

Immunomedics Update: Seattle Genetics Deal Terminated, Parties Settle

Reversal of the \$2B Seattle Genetics license clears the way for Immunomedics to unlock previously unrealized value.

Note: In our April 2017 Valuation Insight, we analyzed the risk-reward tradeoffs underpinning the dispute over Immunomedics' license with Seattle Genetics for IMMU-132, a cancer therapy in late-stage trials. This issue supplements that discussion to account for a recent settlement among the parties.

venBio's Activism Prevails

On May 5, 2017, Immunomedics announced that it had reached a settlement with venBio (its largest shareholder), Seattle Genetics, and company directors. This settlement resolved litigation over a February 2017 license that Immunomedics granted to Seattle for rights to IMMU-132, a cancer therapy in late-stage trials. Through this agreement, Immunomedics divested control of IMMU-132 in exchange for cash and contingent payments of up to \$2B. For months, venBio has pushed for leadership and strategy changes at Immunomedics. In attempting to halt the deal in Delaware Chancery Court, venBio asserted that the license was merely an attempt by the Board to maintain control over the company.

Key Settlement Terms

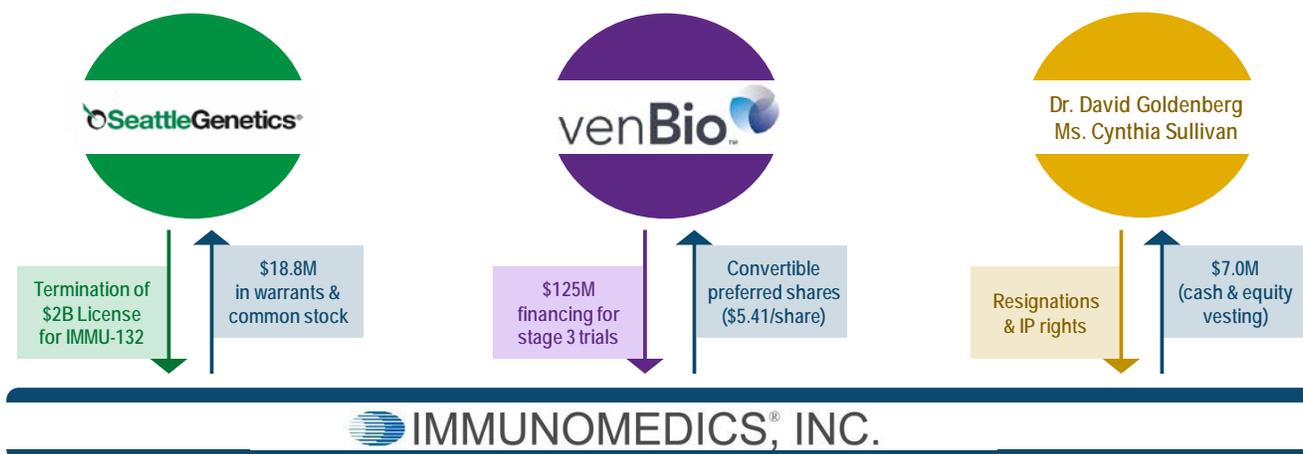
Seattle Genetics Terminates License: Concurrent with the Settlement Agreement, Seattle and Immunomedics executed a Termination Agreement rescinding Seattle's rights to IMMU-132. However, Seattle will continue to hold 3.0M shares of

Value of Warrants Granted to Seattle Genetics		
As of: May 5, 2017	<i>Initial:</i> License	<i>Revised:</i> Termination
Expiration	2/10/2020	12/31/2017
Current Share Price (5/5/2017 Close)	\$6.36	\$6.36
Strike Price	\$4.90	\$4.90
Dilution-Adj. Share Price (109M Shares Out)	\$6.10	\$6.02
Standard Deviation (per IMMU 10-K)	58%	58%
Risk-Free Rate	1.47%	1.01%
Value per Warrant	\$2.76	\$1.67
Total Value (8,655,804 Warrants)	\$23,890,019	\$14,455,193

