



Biotech Daily

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Marc Sinatra's Bioguide: Bionomics – Almost Perfect

Overview: Bionomics started life largely as a gene discovery and diagnostics company in 1999 but in 2003 it started a drug discovery program focused on influencing the GABA-A receptor in the hope of targeting indications such as epilepsy.

Today, Bionomics is all about drug discovery for cancer, anxiety, epilepsy and multiple sclerosis and has compounds in the clinic for two of these indications and has licenced the program for multiple sclerosis to Merck-Serono.

On the surface, Bionomics has made great strides in transforming itself into a drug development company, but what happens when you give the tyres a good kicking?

Financials: Market cap: \$83 million; cash: \$11.7 million; last quarter cash burn: \$2.4 million.

Directors: Non-executive chairman, Chris Fullerton; chief executive officer, Dr Deborah Rathjen; non-executive directors, Dr Errol De Souza and Trevor Tappende. Bionomics has a small, but strong board. A lot falls on the shoulders of Dr Rathjen and, given the range of activities, an additional board member is warranted. Someone with large pharmaceutical company drug development experience like Dr George Morstyn or Carlo Montagner would be perfect. Bionomics' management team is notably strong.

Products in Development: Bionomics drug development efforts are focused on five principle programs.

1) BNC105 – Cancer: BNC105 is a vascular disrupting agent, which acts by disrupting tumor blood vessels. BNC105 is thought to achieve this through an effect on tubulin and is also thought to have a direct cytotoxic effect on tumors. BNC105 has completed a phase I study for multiple cancers and is in phase II studies for renal cell cancer (RCC) and mesothelioma. Interim results from the RCC trial are due at the end of this year and from the mesothelioma trial in early 2011, with full data due from both trials in 2012.

2) BNC210 – Anxiety: BNC210 successfully completed a two-stage, phase I trial earlier this year. An additional phase I study is underway, looking at variables including the effect of food intake, stress hormone levels and other central nervous system parameters. Results from the food intake part of the study have shown a four-fold increase in blood levels of BNC210 when it is taken with food. A range of other data collected in the study is due next quarter. Bionomics also expects to initiate two phase Ib studies by the end of 2010. One study will look at the effect of BNC210 in healthy subjects in whom anxiety has been induced, while the other will look at its effect on the brain using electro-encephalographic measurements. Results from the phase Ib studies are expected in early and mid-2011.

3) Kv1.3 Blockers – Multiple Sclerosis: In mid-2008, Bionomics signed a development and licensing agreement with Merck-Serono, which paid Bionomics' \$2 million up-front and agreed to fund all development activities in exchange for being able to select from a range of Kv1.3 potassium channel inhibitors developed by Bionomics. For each compound Merck-Serono selects, Bionomics may receive up to \$US47 million in milestones plus a royalty on sales. Last May, this agreement was extended for one year.

4) BNO69 – Cancer: BNO69 is a discovery stage project of a potential target for anti-angiogenesis inhibitors. Screening for suitable small molecule inhibitors is underway.

5) GABA-A Agonists – Epilepsy: A discovery phase project, Bionomics has identified several compounds that can modulate the GABA-A receptor. Gamma-aminobutyric acid (GABA) receptors are the main inhibitory neurotransmitter in the central nervous system. Bionomics' testing of these compounds continues. This program commenced in 2003.

Significant Product Markets: The renal cell cancer market is large, with sales of \$US2.2 billion of branded drugs in 2008. These sales are forecast to grow to \$US6.5 billion in 2015, representing a growth rate of 16.8 percent.

The mesothelioma market is small and only worth pursuing as a market entry strategy via orphan drug status.

The anti-anxiety drug market, which covers a wide array of indications, had sales of \$US4.5 billion in 2006. The market, however, has been forecast to shrink to \$US2.6 billion by 2015 due to drugs coming off-patent.

There are not a lot of drugs in development specifically for any of these indications, although this doesn't rule out already approved drugs that might be seeking secondary indications.

Verdict: Bionomics has transitioned itself extremely well into a drug development company with two very solid projects and a nice licencing deal.

The only criticism I have of Bionomics is that they have made their desire to licence BNC105 after phase II trials and BNC210 after phase I trials too clear. Nothing is wrong with a licencing strategy kept in-house, but when it becomes public, two things happen.

Firstly, would-be licencees know where you stand before you sit down at the table, weakening your negotiating position. Secondly, the clock starts ticking and interested parties will take note. Potential licencees will adjust their offer based on the time that has elapsed, while investors may lose faith, ultimately, killing even good projects. After Avexa with apricitabine, promising a deal “if we do just one more thing” isn’t going to wash with people anymore.

However, aside from the fact that they have made their strategy public, everything else they are doing to secure a deal is perfect.

Bionomics is clearly in the elite group of Australian listed biotechnology companies.

Based on the value of comparable companies, I have given Bionomics a valuation of 38 cents per share.

Bionomics was unchanged at 29 cents.

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