

Astrazeneca's Acquisition of Cincor for \$1.8bn

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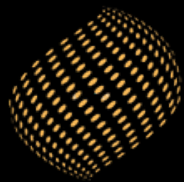


Source: Boston Business Journal



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DEAL INTRODUCTION

DETAILS ABOUT THE DEAL

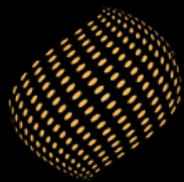
On the 9th January 2023, healthcare heavyweight AstraZeneca announced that it entered into an agreement to acquire CinCor Pharma, Inc. Cincor is a US-based clinical-stage biopharmaceutical company who develop treatments for hypertension as well as chronic kidney disease.

Astrazeneca has agreed to pay a price of \$26 a share in cash at closing, plus a non-tradeable contingent value right of \$10 per share in cash payable upon the specified approval of one of CinCor's products. The combined upfront and contingent value payments represent a transaction value of up to \$1.8 billion - a 206% premium over CinCor's share price on 6th January 2023.

The acquisition will bolster AstraZeneca's cardiorenal pipeline by adding the drug baxdrostat - a drug for blood pressure lowering. AstraZeneca has long wanted to provide treatments across cardiorenal diseases due to high unmet medical needs, gaining baxdrostat alongside at least 20 of its own drugs in this area, should propel the company to the forefront of such innovation.

The addition of baxdrostat will also bring the opportunity to form a combination with AstraZeneca's Farxiga. AstraZeneca are aiming to complete several small to mid-sized bolt-on acquisitions in 2023 to add value to the company.

The acquisition of CinCor is therefore potentially just the start of a big year for the firm as they try to gain access to innovation before competitors.



INDUSTRY OVERVIEW

WHAT ARE CARDIORENAL PROBLEMS?

The cardiorenal treatment industry encompasses all surgeries, pharmaceuticals, and other treatments aimed at curing acute or chronic problems in the heart or kidneys that could trigger a problem in the other organ. With the two organs being closely tied in function (with the heart responsible for pumping blood around the body, and the kidneys being responsible for removing waste products and extra fluid from the blood), a holistic approach to treatment must often be considered, with treatments addressing not only the issue within an organ, but its potential repercussions on the other.

RECENT M&A ACTIVITY

Although data concerning the size of the cardiorenal market is limited, evidence suggests not only a significant prevalence of cardiorenal diseases in the US (among the most significant markets for AstraZeneca, with over 15% of the US adult population suffering from chronic kidney disease), but also robust expectations for growth in coming years), but robust expectations for growth in the sector (the cardiometabolic diseases market, which, although not directly tied to, is strongly associated with the cardiorenal market, is expected to grow to \$121,804.49Mn in 2028 from \$93,494.41 in 2021). These expectations align with AstraZeneca's prior presence within the market. Even before the acquisition of CinCor, the firm had partnered with Bristol-Myers Squibb to produce dapagliflozin (marketed as Farxiga in the US), a treatment for heart failure and chronic kidney disease in adults, gaining approval for sale from the FDA in 2014.



ACQUIRER OVERVIEW



TICKER: AZN

ASTRAZENECA

AstraZeneca was formed through the merger of Astra AB and Zeneca Group in 1999 and is headquartered in Cambridge, United Kingdom. It is a multinational pharmaceutical company that specialises in the development, manufacture, and marketing of prescription drugs.

AstraZeneca is one of the world's biggest healthcare providers, operating in more than 100 countries. The company has a diverse portfolio of products that cover a range of therapeutic areas, including cardiovascular, gastrointestinal, neuroscience, oncology, and respiratory diseases. Its most well known products include Crestor, Nexium, Seroquel, and Tagrisso.

KEY FINANCIALS

Revenue

- \$44.4 billion

EBITDA

- \$13.8 billion

EBIT

- \$8.6 billion

Net Income

- \$3.3 billion

Market Capitalisation

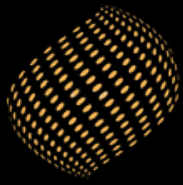
- \$215.8 billion

Share Price

- \$139.23

P/E Ratio

- 65.98



BUSINESS OVERVIEW

During the onset of the COVID-19 pandemic, AstraZeneca was at the forefront of vaccines against the disease.

