Evaluate Vantage

June 13, 2012

Proximagen succumbs to bid from long-term partner Upsher

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Three years after tapping investors for £50m ($76m) to fund a company-building acquisition spree the UK's Proximagen has itself succumbed to a takeover bid, from its long-time partner Upsher-Smith.

The private US company has agreed to pay 320p a share with a further 192p on offer if certain programmes succeed, a price that will certainly please those investors who supported Proximagen when it sold all those shares for 140p back in 2009. So while the company might not have delivered on its longer-term strategic goals, the premium on offer should placate any disappointment about the loss of one of the UK's most prominent smaller drug developers.

Early stage

Upsher-Smith is paying handsomely for a broad but early-stage CNS-focused pipeline that Proximagen has amassed over the past few years through a series of deals. Proximagen has four candidates in early clinical development and more than 10 in the preclinical stage. Upsher already owns certain rights to one of the most advanced candidates, the epilepsy agent tonabersat, which is in phase II.

The deal comes with the now commonly seen contingent value rights, in this case linked to two programmes, the phase II obesity molecule PRX00933 and a VAP-1 anti-inflammatory project that has just seen a lead put into phase I.

Before the CVRs the deal values the company at £223m, and should they pay out fully the value will rise to £357m. At yesterday's close Proximagen was valued at £174m; the company ended May with £48m in cash.

High risk

The CVRs will expire in five years so Proximagen shareholders have a limited time period in which to reap more rewards; given that both are high-risk assets success is far from certain.

Both are slated for out-licensing. The VAP-1 programme will be put through proof-of-concept trials first, due to start next year. A new home will be sought immediately for the obesity agent, an oral 5-HT2c agonist that has been tested in phase II studies by the drug's former owners, of which there have been a few.

The drug is in the same class as Arena's locarserin, one of the high-profile obesity agents that is awaiting a verdict from the FDA in the US. Proximagen, which claims that PRX00933 is the next most advanced drug in the class, has been keen to associate the two agents in recent months as locaserin's fortunes appear to have improved. This is likely to have contributed to the substantial surge in Proximagen's share price this year – the stock had already more than doubled in value in 2012 before the Upsher bid appeared.

PRX00933 was originally developed by Biovitrum, which reported proof-of-concept data back in 2002, and had a brief spell under partnership with GlaxoSmithKline, but little recent data on the agent is available and it remains to be seen whether a partner can be found to commit the substantial funds needed to its further development.

Little disappointment

However, given the price being paid up front investors are unlikely to be too disappointed if those CVRs never pay out.

Big institutions own a huge chunk of Proximagen, and all of them gave their blessing to the deal today. Five main investors account for 71% of the company's outstanding shares, led by Invesco Asset Management with 27% and Landsdowne Partners with 24%.

Upsher-Smith already controls a 16% stake, acquired as part of previous transactions and buying in the market, while Lundbeck owns 9%, also as a result of a licensing deal.

Proximagen might not have built the strong CNS-focused company promised with the 2009 fundraising, and some will rue the fact that it will no longer be around to contribute to the UK sector's growth. But it has delivered for shareholders, and pursuading investors that money can be made from UK biotech is at least as important a role.