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Varian Offers \$1.6b For Sirtex

Dr Boreham's White-Hot Crucible

Sirtex says its board unanimously recommends that shareholders accept the Varian Medical Systems offer of \$28 a share valuing the company at \$1.56 billion.

In a media release and teleconference, Sirtex said that the Palo Alto, California-based Varian was “a leader in developing and delivering cancer care solutions” with 6,500 staff around the world, was listed on the New York Stock Exchange and had a market capitalization of about \$US11.8 billion (\$A14.6 billion).

Sirtex said that should the scheme proceed as expected there would be a shareholder meeting for approval in early May with the sale completed by the end of May 2018.

Sirtex chief executive officer Andrew McLean told the teleconference that the company had received a number of unsolicited offers and at no time did it undertake any process to sell the company.

Mr McLean said that the company had accepted the Varian \$28 a share bid which was the highest of several proposals made to the company.

Sirtex said that the offer of \$28.00 per share was a 49 percent premium to the closing price of \$18.83 on January 29, 2018, the last trading day before the announcement and a 53 percent premium to the volume weighted average price since its trading update on January 17, 2018 as well as a 60 percent premium to the one-month volume-weighted average price to January 29, 2018.

Sirtex has traded from as low as \$3.00 in 2006 to a high \$41.33 in December 2015, or from a market capitalization of \$123 million to \$2.3 billion.

In 2015, the Sirtex share price fell 62.05 percent from \$39.00 to \$14.80 on news that its 500-patient trial of SIR-Spheres with chemotherapy “does not result in a statistically significant improvement in the overall progression-free survival” for metastatic colorectal cancer (BD: Mar 17 2015).

In 2017, the company fell as low as \$10.45 on mixed trial results from several separate trials (BD: May 18, 2017).

Today, Sirtex said the offer implied an enterprise value of about \$1.49 billion, a multiple of 18.6 times the mid-point of the forecast earnings before interest taxation, depreciation and amortization for the 2017-'18 financial year in its January 17, 2018 trading update.

The company said that subject to the independent expert determining that the scheme was in the best interests of shareholders and in the absence of a superior proposal, the directors unanimously recommended that shareholders vote for the scheme.

Sirtex said that other conditions included regulatory approvals, including Foreign Investment Review Board and competition authorities, as well as no material adverse change or prescribed occurrences provisions and court approval.

The company said it would be liable to a one percent break fee in certain circumstances, with a reverse break fee payable by Varian in certain circumstances.

Sirtex interim chairman Dr John Eady said that “whilst we remain confident that the company would continue to have a successful stand-alone future, we believe that the material premium provided by Varian and the certainty of all cash consideration is an attractive outcome for shareholders”.

Varian chief executive officer Dow Wilson said that Sirtex was “a highly complementary strategic fit with our existing solutions for the treatment of cancer”.

“We are excited by the opportunity to expand Sirtex's business and continue to provide physicians and patients around the world with smart, efficient and high-quality care,” Mr Wilson said.

Sirtex said that UBS AG Australia was its financial adviser with Watson Mangioni its legal adviser.

Sirtex climbed \$8.62 or 45.8 percent to \$27.45 with 8.6 million shares traded.

[DR BOREHAM'S WHITE-HOT CRUCIBLE SPECIAL EDITION: SIRTEX MEDICAL](#)

By TIM BOREHAM

Well, no-one saw this one coming - but perhaps we all should have. That's because acquirers strike at a time of weakness for the prey, but not when all hope is lost, altogether. In that respect, Sirtex fits the menu nicely.

If Varian Medical Systems' \$1.58 billion offer for Sirtex passes muster with shareholders and the Foreign Investment Review Board, the home-grown targeted radiation oncology house will be in the hands of the Californian giant by the end of May.

Sirtex is the biggest ASX-listed biotech, outside the Big Caps of CSL, Cochlear and Resmed. Another day of shame for the nation as a precious asset is sold on the cheap to offshore opportunists? Will Dick Smith chopper-in to save the day?