The company developed the Oxford-AstraZeneca vaccine, which was approved for emergency use around the world.

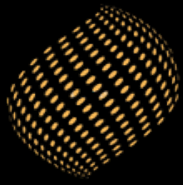
AstraZeneca is a juggernaut when it comes to research and development in the healthcare space, actively investing in the discovery of new drugs and treatments.

The company always has a pipeline of innovative drugs, including several promising oncology treatments.

GRAPH OF AZN SHARE PRICE & BENCHMARK



Source: Boston Business Journal



ESG CONSIDERATIONS

Environmental

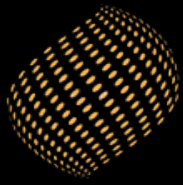
- AstraZeneca has set a goal to become carbon negative by 2030. This means the company will remove more carbon dioxide from the atmosphere than it emits.
- AstraZeneca has reduced its scope 1 and scope 2 carbon emissions by 59% since 2015.
- The company has committed to using 100% renewable electricity by 2025 and has made progress toward this goal, with 72% of electricity coming from renewable sources in 2020.

Social

- AstraZeneca has a strong commitment to diversity and inclusion. In 2020, 48% of people in senior middle management roles and above were women.
- The company has a Code of Ethics and Conduct that outlines its commitment to ethical behaviour, including human rights, labour standards, and anti-bribery and corruption.

Governance

- AstraZeneca has a comprehensive risk management framework that includes environmental, social, and governance risks, as well as financial and operational risks.
- The company has a remuneration committee that sets executive compensation and has implemented a clawback policy to recover bonuses if performance targets are not met.



TARGET OVERVIEW



TICKER: CINC

CINCOR

CinCor is a clinical-stage biopharmaceutical company that was founded in 2018. The company is headquartered in Boston, United States.

It currently develops treatments for cardiovascular diseases, including its leading Baxdrostat drug.

KEY FINANCIALS

Revenue

- N/A

Market Capitalisation

- \$1.3 billion

Total Assets

- \$529 million

Share Price

- \$29.06

Net Income

- -\$21 million

P/E Ratio

- N/A



Source: Cincor Pharma



BUSINESS MODEL

The company currently has one main product:

- **Baxdrostat is their leading drug. It is a treatment of hypertension and other cardio-renal diseases. The drug is highly selective, it has a small oral molecule inhibitor made of aldosterone synthase.**
- **This is an enzyme that is responsible for the syntaldosterone in the adrenal gland. This ultimately helps people suffering from hypertension, or high blood pressure.**

Additionally, they are developing more drugs:

- **BrigHtn trial: As baxdrostat causes some populations to have a high blood pressure months after, the company has chose to develop another drug to disable this. This would allow a larger population to be able to take Baxdrostat.**
- **Uncontrolled Hypertension (uHTN) - HALO: There is an ongoing Phase 2 clinical trials (Halo tria), for patients whose blood pressure is not controlled after the treatment with one more many antihypertnsive agent.**
- **Chronic Kidney Disease (Hypertension in CKD patients) - treatment for primary aldosteronsim (PA).**



DEAL ANALYSIS

STRENGTHS

- In January 2022 Cincor successfully managed to complete an IPO, having raised over \$200M. They also featured participation from new institutional investors like T.Rowe Sands Capital, along with existing private investors. Unlike many other companies CinCor was one of the few biotech IPOs to outperform their offer price among the 175+ biotech IPOs in 2020-2022, reflecting the value it can have for Astrazeneca.

WEAKNESSES

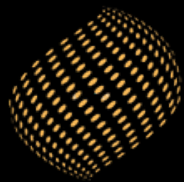
- Baxdrostat did not meet the primary endpoint of showing a statistically significant reduction in SBP at eight weeks in the HALO Phase II trial in patients with uncontrolled hypertension.

