



Biotech Daily

Wednesday October 7, 2009

Daily news on ASX-listed biotechnology companies

- * ASX, BIOTECH UP: PHYLOGICA UP 16%; CYTOPIA DOWN 14%
- * BIOGUIDE BRIEF: DESPITE PRICE, CYTOPIA-YM DEAL GOOD FOR BOTH
- * LIVING CELL IMPLANTS PIG CELL IN 1st NZ DIABETES PATIENT
- * UWA TAKES SIRTEX'S DR GRAY, 'DUTY TO INVENT' TO HIGH COURT
- * UNILIFE PLACEMENT RAISES \$32m; SHARE PLAN FOR \$10m MORE
- * OPTISCAN SHARE PLAN TO RAISE \$1.5m
- * CORRECTION: SIENNA

MARKET REPORT

The Australian stock market climbed 2.3 percent on Wednesday October 7, 2009 with the S&P ASX 200 up 104.1 points to 4695.7 points.

Sixteen of the Biotech Daily Top 40 stocks were up, 14 fell, nine traded unchanged and one was untraded.

Phylogica was best, up 2.5 cents or 22.7 percent to 13.5 cents with 449,460 shares traded, followed by Benitec up 5.7 percent to 5.6 cents.

Living Cell, Prana, Sirtex and Sunshine Heart climbed four percent or more; Impedimed and Viralytics were up more than three percent; Antisense and Biota rose more than two percent; with Alchemia, Acrux, Cathrx, Mesoblast and Phosphagenics up more than one percent.

Cytopia led the falls, down one cent or 8.3 percent to 11 cents with 159,809 shares traded, followed by Labtech down 7.4 percent to 12.5 cents.

Compumedics lost 5.3 percent; Optiscan fell 4.35 percent; Circadian, Novogen, Psivida and Starpharma, fell more than three percent; Tissue Therapies and Universal Biosensors shed more than two percent; with Bionomics, Cellestis, Cochlear and Nanosonics down more than one percent.

MARC SINATRA'S BIOGUIDE BRIEF: CYTOPIA

The proposed all-scrip takeover of Cytopia by Toronto's YM Biosciences is one of the more interesting M&A transactions involving an Australian biotechnology company for a while.

It will see Cytopia shareholders receive one YM share for 11.737 Cytopia shares.

Based on yesterday's closing price for YM shares of \$C1.49, the deal values Cytopia shares at 13.5 cents and the company at \$11.4 million, a 33 percent premium to the pre-announcement closing price of 10.5 cents. Overnight trading on the Toronto Stock Exchange saw YM close at \$C1.42, which is equivalent to \$0.128 per Cytopia share. Both calculations are based on \$A1.00 buying \$C0.942.

As indicated to me by one Biotech Daily reader, these numbers are considerably lower than the indicative price of 16.59 cents per Cytopia share, provided in Cytopia's ASX media release on the merger, implying a transaction value of \$14 million.

The difference arose because the release used the 20-day volume weighted average price for YM, which was \$C1.84.

Focusing on YM, its main asset, other than \$C41 million in cash, is the phase III epidermal growth factor receptor (EGFR) targeting drug, nimotuzumab, which it licenced from Cuba's CIMAB, the commercialization arm of Havana's Centre for Molecular Immunology.

Nimotuzumab looks excellent from a clinical performance perspective having been trialed in more than 5,000 patients in which it has demonstrated similar efficacy to Erbitux, which had global sales of \$US1.3 billion in 2007 and Vectibix.

Importantly, the often severe side effects seen with EGFR inhibitors are dramatically reduced with nimotuzumab.

The non-clinical story around nimotuzumab, however, is more complicated.

It is on the market in China, India, Indonesia and a raft of other countries, but not North America, Europe or Japan.

One issue is that due to the US embargo on Cuban goods, YM needed and obtained special approval from the US government to perform clinical trials with the drug in the US and will need to do the same to market the drug in the US should it be approvable by the US Food and Drug Administration.

A second issue is that the various deals on nimotuzumab are complex and it is difficult to determine exactly how much of nimotuzumab revenues would hit YM's bottom line.

For example, the drug is actually licenced to a majority-owned YM subsidiary company, CIMYM Biosciences and has been on-licenced in a number of regional deals.

It should be noted that these regional deals involve a number of solid companies, including Japan's Daiichi-Sankyo Co.

Beyond nimotuzumab, YM has little and the impetus for it to merge with Cytopia seems to be that it will instantly gain an oncology-focused pipeline with resulting clinical synergies.

From Cytopia's point of view, the merger solves two of its main issues, lack of capital and the absence of an established network into which its compounds can be licenced.

While Cytopia shareholders aren't receiving a big premium, without YM, Cytopia's existence would continue to be hand to mouth with rapid development of its compounds a dream.

If I were a Cytopia shareholder I would accept YM's offer even though it isn't outstanding on the basis that it is better to have small part of a company capable of moving forward rather than all of one that is likely to stagnate.

The only caveat to the above opinion is that small holders may want to sell out now.

It will be more costly and difficult to sell their shares in the merged entity because it will not be listed on the ASX. Such holders should consider their position carefully.

Cytopia fell one cent or 8.3 percent to 11 cents.

LIVING CELL TECHNOLOGIES

Living Cell says it has implanted its Diabecell porcine islets of Langerhans cells into the first type 1 diabetes patient in its New Zealand trial.

