



## **Avadel: Why The Alkermes Deal May Collapse And A Bidding War Could Follow**

With Alkermes plc (ALKS) announcing plans to acquire Avadel Pharmaceuticals plc (AVDL) for \$18.50 per share in cash plus a contingent right worth up to \$1.50, investors have treated the deal as a foregone conclusion. The stock traded immediately toward the offer price, assuming the transaction was a done deal. But beneath the surface, both the structure of the agreement and the dynamics of the narcolepsy market suggest this merger may not be so certain.

The transaction is governed by a Scheme of Arrangement sanctioned by the Irish High Court, which is structured to protect shareholders rather than entrench management. Under Irish Takeover Rules, rival bidders remain free to emerge during the scheme process, and break fees are strictly capped at 1% of deal value in order to support fair competition. Avadel's termination reimbursement equals roughly \$19 million. This is hardly a deterrent to any serious pharmaceutical acquirer, effectively making the deal an open auction.

The Transaction Agreement filed with the SEC supports this view. Avadel is prohibited from soliciting alternative proposals, but it may fully engage with any unsolicited superior offer so long as it is within the line of fiduciary duty. Once notified of a superior offer, Alkermes has five business days to match the competing bid, or Avadel can pay the 1% fee and terminate the deal. In practice, this combination of a soft no-shop and a short "last look" period is among the weakest forms of deal protection seen in recent biotech M&A.

This matters because Avadel's assets are unusually strategic. Its once-nightly oxybate, Lumryz, has already begun reshaping the narcolepsy landscape. Jazz Pharmaceuticals' (JAZZ) aging Xyrem and Xywav franchises still face an existential threat from once-nightly products, leaving them in an untenable position for a company whose core revenues depend on oxybate therapies. For Jazz, acquiring Avadel would be an act of self-preservation.

Several other players may also find the asset compelling. Takeda, advancing its own orexin agonist in late-stage development, could acquire Lumryz to bridge its near-term commercial gap. Johnson & Johnson recently reorganized its neuroscience division to focus on sleep-wake and mood disorders. Avadel's technology could slot neatly into their portfolio. UCB has a long history in neurological disease and has similarly sought adjacencies to expand its CNS portfolio. For each, the economics are straightforward: Alkermes' offer is immediately massively accretive, leaving room for a significant premium while still achieving positive synergy-adjusted returns.



From a governance perspective, nothing stands in their way. The Irish Takeover Panel explicitly limits break fees to 1 % and prohibits “frustrating actions” that would block rival bidders. The Panel also requires that the shareholder meeting to approve the scheme cannot occur sooner than 21 days after the circular is distributed, meaning the effective bidding window remains open for at least a month. During any competitive bids can be delivered, triggering Alkermes’ five-day match period and forcing the board to revisit its recommendation.

The valuation asymmetry is striking. Avadel projects roughly \$270 – \$300 million in 2025 revenue with high margins and amid increasing leverage, and consensus expects Lumryz to eventually surpass \$1 billion in annual sales across narcolepsy and idiopathic hypersomnia. On that trajectory, a \$2.1 billion takeout, barely 7x forward sales, and 0.5x less than the peer median TEV/peak sales of 2.7x looks less like fair value and more like opportunism.

Precedent Transactions Analysis			Peak	EV /	EV /	Premiums		
Acquirer Name	Target Name	Date	Sales	LTM Revenue	Peak Sales	1-Day Prior	1-Week Prior	1-Month Prior
Supernus Pharmaceuticals, Inc.	Adamas Pharmaceuticals, Inc.	10/11/2021	\$ 285	5.7 x	1.8 x	75.7%	74.6%	78.0%
UCB BioSciences, Inc.	Zogenix, Inc.	1/19/2022	\$ 800	19.3 x	2.0 x	79.0%	80.1%	87.5%
Jazz Pharmaceuticals, Inc.	GW Pharmaceuticals, Plc	2/3/2021	\$ 1,300	12.9 x	5.2 x	50.4%	38.8%	91.0%
Biogen Inc.	Reata Pharmaceuticals, Inc.	7/28/2023	\$ 2,200	319.4 x	3.4 x	58.9%	55.6%	74.5%
Pfizer Inc.	Biohaven Pharmaceutical Holdi	5/10/2022	\$ 6,000	16.6 x	2.0 x	78.6%	64.8%	25.3%
Gurnet Point Capital, LTD + Patient	Radius Health, Inc.	8/10/2022	\$ 235	15.8 x	5.1 x	88.8%	76.0%	113.6%
Median			\$ 1,050	16.2 x	2.7 x	77.2%	69.7%	82.8%

Avadel Pharmaceuticals, PLC - M&A Implied Offer Prices				
	Peak Sales	25th	Median	75th
TEV / Peak Sales		2.0 x	2.7 x	5.1 x
LUMRYZ	1,210	\$ 25.67	\$ 34.23	\$ 64.09
LUMRYZ & VALILOXYBATE	2,367	\$ 50.20	\$ 66.95	\$ 125.37

I continue to stand by the valuation work presented in my earlier analysis of Avadel. My model valued the company between \$33 and \$52 per share, based on a risk-adjusted rNPV framework that captures Lumryz’s steady penetration trajectory, the pending idiopathic hypersomnia indication, and long-duration patent protection. Alkerme’s bid validates that intrinsic value: they are willing to pay \$2.1 billion for only the near-term oxybate cash flows while assigning effectively zero credit to Avadel’s pipeline.

On the acquisition call, neither management team mentioned XW Pharma’s pipeline. Valiloxbate, the only salt-free oxybate with patent protection extending to 2037, is being



evaluated for both narcolepsy and the treatment of non-motor symptoms associated with Parkinson's disease, an area for which there are currently no FDA-approved therapies. By assigning no apparent value to these programs, Alkermes effectively underscored how little weight it places on Avadel's broader R&D optionality and long-term growth potential.

Taken together, the evidence suggests that Alkermes' offer is not the final word on Avadel's value. While there is no certainty that a competing bid will materialize, the deal's structure and the strategic importance of Lumryz and Valiloxymate make the prospect of competing bids plausible. What is certain is that Alkermes' price captures only the near-term economics of Avadel's oxybate franchise and leaves little recognition for the pipeline or long-duration cash flows. If the transaction closes on current terms, that long-term upside will transfer to Alkermes shareholders rather than Avadel's. For existing investors, the market's willingness to accept \$18.50 as fair value says more about short-term deal fatigue than about the true worth of a company that remains fundamentally mispriced.