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THE PEPTECH-EVOGENIX MERGER: YOUR DADDY'S RICH AND YOUR MAMMA'S GOOD-LOOKING

MARC SINATRA'S BIO-GUIDE

From the point what is best for each of the companies, the proposed merger of Peptech and Evogenix appears to be a no-brainer.

Both companies are working in the area of antibody therapeutics and their technologies appear to be complementary on face value, as do many of their other assets. In addition, as a combined entity, their ability to manoeuvre and negotiate within the industry is likely to be enhanced. Therefore, I believe the value of a combined Peptech and Evogenix is likely to be greater than the sum of its parts.

A more pertinent question is how good is the deal for those involved? If you remove cash in the bank from the equation, the combined pre-merger value of Peptech and Evogenix is about \$233 million, while Peptech's offer values the post-merger entity at \$295 million (the combined market capitalization of \$429 million minus Peptech's \$188 million cash and Evogenix's \$8 million cash).

This means that \$62 million in value needs to be created by the deal for Peptech's shareholder's to begin to view the deal, at least, neutrally. To create this value, the combined entity will need to find increased revenue and/or savings worth about \$12.5 million a year, assuming a 20 percent discount rate.

If we further assume that half of Evogenix's approximately \$6 million in yearly expenses could be saved by the merger, this leaves \$9 million in extra revenue a year that needs to be found. Although it is easy to see how the ability to attract new customers and to negotiate might be enhanced by the new entity, it is difficult to identify with any degree of certainty how much and from whom the new revenue will come.

Overall, I believe the merger of Peptech and Evogenix is clearly a positive for both companies. In addition, given the handsome 32.5 percent premium Peptech is offering Evogenix shareholders, I also believe the merger is in the best interests of Evogenix shareholders. I believe that Peptech was probably undervalued and Evogenix overvalued prior to this announcement, making this deal very attractive for Evogenix shareholders at some short term cost to Peptech shareholders.

Because I can't clearly identify the sources of the additional revenue required to give the combined entity a market capitalization in excess of \$295 million, I cannot say that the deal is in the best interests of Peptech shareholders, at this stage.

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