OPPORTUNITIES

- They have made progress with their highly promising upcoming products:
 - BrighTn trial has completed phase 2 trial
 - The uHTN and the trial for CKD is currently undergoing phase 2 trial

THREATS

- There is a possibility the milestone related to the contingent value might not be achieved
- Generally the industry has a lot of harsh conditions and competitions
- Other general economic factors such as interest rate, and currency exchange fluctuation
- The impact of the ongoing changes in the pharmaceutical industry with regulation and health care legislations



VALUATION ANALYSIS

DISCOUNTED CASH FLOW MODEL

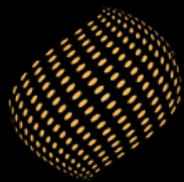
Enterprise Value	2,152,224,762
Cash	527,000,000
Debt	0
Equity Value	2,679,224,762
Number of Shares	40,806,123
Implied Share Price	65.7

Please click on the table to access full model.

As CinCor is not producing revenue yet, an estimate of future costs and revenue had to be made. Initially, this was done through a peer analysis, where the initial estimates for the values were found. Then, the **CAGR** of specific sector and years taking companies to reach a break-even point were used, resulting in the estimate that this would occur in 2026.

When estimating Cash Flow Items, a comparable analysis was once again used to obtain average D&A, CapEx and NWC values and to estimate the trajectory it would take in the following years.

The implied share price was found to be \$65.70 with a **WACC** of 5.9% and **TGR** of 3%. This takes into account the fact that, although Cincor is not currently making any profit, it is still at a trial stage. When Cincor starts to deliver their product, their value could grow exponentially.



VALUATION ANALYSIS

COMPARABLE COMPANY ANALYSIS

CinCor Pharma Valuation		
Implied Enterprise Value		1175
Net Debt		120
Implied Market Value		1055
Shares Outstanding		44
Implied Value Per Share	\$	24.11

Please click on the table to access full model.

Model 1: No Revenue Comparable

This model compares other late-stage biotechnology and biopharmaceutical firms in the US. Most metrics like **EV/Revenue** and **EV/EBITDA** are of little to no use from a valuation perspective, as they are negative. That said, metrics like **R&D** as a percentage of operating expenses and **RORC** (return on research capital) provide very useful insight into the firm's cost breakdown and how efficiently they are utilising their spending on R&D.

Model 2: Revenue Comparables, recent FDA Approvals

This model looks at similar firms that have recently been granted FDA Approval. By taking an average RORC and gross profit margin figure, we can derive an implied operating profit for CinCor. From such, we are able to get an implied revenue (contingent on Baxdrostat being approved). Hence, by applying an average EV/Revenue figure, we can forecast a share price for CinCor Pharma; a 18% discount from its unaffected share price of c.\$11.78



IMPACT ON THE INDUSTRY

The acquisition of CinCor, and the subsequent acquiring of CinCor's flagship candidate drug, baxdrostat (CIN-107) is poised to significantly enhance AstraZeneca's already significant presence within the market for cardiorenal treatments.

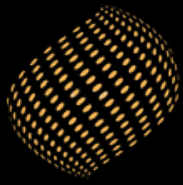
Although still within clinical development stages, the drug has, in trials, proved effective without significantly invasive effects.

Now owning pharmaceuticals treating both heart and kidney disease and hypertension, there may be an increased drive from competitors to develop alternative treatments aiming at addressing more niche causes of cardiorenal diseases.

Marc de Garidel, Chief Executive Officer at CinCor, said: "We are excited about the proposed acquisition of CinCor Pharma by AstraZeneca as we believe it offers the prospect of accelerating the development timeline and expanding the breadth of benefits patients with cardiorenal diseases might obtain from baxdrostat, if approved."



Source: CMC Markets



GLOSSARY

CAGR: Compound Annual Growth Rate; the rate at which an investment would grow with reinvested profits at the end of each year.

Equity Value: Total value of a publicly traded company's outstanding common shares owned by the stockholders.

EV/EBITDA: Enterprise Value 'Multiple', gives insight into the value of companies against their cash earnings less their non-cash expenses.

Free Cash Flow: Cash generated by company after accounting for its operating and capital expenditures.

Premium: increased amount paid per share in comparison to the share price at the time of the M&A transaction, often presented as a percentage.

R&D: Research & Development, the amount a company spends in producing innovative products and services.

RORC: Return on Research Capital, the profit earned per dollar spent on R&D in a given time period.

Terminal Growth Rate (TGR): A growth rate that a company is expected to grow at forever based on the market and industry conditions.

Valuation Multiples: Financial tool providing one metric as a ratio of another; often used to compare similar companies.

WACC: Cost of capital used to represent a firm's after-tax costs from all resources.



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