



Biotech Daily

Tuesday March 29, 2011

Daily news on ASX-listed biotechnology companies

- * **ASX, BIOTECH UP: CHEMGENEX UP 53%; ANTISENSE DOWN 13%**
- * **CEPHALON OFFERS 70c A SHARE FOR CHEMGENEX**
- * **BIOGUIDE BRIEF: CHEMGENEX, GOING DOWN - \$5.50 ... \$2.90 ... 70c**
- * **QUEENSLAND UNIVERSITY USES BENITEC TECHNOLOGY FOR CANCER**
- * **UNIVERSAL BIO AGM ON EXECUTIVE PAY, DIRECTORS, CEO OPTIONS**
- * **NOVOGEN PLEADS SCHULTZ TO NASDAQ, ASX 105% PRICE RISE**
- * **DAVID KENLEY TAKES 6% OF CALZADA**
- * **PAUL PERREAULT REPLACES CSL BEHRING PRESIDENT PETER TURNER**
- * **LIVING CELL APPOINTS ROBERT WILLCOCKS DIRECTOR**

MARKET REPORT

The Australian stock market climbed 0.47 percent on Tuesday March 29, 2011, with the S&P ASX 200 up 22.2 points to 4755.8 points.

Twelve of the Biotech Daily Top 40 stocks were up, 11 fell, eight traded unchanged and nine were untraded. All three Big Caps were up.

Chemgenex was best, up 23.5 cents or 53.4 percent to 67.5 cents with 13.6 million shares traded, followed by Prima up 3.5 cents or 14.3 percent to 28 cents with 48.2 million shares traded and Sunshine Heart up 11.8 percent to 3.8 cents with 6.8 million shares traded.

Universal Biosensors climbed 6.3 percent; Cathrx was up 5.3 percent; Cellmid was up 4.2 percent; Alchemia and QRX rose more than two percent; with Clinuvel, Cochlear, CSL, Mesoblast and Psivida up one percent or more

Antisense led the falls, down 0.2 cents or 13.3 percent to 1.3 cents with 52.4 million shares traded, followed by Prana down 9.3 percent to 24.5 cents with 1.7 million shares traded.

Benitec and Virax lost more than three percent; with Biota, Genetic Technologies Impedimed, LBT, Pharmaxis and Sirtex down more than one percent.

CHEMGENEX PHARMACEUTICALS

Chemgenex says that Cephalon has taken 27.57 percent of the company and has unanimous board support for its 70 cents a share takeover offer.

In a joint media release the companies said the offer valued Chemgenex at \$225 million. The offer is well below expectations that were as high as \$5.50 in February 2007, falling to \$2.90 in December 2010 (BD: Feb 22, 2007; Dec 6, 2010).

In 2008 Chemgenex raised \$13 million at 85 cents a share, with investors including major shareholders Alta Partners, GBS Venture Partners and Merck Santé (BD: Sep 17, 2008).

In 2009, Chemgenex raised \$18.4 million at 43 cents a share (BD: Apr 9, May 27, 2009).

Chemgenex said its directors "unanimously recommend the bid, in the absence of a superior offer".

Chemgenex said it was a haematology-focused company developing Omapro for the treatment of chronic myeloid leukemia patients, with completed phase III clinical trials and a planned new drug application to be filed with the US Food and Drug Administration by the end of 2011.

Chemgenex said the agreements with Cephalon included a review of trial data prior to exercising its option to acquire 19.9 percent of Chemgenex from major shareholders Stragen International NV and Merck Santé SAS.

The companies said the takeover bid comprised two offers: 70 cents for each Chemgenex share and two cents each for ASX-listed Chemgenex options exercisable at 68 cents by February 8, 2012.

Chemgenex said that subject US legal requirements, Cephalon would consider extending the offer to holders of Chemgenex American depository receipts, if compliance was not unduly onerous or impracticable.

Chemgenex said the 70 cents a share offer was a 59 percent premium to the last traded price of Chemgenex Shares and a 58 percent premium to the one month volume weighted average price, as well as a 31 percent premium to the mid-point of the valuation range of 46 cents to 61 cents on a controlling interest basis assessed by BDO Corporate Finance in its independent expert's report of November 15, 2010, sent to Chemgenex shareholders in connection with the meeting material seeking their approval of the conversion of the convertible notes issued to Cephalon International.

Cephalon chief executive officer Kevin Buchi said the proposed transaction allowed Chemgenex shareholders "to realize cash proceeds at a significant premium to recent trading levels and adds an interesting late-stage opportunity to our portfolio".

Chemgenex chairman Brett Heading said the board welcomed the bid which was "an attractive premium to the current and recent trading prices of Chemgenex shares".

Chemgenex said the takeover offers for shares and listed options would be subject to certain normal conditions, including a 90 percent minimum acceptance condition.

