Novartis AG

MorphoSys AG, Novartis AG - M&A Call

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Event Participants

Executives 4

Julia Neugebauer, Jean-Paul Kress, Lucinda Crabtree, Charlotte Lohmann

Analysts 7

Xian Deng, Derek Archila, Andrew Berens, Charles Mabbutt, Emmanuel Papadakis, Rajan Sharma, Vineet Agrawal

Operator Operator

Ladies and gentlemen, welcome to the MorphoSys Conference Call and Webcast. My name is Anna, and I am your chorus call operator. [Operator Instructions] The conference is being recorded. [Operator Instructions] The conference must not be recorded for publication or broadcast. At this time, it's my pleasure to hand to Julia Neugebauer.

Please go ahead.

Julia Neugebauer Executive

Ladies and gentlemen, good afternoon or good morning. My name is Julia Neugebauer, Head of Investor Relations at MorphoSys. And it is my pleasure to welcome you to our conference call today. We will discuss yesterday's announcement of the public takeover offer by Novartis and the sale and transfer of all tafasitamab rights to Incyte. With me on the call today are Jean-Paul Kress, our Chief Executive Officer; Lucy Crabtree, our Chief Financial Officer; and Charlotte Lohmann, our Chief Legal and Human Resources Officer, will join for the Q&A.

Jean-Paul will begin with an overview of the benefits and strategic rationale of the agreements with Novartis and Incyte. After that, Lucy will provide more details on Novartis proposed public takeover offer and the process. Following our prepared remarks, we will open the call for your questions. Before we begin, I'd like to remind you on Slide 3 that some of our statements made during the call today are forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties.

It is important to keep in mind that our statements on this webcast represent our judgment as of today. Additional information regarding the transaction will be filed with the United States Securities and Exchange Commission over the coming weeks, and we encourage investors to review this information when it becomes available. With that, I now hand the call over to

Jean-Paul.

Jean-Paul Kress Executive

Thank you, Julia. Good morning and good afternoon, everyone. I am very pleased to be here with you today to discuss this opportunity for our company. At MorphoSys, we have been diligently working to develop and deliver more effective and well-tolerated cancer medicines that address the dire needs of cancer patients worldwide. We successfully built a strong oncology pipeline that provides several best and first-in-class opportunities with collaborative, our investigational BET inhibitor at the forefront.

We want our pipeline to advance at a greater speed and scale to help ensure patients worldwide can benefit. As such, after a thorough review of all strategic options, we firmly believe our recently announced agreements with Novartis and Incyte are in the best interest of MorphoSys, our shareholders and cancer patients. Starting with the proposed acquisition by Novartis. This offer provides attractive immediate and certain cash value to our shareholders. Novartis intends to offer MorphoSys shareholders, EUR 68 per share in cash, providing shareholders with an opportunity to realize significant value upfront and with certainty.

It represents an attractive premium of 89% to the unaffected January 25, 2024, closing share price. Additionally, Novartis seeks to maximize the potential of pelabresib. The recent Phase III manifest II findings point to the pelabresib and ruxolitinib combination as a potential paradigm shifting first-line myelofibrosis treatment. Beyond myelofibrosis, early data suggest pelabresib's clinical benefits in additional indications, representing new opportunities with this investigational therapy. Novartis has the necessary financial resources, additional scientific expertise and global footprint unavailable to MorphoSys as a stand-alone biotech company to maximize the full scope of pelabresib's potential.

Next, let's discuss our new agreement with Incyte. Incyte will obtain exclusive rights worldwide, assume full responsibility and cover all the costs for the development and commercialization of tafasitamab for a purchase price of $25 million. We have been collaborating with Incyte on tafasitamab since 2020. Given the proposed acquisition by Novartis and our long-standing partnership with Incyte, we know Incyte is best positioned to drive tafasitamab's future growth opportunities forward successfully and more efficiently on its own at this time. MorphoSys Management Board and Supervisory Board unanimously approved both agreements.

I would now like to turn the call over to Lucy to provide more details on Novartis offer and on deposits. Lucy, over to you.

Lucinda Crabtree Executive

Thank you, Jean-Paul. Good morning and good afternoon, everyone. We will now take a closer look at Novartis' proposed takeover offer to our shareholders. If you decide to tender your shares, you will receive EUR 68 per share in cash. This offer price corresponds to an attractive premium of 94% and 142% on the volume-weighted average price during the last month and 3 months as of the unaffected January 25, 2024, close, respectively, the day before first rumors of potential takeover surfaced.

It also represents a premium of 89% to the unaffected January 25, 2024, closing share price. This offer implies a total equity value of EUR 2.7 billion. Further, please keep in mind the following: the offer will contain customary closing conditions, in particular, a minimum acceptance threshold of 65% of MorphoSys' share capital and regulatory clearances. We have agreed with Novartis that they will take MorphoSys private promptly after the public takeover offer has been settled.