We think not. While some may contend the friendly deal is another victory for short termism, Sirtex looked to be struggling to regain its mojo after a series of setbacks.

Just to recap, the rot set in after a 2015 trial to extend the use of Sirtex's SIR-Spheres liver cancer treatment failed to show efficacy. SIR-Spheres offer a targeted second line (survival) therapy for advanced liver cancer patients. The 550-patient trial, called Sirflox, aimed to extend the drug to a first-line treatment of metastatic colorectal cancer, but failed to show a difference in "overall progression free survival".

In January 2017, long-term chief executive officer Gilman Wong was sacked after an internal review of his decision to offload some of his personal holding in Sirtex shares the previous October. Shareholder class actions loom over the company's disclosure practices in 2016, with the company copping a \$100,000 fine from the corporate cop last year for alleged continuous disclosure breaches.

Varian's \$28 a share offer falls between the all-time high of just over \$41 in November 2015 and \$13 in June last year. Six years ago, the stock traded under \$5 so take your pick on the most applicable time line.

Valuation wise, the offer is pitched at 18.6 times earnings before interest taxation depreciation and amortization (Ebitda), based on the midpoint of January's full year guidance of \$75 million to \$85 million for 2017-'18. Apparently that multiple is in line with other recent global medical technology transactions.

In that context it's hardly a knock-out offer, but the parties were quick to highlight that it represents a 49 percent premium to Monday's close of \$18.83. On a weighted three-month basis, the bid represents an irresistible 77 percent premium.

Nor is it a case of a dodgy jeweller offering a few bob for a little old lady's vintage mother of pearl necklace. We now know that several putative "credible" acquirers were sniffing around Sirtex late last year, so the board and its advisers were able to test the market.

"We accepted the best overall bid with the highest price," said Mr McLean, who otherwise pleaded the Fifth on the nature of the alternative potential suitors.

Before The Troubles, Sirtex shares traded on a growth multiple and this was justified with management delivering steady earnings and revenue increments. But the company has hit a growth wall, evidenced by the January 17 trading update pointing to flat SIR-Spheres sales for the first half (albeit with forecast growth for the second half).

Bear in mind that post the Gilman Wong debacle, new management under Andrew McLean has curtailed R&D and cut costs as part of a 'back to basics' program.

Mr Wong had championed the 2020 Vision, a sweeping plan to expand the use of the spheres and commercialise multiple products. Now, that one's more a case of 'should have gone to Specsavers'.

Dr Boreham's diagnosis:

As we said at the outset, all is not lost for Sirtex. After all, why would Varian want to buy the company if it were a basket case?

SIR-Spheres generate around \$230 million of revenue annually, with 80,000 doses dispensed across 1,090 medical centres in 40 countries. Varian is confident of finding growth, by using its superior sales reach and possibly working on those expanded indications.

For Sirtex's 16,600 shareholders, their enthusiasm for the deal will depend on when they bought the stock. Long term investors such as Allan Gray (formerly Orbis) bought at lower levels, so would be happy to tick the 'yes' box at the scheme of arrangement meeting scheduled for late May. Long-term holder Hunter Hall (now Pengana Capital) sold below substantial status last June - when the shares were close to those recent lows. D'oh!

Mr McLean is confident that the deal will sail through, despite the need for regulatory approvals and defeating conditions such as a precipitous plunge in Ebitda or a horrible and early class action outcome. "We believe the risks this transaction will not complete are very low," he said.

In our inaugural Crucible column in January last year, your good doctor opined that Sirtex "needed a period of rest and recuperation and investors should tip-toe past the recovery ward to healthier exposures". At the time the shares changed hands for \$15, which just goes to show that doctors - especially fake* ones - can get the wrong end of the stethoscope at times.

We reckon shareholders should sit tight and wait for the paperwork.

**** Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Nor is he a licensed financial adviser and nor is he infallible.***