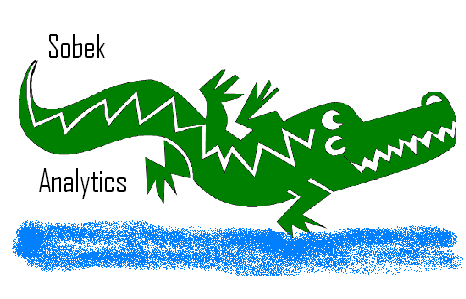
Clinical Data: A Buyout or Buy-under?



Date:2/22/2011

Report: This is a quick report meant to examine the recently announced deal to purchase Clinical Data (<http://www.bloomberg.com/news/2011-02-22/forest-to-buy-clinical-data-for-1-2-billion-gaining-antidepressant-1-.html>). At $30 a share in cash and up to $6 per share more if Viibryd reaches certain sales milestones, many feel that this is a poor deal for Clinical Data shareholders. Rather than make a definitive statement, I figured to look at some net present value calculations. Of course, any NPV analysis is contingent on some assumptions, so I tried to be conservative (or at least reasonable). The assumptions that I used was that sales start in 2012 and go for 15 years. In addition, sales ramp up to their peak in 2017 and then grow at 3%/year (price increase). In addition, the discount factor is 8%/year and Merck gets a 10% cut of sales. Of course, what are the sales? For the first analysis I use a peak sales estimate of $500 million.



This looks complicated but this simply shows the sales and calculations out to 2027. The yellow highlighted portion calculates the NPV of sales (the values are in $billions) of $3.4 billion, which makes the $1.3 billion offer appear quite light. Of course, sales do not simply happen; rather, a company needs to pay a sales force, manufacture, and so on. Forest has a net profit margin (last reported) of 17.3% and using that we get a NPV of net profits (highlighted in red) of $0.58 billion. So I leave it up to the reader to decide if we should look at the NPV of sales or net profits. I also did some more calculations with different sales assumptions.

Below is the same chart but it assumes sales peak at $1 billion. What is interesting is that at this peak sales assumption, the NPV of net profits is just about what Forest paid.



If one is slightly more bullish, however, the price quickly becomes cheap even on an NPV of net profits basis. Below are the calculations if we assume $1.5 billion peak sales. 

So did CLDA sell out too low? Obviously it depends on a number of assumptions but given a reasonable sales assumption, it is quite easy to get an NPV (on a net profits basis) much higher than the sales price. So if I were to pick a winner at this point, it certainly seems like Forest got a good deal.

Disclaimer:

I am not a certified financial analyst. All the information provided in this report is my interpretation and may contain errors. Please, do not invest based solely on my opinions as it is critical for all investors to conduct their own due diligence and invest in ways that best fit their own needs. In addition, I am unfortunately long CLDA March $45 calls.