Transcept rolling in cash after Purdue deal with more on the horizon

Amy Brown

Transcept Pharmaceuticals might be a new face on the Nasdaq stock market, but since gaining a listing through the reverse merger of Novacea in February shareholders have had little to complain about.

A rally that saw the share price double over the last three months accelerated yesterday when the company announced a marketing deal with Purdue over its novel insomnia treatment, Intermezzo, which included a $25m upfront payment. Transcept stock leapt 42% in response to close at a record high of $8.22. If the FDA grants approval for Intermezzo on time - a PDUFA date of October 31 has been set - the company could get a further $30m, an event that will no doubt mean further gains for investors.

Intermezzo is a sub lingual or under-the-tongue formulation of zolpidem, Sanofi-Aventis’ former blockbuster Ambien, which lost patent protection in 2007. The crucial differentiation is its fast onset of action, which has allowed Transcept to go after approval to treat insomnia at the time when patients wake in the middle of the night and cannot return to sleep; a new indication with no approved products.

Purdue has bought the right to market the drug in the US, and the right to negotiate for commercialisation rights in Canada and Mexico. Transcept has retained an option to co-promote to psychiatrists in the US. As well as the upfront payments, Transcept is eligible to receive a further $90m in milestones on achieving certain intellectual property and sales targets, plus double-digit royalties. To guard against delays the additional $30m upfront milestone payment will decline by $2m a month if Intermezzo has not been approved by June 30, 2010.

Flush with cash

Transcept ended March with $81m in the bank. With few demands from the R&D department – its two other projects are in phase I - most of the cash was earmarked for commercialising Intermezzo if a partner could not be found.

As the company told EP Vantage earlier this year, a partner with a good sized primary care sales force was being sought (EP Vantage Interview – Transcept capitalising on Novacea’s cash opportunity, April 7, 2009) and in Purdue it should have found just that. The private company has a large CNS-focused sales force promoting mostly pain drugs, most notably OxyContin, and has been attempting to broaden its portfolio of products. If Intermezzo wins approval Purdue should prove an enthusiastic promoter.

Of course, if the regulatory path goes smoothly Transcept will have even more cash on hand to fulfil further ambitions. It seems likely that the co-promote option will be taken up, given the group’s stated desire to become a fully integrated specialty pharma company, whilst a fuller pipeline could be built.

Yesterday’s share price gain resulted in a market value of $108m for Transcept, a figure that is probably not far above the group’s current cash balance. If Intermezzo does win approval and that market value does not rise significantly, Purdue might think twice about paying out the rest of the milestone payments, and just buy the whole company instead.