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Novartis to buy French cancer specialist AAA for \$3.9 billion

[John Miller](#)

ZURICH (Reuters) - Novartis has agreed to buy French-based Advanced Accelerator Applications (AAA) for \$3.9 billion, giving it a platform in radiopharmaceuticals and access to a new therapy for the kind of cancer that killed Steve Jobs.

Swiss drugmaker Novartis' logo is seen at the company's plant in the northern Swiss town of Stein, Switzerland October 23, 2017. REUTERS/Arnd Wiegmann

The deal further strengthens the Swiss drugmaker's oncology business, already boosted by the 2015 acquisition of GlaxoSmithKline's marketed cancer drugs and August's approval of a ground-breaking gene-modifying leukemia treatment.

The cash offer of \$41 per ordinary share and \$82 per American depositary share represents a 47 percent premium to AAA's price before media reports on Sept. 27 that Novartis was interested, the two companies said on Monday.

The ADS, which closed on Friday at \$72.91 and were priced at only \$16 when they listed two years ago, traded at \$80 in U.S. premarket dealings.

The transaction, which Novartis is to finance using debt, will reap AAA founder and 11 percent owner Stefano Buono more than \$420 million.

The move fits with Novartis Chief Executive Joe Jimenez's strategy of pursuing bolt-on deals worth up to around \$5 billion rather than seeking out larger targets.

With AAA, Novartis gets technology that deploys trace amounts of radioactive compounds to not only create images of organs and lesions to diagnose diseases but which can also be used to fight cancer.

AAA's flagship product, Lutathera, won European Union backing in late September against rare gastroenteropancreatic neuroendocrine tumors, the likes of which killed Jobs, Apple's founder, in 2011.

"Novartis has a strong legacy in the development and commercialization of medicines for neuroendocrine tumors," said Bruno Strigini, head of Novartis Oncology. "With Lutathera we can build on this legacy."

PEAK SALES

Lutathera, which has also been submitted to the U.S. Food and Drug Administration, harnesses a molecule not only to diagnose cancer but also to deliver treatment by hitting tumors with high-energy electrons.

In trials, it demonstrated a 79 percent risk reduction versus Novartis's \$1.6 billion-per-year drug Sandostatin against neuroendocrine tumors. Now, Novartis will likely replace patent-expired Sandostatin with its new drug, said Baader Helvea analyst Bruno Bulic.

"We see the more sophisticated technology to Lutathera commanding a premium price to Sandostatin and estimate peak sales potential at \$2 billion," Bulic wrote in a research note.

Analysts from Vontobel said the \$3.9 billion price “appears expensive” given AAA -- spun off from Europe’s physics research center CERN 15 years ago and listed on Nasdaq -- had sales of just \$78 million in the first half of 2017.

Novartis shares were little changed at 1115 GMT.

AAA founder Buono said the deal with the world’s biggest maker of prescription drugs would not only support Lutathera’s launch but also accelerate development of its other therapies.

The Italian-born former CERN physicist steadily took on investors and built up manufacturing capacity while making small acquisitions. AAA went public in a 2015 IPO.

Its other biggest shareholders are Fidelity with 9.1 percent and HBM Healthcare Investments run by former Roche finance chief Henri B. Meier. PJT Partners served as financial adviser and Shearman & Sterling as legal adviser for Novartis. Jefferies LLC was financial adviser to AAA, with Davis Polk & Wardwell LLP serving as legal counsel.

Additional reporting by Ben Hirschler in London; Editing by Michael Shields and Keith Weir

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