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Marc Sinatra's Bio-Guide Brief: Peplin Not A 5-Banger, Any More

I imagine that Leo Pharma's \$348 million dollar (\$1.03 per CDI) offer for Peplin will be met by the same "low-ball bid" outcry that followed Cephalon's ultimately successful tilt at Arana Therapeutics.

Despite having valued Peplin at just over \$3 dollars in late April, I am not sure that the offer is all that bad (BD: Apr 27, 2009).

Two important and linked things have happened between today's offer and my valuation. The first is that in May, Peplin announced the results of its Region-Ia phase III actinic keratosis clinical trial for the treatment of non-head locations (BD: May 18, 2009).

While the results were positive, they were not outstanding.

The complete clearance rate of 27.4 percent didn't really compare favorably to the 44 percent rate found in Peplin's previous PEP005-006 phase IIb study and this difference only marginally improved to 31 percent compared to 45 percent, respectively, when like groups of patients from each study were compared.

The results also didn't compare favorably to the other topical treatments on the market, which have generally shown complete clearance rates of around 45 percent. Peplin's advantage is a much shorter duration of treatment.

The upshot of these results was that in June the US Food and Drug Administration suggested, and Peplin agreed to, a second phase III study of non-head sites, confirming that the Region Ia study results were not great.

If I were a Peplin director these events would certainly make me willing to consider offers I previously wouldn't have countenanced.

Interestingly, Peplin's suitor, Denmark-based Leo Pharma, doesn't have much of a US presence. While it does have an office in Florida, it is there to focus on supporting the company's Latin America operations.

If one takes a worse-case scenario approach and assumes the US regulatory approval is looking less likely than it was previously, Leo Pharma's offer and Peplin's directors' acceptance of it starts to look much more reasonable.

If I were a Peplin shareholder*, I would accept the offer.

While it may not have been what I was hoping for, it is still at a 70 percent premium to Peplin's pre-offer price and, as the saying goes, a bird in the hand is worth two in the bush....or three where my valuation of Peplin is concerned.

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* The author has previously owned Peplin shares but has not held them for six months.