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Elixir Fuels Up On Equity, Acquisition Option Deal With Novartis

By Lorie Konish 5/20/2009

Metabolic disease pharmaceutical developer Elixir Pharmaceuticals Inc. has sealed a deal giving existing investor Novartis AG the exclusive option to acquire the company with the completion of certain clinical milestones.

The deal could top \$500 million, including an undisclosed initial acquisition payment and possible regulatory and sales milestones.

Novartis first became an investor in Elixir in 2007, when Elixir first raised funding through a fund managed by MPM Capital on behalf of Novartis, MPM Bio IV NVS Strategic Fund LP. MPM has been an investor in Elixir since the company's inception through MPM BioVentures II LP. At the time of the strategic fund's first investment, Novartis was interested in a certain undisclosed Elixir program, said MPM Managing Director Todd Foley, and its attention turned to the ghrelin antagonist program, around which this deal was formed.

At the same time, Elixir has raised a \$12 million Series B-2 equity recapitalization financing co-led by MPM Bio IV NVS Strategic Fund and Physis Ventures. Other investors in the round included ARCH Venture Partners, MPM BioVentures II, Omega Fund and Oxford Bioscience Partners. Elixir President and Chief Executive Paul Martha declined to elaborate on the terms of the Series B-2 transaction.

Novartis now has the exclusive option to acquire Elixir with the completion of the Phase IIa study of its lead ghrelin antagonist, which is currently in preclinical development. Elixir's ghrelin antagonist treatments work to block the ghrelin receptor and target the treatment of metabolic disease including Type II diabetes.

"If you can pre-sell the company today at tomorrow's price, it's certainly better than selling the company today at today's price," Foley said of the option deal, which was formed on competitive terms for all sides. "The problem in venture these days is when are you going to get an exit? This is crystal clear as any situation."

In working with Novartis through its strategic fund, MPM has seen other recent option deals: for Peptimmune Inc., including the worldwide rights to its lead multiple sclerosis drug, and Proteon Therapeutics Inc., with rights to acquire the company after the completion of a Phase II study.

Other pharmaceutical companies have taken to option deals as a way of placing early bets on promising clinical products, while mitigating risk. Venture-backed Ception Therapeutics Inc., for example, entered into a \$100 million deal with Cephalon Inc. in January with the option to acquire the company.

For ARCH, an investor in Elixir from its early stages, the corporate interest is a testament to the attention the program's preclinical results have received in an area that has been hard to drug in the past, said ARCH co-founder and Managing Director Robert Nelsen.

"There are a limited number of fundamental innovations in the diabetes and metabolism space," Nelsen said. "Elixir's experience has been rare in getting corporate partners to step up early, but we all consider it a good thing."

Elixir's work and its potential implications in the diabetes and obesity space were what attracted Physic Ventures, a venture capital firm focusing on consumer-driven health care investments. Its portfolio includes cardio-fitness technology company Espresso Fitness Corp. and sleep-inducing food and beverage company Dreamerz Foods Inc. In Elixir, the firm saw the same potential as its other investments to reach a high level of consumer involvement in chronic disease.

"We want to feel like the consumer can understand what it is and have a dialogue with their doctor about that particular therapy approach," said Physic Managing Director Dion Madsen.

While Elixir will use the \$12 million equity for the development of its ghrelin antagonist program, the company will also look to form other deals to further the development of its other pipeline treatments. The company finished Phase III testing of Metgluna, a combination of a product in-licensed from Japan and metformin, for the treatment of Type II diabetes. Elixir also has planned a Phase I trial with the Food and Drug Administration for its ghrelin agonist treatment targeted at diabetic gastroparesis and cachexia.

"We do have the freedom to form partnerships and other things with other assets before the Phase IIa," Martha said. "We are actually in discussions and looking at strategic alternatives with the other assets."

Elixir last raised a \$28 million Series D round in September 2007, when it also filed for an initial public offering. Through MPM's strategic fund, Novartis contributed \$10 million to that round, giving the company the option to obtain rights for the development and commercialization a ghrelin antagonist or sirtuin program, according to a regulatory filing from the time. Other participants in the Series D included ARCH, MunMun International Ltd., Oxford and Physic. Elixir withdrew its plans for an IPO in May 2008.

Elixir raised more than \$100 million since its founding in 2001, Martha said. Other investors have included Boston University Community Technology Fund, CDB WebTech, CDIB Bioscience Venture, Jafco Ventures and YFY Bioscience. Tredegar Investments sold its life science portfolio in 2003 to W Capital Partners, which subsequently sold its ownership to an undisclosed investor in either late 2005 or early 2006.

With this transaction, MPM Capital Principal Kenneth Greenberg has joined Elixir's board.

Cambridge-based Elixir has downsized its staff from about 33 to ten in the last year, Martha said, in an effort to focus on development in place of previous research efforts. Martha assumed the role of chief executive in January, after previously serving as chief medical officer and senior vice president of clinical and regulatory affairs. He replaced William Heiden, who left the company in December.

<http://www.novartis.com>

<http://www.elixirpharm.com>