Pharma Asia

'Wild speculations': BeiGene hits back at short seller's accusations of 60% sales inflation

by Angus Liu | Sep 9, 2019 10:57am

BeiGene, co-founded by CEO John Oyler, has been considered a wonderkid in China's booming biotech sector but is now facing allegations that it inflated sales by 60%. (BeiGene)

BeiGene, a wonderkid in China's booming biotech sector, leapfrogged onto the commercial stage thanks to its 2017 acquisition of Celgene's Chinese operations. But now, the very assets that helped boost the firm's Nasdaq shares past $200 per share last year have attracted some serious allegations.

New York-based investment shop J Capital Research Thursday released a damning **report** (PDF) on BeiGene, accusing the Chinese biotech of faking sales figures, which all come from in-licensed Celgene cancer drugs Revlimid, Abraxane and Vidaza in the country. The short seller claimed BeiGene inflated those sales numbers by almost 60%.

BeiGene's Nasdaq and Hong Kong shares both slid around 15% over two days even as the company said Friday the accusations were "blatantly false."

Management hopped on the phone Sunday for an emergency call to calm investors. "We stand by our reported numbers," Xiaobin Wu, BeiGene's China general manager and president, whom CEO John Oyler poached from Pfizer mid-2018, said on Sunday's call.

The gist? Sales of the licensed Celgene drugs are far below what BeiGene had reported—57% below, by J Capital's estimates. In the first half of 2019, BeiGene posted product sales of $115.6 million, up 111% year over year.

BeiGene Chief Financial Officer and Chief Strategy Officer Howard Liang said J Capital's sources couldn't possibly deliver valid numbers.

"For those of us who have done research and have done much bigger physician surveys but still had a hard time predicting sales, it is extraordinary to see someone claim that they can estimate our sales by purportedly interviewing 10 oncologists and use that as the basis to accuse a company of falsifying 60% of sales," Liang said.

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The investment firm claims BeiGene bought its own drugs and registered the costs to a shell company in Guangzhou with a fake address and no operations. Known as BeiGene Pharmaceuticals Guangzhou (BPG), that company raised its registered capital three times last year to $90 million on Dec. 27, 2018, from merely $200,000 on June 11, 2018, J Capital's report said. Each increase came "just before the end of a quarter and [in an amount that] would have provided the company with enough capital to purchase inventory," the report alleges.

BeiGene set up BPG by acquiring local firm Huajian Pharmaceuticals, which until last February was called Guangdong Jianbang Pharmaceutical. The company's name was changed twice more until settling onto BPG, a "maneuver" J Capital interprets as "to trick auditors into thinking that the purchaser of Celgene product is different."

To hear Liang tell it, however, BeiGene bought that company to fund development costs for and future commercialization of BeiGene's PD-1 candidate tislelizumab, because Huajian holds a drug distribution license. Such licenses are necessary to sell drugs in China, but nearly impossible to obtain from scratch these days as the country works to consolidate its pharma sector.

Tislelizumab had until recently been licensed to Celgene, but the Big Biotech **returned** its rights after agreeing to merge with Opdivo maker Bristol-Myers Squibb. But BeiGene had been taking care of most of the drug's development activities, BeiGene has told FiercePharma before. "In order to fund these expenses, we're required to make periodic capital increases," the CFO said.

Liang said the name changes are "common practice in China for acquisitions." BPG's immediate parent company, BeiGene Guangzhou, does have employees, and the address on file is only for registration because it has yet to finish construction of a permanent site. He also pointed out that a $25 million BPG transaction classified as "other non-current asset"—allegedly used to buy back its drugs—was in fact paid to Boehringer Ingelheim for contract manufacturing of the PD-1 drug.

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J Capital also cited BeiGene's relatively slow decline in margins as evidence of the company inflated revenue. The three drugs took price cuts of between 37% and 63% to enter China's national reimbursement list, and that should have hit margins, the firm figures.

Going by those price cuts, J Capital estimates the company's margin should have fallen by 21 points, though BeiGene only reported changes of 8 points to 73% in first quarter 2019 from 81% in the fourth quarter of 2017, when it reported sales for the first time.

