Endocyte – QuickView

15 December 2011

Event	New analysis of PRECIDENT study

Investment summary: Unpleasant precident

Endocyte's shares have plunged 68% over two days as investors reacted to a mixture of positive and some negative findings in a supplemental analysis of the PRECIDENT Phase II study of EC145 in platinum-refractory ovarian cancer. Although on balance the new analysis was positive, the market seems to have panicked that with the PROCEED Phase III study stalled, the timing of a conditional EU approval is less certain. Nevertheless, the reaction is way too harsh and presents an unexpected buying opportunity in a high-quality US oncology player.

Conditional EU filing plan now in doubt

An independent review of the data from the 149-patient PRECIDENT study validated the EC20 diagnostic and confirmed the PFS result, but threw up an unexpected, possibly biased, overall survival result. Combined with the long-running problems with the PROCEED study, this could threaten Endocyte's rapid approval strategy for the folate-targeted anticancer drug. The planned EU conditional filing for EC145 in folate-receptor positive ovarian cancer, which was due in Q112, will have to be delayed until it can get a second confirmatory up and running.

PLD shortage means patents fail to proceed into study

The supply shortage for Doxil (pegylated liposomal doxorubicin or PLD) has effectively halted recruitment into the PROCEED study, which uses the drug. The EU regulator is thought unwilling to consider a conditional approval application, with lack of visibility over the likely results from a confirmatory study.

Evolving Phase III plan may have some upside

Endocyte is now considering a second Phase III study in ovarian cancer, using paclitaxel as a control, as a way to overcome the PLD shortages. There are some advantages to this plan, as it could perhaps file on the basis of PFS data from two separate Phase III studies.

Valuation: Sell-off creates attractive buying opportunity

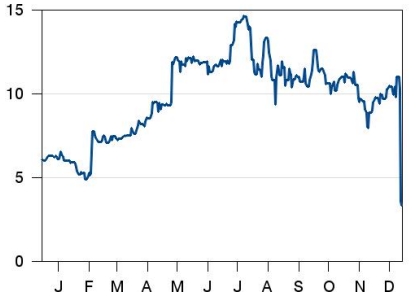
Endocyte now trading below its cash value and offers a very strong investment case, even on the worst-case scenario that EC145 does not reach the market before the read-out of PROCEED and/or another study in, say, 2015. The recent sell-off therefore offers a geared play on this outcome.

Consensus forecasts

Year End	Revenue ($m)	PBT ($m)	EPS ($)	DPS ($)	P/E (x)	Yield (%)
12/10	0.0	(20.1)	(21.8)	0.0	N/A	N/A
12/11e	0.0	(42.4)	(1.5)	0.0	N/A	N/A
12/12e	8.2	(48.4)	(1.2)	0.0	N/A	N/A

Price	$3.34
Market Cap	$119m

Share price graph



Share details

Code	ECYT
Listing	NASDAQ
Sector	Biotechnology
Shares in issue	35.6m

Business

Endocyte is a US biotech company developing small molecule drug conjugates for cancer and inflammatory disease. It has four drugs in clinical development: EC145 (ovarian, Phase III and NSCLC Phase II), EC0489, EC225 and EC17 (all Phase I, solid tumours).

Bull

- EC20 diagnostic now validated, folate a validated target.
- Potential licensing deal catalyst for EC145.
- Trading below cash value ($127m).

Bear

- Doxil supply issues mean PROCEED Phase III trial is on hold.
- EC145 Phase III plan evolving.
- EC145 may have to go up against Avastin in refractory ovarian setting.

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