

Avexa to invest in mining to fund drug development

06 November 2012 | News | By BioSpectrum Bureau

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Singapore: How far will a drug company go to fund drug discovery and development? Melbourne-based biotechnology company Avexa, which is developing a treatment for drug-resistant HIV among other candidates, will invest \$4 million (A\$3.88 million) in a coal mining company in North America.

Avexa plans to purchase a 25.5 percent equity share in Coal Holdings USA with the aim of generating cash flow to fund its key drug candidates. Approval for the investment will be put to Avexa shareholders at its forthcoming AGM to be held on December 14, 2012.

Avexa will also lend Coal Holdings up to \$6 million (A\$5.82 million) at an interest rate of six percent per annum. Mr Iain Kirkwood, chairman of Avexa, says the deal makes "good commercial sense" for Avexa. "Avexa's board understands this is a bold strategy but believes this is the best option for Avexa," said Mr Kirkwood. "Over the past 12-18 months, the board has considered and rejected a multitude of potential investment and merger opportunities many of which attributed no value to Avexa's portfolio of anti-infective projects."

The annual surplus cash flow from the project will allow Avexa to fund internally the development of several biotechnology initiatives, including ATC (Apricitabine, for the treatment of drug-resistant HIV), a new generation HIV Integrase inhibitor against resistant HIV and an anti-bacterial compound for the superbug *Clostridium difficile*.

Mr Kirkwood added that the model will change the paradigm for funding biotechnology, which previously has been done via multiple equity raisings and federal and state government grants, including the R&D tax rebate concessions. Many biotechs also look to big pharma to support or buy into their projects. However, since the Global Financial Crisis both big pharma and shareholders have become much more risk averse and reluctant to support even late stage drug developments.

"The cost of taking the company's HIV drug ATC through phase III trials has been conservatively estimated to cost \$30-40 million. The investment in the Alabama coal project gives Avexa the best chance of locking in an annuity to develop its portfolio of drug assets in-house. Avexa is attracted to an opportunity which, for a \$10 million investment, is expected to generate \$12.5 million per annum before finance costs and tax based on the reviewed underlying project assumptions. The

investment is expected to have a pay-back period of less than two years on these assumptions," he said.