

## York Pharma (YRK.L)

Pharmaceuticals

# 134.5p

as at 25 April 2007

*The interim report was in line with the preliminary announcement. It also announced the acquisition of Rosanto Pharma and its strategically exciting technology, together with a fund-raising to pay for development and add to working capital.*

### KEY POINTS

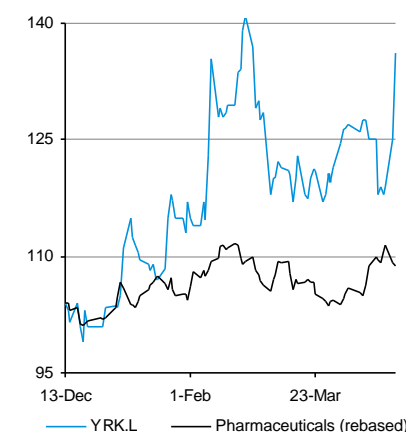
- ✦ **No surprises in the interim statement itself** – The numbers are consistent with the prelims and, as one would expect, one month has brought little news of York's portfolio.
- ✦ **The new acquisition, Rosanto Pharma, is full of sophisticated potentially valuable technology** - Cyclopentenone derivatives exhibit promise in inflammation, cancer and antiviral therapy: York has done well to reel in a world-class group in the field.
- ✦ **The acquisition is consistent with York's dermatology strategy** – It should not detract from the main focus and it adds value longer term.
- ✦ **It offers the prospect a new class of topical products for psoriasis** - This opens the door to a completely different proprietary route to market for York, with a timing that could make co-marketing a viable possibility.
- ✦ **The acquisition and money raising are dilutive** - Our numbers have slipped from £3.7 to £3.4 without adding any immediate value. But if the indications for this class of drugs pan out, we see the back-end value more than offsetting the current dilution.
- ✦ **Abasol? remains on target for mid 2007 – still six months later than the market had hoped --** Abasol is still on target for this year, and investors should chalk the half year delay up to slippage due to regulation.
- ✦ **Building value and credibility** – with Abasol? approaching MHRA approval, the stage is set for its move to launch and exploitation through partnerships. The rest of York's portfolio is also in line for significant news-flow. We expect this to add to the profile of the company and benefit its valuation.

### COMMENT

The interim report contained no surprises. The numbers reflect those provided at the prelims and much of our note of 28 March still applies. Where we did get it wrong is that the acquisition that they have announced has nothing to do with adding more pharma products to the bag to go along with Abasol. Instead, York has unearthed a high-tech acquisition, which fits well into its long-term portfolio of high-value dermatology products. The latter is aimed at improving on or displacing current therapies in the large 'unmet needs' segments of the dermatology market.

Psoriasis certainly qualifies as an 'unmet need'. Advances in the 'moderate to severe' segment of the market have been substantial, but cost-effective approaches are not yet to hand. In the 'mild to moderate' segment, more effective therapies are needed; this is where York has focused its efforts with topical Vampex. With the acquisition of Rosanto Pharmaceuticals,

### Price Chart



### Valuation

Development drugs	£m
Abasol	
- Skin	35.7
- Nail	39.1
Vampex	19.0
Sabarep	43.0
YP004 - Melanoma	7.0
Less: overhead	27.0
<b>Expected value of pipeline</b>	<b>116.7</b>
Add: Other assets	2.0
Add: Starting cash + new funds	11.2
<b>Total Current Value for Firm</b>	<b>127.9</b>
Less: Bank & Other Debt	0.4
<b>Total Value to Equity Claims</b>	<b>127.5</b>
Less: Alternative Equity Claims	19.5
<b>Ordinary Equity Holders</b>	<b>108.1</b>
<b>Value per share (£)</b>	<b>3.51</b>

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York can deploy RPL228 as a further weapon in the psoriasis armamentarium. We will not dwell on the details of this at this juncture as a full report outlining the significance of this area is in preparation and will be out shortly. Suffice it to say that the cyclopentenone class of metabolites plays a pivotal role in processes related to both cell death and cell preservation; this makes them an attractive target for the development of novel therapies.

**The deal** - York is acquiring the company with 1.62 million shares, at 123.7p per share for a value of around £2 million. Subject to milestones, York will disburse further shares to the three principals of Rosanto Pharma. They are:

- Professor Erik Ånggård
  - MD (1962); PhD (1966) Karolinska Institutet, Stockholm
  - The Nobel Assembly, Karolinska Institutet, Sweden (1975-1985)
  - Co-founder of Vanguard Medica (now Vernalis) (1991)
  - Director of the William Harvey Research Institute (1988-1998)
  - Director General of the William Harvey Research Institute (1998-2000)
- Professor Stanley Roberts
  - PhD, University of Salford (1969)
  - Professor of Chemistry and Founding Director for CoEBio3
  - Professor of Chemistry, Exeter University (1986-1995), Liverpool University (1995-2004), University of Manchester (2004-present)
  - Head of Chemical Research, Glaxo Group Research, Greenford, (1980-1986),
- Professor Gabriella Santoro
  - PhD in Biology, School of Biological Sciences, University of Naples (1974)
  - Professor of Virology, Department of Biology, University of Rome (1997-present)
  - Minerva Award for Science (1997)
  - Bellisario Award to Foremost Woman in Science (2005)

The contribution of Professor Santoro is particularly pertinent. In 1980, she discovered the cytoprotective character of cyclopentenones. Her collaboration with Professor Roberts, a chemist, gave rise to Charterhouse Therapeutics which became Rosanto.

The three former principals of Rosanto will join York's scientific advisory board (SAB) and will be contracted to shepherd through the programmes they bring to their new home, that is psoriasis, cancer and antivirals. York has estimated that it will require £2.5 million to move these programmes to their inflection points. The company decided to take the opportunity to raise this money plus additional working capital for the rest of the pipeline, as well as the company's marketing programmes for Abasol in the UK and Germany.

**Conclusions** - Why is this not a distraction? Much of the research and development of products in companies such as York is contracted out. Psoriasis is psoriasis and York already has all of the talent that it needs in this area so they can leverage off what they already have in place.

The transaction itself was successfully completed in that York was able to raise £5.25 million at 120p which was the previous day's closing price.

A full review of York, its programmes, the rationale for the Rosanto and the science behind cyclopentenone mimetics is in preparation and will be published in the near future.

In the meantime, we believe that this acquisition took place at a reasonable price. While the resulting new share offer dilutes our valuation by nine percent we believe that on balance this is outweighed by the potential partnering and co-marketing opportunities.

We are still of the view that with the UK approval of Abasol expected in mid 2007, we will witness a transformation in the perceptions of this company which, in turn, should reflect itself in its valuation. After that, it is all execution!

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