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Platform deals boost MorphoSys but pipeline needs to deliver

This year MorphoSys set itself the target of getting four to six of its antibodies into the clinic; last week it delivered the full quota and for good measure signed a big pharma deal for a newly-acquired technology.

Investors were clearly pleased - the stock gained 10% on Friday's announcement to reach €17.45. MorphoSys is a company reliant on its early-stage antibody technology platforms to provide long-term deal value. While the stock has been range bound between €14 and €17 over the past 12 months, this is no bad thing for an early-stage biotech company. However, none of these programmes have yet broken the pivotal trial barrier, and strong data from its unpartnered pipeline in particular could be the driver to take the company and its share price to the next level.

Value in deals

At the end of what chief scientific officer Dr Marlies Sproll described as "an outstanding year for progress in our pipeline", three MorphoSys partners have advanced their licensed HuCAL-derived antibodies into human trials. This brings the total to six this year, and means MorphoSys has comfortably delivered on its 2010 promise of four to six programmes entering man. Management raised its 2010 revenue guidance as a result, to €91-94m from €89-€90m.

Partners and programmes were undisclosed, save to say the projects were in the areas of cancer and inflammation, but will be revealed as respective trial designs emerge. Each will make a milestone payment to MorphoSys, also undisclosed, but which Nomura Code analyst Gary Waanders estimates to be in the region of \$1m.

HuCAL (Human Combinatorial Antibody Library) is the company's proprietary antibody discovery and target validation platform. It allows for the discovery, optimisation and development of highly specific antibody-based therapeutic candidates from libraries of high-affinity antibody fragments, and is the real driver of MorphoSys' partnering value.

And while progress with HuCAL deals has kept things trundling along for some time, the German specialist has also announced a long-term deal with Pfizer for a completely new technology, Slonomics, acquired as a result of its recent takeover of Sloning BioTechnology.

Slonomics enables the precise construction of diverse gene and protein libraries, very complementary to MorphoSys' approach. MorphoSys says the system can generate highly-optimised proteins and antibodies.

The deal was inked through Pfizer's Rinat Neuroscience subsidiary; financial terms were undisclosed, but MorphoSys will receive an upfront payment before year-end.

Plateau

A look at the last few years' worth of trading for MorphoSys shows a meandering share price with little marked growth.

Many biotechs would expect significant events to have a marked impact on their share price, but MorphoSys holds enough value in its partnerships to avoid the dramatic falls one piece of bad news could potentially bring for similar companies.

Still, since 2002 the stock has never breached \$20, despite numerous deals with a virtual 'who's-who' of big pharma. Indeed the 17% gains on the back of a potential billion-dollar agreement with Novartis in 2007 brought shares up only to the levels seen currently ([Novartis and MorphoSys - try before you buy](#), December 4, 2007).

Mr Waanders explains the market attributes little value to the company's pipeline. So, as long as the technology deals keep getting signatures and passing milestones, MorphoSys will remain on its current plateau.

Kick it up a notch

Good results from MorphoSys' unpartnered pipeline could kick the shares up a notch, and provide a little breathing room.

Put simply by Mr Waanders: "all of the upside [is] in their hands."

Crucial to this, he says, is achieving proof-of-concept with MOR103, an anti-GM-CSF (granulocyte macrophage colony-stimulating factor) monoclonal antibody in phase II for rheumatoid arthritis, predicted to be a \$24bn branded market in 2016.

Preliminary data from an ongoing phase I/II trial are anticipated mid-2011, and clinical trials in a second indication are expected to start before the end of 2010.

Healthy

Still, MorphoSys is in a healthy position. Its technologies have the endorsement of big pharma, it sits on a healthy €132m cash pile, which will be boosted by three milestone and one upfront payments. Its broad spectrum of antibodies, while yet to reach proof-of-concept, have steadily been making their way into the clinic with few hiccups.

A new technology deal with Pfizer has taken away some of the risk of relying on one platform, and if the preliminary data on MOR103 next year looks good, MorphoSys could see some renewed growth.

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