

# Press Cutting

Client: Chi Med

Publication: EP Vantage

Date: 6 November 2009

## Chi-Med profits from Chinese pharma sentiment

Amid all the hype around China rapidly becoming the world's economic powerhouse, positive investor sentiment towards Chinese companies listed on western stock markets continues to gather momentum. For example, shares in both [Hutchison China Meditech](#) and [China Medical System](#) are easily the best performing healthcare stocks on the London Stock Exchange so far this year, growing 375% and 275% respectively.

Shares in [Hutchison China Meditech](#), also known as Chi-Med, are trading today at a three-year high of 200p, boosted by positive phase IIb results yesterday for its lead pipeline candidate, HMPL-004, to treat ulcerative colitis (UC). The same drug recorded encouraging, if not statistically significant, results in a phase II Crohn's disease (CD) trial in July and expectations are now high that a lucrative partnership will be secured in the coming months prior to the start of pivotal phase III studies. As for potential partners, *EP Vantage* has identified a few medium-sized gastro-intestinal (GI) specialists which may fit Chi-Med's bill (see table below).

## More than encouraging

HMPL-004 is an orally active anti-inflammatory agent, derived from a Chinese herb, potentially offering a new approach to treating inflammatory bowel diseases, like UC and Crohn's.

The phase II data in 101 CD patients failed to meet its primary and secondary endpoints, although the results indicated a clear trend towards efficacy for the drug. Investors certainly seemed encouraged by the data as Chi-Med's shares rose 28% when the data was released in July.

In contrast, the phase IIb data announced yesterday in 223 UC patients hit all its primary (reduced rectal bleeding) and secondary (clinical remission and mucosal healing) endpoints, no doubt boosting confidence in the drug amongst investors and potential partners.

Importantly, even the highest dose arm of 1,800mg/day which generated an impressive 73% clinical response rate, did not cause any treatment-related serious adverse events and the drug's safety profile remains encouraging.

## Potential partners

In an interview with *EP Vantage* earlier this year, Chi-Med's chief executive, Christian Hogg, predicted a deal over HMPL-004 could be struck on the basis of the CD data alone but that partners may wait until the read out of the UC trial ([EP Vantage Interview - Chi-Med waiting for pivotal data](#), April 22, 2009).

The positive UC data should therefore serve to inject some urgency into partnering discussions which Mr Hogg claims have been ongoing for the past 18 months. Existing talks should accelerate while there is also a chance the data could bring new partners to the negotiating table. This could delay the overall process although investors may be prepared to wait a bit longer if Chi-Med can secure a more lucrative deal than those currently on offer.

Whilst the company and investors would no doubt be ecstatic if one of the big pharma hitters within the GI sector, such as [AstraZeneca](#), [GlaxoSmithKline](#) and [Takeda](#), could be signed up, the

expectation seems to be that a medium-sized GI specialist would be the most logical partner for HMPL-004. Analysts at Charles Stanley Securities suggest an upfront fee of \$10m to \$20m is possible as well as a royalty rate of around 16% on product sales.

The following table, extracted from *EvaluatePharma*, highlights seven such companies with decent GI portfolios of marketed and pipeline products.

**Selected medium-sized players in the GI sector**

	WW GI annual sales (\$m)			GI Market Share		GI Market Rank	
	2008	2014	CAGR (08 - 14)	2008	2014	2008	2014
<a href="#">Salix Pharmaceuticals</a>	175	1,024	34%	0.6%	4.4%	32	5
<a href="#">Solvay</a> (soon to be <a href="#">Abbott</a> )	745	1,013	5%	2.5%	4.3%	10	6
<a href="#">Norgine</a>	363	607	9%	1.2%	2.6%	18	12
<a href="#">Axcen Pharma</a>	375	391	1%	1.3%	1.7%	17	18
<a href="#">Ipsen</a>	268	293	2%	0.9%	1.3%	24	22
<a href="#">Santarus</a>	101	226	14%	0.3%	1.0%	42	28
<a href="#">ProStrakan</a>	23	183	42%	0.1%	0.8%	65	34

The most striking aspect from this list is that most of these companies mainly only operate within their respective local markets, suggesting Chi-Med may find it easier to strike regional developmental and commercialisation deals for HMPL-004. A truly global deal with one partner, which simplifies the process, may prove elusive.

The one exception here is [Solvay](#), the pharmaceutical division of which is about to be acquired by the US healthcare giant, [Abbott Laboratories](#). Securing a regional deal with [Solvay](#) in Europe now could therefore evolve into more of a global deal once [Abbott](#) takes over.