Why Biotech Investors Should Target the Takeouts: Cantor Fitzgerald's Irina Rivkind Koffler

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COMPANIES MENTIONED

- Agile Therapeutics Inc.
- Evoke Pharma Inc.

Taking a page out of Big Pharma's playbook—looking for likely takeout candidates—is a profitable way to approach small-cap biotechs as potential investments, especially since large caps with shrinking pipelines have an unquenchable hunger for good new drugs and technologies, and the resources to track those drugs and technologies down. In this interview with *The Life Sciences Report*, Irina Rivkind Koffler of Cantor Fitzgerald brings two companies with takeout potential to the table.

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Source: George S. Mack of *The Life Sciences Report*

The Life Sciences Report: You spent five years at Forest Laboratories Inc. (FRX:NYSE) as a product manager. What knowledge from that experience adds value to your practice as a sellside analyst today?

Irina Rivkind Koffler: I was actually in clinical research for three of my five years at Forest, and spent a total of 10 years in the pharmaceutical industry before joining the sellside. My experience managing clinical trials, analyzing data sets and creating marketing programs makes it significantly easier to understand the businesses I analyze.

TLSR: You have some companies in your coverage that are potential takeouts. How do you narrow down the prospects of a takeout? Does it come down to larger companies believing they can derisk their development pipelines by picking up smaller companies?

IRK: Generally speaking, a small company developing a drug that requires significant commercial investment upon launch either requires a larger commercial partner or is a takeout target, in my view. This is because financing a commercial program could be challenging for a smaller company—and it is especially true for companies developing unique or differentiated products that are a good fit for existing portfolios within larger pharmas. Other good indicators of potential takeouts are development-stage drugs within attractive cash pay sectors, drugs targeting specialty sectors, and drugs in orphan areas.

TLSR: Your experience includes researching generics. How does intellectual property protection work with reformulated products? Are there fewer years of protection than for a new molecular entity?

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IRK: A new chemical entity receives five years of exclusivity protection from the U.S. Food and Drug Administration (FDA) in addition to its patent estate, which is generally more robust than that of a reformulated drug. Reformulated drugs generally only get three years of market exclusivity.

TLSR: Irina, please tell me about a company you have under coverage.

IRK: Agile Therapeutics Inc. (AGRX:NASDAQ) is developing a contraceptive patch that we believe represents an attractive commercial opportunity. The patch is called Twirla (ethinyl estradiol + levonorgestrel). It is designed for application once a week, and is currently in Phase 3. We estimate risk-adjusted peak sales of over $300 million ($300M), and we think this asset could make the company a takeout target.

TLSR: Agile has had a decent run-up this year. It's up more than 70% over the past 52 weeks. How has that happened? Isn't the women's hormonal contraceptive market already crowded—even with skin patches already on the market?

IRK: There is scarcity value for late-stage women's health assets, driven by prior Actavis Plc (ACT:NYSE) acquisitions.

TLSR: Is Twirla's lower-dose synthetic estrogen formulation a safety issue?

IRK: Lower estrogen exposure is believed to be safer. Agile has already demonstrated an improved tolerability profile for its patch when compared to the existing Ortho Evra patch (norelgestromin/ethinyl estradiol transdermal system; Janssen/ Johnson & Johnson [JNJ:NYSE]).

TLSR: The company is also making the claim that Twirla, if approved, would be more convenient. How is that?

IRK: Twirla would be more convenient than pills since you only need to put on one patch every week. Management has indicated that relative to the existing patch, Twirla may be softer and more flexible, but without any major convenience improvements.

TLSR: Is there another company you'd care to discuss?

IRK: Evoke Pharma Inc. (EVOK:NASDAQ) has a late-stage intranasal metoclopramide in development for diabetic gastroparesis, with Phase 3 trial results expected in late 2015. We view this company as a takeout candidate due to the large market opportunity within existing metoclopramide prescriptions—over 2M per year.

TLSR: The candidate, EVK-001, is in two multicenter, phase 3 trials for diabetic gastroparesis—one with 200 female patients and one with 150 male patients. They are both scheduled to wrap up with final data collection in July of this year. With up to 4% of the U.S. population affected by this problem, I'm wondering if these trials could possibly be pivotal? They don't seem to be powered well enough.

IRK: Your data may not be entirely correct with respect to the trial in men. That study does not have a prespecified number of patients. The company just needs to collect data on men alongside women to assess safety, but doesn't need to demonstrate any efficacy in this subgroup. Evoke's management has indicated data for the male group is not required for FDA approval.

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It is difficult to opine on "underpowered or overpowered," since these trials are carefully designed in conjunction with FDA consultation to measure a particular effect size—a difference in a symptom score between drug and placebo—and this may be unrelated to the size of the sick patient population. In this case, the

company is testing one dose of intranasal metoclopramide compared to placebo. In the prior Phase 2b trial, Evoke tested two doses against placebo in only 287 patients.

TLSR: Could we see a product launch in 2016?

IRK: I currently model launch in late 2016, but depending on enrollment timelines that could get pushed out to 2017—especially since companies don't like to launch during the holiday season.

TLSR: The company references the American Motility Society Task Force on Gastroparesis, which says that the prevalence of this problem—delayed emptying of the stomach—is as high as 4–6% of the population in the U.S. What percentage of that group could be candidates for therapy with EVK-001? Would it only be the diabetic patients, with label expansion later?

IRK: We look at the market opportunity based on existing metoclopramide prescriptions, rather than on patients. We estimate that Evoke could capture approximately 20% of the existing 10 mg metoclopramide prescriptions with its intranasal product. We don't expect future trials or label expansion, since doctors should intuitively understand how to use this well-established drug, and easily identify patients who would benefit from the novel delivery system.

TLSR: Evoke is ahead of competitive products from Actavis and GlaxoSmithKline (GSK:NYSE), but are these potential competitors overhanging this stock? Why is this name languishing with a $37M market valuation?

IRK: We do not believe that competitive products are overhanging the stock. We think there are concerns about trial outcome and clinical risk, as well as about the company's need for financing post-data release. Finally, the stock is illiquid, and because of its small market cap, many institutional investors cannot own it in their portfolios. These factors pressure the stock.

TLSR: Thank you for your time.

Irina Rivkind Koffler is a senior equity research analyst covering specialty pharmaceuticals with Cantor Fitzgerald. Prior to joining Cantor in 2011, she worked for Duncan-Williams Inc., where she was a senior vice president in the equity capital markets group also following small- and mid-cap pharmaceutical stocks. Rivkind Koffler was previously a research associate at UBS covering large-cap pharmaceuticals, specialty pharmaceuticals and generics. Prior to joining UBS, she spent 10 years in the pharmaceutical industry. She received a bachelor's degree in biology from Cornell University, a master's degree in epidemiology and preventive medicine from the University of Maryland, and a master's degree in business administration from New York University.

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