

Strategy Case: Zymeworks - A Bid for the Pipeline

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Decision scope: Zymeworks' response to All Blue Falcons' acquisition proposal

Case convention: This is an author-created decision exercise. The alternatives and board assignment are hypothetical; the company disclosures and bidder statements are historical. No private meeting, board discussion, or management intention is represented.

The decision

On 19 May 2022, All Blue Falcons repeated its proposal to acquire Zymeworks for \$10.50 in cash per share. In a public release, the bidder said it had received no response, urged Zymeworks to engage, and threatened to take the proposal directly to shareholders. It did not state an expiry date, announce a tender offer, change its price, or disclose a new binding financing commitment. [S5]-[S7]

All Blue's April 28 letter described the proposal as nonbinding and said the bidder had access to equity capital, was speaking with potential co-investors and financing partners, and had no financing contingency. The letter did not provide a binding commitment, proof of funds, or a named committed financing source. Zymeworks' April 28 release called the proposal unsolicited and nonbinding and said no formal offer had been made. [S5]-[S6]

The board must decide how to respond. It can maintain the standalone plan without further engagement; agree to controlled diligence and price discovery while retaining the right to walk away; or negotiate toward a sale if value, financing, and closing protections meet a threshold the board can defend. The company has scientific options that may be worth more with time, but clinical development is uncertain and its cash outlook depends on operating assumptions and expected collaboration payments.

Assignment: Prepare a board memorandum recommending one course of action. State the next step, the information or terms you would require, your timetable, and the evidence that would cause you to change course. If you would negotiate a sale, identify a price framework and execution protections; if you would continue standalone, explain how Zymeworks can preserve its strategic options and finance them. Do not assume another bidder exists.

A platform with clinical-stage programs

Zymeworks was a biotechnology company built around antibody engineering and development. Its most advanced program was zanidatamab, a HER2-targeted bispecific antibody being studied across Phase 1, Phase 2, and pivotal trials. ZW49 was another clinical-stage program. Company materials described data catalysts expected during 2022-2023; those dates were management's expectations, not known trial outcomes. [S1, Item 1, "Our Product Candidates"; S4]

The strategic question was not simply whether to sell a molecule. Zymeworks' platform and programs could support several paths: continuing its own development, partnering to obtain funding or capabilities, or transferring ownership to a buyer. Those paths distribute control, development cost, commercial capabilities, and future economics differently. Public materials did not provide enough trial-level probabilities or commercial forecasts to calculate an intrinsic value from the pipeline alone.

Zymeworks said it lacked the commercial infrastructure to launch and market product candidates and planned to work with partners. BeiGene held exclusive rights to zanidatamab and ZW49 in Asia excluding Japan, Australia, and New Zealand. Disclosed rights and economics covered both programs. Zymeworks retained rights elsewhere, subject to other existing agreements. A buyer would acquire Zymeworks subject to its licenses. The public record did not establish that a change of control necessarily required partner consent; the executed agreements would need legal review. [S1, Item 1, "Our Strategic Partnerships"; S2, Item 1 and Note 9]

Cash, costs, and operating choices

At March 31, 2022, Zymeworks reported \$275.516 million of cash and cash equivalents and \$25.018 million of short-term investments, or \$300.534 million combined. For the first quarter, it reported \$55.412 million of net cash used in operating activities and a net loss of \$72.625 million. The quarter's cash use is not a normalized burn rate, and net loss is not cash burn. [S2, pp. 2-5]

Management said the cash resources and certain anticipated payments under existing collaborations were expected to fund its planned operations for at least twelve months from the May 4 filing. The accompanying release projected funding through the second half of 2023 and potentially beyond. Both statements depended on the company's operating plan and expected collaboration receipts. Neither was a guarantee, and the underlying monthly forecast was not disclosed in the public filing. [S2, Item 2, MD&A, p. 19; S3]

Earlier in 2022, Zymeworks had focused spending on key priorities and announced a workforce reduction of at least 25%, expected by year-end. In 2021, it reported \$199.752 million in research and development expense and a \$211.843 million net loss. These figures show the scale of its operating commitment, but do not by themselves establish how much additional capital the plan required. [S1, Item 8; S4]

Exhibit 1. Selected financial and capitalization facts

USD millions except per-share and share-count data; reported values unless marked derived.

