Evaluate Vantage

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EP Vantage Interview - Evolva creating value to cushion landing

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An agreement among Evolva's biggest stockholders to release only a small proportion of shares subject to a lockup has averted a big price drop today (*Event - Evolva lockup expiry will unleash volatility, December 10, 2010*). The next task for the company is to prove its value before a large chunk of shares still held by the Swiss biotech's original venture capital backers are released at the end of May.

With a recombinant technology that uses yeast to yield small-molecule pharmaceutical, consumer health and nutritional products, Evolva is resting its pharma hopes on two anti-infectives in pre-clinical development and an anti-thrombotic now in phase I studies. The group says it has sufficient cash to fund its operations through 2012, and should have proof-of-concept on its lead product before then to make it available for partnership, chief executive Neil Goldsmith says.

Three candidates

Mr Goldsmith says the company has different pathways for its pharmaceutical candidates. Lead product is blood thinner EV-077, which will be partnering following phase II proof-of-concept studies that are planned to start next summer. The compound makes use of a fairly novel target, the thromboxin receptor, and Mr Goldsmith says Evolva will be able to differentiate EV-077 from other blood-thinners by blocking a platelet aggregation pathway unique to diabetics, which causes arterial thrombosis.

Still in pre-clinical stages is EV-086, a broad-spectrum antifungal that could be used in both systemic and topical settings, may be able to be partnered on phase I data. Meanwhile, development of the broad-spectrum antiviral EV-075 is being supported through a contract with the US Defence Threat Reduction Agency. The antiviral has a novel mechanism of action, inhibiting a virus' ability to suppress the immune response. Thus it appears to have wide application for such diseases as ebola, Marburg virus and influenza.

The current contract with the US military expires September 30, 2011, and the company hopes to negotiate a new one to allow it to take the compound into the clinic. Under the contract, Evolva retains all intellectual property rights, allowing it to pursue other partnerships.

Strategic thinking

While Evolva does need partnerships to move these products to market, because of big pharma's retrenchment mode Mr Goldsmith says he foresees that much of the company's commercial activity in the near future will centre on nutritional applications for its technology. Although it already has a deal with Roche around cancer and infectious disease discovery.

Certainly, being able to make use of its technology in another sector, and one with lower risks, gives Evolva a little more freedom to move, especially at a time when big pharma is simultaneously facing down both recession-driven belt-tightening and a loss of markets to generic manufacturers.

The food and flavourings business – the group has partnered two nutrition products and is working with the Danish government to develop a synthetic biology vanilla production process – has the potential to give the company steady income that can then fund the high-risk, high-return pharma line.

"Most pharma companies are restructuring," Mr Goldsmith says. "The shift from growth to decline changes mindsets a lot. They aren't in a mindset to be embracing significant new technology.

"I think we will have a number of deals around our technology," he says. "I think the balance of those deals will be less traditionally where biotech has gotten its deals in and more in adjacent sectors. In terms of technology the sector that is most aggressively looking for new technology is not big pharma."

Still locked up

Whether or not the market believes in the technology or the strategy remains unclear as most of Evolva's shares remain under lock and key, as they were when the company was momentarily valued at more than $1bn (*Evolva share surge prompts head scratching, January 11, 2010*).

The slow-bleed plan released 9% of the company's total shares today under a coordinated sale plan – forcing prices down 4% to SFr1.87 in late-day trading - with more to become available if there is sufficient demand. This suggests a larger discharge might have resulted in a bigger loss. Before today, only 15% of the company's shares were in free float.

On May 24, an additional 37% of the company shares will be available for sale, with the balance following on September 1.

The slow-bleed strategy is intended to "give small investors some assurance that the big investors are in for the long-term and not for quick returns," said Evolva chairman Erich Schlick, a general partner of Wellington Partners, which held 8.5% of the company's shares under the lockup.

Industry observers note that the lockup's extension may allow for a soft landing, although the value will probably not be evident until May 24.

"The company knows its current share price is decoupled from its value," says Andrew Weiss, an analyst with Vontobel, who has set a price target of SFr1.40 on the stock, with a "reduce" recommendation. "(Investors) recognise that they cannot all run for the door at once."

Evolva has made the best of a difficult situation with the lock up and the agreement among shareholders is certainly postive. With the company playing up the chances of near-term dealmaking on the nutritional and consumer health side, Evolva faces the task of demonstrating its value over the next five months.