Chemgenex said that each director with personal holdings had confirmed the intention to accept or procure the acceptance of the offers, in the absence of a superior offer.

The company said that the total offer value for Chemgenex shares and listed options that Cephalon did not own was about \$159 million and the offer valued all Chemgenex shares and options at about \$225 million.

Cephalon said it would fund the transaction consideration from its available cash on hand.

Cephalon said it would finalize and mail its bidder's statement and Chemgenex would finalize and mail its target's statement as soon as practicable.

Chemgenex chief operating officer James Campbell told Biotech Daily that the closing date for the offer was dependent on the completion of formal documentation.

Chemgenex closed up 23.5 cents or 53.4 percent to 67.5 cents with 13.6 million shares traded.

MARC SINATRA'S BIOGUIDE BRIEF: CHEMGENEX

The last time I valued Chemgenex, I came up with a share price of \$2.90 and pondered how much lower than that we would see when Cephalon's takeover bid came. Well, now we know, 70 cents – giving the bid a total value of \$225 million.

I was a little closer to the mark last night when I told Biotech Daily editor David Langsam that we would probably see an offer at somewhere between 70 and 85 cents.

The writing was on the wall when Chemgenex failed to get its new drug application through the US Food and Drug Administration last year for the T315I mutation indication. Fingers were pointed at the FDA, but when one of the committee members reviewing the application calls your clinical trials “sloppy”, apportioning blame is pretty easy.

Next, two major shareholders granted Cephalon essentially a free option to acquire 19.9 percent at 70 cents a share. At the same time, Cephalon subscribed for \$15 million worth of Chemgenex shares at 50 cents apiece. In hindsight, I imagine the offer price was determined at this point, although not in any formal sense.

Then, just to rub salt in the wounds, those shareholders who couldn't hope to influence the vote, got to see Chemgenex chief executive officer Dr Greg Collier issued with 4,578,667 options at an exercise price of \$0.475. These options were already in the money when they were granted. This works out to about \$1,030,200 for Greg's last two months of work, on top of his normal salary. Shareholders, on the other hand, get 70 cents a share and Cephalon an absolute bargain.

So, assuming my \$2.90 valuation was correct, what went wrong?

While executives are charged with the day-to-day running of a company, the major decisions are made by the board. The board is talented, but the majority (four of seven) represent significant shareholders. None of those four shareholders have a typical listed fund manager's mentality and, consequently, the associated board members are unlikely to have that mentality either. They are much more likely to have a corporate transaction mentality.

This mentality exists because the large shareholders have difficulty exiting their stakes. Selling their shares on-market would have dire consequences for the share price and the value of their holdings and the sale's negative signal would hit the price again.

I doubt we will see a bidding war. Cephalon knows Australian biotechnology companies from previous corporate forays and already has a 28 percent of Chemgenex, making a rival offer difficult. Cephalon may sweeten the deal if shareholders kick up enough of a stink, but probably only by a few cents as they did when they took over Arana.

I will have to content myself with reading Cephalon's future financial statements to determine whether my valuation was correct. I will also be watching the composition of boards a lot more closely, while placing less emphasis on polished resumes.

Marc Sinatra, Analyst

* Biotech Daily editor David Langsam holds and Marc Sinatra held Chemgenex shares.

BENITEC

Benitec says University of Queensland scientists are using his company's gene silencing technology to develop therapeutics for cervical cancer.

Benitec said independent researchers published their results in an article entitled 'Inhibition of cervical cancer cell growth in vitro and in vivo with dual shRNAs' in the journal Cancer Gene Therapy.

An abstract is at: <http://www.nature.com/cgt/journal/v18/n3/full/cgt201072a.html>.

Benitec said the researchers used its DNA-directed RNA-interference (ddRNAi) technology in their cervix cancer research.

Benitec chief executive officer Dr Peter French said it was "very pleasing" to see independently produced research on the power of his company's ddRNAi technology to provide new therapies for diseases such as cancer.

"Benitec looks forward to partnering our technology with major pharmaceutical companies to facilitate bringing ddRNAi-based therapeutics to the market for the benefit of patients suffering from a range of disease conditions," Dr French said.

Benitec said the researchers showed that cervical cancer cells in culture were rapidly killed when treated with ddRNAi in the form of two short hairpin RNAs (shRNA) linked together in the one delivery vehicle.

The company said the compared to earlier studies where single short hairpin RNAs were used with less effect and emphasised the potential commercial value of continued development in ddRNAi.

Benitec said its own ddRNAi-based research and development programs in chronic cancer-associated pain, hepatitis B and drug-resistant lung cancer were aimed at demonstrating the efficacy and safety of the technology which was capable of silencing genes associated with diseases.