Today's announcement is only the first step in the transaction process. As a next step, Novartis will submit the offer document that outlines all the details of the offer to the BaFin, the German Federal Financial Supervisory Authority, for approval. Once approved, the offer document will be published. After that, the acceptance period begins. During this period, shareholders will have the opportunity to tender their shares.

We expect the acceptance period to run for approximately 4 weeks, followed by a 2-week additional acceptance period.

MorphoSys has the option to extend the acceptance period by 2 additional weeks. The exact dates will be announced with the publication of the offer document. During the acceptance period, our Management Board and Supervisory Board will publish a reasoned statement on the offer, subject to a careful review of the offer document, the Boards intend to recommend to shareholders the acceptance of the offer. The offer will be successful if the minimum acceptance threshold of 65% is reached. If reached, as mentioned before, there will be an additional acceptance period that will run for 2 more weeks.

The closing is currently expected to take place in the first half of 2024. We will keep you informed throughout the process and provide updates on milestones as they occur. And with that, I hand the call back over to Jean-Paul.

Jean-Paul Kress Executive

Thanks, Lucy. We believe that this is the right next step for MorphoSys and in the best interest of our shareholders, our company and cancer patients. Our shareholders benefit from an attractive premium, allowing them to realize the significant value upfront and with certainty. Novartis will help accelerate the development opportunities and maximize the commercialization potential of pelabresib at a greater speed and scale, benefiting patients worldwide. And Incyte is very well positioned to drive the future growth opportunities of tafasitamab forward successfully and more efficiently on its own at this time.

With that, I would like to open the call for questions. Operator, please open the line.

Operator Operator

[Operator Instructions] First question is from the line of Xian Deng with UBS.

Xian Deng Analyst

Congratulations on the deal. Two, please, if I may. So the first one is that thank you so much for the introduction of the process. But I was just wondering, I mean, on one side you have this positive data from pelabresib, at the same time, we also had a lot of investor debate on the approvability of the drug. So I was just wondering if you could give us some extra color or

insight about how that conversation -- how your conversation was like with Novartis around this topic, please.

So that would be great. And then the second one is, if I may push my luck a little bit, I was just wondering if it is possible for you to confirm whether you have had the pre-NDA meeting for pelabresib?

Jean-Paul Kress Executive

Yes. Thanks for your questions. I mean, I'm going to basically repeat what we said several times since the large -- the reveal of our Phase III trial. I mean we have the best results in myelofibrosis out there, and we have shown that we act very positively on all components for hallmarks of the disease in myelofibrosis. And this is a very compelling picture, which we believe will allow us to file and approve this drug based on the totality of the data.

So this basis was entertained with obviously, Novartis and they have made the decision based on that, and it's very reassuring as well. So I think that's the way to think about it. Now for the second question, we don't comment on the regulatory pathway. We -- I've said several times that now we are focusing on driving the filing of the drug this year. And we have everything we need to execute on that and now together with Novartis.

Operator Operator

Next question is from the line of Derek Archila with Wells Fargo.

Derek Archila Analyst

Yes, let me extend my congratulations to the team on the deal, well done. Yes, just one question. In terms of the process, I guess, obviously, they named, obviously, Novartis and Incyte as potential suitors. I guess just thinking about the deal process in totality. I mean were there other companies involved?

And was it kind of the other companies also in the myelofibrosis space? Just trying to understand how competitive the deal dynamics were.

Jean-Paul Kress Executive

Derek, thank you so much for your question. We can't comment on the process at this time. I think the outcome with Novartis is fantastic. I mean we have a long-standing relationship with this company. As I mentioned earlier in my comments -- in my remarks, they are a fabulous suitor for taking pelabresib to the next steps and to the scale it deserves.

So that's what people should be focusing on today. It's really the enabler or the potential of this great drug and this game changer in myelofibrosis and other indications.

Derek Archila Analyst

Understood. It's worth a shot. Well, congratulations.

Operator Operator

Next question is from the line of Andrew Berens with Leerink.

Andrew Berens Analyst

Congrats on the deal. I was just wondering based on your guidance for the deal to close in the first half of this year, whether you're expecting any regulatory pushback given the therapeutic overlap in myelofibrosis between Jakafi, Jakavi and pela? And are there any other regulatory agencies that will weigh on the deal besides BaFin?

Jean-Paul Kress Executive

Thanks, Andrew. Charlotte will answer the question.

Charlotte Lohmann Executive

Yes, I'm happy to do so. So as you rightly point out, this public takeover offer is subject to regulatory clearances by several authorities, not only the BaFin, but additional information will be available in the offer document once published and also in the tender of materials once filed with the SEC. But we can, in summary, say that we do not expect antitrust difficulties.

