

SIGnet Cambridge Group visit to Alizyme 31st July 2007.

By G.S.Hathorn

Introduction

Investors look for a substantial return when investing in technical companies with a long development period, such as drugs. The long development period can let competitors develop products for the same market niche. This is a serious problem in many fields but because of the long advance safety and efficacy testing it is perhaps less so in drug development, as below We met Mr David Campbell, Financial Director, who gave us a very interesting account based on the Alizyme "Interim Results Presentation" for 2007, see Alizyme web site.

Limits of this report.

These notes amplify the "Interim Results Presentation" for 2007 , which is on the Alizyme web site, along with the interim and annual reports and other information. I do not want to duplicate information already in the public domain. Regular email updates from Alizyme can be arranged by accessing their web site. Investors will receive information at the same time as the stock market so levelling "the playing field" a little. Investor Ease comments offer useful history of the press releases on Alizyme.

The company

Unlike other drug companies Alizyme have no laboratories of their own so their overheads are very low. Alizyme occupy offices on a floor of a building on the Granta Park industrial estate at Abington (Cambridge) and have 25 employees, with a variety of expertise and experience. They outsource for information when necessary, such as say, for the production of a particular drug, . The company wish to move into a more commercial direction now and will utilise the commercial experience of the new CEO, Tim McCarthy. The company does not, as yet, have a continuous revenue stream until agreements with partners are signed and delivered. Some income has derived for payments on reaching "milestones" on various products. Brokers forecasts of income are estimates. Revenue is anticipated from two figure (%) royalties when products become commercial. The relatively static price of the shares is probably due to no news. No bad news is anticipated. Good news, such as arranging Phase III trials with a partner should raise the share price.

Modus Operandi.

The company identifies areas where a drug is needed and then looks for suitable candidates. Existing drugs that have problems are a target as the potential market is a "known". So far they have taken drugs through Phase II Trials and then look for a partner to fund Phase III Trials and sell and market the drug and take 2 figure (percentage) royalties. All product information is fully owned. Some income resulted from the tie up with the Japanese firm, Takeda, licensing Cetilistat in Japan. The licence for Cetilistat is typical in that payments for various milestones were agreed and royalties on sales. For this reason it is not seen as income since it is not a continuous revenue stream as would be sales royalties. For Phase III trials it is possible to agree a set of trial objectives with the FDA which makes final approval easier to achieve. At the Phase III Trial stage a partner is needed.

Products

Cetilistat. (Obesity and diabetes)

Fat is digested in the gut by the production of a lipase by the pancreas, which as the name indicates, is a lipid chopping enzyme and cuts the lipid to manageable proportions so that the gut can absorb it into the blood stream for further processing and storage. Cetilistat is a lipase inhibitor. Cetilistat causes the fat to pass through the gut unabsorbed causing weight loss up to the point where the body's serious weight loss defences cut in i.e. weight loss can only continue up to a certain limit. As a result of successful Phase II trials outline plans for Phase III trials were agreed with the USFDA in 2006. These comprise three studies involving 1500 patients each. These will test obese patients only, obese patients with other conditions and a obese patients with Type II Diabetes, costing between \$150-175 mn Takeda are going ahead with Phase II Trials in Japan with results expected next year. Drugs are tested against placebos. Placebos often produce positive results in patients so the drug must perform significantly (statistically) better than the placebos. The sales potential is in excess of \$1bn p.a.

The Competition _ Xenical, Rimonabant.

Xenical

One of the factors that put investors off technology investment is the possibility of a competitor getting to the end product first. In the complex field of drugs, as seen with Xenical, there are advantages in being second sometimes. Xenical, from Roche is another lipase inhibitor with problems with side effects. Sales are \$500,000,000 (half a billion). The FDA have agreed to its sale over the counter by GSK, known as Alli pronounced 'al-eye', as in wartime. The FDA therefore consider it safe as they are very concerned not to allow the sale of unsafe drugs over the counter. The recommended dose is 60 mg as opposed to Xenical 's 120 mg by clinicians, i.e. halved. Prospective sales are thought to be \$ 1.5 bn p.a.. Xenical, binds fat into a big pool of oily fats and can cause explosive diarrhoea.

Rimonabant from Sanofi-Aventis is considered unsafe by the FDA panel who voted 14-0 against approval on 13th June 2007. It is called Zimulti in the US and Acomplia in Europe. There are psychological and neurological side effects. It works by inhibiting neuro receptors and suppresses appetite. It has the opposite effect to Cannabis which causes hunger and a happy frame of mind. It is not recommended for patients with depression. The market for obesity products has not yet been fully established and a successful product could certainly substantially grow the market. Sanofi-aventis were quoting peak sales potential of their obesity product Acomplia of around 4.5bn p.a. before the FDA Advisory Committee voted 14-0 against recommending its approval.

Renzapride (Irritable Bowel Syndrome _ IBS)

Renzapride is in Phase III trials in the USA with up to 1700 female IBS patients and is expected to report in the first half of 2008. An EU phase III trial is in preparation. A further Phase III trial will be needed to build up data, for which there is insufficient cash at the moment. Sometimes placebo results show as much as 20% improvement so the drug has to perform significantly (statistically) better. Zelnorm from Novartis has been withdrawn due to cardiovascular issues and is not approved in Europe. In 2006 Zelnorm sales were \$561 million and Renzapride has potential sales of \$ 1 billion. After completion of Phase III sales usually take a year to start. The sales potential is in excess of \$1bn p.a.

Colal-Pred (Ulcerative colitis)

Colal-Pred is essentially a better way of giving the steroid Prednisolone, by means of a coated pill to prevent its release until it reaches the colon, where it is required to act. It is in Phase III trials with results expected in the first half of 2008. The technology was bought from BTG. It treats the whole of the colon with an already known steroid, which should lead to quicker approval.

ATL-104 (Mucositis)

Chemotherapy treatments for cancer knock out fast dividing cells including cancer cells, hair follicles and mucosal cells which produce mucous protection for the mouth, stomach and gut. In Mucositis the mucosa fail producing dry mouth and unprotected mucosa, which if severe prevent eating and drinking therefore the chemotherapy has to be stopped. ATL-104 is taken as a mouthwash for 3 days before chemo and three days after hence it is contained in the mouth and gut which is where the "action" is required and therefore has less side effects. Phase III will be a loss financially. Amgel's existing product is injected and therefore its action is not confined to the gut. Phase II has shown ATL-104 works. It is potentially safer.

Conclusion

Positive financial results are expected in second half of 2008. The loss for 2007 full year is anticipated to be £ 5,000,000. Third parties will be expected to make milestone payments. Colal – Pred is expected to deliver in 2009, Cetilistat in 2010.

The market cap for the company is currently 200,333,517 shares X 83.75 (price at 11.30 a.m. on 12th September 2007)= £167,779,320. See the Alizyme website for the current situation The price has been stagnant at 80 to 90p. It will only go down on bad news and should go up on good news as developments are completed . The appointment of NovaQuest and Ferghana Partners is with a view to approaching CEOs direct rather than their employees who may already have a full agenda.

85% of shares are held by institutional investors, directors 3 %, top 20 institutions hold about 55%.

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