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Progen-Avexa Merger Special Edition

Progen and Avexa will merge to create a company returning cash to some Progen shareholders while retaining $60 million to take apricitabine through phase III trials.
Should the merger proceed, the combined entity will be 56 percent owned by Progen shareholders and 44 percent by Avexa shareholders.
Progen is offering one of its shares for every 12.857 Avexa shares, based on an Avexa share price of 10.5 cents and implying a value of $1.35 per Progen share.
The merged company will be known as Avexa Pharmaceuticals and will be headquartered in Melbourne with offices in Brisbane and San Francisco.
Avexa said “the combined entity creates a well funded, small molecule development company with a balanced portfolio of oncology and infectious disease programs in various stages of development”.
Avexa’s Nathan Drona will be Avexa Pharmaceuticals chairman and he will be joined by fellow Avexa directors, David Bottomley and Dr John Sime and current Progen directors Dr Mal Eutick, John Lee and Justus Homburg.
Avexa’s Dr Julian Chick will be the managing director and chief executive officer.
After discontinuing a phase III trial of PI-88 for liver cancer, Progen was left with $70 million dollars in cash and several very early stage compounds.
Avexa, with insufficient funds to complete commercialization of its HIV drug, apricitabine or ATC, has not found a partner willing to take on the financial burden.
The merged entity will have cash assets of around $60 million, assuming Progen completes a $20 million dollar pre-merger share buy-back at $1.10, also announced today.
The share buy-back provides partial fulfillment of Progen’s promise at its annual general meeting to return half of its cash to shareholders.
In a conference call, Avexa’s Dr Julian Chick said that the merger would provide enough cash to complete apricitabine’s phase III trial, but not enough to complete the commercialization process.
Both companies will hold shareholder meetings in February to consider the merger, but Progen’s board must first survive a coup attempt at an extraordinary general meeting on January 9, 2009 called by a group of shareholders led by Bob Moses who have other plans for Progen.
At the time of writing, investors on both sides of the deal have reacted negatively to the merger, with Progen and Avexa shares significantly down on the news.

Progen closed down 14 cents or 15.56 percent to 76 cents with 745,850 shares traded.
Avexa fell 2.6 cents or 24.76 percent to 7.9 cents with 3.5 million shares traded.

MARC SINATRA'S BIOGUIDE BRIEF: PROGEN-AVEXA MERGER

From a numbers perspective, the proposed Progen-Avexa merger looks good for both parties.

The implied price of $1.35 per Progen share, gives Progen investors a premium of 15 to 19 percent over the company's cash backing and a 67 percent premium to Progen's closing price last Friday of 90 cents.

Although Avexa shareholders don't get a premium, they do escape the damage that would be done by the near-term necessity to raise capital in the absence of the merger. The severe discount required to make such a raising successful in the current market could easily wipe up to 50 percent off Avexa's share price.

Given both companies expertise and programs reside in the small molecule drugs, synergies do exist in the areas such as medicinal chemistry, manufacturing and regulatory pathways.

Although biology is an area where synergies don't exist, Avexa's merger announcement touts the strategy of combining oncology with infectious diseases stating that Gilead Sciences, Ardea Biosciences and Anadys are doing the same, but in a quick scan of these companies it is not clear if the strategy is working.

Despite all the talk about the new entity having a balanced portfolio with synergies, I do believe the merger largely comes down to Progen's cash plus Avexa's apricitabine.

If apricitabine is successful then the balanced portfolio and synergies argument may come into play, but if it fails, the lifespan of Avexa Pharmaceuticals may be short.

The signals surrounding apricitabine haven't been good for a while with Avexa struggling to a find a partner for the drug or a buyer for the company, despite good trial results and a low risk regulatory profile.

Finding a buyer will be even tougher after the merger and that Avexa is even interested in a merger may indicate that there simply isn't one out there.

The general feeling regarding apricitabine is that it does work better than other nucleoside reverse transcriptase inhibitors, but not so much so that doctors will jump to use it or that its inclusion in a fixed dose combination drug would have any significant competitive advantage.

Given that both groups of shareholders should benefit from the merger and the apparent synergies it contains, I have concluded that the merger is a reasonable outcome.

Let's just hope that Progen's board was able to see something tangible in apricitabine that the others have missed.

Marc Sinatra

EDITOR'S COMMENT

The deal only makes sense if Progen is confident that apricitabine can be partnered to a major pharmaceutical company, or alternatively, the new company could create their own anti-HIV cocktail with generic AZT.

Previously, Dr Chick has raised this go-it-alone strategy.

But Progen's chief executive officer Justus Homburg was clear and adamant that it was apricitabine that was his company's target.

"We believe strongly in the opportunities for ATC," Mr Homburg told Biotech Daily.

While the ASX disclosure rules require announcements on partnering agreements that are "material" they also provide for confidentiality while deals are at the discussion stage.

We can only speculate that Avexa is continuing discussions for the "big pharma deal" and that under due diligence confidentiality agreements, Progen is now privy to this information.

If so, it makes a lot of sense. If not, we await a more clear explanation.

David Langsam