	42	0.36
Total Cash Consideration	307	2.61
Pre-Tax NPV of Contingent Payments	1,107	9.40
Total	**$1,414**	**$12.01**

Hoffman Alvary & Company LLC
Seven Wells Avenue
Newton, Massachusetts 02459
T. 617.758.0500 F. 617.758.0510
hoffmanalvary.com

Hoffman Alvary

venBio's Arguments Against the Transaction

Mismanagement Plagues Immunomedics

venBio, which began acquiring Immunomedics shares in September 2016, contends that ineffective management and internal conflicts of interest have plagued Immunomedics for years. On November 16, 2016, venBio launched a proxy contest, nominating four directors to Immunomedics' five-member Board.

Underperformance Despite Clinical Success: venBio asserts that Immunomedics' stock performance does not appropriately reflect the promise presented by IMMU-132, and the company has consistently underperformed its peers (see chart below).

Immunomedics' Relative Stock Performance			
	1 Year	2 Year	3 Year
Immunomedics	(10%)	(27%)	(27%)
Array Biopharma	64%	93%	23%
Blueprint Medicines	79%	*n/a*	*n/a*
Clovis Oncology	18%	(33%)	(30%)
CytomX Therapeutics	(10%)	*n/a*	*n/a*
Five Prime Therapeutics	71%	285%	500%
ImmunoGen	(82%)	(77%)	(85%)
MacroGenics	(5%)	34%	14%
Seattle Genetics	65%	101%	73%
Tesaro	173%	337%	247%
Xencor	110%	139%	*n/a*
Average (Ex-IMMU)	48%	110%	106%

Note: Comparable companies identified by venBio. Performance is as of 11/15/16.

Management Missteps: venBio contends that Immunomedics' underperformance is due to mismanagement. For several years, management had searched unsuccessfully for a development partner for IMMU-132. Faced with insufficient funding for Phase 3 trials, Immunomedics was forced to raise capital in October 2016 (warrants at $3.00/share). Despite this financing, the company failed to raise the capital needed for Phase 3, further delaying the progress of its lead therapy. As further evidence of mismanagement, Immunomedics was ejected from a May 2016 meeting of the American Society of Clinical Oncology for a data sharing violation, leading to a 62% decline in share price.

Independence is Needed: venBio also argues that Immunomedics has failed to retain an independent Board. Two of the Board seats are held by the husband-wife team of Dr. David Goldenberg (Founder) and Ms. Cynthia Sullivan (CEO), and venBio points to their handsome compensation ($45M+ since 2000) despite poor performance. In the wake of venBio's proxy contest, Immunomedics' Board attempted to entrench itself by expanding to seven directors and delaying the proxy vote by two months. On March 13, 2017, Delaware Chancery Court established a "status quo" Board (pending further Court action), that included venBio's four nominees, and three prior members of the Board: Goldenberg, Sullivan, and Mr. Brian Markison.

Ongoing Development of IMMU-132 Will Unlock Value

venBio argues that the Seattle deal does not achieve maximum value for IMMU-132 and is part of a strategy by the Board to entrench its members in the face of venBio's proxy contest.

Licensing Undervalues IMMU-132: venBio asserts that instead of licensing IMMU-132, Immunomedics should continue to control the development of its prized therapy. Although Immunomedics' focus has historically been early-stage R&D, venBio contends that it can advance IMMU-132 by forming co-development and manufacturing relationships. venBio believes that maintaining control of IMMU-132's development will unlock additional value.

Inadequate Deal Terms: As evidence of Immunomedics receiving insufficient value for IMMU-132, venBio argues that the transaction is dilutive and the $4.90 price is: (1) markedly below the $9.40 NPV of the contingent payments (as calculated by Immunomedics); and (2) 7% lower than the closing price on February 10, the day the deal was announced.

Tradeoffs and Implications

Beyond the management turmoil, the fight over IMMU-132 is rooted in differing perceptions of and tolerances for risk. By licensing now, Immunomedics seeks to trade future development risks for immediate liquidity, while maintaining a financial interest in the potential success of IMMU-132.

Conversely, venBio has longer-term objectives, embracing commercialization risks with the goal of a larger overall payout. It is the risk-return tradeoff in action—and the question remains whether venBio's strategy could succeed at a firm that has focused almost exclusively on early-stage research.

Philip Green
Principal
617.209.5106

Brian Dies
Principal
617.209.5110

Joel Wacek
Principal
617.209.5117

Brynna Smith
Consultant
617.209.5116

Chris DeBaere
Consultant
617.209.5111

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