Living Cell said the encapsulated insulin-producing pig cells were implanted by a laparoscopic procedure into the abdomen of a 47-year old man who has had type 1 diabetes for 20 years.

In May, Living Cell reported that two of seven patients in its Russian trial were insulin free (BD: May 5, 2009), but the New Zealand study is believed to be the first xeno-transplantation trial in the Western developed world in more than 10 years.

Living Cell said the patient was the first of eight Diabecell implants in the trial and was selected based on the protocol criteria for poor control of blood glucose.

The company said that "despite meticulous specialist supervision of frequent daily insulin injections, he has continuing frequent episodes of high blood glucose, high glycated hemoglobin levels (HbA1c) and unacceptable swings including low blood glucose levels (hypoglycemia)".

Living Cell said the trial was being conducted by Middlemore Hospital's diabetes specialist Dr John Baker in Auckland.

The company said the protocol required patients to be monitored for eight weeks before receiving the implant.

The first four patients are to receive 10,000 islet equivalents per kilogram body weight (IEQ) of encapsulated pig islets and the next four patients the higher dose of 15,000 IEQ. All recipients of Diabecell implants will be followed-up intensively for a year and less frequently thereafter. An independent data safety and monitoring board will assess progress and provide a report six months after the first implant.

Living Cell's chief executive officer Dr Paul Tan said the trial had "attracted wide global attention with more than 200 reports in the international media".

"With positive results from our trial in Russia to date, LCT believes it may be able to deliver even better results for people with diabetes, as this trial will be using higher doses," Dr Tan said.

Living Cell was up one cent or four percent to 26 cents with 1.2 million shares traded.

SIRTEX

Sirtex says that the University of Western Australia has filed an application for special leave to appeal a Federal Court Full Court judgment to the High Court of Australia

Sirtex said that on September 3, 2009, the Full Court of the Federal Court delivered a judgment dismissing the University's appeal in respect of an earlier judgment in favor of Sirtex founder and major shareholder Dr Bruce Gray.

The company said the University did not appeal in respect of the earlier judgment in favor of Sirtex.

Sirtex said that on October 1, 2009, the University of Western Australia filed an application for special leave to appeal from the judgment of the Full Court to the High Court of Australia.

The September Federal Court decision was considered legally controversial at the time as it found that there was "no duty to invent" in contracts between the University and Dr Gray and commentators believed that set a precedent for other contracts (BD: Sep 8, 2009).

Last month, intellectual property law firm Spruson & Ferguson said in a newsletter: "This decision has the potential to impact directly on ownership of intellectual property generated in public sector research organizations."

Sirtex climbed 19 cents or 4.1 percent to \$4.86.

UNILIFE MEDICAL SOLUTIONS

Unilife has commitments for a \$32.1 million placement and will raise a further \$10 million through an underwritten share plan at the placement price of 85 cents a share.

Unilife said it would use the proceeds "to accelerate the expansion of its operational capabilities, production facilities and equipment requirements in the United States, and complete the industrialization of the Unilife Ready-to-Fill Syringe".

The company said the industrialization process was 12 months ahead of schedule.

Unilife said the proceeds would also be used to fast-track the commercialization of additional pipeline products which had been "developing more slowly in order to focus ... on the development of its initial key products". The company said it would have adequate cash leading to, and following, its move to the US and proposed listing on the Nasdaq.

Unilife shareholders at the record date of October 9, 2009 will have the right to purchase up to \$15,000 of shares. The offer opens on October 14 and closes on October 30.

YBR Securities will place any share plan shortfall up to \$10 million.

Unilife said 85 cents was a 7.7 percent discount from the volume weighted average price of Unilife shares traded during the last 30 days.

Unilife said it had commitments for 37,749,209 ordinary shares and 18,874,604 attaching options to sophisticated and professional investors in Australia and the US to raise \$32.1 million. The company said the Australian Securities and Investments Commission did not permit the issue of unlisted options under a share plan.

Unilife chief executive officer Alan Shortall said the company appreciated the participation of YBR Securities, Inteq Limited, CCZ Statton Equities and their clients who participated in the placement and YBR for underwriting the share plan.

"We consider that this is a positive sign that our company is gaining recognition for its success ... establishing strong relationships with pharmaceutical leaders and delivering upon key business milestones," Mr Shortall said. He said Unilife's chairman, several directors and senior management would participate fully in the share.

"I hope that our eligible shareholders will also choose to participate," Mr Shortall said. Unilife fell 24 cents or 17.4 percent to \$1.14 with 5.6 million shares traded.

OPTISCAN

Optiscan chief executive officer Vicki Tutungi told Biotech Daily that her company was offering eligible shareholders parcels of shares from \$2,500 to \$15,000 at 10 cents a share to raise about \$1.5 million.

Optiscan said the share price was a 13.7 percent discount to the five day volume weighted average price to the record date of October 6, 2009.

Optiscan said the share plan was not underwritten and closed on October 30, 2009.

Ms Tutungi said the funds would expedite the second generation microscope prototype.

Optiscan fell half a cent or 4.35 percent to 11 cents.

CORRECTION: SIENNA CANCER DIAGNOSTICS

Last night's edition reported that Sienna was a private company. Sienna is a public unlisted company with about 100 investors.