

MedTech

Overweight (Maintain)

Global trend insights: Collaborations between genetics companies and big pharmas

- Exact Sciences announces marketing partnership with Pfizer
- Clinical data and patient marketing are critical for genetics companies

Exact Sciences announces marketing partnership with Pfizer

- Exact Sciences (EXAS US/CP: US\$67.98) produces early screening tests for colorectal cancer. Its Cologuard product is the only one of its kind to receive FDA approval and the Centers for Medicare and Medicaid Services' (CMS) national coverage determination (NCD) in the US. The company generated revenue of US\$270mn in 2017 and currently has a market value of US\$8bn. The company's revenue guidance for 2019 is US\$700mn (vs. previous consensus of US\$620mn). Exact Sciences believes the partnership with Pfizer (PFE US/CP: US\$42.20) will be worth at least US\$80mn. Shares of Exact Sciences rallied 30.5% on August 22nd after the deal was announced.
- Under the marketing deal, which will run from October 2018 through 2021, Pfizer will share 50% of gross profits above an agreed-upon baseline and will receive a 3% royalty on excess revenue after the deal ends. Exact Sciences and Pfizer will each invest US\$24mn in marketing annually, in addition to the US\$80mn Exact Sciences already spends on marketing. Pfizer will also make at least 625,000 sales calls a year.
- From Pfizer's perspective, the deal allows the company to minimize the impact of the patent expiry of its best-selling drug Lyrica (US\$4-4.5bn) in 2019. Cologuard itself is also a compelling product, with 95% of current users fully covered by insurance (co-payment is 0%). Cologuard's penetration rate is around 3%, suggesting plenty of room for growth (Exact Sciences' target is 40%).

Clinical data and patient marketing are critical for genetics companies

- Recently, there have been an increasing number of collaborations between big pharmas and genetics companies. Examples include: 1) Roche's (ROG SW/CP: CHF241.40) acquisition of companion diagnostics firm Foundation Medicine; 2) GlaxoSmithKline's (GSK LN/CP: GBP16) investment in DNA testing company 23andMe, and the latter's B2B deal with Genentech; and 3) the marketing partnership between Pfizer and Exact Sciences.
- With blockbuster drugs losing patent protection and the development of potential blockbusters becoming more difficult, slowing growth is a major concern for many big pharmas. Therefore, there is a strong need for big pharmas to: 1) minimize the gap left by drugs going off patent; and 2) identify new biomarkers (through specific cohort data) or utilize innovative new technologies like AI to overcome the challenges of developing new drugs. For genetics firms faced with the challenge of pioneering new markets, the B2B business model toward big pharmas is undeniably attractive.
- In this regard, we believe there are two major takeaways for genome sequencing firms:
 - First, the most critical component of a B2B business model is clinical data. When collecting data, more consideration should be given to cohorts and phenotypic data (Foundation Medicine and 23andMe are good examples). It is also important to secure clinical data. Exact Sciences' Cologuard was able to gain insurance coverage because of solid data from the company's 10,000-patient DeeP-C study. Cologuard is also listed as a recommended screening test by the American Cancer Society (ACS). Even after the test's release, real-world data backing its use led to Cologuard's inclusion in the United States Preventive Services Task Force (USPSTF) guidelines on colon cancer screening. Cologuard also scores highly in the Healthcare Effectiveness Data and Information Set (HEDIS; insurance coverage standards used by most US insurers).
 - Second, patient marketing is also important. Exact Sciences spends more than US\$100mn on marketing every year. As market presence grows, it is critical to market products to consumers in addition to hospitals.
- One domestic company comparable to Exact Sciences is Genomictree (228760 KONEX/CP: W49,800). Genomictree's product using new biomarkers has shown clinical performance (90.2% sensitivity) similar to that of Exact Sciences' and has several advantages in terms of overseas expansion (costs, simplified testing process, etc.). Domestic companies comparable to 23andMe and Foundation Medicine include Macrogen (038290 KQ/CP: W37,350) and EDGC (245620 KQ/CP: W6,280).

APPENDIX 1

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