The first quarter of the year marked a record for healthcare transaction volumes, which have been boosted by the large premiums offered by the sector’s giants. Novartis appears happy to continue this trend with a large premium on offer for AveXis.

Global healthcare M&A volumes

Gene therapy is no longer a pipe dream. Decades of research are starting to bear fruit. The latest evidence is $8.7bn of hard cash. That is the sum Novartis is splashing out on AveXis in a bold but risky move.

The deal is a bet that the Nasdaq-listed biotech company will deliver on its promise to treat a muscle-wasting disease, known as spinal muscular atrophy, by repairing a defective gene. With 23,500 potential patients, the one-off treatment—which uses a virus to insert DNA into cells—could ratchet up sales of at least $2bn a year. It should also bolster Novartis’s expertise in neuroscience and gene therapy.

The Swiss acquirer is flush with cash after Vas Narasimhan, its new chief executive, agreed the sale of a consumer healthcare stake for $13bn to GlaxoSmithKline. The control premium, 82 per cent over AveXis’s three-month average price, is hefty, as with other recent biotech deals. The target’s share price was already at giddy heights before the latest news, having risen 480 per cent since it went public in February 2016.

This vertiginous rise has attracted attention from sceptics, and short sellers, who argue that the treatment’s chances of success are overstated. For one thing, it has been tested only on 15 patients. Also, competition is coming both from an existing treatment, Biogen’s Spinraza, and several other therapies in development.

Thirdly, concerns are being felt about pricing. Affordability remains a big obstacle to widespread adoption of gene therapies. And fourth, an animal study raised questions recently about the possible toxicity of gene-carrying viruses. AveXis says the findings are not relevant.

Investors should be aware of the risks. But they should give Mr Narasimhan the benefit of the doubt. Novartis knows that the healthcare industry no longer rewards marginal improvements. Instead, the prizes will come from investing in breakthroughs.

The company’s new boss is a physician and its former head of drug development. His prescription is one investors should be prepared to follow.