Operator Operator

Next question is from the line of Charlie Mabbutt with Morgan Stanley.

Charles Mabbutt Analyst

Charlie Mabbutt from Morgan Stanley. Just one for me. I was just wondering if we should expect any incremental pelabresib data over the first half of this year in terms of longer follow-up? And if not, when might we see that?

Jean-Paul Kress Executive

Yes, thanks for the question. For the time being, we continue to act as an independent company. We continue to execute on what we said we would. Our goals are very clear this year to drive pelabresib to the next step and mainly the filing in myelofibrosis. Right now, our focus is mostly on the filing.

More data are being generated. Some -- our trial of [MANI] Phase II trial is continuing and generating a lot of data. But we are not communicating yet on where we would publish or communicate on this data.

But I want to come back on a very important point. I mean our filing, we have what we need for our filing. We have the data we need. We have the wealth of data that we have communicated on at the length of the last weeks, especially at ASH to ensure a successful filing.

Operator Operator

[Operator Instructions] Next question is from the line of Emmanuel Papadakis with Deutsche Bank.

Emmanuel Papadakis Analyst

I wanted to ask if you have any further explanation on why the high-risk subgroup missed on

TSS50? And just to confirm that you are not able to say anything about updated analysis we could expect at ASCO, please?

Jean-Paul Kress Executive

Well, as we said several times, I mean, this is a statistic anomaly in this small high-risk population. It's less than 10% of the trial in real life. And we -- if you look at the totality of the data, this is again to be put in context, and we don't expect that to be an issue. Now for our new data, again, I mean we're not communicating yet on where and when we will have incremental data published for pelabresib.

Operator Operator

Next question is from the line of Rajan Sharma with Goldman Sachs.

Rajan Sharma Analyst

I'd just be curious to get your perspective on timing of the transaction, why now as opposed to potentially when you have a pelabresib approval in hand?

And then secondly, if I could just follow up. I know that you said that you're not expecting any kind of antitrust issues, but if that were to be the case, is there a break fee in that scenario?

Jean-Paul Kress Executive

So why did we agree to be acquired now? Well, look, it's not a light decision, but after a thorough review of all the strategic options, we firmly believe it's the best interest of the company, its shareholders and obviously, the cancer patients for the reasons I mentioned. But for the shareholders, it provides attractive and certain cash value now than risking their investments ahead of future milestones. For the patients, Novartis has ample resources, which are actually currently unavailable to MorphoSys as a stand-alone biotech for accelerating and maximizing pelabresib potential on a global scale. And for the employees of MorphoSys, it creates new opportunities.

So we really believe that all stakeholders are in a great position for that.

And actually, I missed your second question. Can you repeat it?

Rajan Sharma Analyst

Yes. Just if there are any antitrust issues, is there a potential break fee that would be due to MorphoSys?

Jean-Paul Kress Executive

Okay. Charlotte will answer the question.

Charlotte Lohmann Executive

Yes, sure. So as I mentioned beforehand, we don't expect any antitrust difficulties, but we cannot comment on contractual details at this point in time.

Operator Operator

Next question is from the line of Vineet Agrawal with Citi.

Vineet Agrawal Analyst

I just have 2. One, will Novartis be allowed to attend the pre-NDA submission meeting with FDA? And just second, is the transfer of tafasitamab rights to Incyte independent of Novartis acquisition?

Jean-Paul Kress Executive

Vineet, I couldn't hear well. You broke up a little bit on the second part of the question. Would you repeat please?

Vineet Agrawal Analyst

Sorry. No, I was just asking, is the transfer of tafasitamab rights to Incyte independent of Novartis acquisition or that's done deal?

Jean-Paul Kress Executive

Yes. So Vineet, I'll start by the second part. Yes, it's independent, but it's also to be taken in the grand scheme of the transaction. I mean the compelling Novartis transaction for all the reasons we mentioned, including financially, obviously, has put some light on the decision to do the transaction with Incyte. We believe that it's time for tafasitamab now to find a home with less complication than the joint venture.

And as I mentioned, Incyte is well positioned. Its -- they have been working with us on the drug. They know it very well, and they know the market very well and now it's time for them to take over this asset. And -- sorry I am trying to find...

Vineet Agrawal Analyst

First question was -- yes.

Jean-Paul Kress Executive

The pre-NDA meeting, yes, thank you. No, we are not commenting on that now.

Operator Operator

That was the last question. I would like to turn the conference over back to Julia Neugebauer for any closing remarks.

Julia Neugebauer Executive

Ladies and gentlemen, this concludes today's conference call. If any of you would like to follow up, MorphoSys Investor Relations team is available for the remainder of the day. Once again, thank you for joining. Have a great day, and goodbye.

Operator Operator

Ladies and gentlemen, this concludes today conference call. Thank you very much for joining, and have a pleasant day. Goodbye.