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MARKET MISSES PSIVIDA'S TURNING POINT

MARC SINATRA'S BIOGUIDE: PSIVIDA

Overview: When a small company inks a deal potentially worth \$US155 million plus royalties with Pfizer, you expect it to put a rocket under their share price, right? Unfortunately for Psivida the answer is "wrong". The share price has fallen by 33 percent to a four year low of 16.5 cents since signing the deal.

Funding issues and a continued lack of interest in Psivida's flagship technology, Biosilicon, have taken their toll on the company since it merged with US company Control Delivery Systems in 2006. Psivida has also changed considerably over this time. The company is now based in Boston, essentially debt free and, the subject of the Pfizer deal, the Durasert technology, is performing extremely well.

The Pfizer deal appears to mark the turning point in Psivida's performance as a company, but why has the market not recognised this?

Financials: Market cap: \$94 million; cash: \$5.8 million; last quarter cash burn: \$6.7 million. An EGM scheduled for June 20 is being asked to approve the possible issue of up to the equivalent of 150 million shares.

Directors & Management: non-executive chairman, Dr David Mazzo; managing director, Dr Paul Ashton; non-executive director, Michael Rogers; non-executive director, Stephen Lake.

Psivida's board has skills distributed over a number of relevant areas, including finance, life science company management, product development and partnering.

Technology: Psivida possesses the following three core technologies:

- 1.) Durasert (formerly Aeon) - a non-erodible, drug delivery system, providing controlled delivery for months or years. Psivida is also developing an erodible implant termed Zanisert.
- 2.) Biosilicon - a porous nano-structured material derived from elemental silicon. It is biocompatible and biodegradable. Its main application is drug delivery, but Psivida believes it may have uses in diagnostics, tissue engineering and food technology.
- 3.) Codrug - allows two drugs to be chemically linked for controlled release from the same delivery system.

Products on the Market: Psivida has two FDA approved ophthalmology products; both surgically implanted forms of Durasert, marketed by Bausch & Lomb. They are:
1.) Retisert for uveitis - royalty revenue for the last quarter rose 9% to \$281,000; and
2.) Vitrasert for CMV retinitis - revenue has been declining and future revenue is not expected to be significant.

Products in Development: Psivida's main products in development, the indication they target and their current developmental stage are:

- 1.) Medidur: diabetic macular oedema - phase III trial results due early 2009; and
- 2.) Brachysil: pancreatic cancer - phase IIa trial results due H2, 2007.

Medidur is an injectable form of Retisert, being developed under licence by Alimera Sciences. Expectations for Medidur's success are high since Retisert has already been shown to improve eyesight in diabetic macular oedema patients.

Brachysil consists of Biosilicon particles containing radioactive phosphorus. It is injected directly into the pancreatic tumor.

Product Markets: Analysts quoted by Psivida have put the posterior uveitis market at \$US100 million, with little competition and few products in development. The market for diabetic macular oedema could be \$US500 million to \$US1 billion. Although the market is open, there are a few exciting drugs in development. The worldwide market for pancreatic cancer is expected to exceed \$US2 billion by 2012. While there are a number of products in development and in the market to treat it, none appear to be threatening the use of radiotherapy.

Licences: In addition to Pfizer, Bausch & Lomb and Alimera Sciences, Psivida has granted other licences. Recently, they granted a licence to Faber Research to develop the Durasert, Zanisert and Codrug technologies for infectious diseases and ear diseases. Beijing Med-Pharm has been granted a licence to develop Brachysil for the Chinese market and former Psivida subsidiary Aion Diagnostics holds a licence to develop Biosilicon for diagnostic applications.

Verdict: The Pfizer deal is clearly good for Psivida. Not only does it give the company the opportunity to create real value for shareholders, it also adds a significant shareholder to the register, gives them a very experienced partner who is covering significant R&D costs and forced them to dramatically reduce their debt.

Over the last 18 months, the assets Psivida acquired from CDS have performed very well. So, I find it extremely surprising that Psivida's current market capitalisation of \$96 million is well below the \$139 million it paid for CDS, even assuming Psivida paid a buyer's premium. I believe Psivida's shares are trading below fair value.

I think the market has missed Psivida's turning point because it has placed too much weight on a clause allowing Pfizer to terminate its agreement with Psivida unilaterally. Clauses like this are common in pharmaceutical licencing deals. Usually, they are enacted when a project becomes economically unviable.

The new Psivida still faces significant issues. Chief among these is focussing on developing its technologies and products, rather than searching for the blue sky that propels share prices to unsustainable levels, as it seems to have done in the past.

Biotech Daily editor David Langsam owns shares in Psivida. Marc Sinatra does not.

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