



BELL TOWER ASSOCIATES

Monthly Biotech Focus – October 2014



Sevion Therapeutics (SVON)

Our two previous monthly studies, while focusing on what we have termed “probability of success” in analyzing biotech securities, have gauged this probability of success on three particular factors: the company’s ability to survive to the end of trial, the probability of one of the companies’ products passing trial, and the potential market for those products. These, however, are not the only criteria with which we can gauge probability of success, particularly for companies dealing with truly avant-garde technologies. One such additional criteria is an analysis of personnel: the individuals, scientists, companies, and investors behind a given biotech firm. This criterion is integral to the analysis of Sevion Therapeutics (SVON).

Technology

Sevion’s technology promises both a significant “endgame” while relying on a smaller, short-term proposal to prove its general efficacy. The endgame is cancer, and Sevion is in the process of producing a compound and delivery system that will result in cell apoptosis of cancerous cells. Apoptosis is essentially defined as “programmed cell death,”¹ which results from DNA commands given to a cell to self-destruct. Cancerous tumors are areas of mutated or faulty cell regulation, and therefore, one possible key to defeating such cancerous areas is to trigger cell apoptosis. Sevion’s product SNS01-T has shown, according to company pre-clinical trials, the ability to trigger and un-trigger cell apoptosis, which can be used both to self-destruct cancerous cells and preserve healthy cells. This product is undergoing at this moment Phase 1b/2a clinical trials, having already passed the preclinical stage.

In addition, Sevion's acquisition of Fabrus, a company specializing in the creation of nanocages, has provided Sevion with a method of inserting its SNS01-T compound into target cells. A nanocage is essentially the shell of a virus that has been retrofitted (by removing the harmful interior) to carry the drug payload and deliver this payload into the target cell when programmed to do so.

The endgame market, therefore, is the cancer market, but Sevion has begun its short-term play by choosing to confront a certain group of proteins present in a number of diseases. This decision was made because the use of Sevion's technology to treat these proteins is considered a low-risk means of proving the efficacy and efficiency of SNS01-T.

This technology therefore fits the criteria of a marketable game-changer with a lower risk short-term objective.

Probability of Success

SNS01-T is already in clinical trial stages, having shown promising results in its preclinical testing. In terms of company survival, Sevion's balance sheet shows \$6.1M in cash and cash equivalents, 7.2M in current assets, and 33M in total assets, compared to only 5.8M in total liabilities. While the company naturally has a negative cash flow since its product is in testing, the presence of these assets, and their liquid asset component, suggests that the company is in a position to see this product through to the end of its testing, if not longer.

Risk

This technology, however, is considerably new, and there is a decent probability that setbacks may be encountered, particularly in the delivery system method of the nanocage. The probability of success suggested by the company's finances, history, and objectives is somewhat mitigated by the very nature of the technology itself. In such a field as this, it is particularly risky for the non-expert investor to judge probability of success on such recent advancements. This is where analysis of personnel comes into play.

Sevion Insiders

One of the major insiders at Sevion is Philip Frost, M.D., the scientist behind two of the most successful start-up pharmaceutical companies in recent years, current head of Opko Health, Inc., and a board member at pharmaceutical powerhouse Teva Pharmaceutical Industries Ltd. Firstly, Frost's personal and affiliated investment in the company suggests that the company's technology has excellent prospects, given Frost's track record and his current positions. Secondly, his affiliation with Teva undoubtedly provides Sevion with an inside track to an acquisition.

Sevion Therapeutics therefore demonstrates a significant liquid cash position and a product already on the clinical trial path. The type of technology in which it deals comes with risk, but the presence of a knowledgeable and successful insider suggests confidence in the long-term prospects of this technology.

Sevion Therapeutics (SVON) Relevant Statistics

Market Capitalization¹	14.95M
Property and Equipment²	223,000
Cash and Cash Equivalents	6.1M
Total Assets	33.3M
Total Liabilities	5.8M
Total Cash Flow (Operating Expenses)³	(4.9M)
Change in Cash and Cash Equivalents⁴	4.5M

¹ As of 10/28/2014.

² All other data as of 6/30/2014.

³ For period ending 6/30/2014

⁴ For period ending 6/30/2014

The firm is relatively small in terms of market cap. Its liabilities tend to be longer-term but are far less than its total assets. While it operates (as expected) from a position of negative cash flow for operating expenses, it has thus far acquired sufficient financing to produce a positive cash flow for the period ending 6/30/2014. Even should this financing prove less successful in the future, however, the company's \$6 million in cash provides it sufficient liquidity to see its product through the end of its ongoing clinical trial phase, at which point, if the trial is successful, additional funding should not be difficult to obtain.