Cytos deal with Pfizer highlights potential

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Cytos Biotechnology, a small Swiss vaccines specialist, received further important validation for its novel Immunodrug technology today, with the news that Pfizer had entered into a research deal with it worth up to SFr150m ($136m) in upfront and milestone payments.

The deal, which sent shares in Cytos 9% higher to SFr57, is the second the group has struck with big pharma; Novartis has already partnered its smoking vaccine and Alzheimer’s disease projects. But this deal is broader and earlier stage, giving Pfizer the right to use the technology to investigate specific disease targets, and underscores the potential seen in therapeutic vaccines, as well as the company’s own expertise.

Under the agreement, Pfizer will use Cytos’s technology to investigate undisclosed targets, outside of the Swiss company’s own programmes. The Immunodrug platform applies immunostimulatory DNA sequences to induce targeted T-cell responses, producing a therapeutic vaccine to treat conditions such as allergies and high blood pressure. The targets Pfizer has chosen will no doubt address blockbuster indications, and although under the deal Cytos can continue to work on the same indication, it cannot work on the same target.

All development work will be undertaken by Pfizer, and should any project be successful, the pharma giant will buy rights to commercialise them.

Strong finances

In terms of cash, Cytos will get SFr10m upfront, up to SFr140m in milestones and manufacturing technology transfer fees, and royalties which may reach a double digit percentage. The income makes it more likely that the Swiss group now has enough funds to break even, particularly as two further licensing deals are on the horizon.

The group’s universal allergy vaccine, which generated positive phase II results last month, is likely to be first up. Further down the line, its angiotensin, or high blood pressure vaccine, which is due to report crucial phase II results early next year, will no doubt attract interest should the data be positive.

Even without those two deals, some analysts believe the group has enough cash to last until 2010, meaning Cytos is rare among biotech stocks for containing minimum fundraising risk.

Take out target?

Despite the jump in Cytos’s share price today, the stock is still only at a two-month high. The company is regularly named as a takeover target, but as EP Vantage has argued previously, the early stage of its pipeline means potential predators are probably happy to wait for more substantial clinical success before considering a move. (See EP Vantage: Cytos climbs on allergy data and takeout fantasies; July 10, 2008).

Whether the deal with Pfizer makes it less or more attractive, is debatable, although the compass probably swings towards the latter. The fact that two major pharma companies have shown an interest in its technology is encouraging, and the most recent deal is for specific targets, so does not take any value out of the company as a deal over the allergy or high blood pressure projects would.

If other big players are interested in the space, news that Pfizer has cornered what are bound to potentially very valuable targets could force others to act, if they want a look in on this promising approach to the field of therapeutic vaccines.

Therefore, even if it does not prompt a take out, the Pfizer deal could force others to look more closely at what Cytos has to offer. For investors, that should mean shares in the company start to reflect more accurately the value in the company.