Value Decreased by 40%

Immunomedics' common stock, as well as warrants to purchase an additional 8.7M shares at \$4.90 per share (in total, Seattle could hold ≈10% of Immunomedics' fully-diluted common stock). Pursuant to the agreement, the expiration date for these warrants was moved from February 10, 2020 to December 31, 2017. This acceleration reduced the warrant value from \$23.9M to \$14.5M (see above). Including the \$4.4M appreciation in the value of its 3.0M shares of common stock, Seattle effectively received total consideration of \$18.8M for terminating its license to IMMU-132.

venBio Secures Board Control, Provides Capital: The Settlement Agreement also affirmed the four Board positions secured by venBio in a March 2017 proxy vote. After successfully negotiating Board control, venBio and others invested \$125M in Immunomedics via a private placement of Series A convertible preferred stock. These preferred shares are effectively common equity, since they will immediately convert upon the later of: (1) termination of the Seattle Deal; or (2) authorization of additional common shares. The effective conversion price is



Immunomedics' Common Stock Price



\$5.41, the May 4 closing price. venBio's investment demonstrates the company's commitment to its thesis that continued control and development of IMMU-132 maximizes shareholder value.

Goldenberg and Sullivan Exit: The husband-and-wife team of Dr. David Goldenberg (Founder) and Ms. Cynthia Sullivan (CEO) resigned as company officers and assigned all IP rights to Immunomedics. Ms. Sullivan also resigned her Board seat, while Dr. Goldenberg will remain a Director. The two will be paid up to \$7.0M in accordance with termination clauses in their employment contracts and accelerated vesting of equity awards.

Implementing a New Strategy

Pursuant to the settlement, Immunomedics retains full rights to IMMU-132. Dr. Behzad Aghazadeh, Immunomedics' new Chairman and venBio's Managing Partner, reaffirmed the change in company strategy for IMMU-132, stating that *"we are absolutely committed to bring IMMU-132 to the U.S. market ourselves."* The market appears to favor venBio's new strategy—since the Seattle Deal was initially halted, Immunomedics' stock price has increased 42%.

Sufficient Financing: Capital raised from the issuance of convertible preferred stock will support the commercialization of IMMU-132. Near-term objectives include initiating a confirmatory Phase 3 trial as a Triple-Negative Breast Cancer therapy, outsourcing to a large-scale contract manufacturer, and submitting a Biologics License Application (BLA) for accelerated approval. Combined with \$46M of cash on hand, the \$125M in financing will sufficiently cover the projected \$80M to \$100M in near-term clinical and development costs for IMMU-132.

Clinical Success Improves Outlook: Recent developments have reinforced optimism regarding IMMU-132's prospects for achieving regulatory approval. In early April, Immunomedics announced positive results for IMMU-132 treatment of Small-Cell Lung Cancer in an open-label Phase 2 study. In that study, 60% of patients experienced tumor shrinkage, yielding a four-month clinical benefit rate of 34%. In a separate study, IMMU-132

treatment using the SN-38 platform provided significant antitumor effects in mice bearing tumors with stronger Trop-2 expression.^[1]

A Well-Calculated Risk

While recognizing the challenges involved in expanding beyond Immunomedics' historical focus on R&D, we view venBio's strategy of continued development and commercialization of IMMU-132 as a well-calculated risk. Out-licensing of IMMU-132 will continue to be an option even if venBio's internal commercialization efforts fail. Any near-term clinical setbacks would negatively affect both strategies, with the only difference being the \$250M upfront cash payment forgone by terminating the Seattle Deal (\$2.12 per share). Given IMMU-132's potential upside, we view this to be an acceptable risk.

^[1] Trop-2 expression is believed to drive tumor growth. See Ambroggi F., Fornili M., et al. (2014). *Trop-2 Is a Determinant of Breast Cancer Survival*.



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