Measure	Value	Date / definition
Cash and cash equivalents	\$275.516	31 March 2022

Measure	Value	Date / definition
Short-term investments	\$25.018	31 March 2022
Combined cash resources	\$300.534	Derived sum of the two reported balances
Net cash used in operating activities	\$55.412	Three months ended 31 March 2022
Net loss	\$72.625	Three months ended 31 March 2022
Common shares outstanding	57,771,204	As of 2 May 2022; basic shares
2021 R&D expense	\$199.752	Year ended 31 December 2021
2021 net loss	\$211.843	Year ended 31 December 2021

Sources: Q1 2022 Form 10-Q, cover and pp. 2-5; 2021 Form 10-K, Item 8. Financial statements are in USD thousands and are converted to millions here. The cash-resource total is arithmetic, not a separate balance-sheet line. Q1 operating cash use and loss should not be annualized as a forecast.

The proposal and the price question

All Blue's April 28 letter offered \$10.50 cash per share and stated a fully diluted share count of 73,616,124, implying approximately \$773 million of equity value. It compared its price with a \$4.86 closing price on April 27 and claimed a premium above 116%; it also claimed a 63.61% premium to the 30-day VWAP. These price comparisons came from the bidder. Equity value is not enterprise value, and the fully diluted share count had not been reconciled to Zymeworks' public share and award disclosures. [S5]

Exhibit 2. Bidder's stated price anchors

Item	Amount	Basis
Proposed cash price	\$10.50 per share	All Blue, April 28 letter; repeated May 19
April 27 closing price	\$4.86 per share	Bidder's stated reference price
Price premium to April 27 close	116.05%	Derived: $(\$10.50 \div \$4.86) - 1$
Bidder-stated fully diluted shares	73.616 million	Unreconciled bidder figure
Implied equity value	\$772.97 million	Derived: $\$10.50 \times 73.616$ million shares; bidder described it as about \$773 million
Claimed premium to 30-day VWAP	63.61%	Bidder claim; no independent market-data check in this case

These are equity-value and price-reference calculations, not enterprise value, fair value, or guaranteed transaction proceeds. They exclude financing, execution probability, time to close, taxes, award treatment, and transaction costs. The May 2 basic share count and the bidder's fully diluted estimate use different definitions and dates.

All Blue described itself as a global investment group with more than 18 portfolio companies and more than \$15 billion in combined portfolio revenue. These were bidder-reported claims, not audited financing evidence. In its April 28 letter, it also asserted access to equity capital and discussions with potential co-investors and financing partners. On May 19, the bidder repeated the \$10.50 price, reported that it had received no response, called for engagement, and threatened shareholder escalation. Its release set no stated deadline. [S5, S7]

All Blue's April 22 Schedule 13D reported 3,139,498 directly held shares plus 280,000 call options, or 3,419,498 beneficial shares and 5.92% of the 57,736,293 shares outstanding as of February 22. Its April 28 letter separately described the 3,139,498 directly held shares as approximately 5.44% using that same denominator. The difference is whether option shares are counted in the numerator, not a different denominator. [S5, S12]

Competition and the value of time

HER2-targeted therapies were already changing the treatment landscape. By the cutoff, AstraZeneca and Daiichi Sankyo's Enhertu had FDA approval for previously treated HER2-positive gastric/GEJ cancer and, as of May 4, 2022, for prior-treatment HER2-positive metastatic breast cancer. Sponsors reported a progression-or-death hazard ratio of 0.28 (95% CI 0.22-0.37; $p < .0001$) versus T-DM1 in DESTINY-Breast03. These indications, patient populations, and treatment lines do not provide a head-to-head comparison with zanidatamab. They show both the clinical momentum in HER2-directed therapy and the possibility that a competitive field could move while Zymeworks develops its programs. [S8]-[S9]

Historical studies provide evidence about partnering and acquisition outcomes, but not a price for Zymeworks. In a study of pharmaceutical-biotechnology R&D, large licensees working with small-originator indications were associated with a 13-percentage-point higher Phase II completion probability than the sample average (SE 4.6 percentage points, $p < .05$); the large-versus-small licensee difference was not statistically significant, and the study could not separate partner selection from gains from trade. [S10, Table 5]