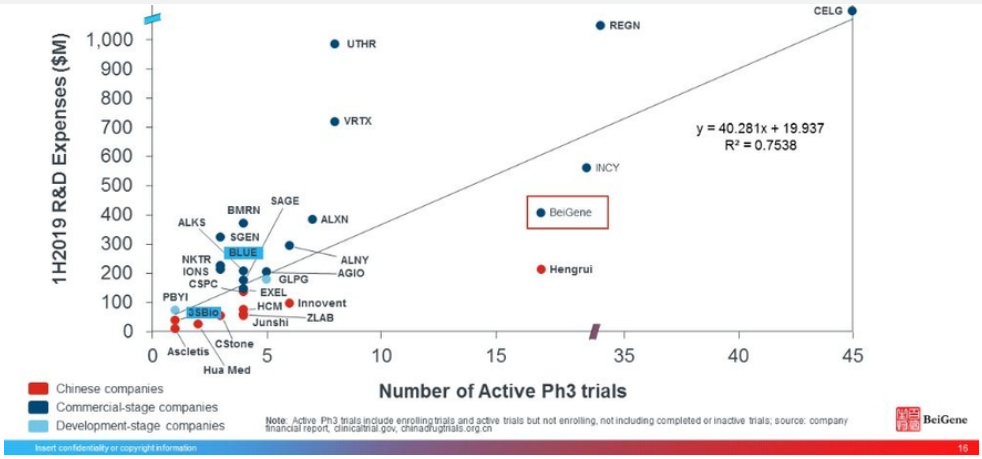
Liang, however, said the firm's timeline is off. Revlimid was the first of the three products to be included in China's national formulary in a round of additions **unveiled** in July 2017—and it took the biggest price cut. That means the discount was already reflected in BeiGene's reported margin since the fourth quarter of 2017, he explained.

J Capital added that BeiGene had overstated its R&D expense by about $65 million in 2018, according to its calculations based on peer expenditures. Take local biopharma major Jiangsu Hengrui Medicine as a comparator: That company reports it spends $129,457 per R&D employee, while BeiGene's per-employee spend was $608,000, J Capital noticed.

In rebuff, CEO Oyler pointed to BeiGene's largest oncology-focused clinical team in China as well as engagement in activities globally as reasons behind its high costs.

More than 7,000 patients have enrolled in BeiGene trials, including costly head-to-head trials such as two phase 3 studies testing BTK inhibitor zanubrutinib against Imbruvica, Oyler said. The drug just won FDA priority review in second-line mantle cell lymphoma, with a decision **expected** Feb. 27.

BeiGene's programs also include six pivotal studies for tislelizumab. The company's strategy, despite being late to the Chinese PD-1 game, is to win as many indications as it can—as fast as it possibly can—so that they can all be reimbursed. "Only with reimbursement can a PD-1 affordably reach the vast number of patients in need in China," Oyler said.



BeiGene's regression analysis shows its R&D spending versus the number of phase 3 trials is indeed below the global average but also above its Chinese peers. (BeiGene)

In a regression analysis BeiGene did to show peer company R&D spending versus the number of phase 3 trials, the company indeed falls below the global trends. But it does stand above its Chinese peers, including Hengrui and fellow PD-1 players Innovent and Junshi. That, according to Oyler, is "because we're running a large number of global programs."

Those were some of the serious allegations management addressed. Others—such as alleged insider trading with a company that's owned by a Wang Xiaoqiang simply because the name sounds similar to BeiGene co-founder Wang Xiaodong—Liang categorized as "just laughable."

Then there's the "factually wrong," according to BeiGene. Company execs and directors have sold $322 million worth of shares since listing in 2015, J Capital claimed. While the other allegations might be "wild speculations," this one falls to bad math, Liang said; J Capital appears to have double-counted planned sales and actual sales. Oyler, for example, has sold about 16% of his holdings since founding BeiGene and still maintains a 10% interest, he noted.

The BeiGene snafu comes as traditional Chinese medicines-focused Kangmei Pharmaceutical, one of the largest local drug manufacturers and once an MSCI global index constituent firm, is embroiled in a scandal in which local securities watchdog found it recorded 29.9 billion yuan ($4.3 billion) in cash using false documents and records.

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About the Author

Angus Liu
Associate Editor