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Starpharma's price slide doesn't gel

BRENDON LAU | 10 APRIL 2013

Summary: Starpharma's latest Phase II results from its VivaGel bacterial vaginosis prevention product triggered a share price slide last week, with some investors viewing the results in a negative light. But further analysis shows the company is well on track, and most brokers rate it a buy.

Key take-out: The superior efficacy of VivaGel is likely to make it the category leader in a market worth \$US1 billion a year.

Key beneficiaries: General investors. **Category:** Growth.

When is good news bad news? It takes more than someone with a doctorate and who graduated dux from the prestigious Melbourne Business School to tell you.

The well respected chief executive of Starpharma Holdings, Jackie Fairley, could only watch haplessly as jittery shareholders wiped \$16 million off the value of the company in the two trading sessions following last Thursday's announced clinical result, which should really have been a positive catalyst for the stock.

You don't get many chances to profit from misunderstandings, and I see this as a good time to be picking up the stock as it gyrates close to last December's 14-month low of \$1.015.

But it's understandable why Starpharma's latest Phase II results using VivaGel to prevent recurrent bacterial vaginosis (R-BV) has sent investors running in circles, with the share price first surging 26% to \$1.37 last Thursday morning before paring gains to finish at \$1.135.


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Starpharma said VivaGel was successful in preventing the recurrence of the most common vaginal infection, with over 80% of patients remaining BV free at 16 weeks.

However the stock has remained under pressure since, with naysayers pointing out that Starpharma has effectively missed all of its so-called "end points" in the Phase II study. Investors treat "end points" as the Holy Grail of companies to determine if a

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If only this point was more obvious, perhaps it would have saved investors some angst.

The other reason why p-values shouldn't be overplayed is because the Phase II trials are exploratory. There hasn't been any other similar trials done for R-BV, and the lack of know-how means this trial shouldn't be compared with other Phase II tests with clearer pathways to their end points.

While there is little doubt that having a better defined trial will increase the probability of achieving statistical significance, Starpharma's Phase II R-BV trial more than supports the case for a more expensive Phase III pivotal trial.

In fact, Smith thinks Starpharma passed the Phase II with distinction as his biggest fear for VivaGel was laid to rest.

"We've known from every single trial we've seen that the gel without the active ingredient had an effect [on women with BV], and it had quite a strong effect," he said.

The placebo effect, coupled with the limited patient numbers, meant there was a real risk that the effect of VivaGel over the placebo would be much more muted than it was.

The fact that women using 1% VivaGel had less than half a chance of R-BV compared with the placebo is enough to catch the attention of large pharmaceutical companies looking for a partnership deal, in Smith's opinion.

However, if gels with no active ingredient can also make a difference to BV sufferers, is there a risk that VivaGel would face competition from cheaper alternative treatments?

The competitive threat may not be great, as Smith points out: “how can you set up a trial to prove a placebo works against a placebo “.

Even if cheaper products do appear on the shelves claiming “symptomatic relief”, the superior efficacy of VivaGel is likely to make it the category leader in a market that is worth \$US1 billion a year.

This is based on my belief that BV sufferers are price insensitive given how desperate potential users will be to treat this embarrassing condition.

Chronic sufferers have next to no social life as they fear leaving the house, and what's worse, there are no effective treatments on the market to treat R-BV.

What is also worth remembering is that VivaGel for BV is not the only product in Starpharma's toolkit. The biotech has a fairly large pipeline of treatments, such as drug delivery and agri-chemicals.

Ansell and Okamoto Industrials have also licensed the use of VivaGel to coat their condoms to prevent the spread of sexually transmitted diseases (including HIV).

Just about all brokers polled on Bloomberg have a “buy” recommendation on the stock ,with an average price target of \$1.79 a share.

Brendon Lau is the editor of Uncapped and may have interests in some of the stocks mentioned in the article.



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