In a separate study of 16,015 drug projects initiated during 1989-2010, the main Table 2 triple-interaction estimate was -3.7 percentage points (SE .013, $p < .01$): the additional post-acquisition change in a project-year development event for acquired projects overlapping the acquirer, relative to acquired non-overlapping projects, conditional on model controls and fixed effects. The project-fixed-effects estimate was -4.1 percentage points (SE .019, $p < .05$). The outcome counted a development event, not approval or commercial value; the authors used absent activity as a proxy for termination because termination reporting was incomplete. The sample is historical and covers many companies and markets. Neither study resolves what would happen to Zymeworks under this bidder. [S11, Table 2]

Choosing a process

The board's options can be framed as three executable paths:

Path	Immediate action	Main strategic question
Continue standalone	Decline further engagement and execute the current operating plan; monitor cash and clinical milestones.	Is the risk-adjusted value of continued development and retained rights greater than the certainty of the proposal, after considering financing and dilution?

Path	Immediate action	Main strategic question
Controlled engagement	Invite a bounded discussion without committing to a sale; require confidentiality, a credible financing explanation, defined diligence scope, and a board-set review date.	Can engagement test financing and price while protecting the company's information, workforce focus, and right to stop?
Negotiate a sale	Enter negotiations toward a transaction only if consideration, financing, award treatment, closing conditions, and required approvals are acceptable.	What price and execution protections compensate shareholders for transferring clinical and platform upside?

These paths are not equally reversible. A sale can crystallize value but transfers control. A process can generate information yet consume attention and disclose sensitive material. A standalone course preserves optionality but leaves shareholders exposed to clinical outcomes, operating requirements, and the possibility that future capital becomes more expensive. The record does not establish a competing bidder, a hard deadline, or a binding financing commitment.

Prepare: Recommend a path and a board timetable. Identify what must be verified before sharing diligence, how the board should assess the bidder's financing claim, how existing partner rights enter the decision, and which milestones or cash conditions would prompt a change in strategy. State your strongest argument against your own recommendation.

Sources and conventions

S1. Zymeworks, [2021 Form 10-K](#), filed 24 February 2022; Item 1, Item 8.

S2. Zymeworks, [Q1 2022 Form 10-Q](#), filed 4 May 2022; cover, pp. 2-5, Item 2 p. 19, Item 1 / Note 9.

S3. Zymeworks, [Q1 2022 results release](#), 4 May 2022; cash and runway discussion.

S4. Zymeworks, [2021 year-end results and corporate update](#), 2 March 2022; operating focus, workforce reduction, pipeline update.

S5. All Blue Falcons, [Schedule 13D/A and 28 April proposal letter](#), filed 28 April 2022; letter pp. 1-3. Bidder statements are attributed.

S6. Zymeworks, [proposal-receipt release](#), 28 April 2022.

S7. All Blue Capital, [public release](#), 19 May 2022, published 17:00 GMT. Bidder statements are attributed. The release states no expiry; information after 19 May 2022 is excluded.

S8. AstraZeneca/Daiichi Sankyo, [Enhertu U.S. approval for previously treated HER2-positive gastric cancer](#), 18 January 2021.

S9. AstraZeneca/Daiichi Sankyo, [Enhertu U.S. approval for HER2-positive metastatic breast cancer](#), 5 May 2022; sponsor-reported DESTINY-Breast03 result.

S10. Danzon, Nicholson, and Pereira (2005), "Productivity in Pharmaceutical-Biotechnology R&D: The Role of Experience and Alliances," *Journal of Health Economics* 24, 317-339; Table 5, printed pp. 336-337. [Full paper](#).

S11. Cunningham, Ederer, and Ma (2021), "Killer Acquisitions," *Journal of Political Economy* 129(3), 649-702; Table 2. [Full paper](#).

S12. All Blue Falcons, **Schedule 13D**, filed 22 April 2022; cover and Items 5-6. Ownership percentages and holdings are bidder-reported.

Financial amounts reported in USD thousands in source filings are converted to millions. Historical facts, attributed claims, calculations, and hypothetical board-process choices are identified separately. No May 20, 2022 response or later outcome is included.