

29 May 2009

Neuropharm

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/07	0.0	(2.7)	(13.8)	0.0	N/A	N/A
06/08	0.0	(4.8)	(12.8)	0.0	N/A	N/A
06/09e	0.0	(5.7)	(17.2)	0.0	N/A	N/A
06/10e	0.0	(2.4)	(7.5)	0.0	N/A	N/A

Note: * PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: New NPL-2008 trial plan

Neuropharm's shares rose sharply yesterday on the suggestion that it may be close to securing a pharmaceutical company partnership for lead product NPL-2008. It has started working on the design of a second Phase III trial in autism with a potential partner, suggesting it is at an advanced stage in negotiations. Confirmation of a partnership and trial plans would effectively transform the investment case, following the setback in the SOFIA study earlier this year. Our model, which does not assume a partnership, suggests it will end the financial year (30 June) with c £6m of cash.

New strategy for NPL-2008 taking shape

Having largely completed its data analysis from the negative SOFIA study in autism, Neuropharm appears to have a viable strategy for further development of NPL-2008 for autism. It is sufficiently confident of the partner interest in the programme to highlight that it expects to sign a deal by the autumn of this year.

Data analysis complete on SOFIA study

As reported earlier, the 158-patient SOFIA study did not meet its primary endpoint of reduction in repetitive behaviour, as measured by CYBOCS-PDD, which showed no statistically difference against placebo over the 14-week treatment period. It is not known whether there were any positive results or trends in the secondary endpoints. The indication of partner interest suggests there is a plausible explanation for the unexpected result (ie a high placebo response).

Fragile X programmes: Collaboration likely

Neuropharm continues to work towards establishing a collaboration in Fragile X syndrome. Its two programmes in this area both reported positive results last year.

Valuation: Potential up to £50m, depending on deal

Neuropharm is trading at around its June 30 cash value and the investment case largely depends on the formation and terms of any partnership. Potentially, if a deal can be struck, the company could have a rNPV of up to £50m, even using a relatively low probability for success, although this would be dependent on the financial terms.

Price 22p
Market Cap £7m

Share price graph



Share details

Code NPH
Listing AIM
Sector Pharmaceuticals & Biotechnology
Shares in issue 31.5m

Price

52 week High 174.0p Low 5.6p

Balance sheet as at 31 December 2008

Debt/Equity (%) N/A
NAV per share (p) 31.7
Net cash (£m) 10.2

Business

Neuropharm is a UK company focused on the development of products for CNS conditions affecting children. Its lead product NPL-2008 could re-enter Phase III studies for autism or a similar condition.

Valuation

	2008	2009e	2010e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

Revenues by geography

	UK	Europe	US	Other
0%	0%	0%	0%	0%

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Update: New NPL-2008 Phase III trial plans

Neuropharm appears to be close to securing a pharmaceutical company partnership for the development and commercialisation of its lead product NPL-2008, a fast-melt formulation of fluoxetine. Yesterday it issued a statement saying it has started working on designs for a second Phase III trial with a potential partner, prompting a significant rise in its share price. The company is presumably at an advanced stage in negotiations, since it is indicating that it expects to sign a deal by the autumn of this year. This should rebuild confidence in the programme following the negative result in the Phase III SOFIA study in autism in February.

It also reported the data analysis of the data from the SOFIA study is now largely complete, but has not yet disclosed whether there were any signals seen in the secondary endpoints. In February, the company reported the SOFIA study did not achieve statistically significant results in its primary endpoint of improving repetitive behaviour in autistic children/adolescents, as measured using the CYBOCS-PDD (Children's Yale-Brown Obsessive Compulsive Scale modified for pervasive developmental disorders). CYBOCS-PDD scores were reduced (ie patients improved) on both NPL-2008 and placebo over the 14-week treatment period, with no statistically significant difference between the two.

Although the magnitude of the improvement over time on active and placebo was not disclosed, it is understood to be in line with that seen in the previous studies. Under the study design, patients were titrated using three doses (2mg, 9mg or 18mg/day) to try to achieve and maintain at least a 25% reduction in CYBOCS-PDD, which was assessed at two-weekly intervals. The study recruited 158 patients (aged between five and 17).

The apparent interest of partners suggests there is a plausible explanation for the unexpected SOFIA result. One possibility is aspects of the trial design led to the higher placebo effect. The Zydys formulation was found to be very patient-friendly and the study achieved a high compliance rate (>95%). It may also be possible that the aspect of SOFIA which sought to identify the lowest effective dose may have meant that patients were under-dosed.

