Zafgen

Pharma & biotech

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Successful IPO to advance beloranib

In June 2014, Zafgen raised net proceeds of $103m from a 6.9m share initial public offering (IPO) at $16 per share. Studies for obesity drug beloranib ranging from Phase IIa to Phase III are planned through 2015. Zafgen plans to conduct a Phase IIb study before starting Phase III in the general population setting. Lacklustre sales of newly marketed obesity drugs from Arena and Vivus support a long-term opportunity, given beloranib's unique mechanism of action, and favourable data to date.

IPO proceeds to fund broad beloranib programme

Zafgen ended Q214 with $134m in cash. It plans to conduct a Phase III beloranib study in rare genetic disease Prader-Willi Syndrome, which affects between 1:8,000 and 1:50,000 globally, and has been granted orphan drug designation in the US and Europe. This niche indication could provide a faster path to market, and premium pricing potential. Zafgen plans a Phase IIb in severe obesity in the general population; its Phase IIa hypothalamic injury related obesity study is 50% recruited.

Beloranib a first-in-class obesity medicine

Beloranib's unique mechanism of action reduces hunger while stimulating the use of stored fat as an energy source by inhibiting production of enzyme MetAP2. In contrast, the current class of marketed obesity drugs target the brain to elicit a non-hunger response. Beloranib has shown comparable efficacy in an early study, but saw no serious adverse events in Phase IIa, while Belviq and Qsymia have been linked to depression and cardiovascular risks, among others. Such results could overcome its subcutaneous administration compared with orally dosed incumbents.

Weak launch of competitors provides opportunity

In 2012, Belviq (Arena/Eisai) and Qsymia (Vivus) were FDA approved for obesity. A third drug, Orexigen's Contrave, could be approved before the end of 2014. Despite one-third of the US adult population being obese, Belviq and Qsymia have performed below expectations, with Q214 sales of $11m and $9.1m, respectively.

Valuation: Reflects development stage for beloranib

Zafgen has a current EV of $299m, reflecting its development stage compared with the EVs of Arena ($729m), Orexigen ($682m) and Vivus ($344m); it is most aligned with Vivus, which, unlike the others, has not partnered its drug Qsymia. Beloranib offers a novel mechanism of action. Development and regulatory progress should unlock significant upside, particularly if better efficacy and safety is confirmed.

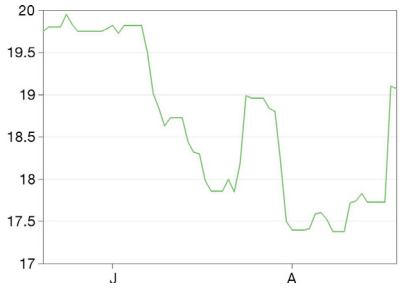
Consensus estimates

Year end	Revenue ($m)	PBT ($m)	EPS ($)	DPS ($)	P/E (x)	Yield (%)
12/13	0.00	(14.03)	(3.11)	N/A	N/A	N/A
12/14e	0.08	(47.03)	(5.27)	N/A	N/A	N/A
12/15e	0.00	(65.55)	(2.76)	N/A	N/A	N/A

Source: Company reports, Thomson Datastream

Price	$19.07
Market cap	$433m

Share price graph



Share details

Code	ZFGN
Listing	NASDAQ
Shares in issue	22.7m

Business description

Zafgen Inc. is a biopharmaceutical company dedicated to significantly improving the health and well-being of patients affected by obesity. Its lead product candidate beloranib is a novel, first-in-class twice-weekly subcutaneous injection for treatment of obesity related conditions.

Bull

- Solid efficacy and safety profile to date.
- New mechanism of action vs marketed obesity drugs.
- Well funded to advance beloranib to pivotal studies.

Bear

- Commercialisation of obesity drugs has been challenging.
- Beloranib is years from market.
- Efficacy and safety data yet to be confirmed in larger studies.

Analysts

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