SuperGen and Astex striving to reach the next level

The rationale for SuperGen’s merger with Astex Therapeutics may have generated some standard management catchphrases of ‘accelerating business models’ and ‘taking it to the next level,’ but the deal certainly makes sense on many levels.

For SuperGen, a company which has struggled to build investor excitement and advance its pipeline behind its marketed cancer drug Dacogen, the deal adds Astex’s oncology portfolio, which includes three unpartnered phase II candidates. For Astex, a privately-held UK company, the tie-up provides access to both SuperGen’s decent cash reserve as well as the largest global healthcare investor community through its Nasdaq listing. While the new company, to be called Astex Pharmaceuticals, will certainly benefit from pooled resources and more ‘shots on goal’ it will be interesting to see how far it goes, or whether the deal is just a stepping stone to the ultimate endgame of a big pharma buyout.

SuperGen’s struggles

SuperGen is a profitable company, largely on the back of royalties received from its global partners for Dacogen, a treatment for myelodysplastic syndrome. As a result of its acquisition of MGI Pharma in 2008, Eisai sells the drug in the US market, while Johnson & Johnson commercialises the product in the rest of the world, which currently totals 29 countries.

Royalties from Dacogen reached $53m last year and SuperGen expects that figure to edge up to $55m this year. Unfortunately, Dacogen will lose US patent protection in 2013 and the product has struggled for sales growth against stiff competition from Celgene’s Vidaza.

As such, SuperGen really needs products for life beyond Dacogen. As it stands only two phase I candidates offer hope but remain a long way from the market.

So investors will have been waiting for the company to put its significant cash reserve, $122m as of the end of December, to good use. The Astex deal certainly meets a need to bolster its pipeline - whether the candidates are advanced enough to fill the inevitable hole left by Dacogen is questionable at this stage.

SuperGen’s shares slipped 9% in early trade today to $2.95, suggesting investors may be slightly disappointed that the deal is not as transformational as might have been hoped, and may reflect some concerns that an enlarged pipeline will require further shareholder investment.

SuperGen’s chief executive, James Manuso, believes the new company is well funded to support the extra clinical work required over the next few years and was keen to stress that both SuperGen and Astex have not turned to their shareholders for more cash for many years now – seven years for SuperGen and eight years for Astex.

Mr Manuso claims the Astex deal will, “accelerate our (SuperGen’s) business model by eight years, when we consider the number and stage of our pipeline candidates and the potential to monetise these assets.”

Astex to the next level

Founded in 1999, Astex has raised £80m in equity and £65m in deal-based milestones, resulting from partnerships with a number of big pharma companies. With £17m left in the bank as of December, the company has run through £128m ($192m) in 11 years, or about £11m per year.

In the last few years milestones from these collaborations have actually funded about half of Astex’s annual operating costs, around £4-5m per year. This is one of the main reasons the company has not had to turn to its VC backers for more money since 2003, a decent effort which will have delighted its investors.

However, with three candidates entering phase II trials, Astex faced a familiar conundrum for biotechs anywhere - how to take the company to the next level, into pivotal trials and beyond, which requires significant extra investment.
As such the SuperGen deal, which Harren Jhoti, Astex’s chief executive, says was the result of long-term discussions and a burgeoning relationship with SuperGen over the last two years, offers an opportunity to at least get its candidates through to end of phase II.

At which point partners are likely to be sought, given SuperGen’s current strategy of taking candidates to phase II and no further. Whether the Astex deal will change this outlook remains to be seen, but Mr Manuso did hint that it was up for review.

SuperGen will pay Astex $25m upfront, although given that this is almost the same as Astex’s latest cash balance, essentially this just means Astex investors are getting some of their cash back. SuperGen will also issue new shares to Astex, leaving Astex with 35% of the new company and will also pay $30m in deferred payments over the next 30 months, as either cash or new shares.

Mr Manuso hopes the Astex merger will “permit us (SuperGen) to enter the middle class of the oncology based biotech community.” It may well do that but how much further the new company travels will depend on pipeline success and building investor confidence and excitement.