Previous studies with fluoxetine in autism, including a Phase IIb trial (in children and adolescents) and a Phase III trial (in adults), have produced positive results. The earlier Phase IIb study saw an 8% reduction in CYBOCS with fluoxetine (using a different formulation from NPL-2008), versus a 3% increase on placebo, a statistically significant difference ($p=0.039$).

Valuation and financials

Neuropharm is currently trading at just above its effective cash value (estimated £6m at 30 June), and in advance of any deal, it is difficult to establish a valuation. However, if it can achieve a partnership, even applying a relatively low probability (eg 20%) of success for NPL-2008, would suggest a risk-adjusted NPV of up to £50m, depending on the financial terms. Biotech companies do, however, typically trade at a significant discount to any theoretical rNPV derived in this way.

Edison's financial model, which does not anticipate any partnerships, is presented in Exhibit 1.

Exhibit 1: Financials

Note: 2006 was the year of incorporation. 2009/2010 forecasts should be considered tentative until the strategy is clear going forward.

Year end 30 June	£'000s	2006 IFRS	2007 IFRS	2008 IFRS	2009e IFRS	2010e IFRS
PROFIT & LOSS						
Revenue		0	0	0	0	0
Cost of sales		0	0	0	0	0
Gross profit		0	0	0	0	0
EBITDA		(277)	(2,986)	(5,729)	(6,639)	(2,412)
Operating profit (before GW and except.)		(277)	(2,989)	(5,734)	(6,814)	(2,420)
Intangible amortisation		0	(3)	(3)	(42)	0
Exceptionals		0	0	0	(147)	0
Share-based payments		(86)	(544)	(143)	(600)	(250)
Operating profit		(363)	(3,536)	(5,880)	(7,603)	(2,670)
Net interest		0	320	881	405	70
Profit before tax (norm)		(277)	(2,689)	(4,799)	(5,690)	(2,350)
Profit before tax (FRS 3)		(363)	(3,236)	(4,945)	(6,479)	(2,600)
Tax		0	0	754	250	0
Profit after tax (norm)		(277)	(2,689)	(4,045)	(5,440)	(2,350)
Profit after tax (FRS 3)		(363)	(3,236)	(4,191)	(6,229)	(2,600)
Average number of shares outstanding (m)		4.2	19.5	31.5	31.5	31.5
EPS - normalised (p)		(6.6)	(13.8)	(12.8)	(17.2)	(7.5)
EPS - FRS 3 (p)		(8.7)	(16.6)	(13.3)	(19.8)	(8.2)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
BALANCE SHEET						
Fixed assets		0	59	223	16	18
Intangible assets		0	47	42	0	0
Tangible assets		0	12	181	16	18
Investments		0	0	0	0	0
Current assets		570	18,109	13,864	6,653	4,501
Stocks		0	0	0	0	0
Debtors		101	458	704	400	400
Cash		469	17,651	12,658	6,253	4,101
Other		0	0	502	0	0
Current liabilities		(146)	(1,365)	(1,332)	(1,000)	(800)
Creditors		(146)	(1,365)	(1,332)	(1,000)	(800)
Short-term borrowings		0	0	0	0	0
Long-term liabilities		0	(101)	(97)	(101)	(100)
Long-term borrowings		0	0	0	0	0
Other long-term liabilities		0	(101)	(97)	(101)	(100)
Net assets		424	16,702	12,658	5,568	3,619
CASH FLOW						
Operating cash flow		(232)	(2,124)	(5,743)	(6,800)	(2,212)
Net interest		0	320	881	405	70
Tax		0	0	0	0	0
Capex		0	(15)	(185)	(10)	(10)
Expenditure on intangibles		0	0	0	0	0
Acquisitions/disposals		0	0	0	0	0
Financing		701	19,021	0	0	0
Dividends		0	0	0	0	0
Net cash flow		469	17,202	(5,047)	(6,405)	(2,152)
Opening net debt/(cash)		0	(469)	(17,651)	(12,658)	(6,253)
HP finance leases initiated		0	0	0	0	0
Other		0	(20)	54	0	0
Closing net debt/(cash)		(469)	(17,651)	(12,658)	(6,253)	(4,101)

Source: Edison Investment Research

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