

## Ramius fires warning shot across Cypress's bow



For many biotech investors significant share price declines are tough to bear but all part and parcel of investing in such a high risk sector, particularly as stock market recoveries can be just as dramatic. For some, however, the prospect of seeing their investment go down the drain can be too much to bear and direct action is required.

The hedge fund, Ramius, clearly falls into this second category of activist investor having made a dramatic move yesterday to try and arrest an almost terminal decline in the shares of Cypress Bioscience by launching a \$4 per share takeover bid. Shares in the company had plunged 73% in the last 12 months to \$2.50. Cypress' management have yet to properly respond to some pretty inflammatory and accusatory remarks made by Ramius within its rationale for the offer, the final straw apparently being Cypress' misguided decision last month to license a mid-stage schizophrenia candidate ([Is Cypress backing the wrong horse? June 23, 2010](#)).

### Tentative offer

Although Cypress' shares gained 34% yesterday to \$3.35, the fact that they remain below the \$4 on offer is indicative of the preliminary nature of Ramius' approach, which at the moment consists of a proposal letter sent to Cypress' board of directors.

In the letter, Ramius, which currently holds a 9.9% stake in Cypress, offers to acquire the remaining shares it does not own for \$4 in cash per share. The price is pitched at a 60% premium to the closing price last Friday but below \$4.34, the price before last month's controversial deal with BioLineRx for phase IIb anti-psychotic agent, CYP-1020 (BL-1020), was revealed.

With so much disappointment that Cypress decided to license such a risky and costly candidate, for one of the toughest regulatory and commercial markets, Ramius is also challenging Cypress' management to find a third party sponsor to fund 50% of CYP-1020's development, and would make an adjustment to its offer to allow such a risk-sharing deal to be struck.

### Endgame?

While Ramius claims it can and will follow through on its offer, the question is whether it would really want to do so; although \$4 a share would represent quite a bargain considering Cypress currently holds around \$3.40 in cash per share.

Ramius has therefore called on the company to "hire a reputable investment bank to evaluate our offer and to formally explore a sale of the company", suggesting greater value could be extracted by trying to elicit a rival bid.

Given the current cash per share value, as well as a consensus analyst price target of \$6.60, it seems unlikely at this stage that Ramius will be successful with its approach. Wellington Management is Cypress' biggest current shareholder with a 13.9% stake and is not regarded as an activist type investor, assumedly the fund bought shares for more than the \$4 on offer and is unlikely to be happy with a sale at this price.

It will be fascinating to see Cypress' formal response. Anything less than a refusal to accept the price or a rebuttal of Ramius' accusations of eroding shareholder value, however, hard this may be given the share price decline, would be a surprise.

For now it seems Ramius is happy to spark a major re-think of where the company is going and whether the current management team is up to the job. Or as Scott Henry, senior research analyst at Roth Capital put it: "this is a shot across the bow, what's going on right now has to change".

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