



# Biotech Daily

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*Daily news on ASX-listed biotechnology companies*

## Marc Sinatra's Bioguide Brief:

### Chemgenex, Going Down - \$5.50 ... \$2.90 ... 70c

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.

But 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.