



Biotech Daily

Friday August 11, 2017

Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Phosphagenics

By TIM BOREHAM

ASX Code: POH

Share price: 1.8 cents; **Market cap:** \$22.7 million; **Shares on issue:** 1,261,965,957

Chief executive officer: Dr Ross Murdoch

Board: Dr Greg Collier (chairman), Dr Ross Murdoch, Peter Lankau, David Segal

Financials (December 2016 full year*): revenue \$1.59 million (down 27%), net loss \$17.31 million (down 14%), cash burn \$6.41 million (down 26%), cash on hand \$6.09 million (down 50 percent).

* Phosphagenics is not required to file quarterly reports

Major identifiable shareholders: Allan Gray Australia 7.5 percent, Ross Copeland (and family) 4.3 percent, Don Mathieson (and family) 1.2 percent, David Segal (and family) 1.2 percent, Harry Rosen 4.7 percent.

For the last few years, the imperative of Phosphagenics management has been to clean up "legacy issues".

But that's not a reference to the spectacular career implosion of former chief executive officer Dr Esra Ogru who was jailed in late 2014 for six years (two years non-parole) for her part in a \$6 million fraud against the company.

We've all moved on - including Dr Ogru who was released in late 2016 - but sadly Phosphagenics has never quite regained its mojo and remains in penny-dreadful share territory.

But there's hope after the sorry affair, with the company striving to further its core drug-delivery technology in human and animal health and nutrition as well as personal care.

"We have been successful in developing a much leaner and more commercially focussed organisation," chairman Dr Greg Collier told shareholders recently.

"We undertook a systemic process to rebuild the foundations of the business, restore difficult legacy issues and set the stage for us to rebuild confidence and attract new partners and commercial opportunities," Dr Collier says.

Management has also chipped away at costs, including reducing the work force from 43 to 18 staff.

It's still about tocopheryl phosphate mixture or TPM, which the PR-conscious Dr Ogru re-badged as "targeted penetration matrix", but has returned to its more scientific full name.

Phosphagenics main game remains TPM, whatever the letters are meant to mean. Derived from vitamin E, the "phosphorylated" vitamin E enhances the solubility and absorption of certain drugs and nutrients.

While the initial quest was to crack the difficult transdermal delivery via patches, the company's focus has expanded to oral and dermal delivery using gels and injectable products.

A key focus is a research and development partnership with the Japanese healthcare company Terumo, which is zeroing-in on commercializing a transdermal patch to deliver oxymorphone.

Phosphagenics has already received a \$400,000 milestone from the tie-up, but it's hoped a commercial deal will deliver far more riches by way of further milestones and possible royalties.

"Our intent is to have a decent sized milestone with possible back-end royalties," Dr Murdoch says.

But more investor patience is required.

"I have done a number of deals with the Japanese and they are great partners, but are conservative in the way they approach things and are slow to do deals," Dr Murdoch says tactfully.

Given the partnership applies only to Japan, Phosphagenics is free to market any resulting products elsewhere.

The US market is of particular interest, given the Food and Drug Administration's concern about opioid abuse. The company is also interested in oxycodone delivery.

"The US is uncomfortable with oral treatments, so anything that reduces abuse is seen as sexy," Dr Murdoch says.

Another target in development with Terumo is an enhanced form of the anaesthetic Propofol, the substance that killed Michael Jackson.

"Normally it's an ugly white emulsion that doesn't dissolve easily," Dr Murdoch says. "The new formulation is clear and overcomes problems seen in the past."

In broad terms, Phosphagenics is looking to improve drug solubility and replace toxic or problematic ingredients.

Snouts in the trough

Forget the folksy James Herriot 'tending the beasts' stuff. The aim of commercial meat producers is to obtain as much animal growth with as little feed possible.

Phosphagenics' field trials on poultry and pigs to date suggest TPM can increase nutrient absorption at relatively low levels by three to 10 percent. Anything over three percent is enough to get producers excited, but it's a high-volume, low-margin game.

The body beautiful

In partnership with global distribution partner Ashland, Phosphagenics has relaunched a personal care unguent called Vital ET, a variant of TPM with a cosmetic cream.

The vitamin E based unguent is claimed to treat sunburn, acne, the effect of ageing and environmental stress.

It also makes for a smoother shave and Dr Boreham can already feel his skin saying "thank you".

Vital ET is a variant of the company's Bioelixia range of cellulite and stretch mark busting creams, which Dr Ogru used to flog enthusiastically on home-shopping channels.

The company "favorably" settled a dispute with partner Prophase over Phosphagenics' over-the-counter beauty lines. This resulted in the rights to Bioelixia being returned to the company, with the asset slated for sale.

And, lo and behold, private company Pure Beauty this week bought the rights to the brand for \$200,000, plus a five percent royalty on ongoing sales to Phosphagenics.

The \$381 million question

The outstanding legacy matter is a dispute with pharma giant Mylan over a research and licencing agreement in relating to enhanced delivery of daptomycin, the world's most-used injectable antibiotic.

The compact was signed in 2013 with Agila Specialties, which Mylan acquired in 2013.

Phosphagenics claims Mylan breached the agreement by developing a product with the same formulation. The spat is subject to arbitration in the Singapore International Arbitration Centre, a jurisdiction that usually results in decisions within weeks.

As calculated by an independent expert, Phosphagenics is claiming damages of \$US300.4 million (\$A381 million) across a number of claims, based on lost income.

The \$US400,000 reflects either a diligent approach on the part of the experts, or a desire to not come up with a suspicious round number.

As Phosphagenics dryly notes: "It is likely that Mylan will challenge the assumptions that underlie the calculation of this claims quantum."

Or in the words of Darryl Kerrigan: "Tell 'em they're dreamin'."

Phosphagenics has spent \$2 million defending its position, with a likely \$2 million yet to be incurred. Given this, the board is considering options including an equity raising and litigation funding.

"The board feels it is doing the right thing by investing in this but these things are expensive," Dr Murdoch says.

A formal hearing of five to 10 days duration is expected by the end of 2017, with a possible result early next year.

Crunching the numbers

With the Mylan case, even a judgment or settlement of, say, 10 percent of the claimed amount would be highly material in the context of Phosphagenics' \$25 million market capitalization.

As at the end of December, Phosphagenics held \$6 million in cash with a \$2.4 million Federal Research and Development Tax Incentive expected.

The leaner business means Phosphagenics has enough dosh to last until March next year.

Phosphagenics has more than 1.2 billion shares on issue, a legacy of raising equity at ever-shrinking valuations.

Dr Boreham's diagnosis:

While Phosphagenics' lowly valuation is understandable, the company could soon deliver pleasant surprises on the Mylan and/or Terumo fronts.

On a negative note, the board has been unsettled: non-executive director Dr Geert Cauwenbergh resigned in May and Nathan Drona departed in May 2016. Mr Drona was replaced by David Segal, whom the board opposed, by popular vote.

In 2015, chairman Lawrence Gozlan resigned six days ahead of the annual general meeting, which also sustained a 'first strike' remuneration report vote.

When it comes to boards, we would prefer all the birdies in their nests to agree.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. One could say his knowledge of the topic runs only skin deep