

November 17, 2008
Number 004

With Royalty Stream Purchase, Cowen Is Bullish On Cetrotide In Fertility Market

Cowen Healthcare Royalty Partners is purchasing Aeterna Zentaris' royalty stream for the established infertility drug **Cetrotide** (cetorelix) for \$52.5 million upfront in a deal expected to close later this month.

Cetrotide, a synthetic peptide that blocks a cascade of hormonal signals that result in the luteinizing hormone surge, prevents premature ovulation in women undergoing in vitro fertilization.

Aeterna Zentaris could realize an additional \$2.5 million under the deal if undisclosed 2010 net sales goals are reached, while CHRP gets upside protection in the form of a one-time payment if the Quebec City biotech's lead program obtains EU marketing authority in the near future. The biotech is running three Phase III studies of cetorelix in benign prostatic hyperplasia with a goal of filing an NDA in 2010 and launching in 2011 (¹["The Pink Sheet" DAILY, Aug. 13, 2008](#)).

The Cetrotide deal is just the latest royalty investment for CHRP, a \$500 million-plus healthcare private equity fund based in Stamford, Conn. In August, CHRP also purchased royalties on LifeCycle Pharma's cholesterol drug **Fenoglide** for \$105 million.

CHRP is a relative newcomer to the space, having launched its fund in January 2007. Other investors, including Royal Pharma, Capital Royalty LP, and Paul Capital Partner's Paul Capital Healthcare, see this as a potentially lucrative deal-making arena given the current fiscal crisis. (²[IN VIVO, June 2008](#)). At FDC-Windhover's Pharmaceutical Strategic Alliance meeting in September, Paul Capital's Lionel Leventhal told the audience, "We've never been busier," he said (³[In Vivo, October 2008](#)).

In an interview, Co-Founder and Managing Director Todd Davis said CHRP plans to invest its fund over the next three to four years, with royalties paying out to its investors quarterly over a 10-year period. "Then, we'll be raising a new fund," he said.

Merck Serono's infertility expertise crucial

Although CHRP's deal is with Aeterna Zentaris, Davis said his firm was attracted to Cetrotide largely because of the involvement of Switzerland-based Merck Serono, which signed a worldwide marketing agreement - excluding Japan - for the product in 2000. Cetrotide, launched in Europe in 1999 and the U.S. in 2001, has brought Aeterna Zentaris annual royalties exceeding \$12 million to date.

Davis noted Cetrotide is part of a suite of eight infertility products offered by Merck Serono, a market that can be difficult to enter because success often requires "a very broad and deep relationship with the clinicians."

"The quality of the marketer is very important, and Merck Serono is really kind of A-plus in this category. Our confidence in them is an important factor in this deal," he said.

While the royalty stream is significant, CHRP also stands to receive between \$5 million and \$15 million from Aeterna Zentaris if cetorelix is approved in the EU for an indication other than in vitro fertilization. The sooner the drug wins approval, the higher the level of payment owed CHRP.

The goal is "to figure out a way to get a return that is acceptable for the company. At the end of the day, these milestones, which step down over time, provide us upside in the event that the seller is successful in another area," Davis said.

While royalty stream deals typically involve biotechs, Davis sees a lot of opportunities given the current financial turmoil, including possible transactions with big pharmas looking to monetize non-core assets.

"We are seeing a lot more royalties come to market from larger companies that now are simply looking at being financially prudent and leveraging non-strategic or non-core assets," Davis said.

"It's not who's selling the royalty to us - the main things are the product, the market and the marketer," he explained. "That has to be supported by good intellectual property and patents and a lack of regulatory safety-risk profiles."

Deal improves biotech's cash position

Aeterna Zentaris has been selling off non-core assets for more than a year to finance cetorelix in BPH, as well as AEZS-108, which is in Phase II for ovarian and endometrial cancer (⁴["The Pink Sheet" DAILY, April 11, 2008](#)).

During its third-quarter earnings call Nov. 13, the biotech reported it has burned through all but \$11 million of the \$41.4 million it had at the start of 2008. The CHRP deal should enable it to exit 2008 with about \$50 million on hand, new CEO Jurgen Engel said. The company expects its R&D spend to decrease somewhat in 2009, but didn't offer specific guidance.

Partnering its lead compounds is Aeterna Zentaris' strategy moving forward, and the firm has a Korean commercialization deal for cetorelix in BPH with Handok Pharmaceuticals. Engel estimates annual peak sales in the BPH space eventually could peak at about \$3 billion.

In a Nov. 12 note on the CHRP deal, analyst Reni Benjamin of Rodman & Renshaw called Aeterna Zentaris "overlooked and undervalued in the oncology/endocrinology space." He also called the royalty sell-off a smart move.

"Not only did management secure non-dilutive financing, but most likely, (it) also secured the company's standing in ongoing partnership talks for cetorelix in BPH," Benjamin wrote.

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