Benitec said the University of Queensland researchers demonstrated that a multi-shRNA strategy targeting human papillomavirus E6/E7 oncogenes provided a more effective approach for developing a ddRNAi therapy for cervix cancer and possibly other cancers than a single shRNA approach.

The company said a multi-shRNA approach allowed additive or even synergistic effects to induce rapid cell death before resistance had a chance to occur.

Benitec said researchers' data proved that dual shRNA constructs could effectively silence key target genes in cancer cells.

The company said the use of the technology had the added benefit of targeting multiple genes or pathways vital to cancer cell viability.

Benitec said the multi-target strategy also allowed the technology to simultaneously target isotypes of a cancer-associated gene and using one vector to carry multiple copies of shRNA targeting different sites of the key gene.

The company said the strategy overcame two previously identified limitations of RNA interference-based approaches in targeting cervix cancer cells – the development of resistance to RNAi induced by synthetic siRNA and short term expression of single shRNAs using lentivirus delivery.

Benitec said those constructs could be easily modified to add another one or two shRNAs to form a triple or quadruple shRNA molecule.

Benitec said the triple approach was being used by licensee Tacere Therapeutics for development of a hepatitis C drug.

Benitec fell 0.1 cents or 3.45 percent to 2.8 cents.

UNIVERSAL BIOSENSORS

Universal Biosensors annual general meeting will vote on three resolutions relating to executive pay and re-elect directors.

Shareholders will be asked to vote on a "say-on-pay vote" as required under US law for the payment of executives.

Universal Biosensors shareholders will be asked to approve the grant of 2,300,000 options to chief executive officer Paul Wright

The meeting will also vote on the reelection of Denis Hanley, Dr Jane Wilson and Paul Wright.

The meeting will be held at Level 12, 117 York Street, Sydney, on May 12, 2011 at 10am (AEST).

Universal Biosensors was up eight cents or 6.3 percent to \$1.35 with 32 shares traded.

NOVOGEN

Novogen has told the ASX that it is not aware of any information it has not announced which, if known, could explain recent trading in its securities.

The company pre-empted an ASX query regarding its share price increase of up to 25.5 cents or 124.4 percent to a high of 46 cents today on significant volumes.

Overnight on the Nasdaq, Novogen climbed 104.7 percent to \$US2.17 with 5.5 million shares traded and its 71 percent subsidiary Marshall Edwards climbed 46 percent to \$2.03 with 930,558 shares traded.

On the ASX, Novogen closed up 16.5 cents or 80.5 percent at 37 cents with 3.3 million shares traded.

CALZADA

Former Calzada director David Kenley has become a substantial shareholder in Calzada with the acquisition of 20,388,598 shares or 5.88 percent of the company.

The initial substantial shareholder notice said Mr Kenley held the shares directly and indirectly through Lateral Innovations and his wife Suzanne Kenley.

Mr Kenley was a founder of the original Metabolic which became Calzada and is the chief executive officer of Calzada's wholly-owned subsidiary Metabolic.

Mr Kenley said the most recent acquisition was 5,250,328 shares for \$210,736 or an average price of four cents a share.

Calzada was untraded at four cents.

CSL

CSL says CSL Behring's head of commercial operations Paul Perreault will replace company president Peter Turner effective from July 1, 2011.

CSL said Mr Perreault would be succeeded in commercial operations by the head of Central Europe commercial operations Dr Ingolf Sieper.

The company said Mr Perreault had 30 years experience in the pharmaceutical industry in sales, marketing, business development and operational roles.

CSL said Mr Turner would return to Australia and be available on a part-time basis for a range of projects and continue as an executive director.

CSL was up 33 cents or 1.0 percent to \$34.74 with 1.6 million shares traded.

LIVING CELL TECHNOLOGIES

Living Cell has appointed Robert Willcocks a director.

Living Cell said Mr Willcocks was “a senior executive with an extensive legal and business background working in particular with Australian listed public companies”.

The company said Mr Willcocks held a Bachelor of Arts and a Bachelor of Laws degree from the Australian National University and a Master of Laws from the University of Sydney.

Living Cell said Mr Willcocks joined the law firm Stephen Jaques & Stephen (now Mallesons Stephen Jaques) in 1974 and was a partner from 1980 until 1994 where he was a member of the corporate advisory group with an emphasis on the mining and oil and gas sectors.

The company said Mr Willcocks was a member of the Australia-Vietnam Business Council and was appointed by the Australian Government to the Australian International Legal Advisory Committee and was chairman of Orion Petroleum, a director of ARC Exploration and APAC Resources.

Living Cell was unchanged at eight cents.

KARMELSONIX

Karmelsonix has requested a trading halt pending an announcement regarding the completion of a “commercial transaction and the current capital raising program”.

Trading will resume on March 31, 2011 or on an earlier announcement.

Karmelsonix last traded at 1.7 cents.