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LONDON, UK (GlobalData), 18 July 2012 - **GlaxoSmithKline** (GSK), the British pharmaceutical giant, **acquired Human Genome Sciences** (HGS) on Monday, July 16, 2012 for $14.25/share. On an equity basis this deal was worth about $3.6 billion; however, the final deal size was approximately $3 billion net of cash and debt. GSK paid a premium of 99% from when it offered its initial private offering of $13/share in April. HGS was trading at $7.17/share prior to that. GSK believes they will be able to realize $200 million in cost synergies from the deal.

The acquisition of HGS gives GSK full rights to three main drugs: Benlysta (belimumab), albiglutide, and darapladib. The catalyst of the deal, of course, is Benlysta. As the first approved therapy for systemic lupus erythematosus in more than 50 years, there were high hopes for Benlysta sales. Unfortunately, as the FDA noted during the approval process, only 30% of lupus patients saw a benefit in clinical trials, and adverse events due to the depressed immune response were higher in Benlysta-treated patients. Consequently, sales for Benlysta have disappointed in its first year on the market. Benlysta saw a 77% increase in sales during Q2 of 2012; however, after only reaching revenues of $31.2m in the same quarter, sales remain substantially below what was originally forecast.

Albiglutide is scheduled for FDA filing in early 2013 in the treatment of type 2 diabetes. GLP-1 analog Albiglutide has a longer half-life than either exenatide or liraglutide, the other GLP-1 analogs on the market, which means that the drug requires only weekly or bi-weekly dosing. Despite this advantage, head-to-head trial results to date have been split; albiglutide was not as efficacious as liraglutide, but beat sitagliptin (Januvia). Results from several other head-to-head studies are pending. Current consensus is that albiglutide will struggle in the competitive diabetes market, with peak sales near the $500m mark.

Lastly, darapladib, a phospholipase A2 inhibitor, is in Phase III for coronary heart disease. Initial trial results are not expected until the end of 2013.

HGS marks Big Pharma’s second major acquisition of an established biotech player in the last

few weeks, as Bristol-Meyers Squibb (BMS) acquired Amylin Pharmaceuticals in a $7 billion joint deal with AstraZeneca in late June. With Big Pharma approaching and experiencing multi-billion dollar patent cliffs, they have begun looking to plug holes in their development pipelines, and established biotechs have become the prime targets. Companies with marketed products grant immediate revenue to displace losses from generic erosion, while companies with late-stage development pipelines give promise of low-risk, high-reward investments. The price tags for these acquisitions are considerably higher than those of earlier stage biotech companies; however, Pharma saves on development and clinical trials costs, and gains a higher probability of successful approval, in effect increasing the expected value of the drug and company acquisition.

This trend should continue throughout 2012 and into 2013. The next established biotech that could be placed on the auction block is BioMarin Pharmaceutical, who specializes in rare disease therapeutics. Just last week it was reported that GSK may have interest in the biotech, with estimates of what would be a $7 billion deal.