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By Ken Tower









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One-Day Wonder

A Shot in the Arm

By [Michael DeSenne](#)

September 1, 2004

SuperGen Inc. (**SUPG**)

Share price as of Tuesday's close: \$6.43

Share price now: \$6.94

Change: 7.9%

Volume: 18 million shares, daily average
550,000 shares

Last time this low: June 21, 2004

52-week high: \$14.14

52-week low: \$4.50

Forward P/E before announcement: n/a

Forward P/E after announcement: n/a




A PROMISING NEW weapon in the fight against cancer just received a big financial boost.

Shares of **SuperGen** (**SUPG**) climbed 7.9% to \$6.94 Wednesday after the cancer researcher secured funding for the development of Dacogen, an experimental treatment for myelodysplastic syndromes, or MDS, a cancer of the bone marrow that can progress to leukemia. As many as 30,000 new cases of MDS are diagnosed annually.


The backing is coming from fellow cancer researcher **MGI Pharma** (**MOGN**), which agreed to buy four million SuperGen shares at \$10 apiece and make up to \$45 million in milestone payments in exchange for worldwide rights to develop, manufacture and distribute Dacogen. MGI, based in Minneapolis, also committed at least \$15 million to cover other development costs for the drug. SuperGen would receive royalty payments totaling 20% to 30% of all future sales of Dacogen.

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There was broad support for the deal on Wall Street. In addition to the run-up in SuperGen's stock, shares of MGI rose 19.9% to \$27.85 on Wednesday.

"This is perfect synergy," says Elemer Piros, an analyst at Rodman & Renshaw in New York who covers SuperGen. "MGI is a fantastic partner."

Although SuperGen completed its Phase III trials of Dacogen in MDS patients back in March, the Dublin, Calif., company still faces an uphill battle to gain regulatory approval and get the drug in the hands of doctors. That's where MGI's money and experience come in. With the aid of its new partner, SuperGen intends to file a new-drug application with the Food and Drug Administration early in the fourth quarter. MGI also plans to foot part of the bill to test Dacogen as a treatment for other leukemias, sickle-cell anemia and solid tumors.

"The MDS indication is relatively small — 30,000 patients — but because the drug has such a broad mechanism of action there's potential for use in other types of cancers," says Robert LeBoyer, an analyst at Ehrenkrantz King Nussbaum in New York. "And that's where the real sweet spot of the deal is. MGI is buying a product with a pipeline."

MGI's financial strength puts it in a position to make the investment in Dacogen pay off. For starters, the company is already profitable. MGI earned \$8.6 million, or 11 cents a share, on revenue of \$47.9 million in the second quarter. By contrast, SuperGen lost \$21.3 million, or 48 cents a share, on sales of \$2.6 million during the same period.

More important, MGI has a 100-strong sales force that already has inroads with the very same cancer specialists who would prescribe Dacogen. MGI's Aloxi, an injectable drug that treats chemotherapy-induced nausea, is the company's biggest revenue producer, with projected 2004 sales of between \$140 million and \$150 million.

But analysts think sales of Dacogen would easily surpass those of Aloxi. According to Rodman & Renshaw's Piros, Dacogen's ann could peak at \$500 million, assuming off-label uses for other cancers and eventual FDA certain leukemias. That would translate to as much as \$150 million in royalty payments



based on the terms of Wednesday's agreement between the two companies. Doctors, oncologists, often prescribe drugs for uses other than those for which they were approved known as off-label use. (Piros doesn't own shares of SuperGen or MGI Pharma; Rodman has received investment-banking revenues from both companies.)

If all goes well with the new-drug application, LeBoyer of Ehrenkrantz King Nussbaum & Dacogen could gain approval in eight to 12 months. That means the drug could go on sale in the third quarter of 2005. Calling the trial data "very strong," Piros put the probability of receiving clearance for the drug at 80% to 85%.

Not content with its deal with SuperGen, MGI separately on Wednesday agreed to acquire privately held oncology-drug developers for a combined \$82 million. Based on these acquisitions, the deal with SuperGen, MGI projected 2005 sales of \$280 million.

Quote:

"Dacogen is a product with a pipeline," says LeBoyer of Ehrenkrantz King Nussbaum. "The mechanism of action. It was tested in one cancer, but has possibilities for use in many other things, something very valuable. MGI gets a product with a lot of potential, and SuperGen got in front for that potential." (LeBoyer owns shares of SuperGen; Ehrenkrantz King Nussbaum has a business relationship with SuperGen or MGI Pharma in the past 12 months.)

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