

## Flurizan failure highlights Myriad's diagnostic potential



This year's second most eagerly awaited Alzheimer's trial data was announced this morning, with the disappointing news that Myriad Genetics' Flurizan had failed to meet its phase III endpoints for improving cognition and activities of daily living. Myriad have therefore decided to terminate all further development of Flurizan.

Whilst the negative data has made for some pretty shocking headlines, its impact on Myriad's share price has been surprisingly lower than might be expected; although shares initially slumped 23% in pre-market trading, they opened just 6% down at around \$45.00. Despite Flurizan holding a potential NPV of \$949m, a decent portion of the biotech's \$2.1bn market capitalisation, the muted share price reaction can be attributed to investors previously assigning little value to the risky project and hopes that the failure will help focus management on their profitable molecular diagnostics business.

### Low expectations

Although the totality of Flurizan's clinical failure was surprising, many investors and analysts were already fairly sceptical about the drug's chances of success.

Flurizan is a gamma secretase inhibitor, designed to prevent the formation of the amyloid beta (A-beta) peptide, the accumulation of which in the brain is seen as the main cause of Alzheimer's disease.

Whilst some scientific experts may seek to use this failure to claim the A-beta approach to finding a causative treatment for Alzheimer's is flawed, the consensus is likely to remain that A-beta remains a valid target, just that Flurizan was not potent enough.

Flurizan's failure may well raise doubts over other gamma secretase inhibitors, such as Eli Lilly's LY450139, currently in phase III trials and other candidates back in phase I, including Eisai's E2012 licensed from TorreyPines Therapeutics. The truth will only emerge with the reporting of pivotal trial data, but hopes may not be diminished just yet given that Lilly's and Eisai's candidates are seen as being more potent and therefore represent a better chance of validating this target pathway.

For an in-depth review of this therapeutic area, see EP Vantage analysis: [Focus - Hopes for Alzheimer's placed firmly on A-beta, June 11, 2008](#).

### Shrewd business

Given the concerns and the seemingly high level of risk investors in Myriad had assigned to this project, the company's ability to strike a lucrative deal with Lundbeck just six weeks ago looks like an impressive bit of business on the part of Myriad.

The \$100m upfront fee it pocketed will offset the company's entire developmental spend on Flurizan over the last year, another reason why the impact on Myriad's share price has been less than severe.

In contrast, Lundbeck's shareholders have taken a rather dimmer view of the failure, sending the Danish group's shares down 10%. For further insight see EP Vantage comment - [Lundbeck punished for expensive gamble, June 30, 2008](#).

### Spotlight on diagnostics

Myriad's ability to shrug off this late-stage clinical failure must also be attributed to investors and analysts focusing more on the company's core molecular diagnostics business, which last year generated revenues of \$145m and a profit of \$60m, a healthy 41% income margin.

Myriad currently markets five diagnostic products, all designed to analyse gene expression to assess an

individual's risk of developing certain cancers later in life. This is seen as a particularly hot business area at the moment, highlighted recently by Roche's determination to acquire Ventana, which it finally secured via a hostile takeover for \$3.4bn.

With analyst consensus forecasts for \$515m in diagnostic revenues by 2012, suggesting a profit of around \$210m based on historical trends, the NPV of this segment is likely to easily exceed \$1bn.

As such, investors may be hoping that the Flurizan failure provides management with a clear signal that focusing on developing the lower risk side of the business provides the strategy best-suited to generating profits and returns to shareholders.

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