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"Derma sees partner for new drug in first half 2012"

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NEW YORK (Reuters) - Derma Sciences Inc. expects to find a deep-pocketed partner for its treatment for diabetes-induced foot ulcers in the first half of 2012, even before it enrolls patients for late-stage trials.

Derma Sciences specializes in products that treat wounds from common burns to deep skin gashes, with annual revenue of \$56.5 million.

Its newest product, a topical gel dubbed DSC127, could reap over \$1 billion in worldwide annual sales if approved, according to its chief executive.

"We are fielding inquiries from a number of multinational pharmaceutical companies about DSC127," CEO Edward Quilty told Reuters in an interview, without providing any details. "There is a high likelihood that the partnering will happen before we enroll the first patient in the Phase 3 trial."

In May, the company reported additional positive data from a mid-stage trial testing the drug in 80 patients with diabetic foot ulcer (DFU). It plans to start two late-stage trials that will cost about \$30 million and run parallel to each other in the first half of next year, Quilty said.

"We have enough money to complete these trials on our own," he said, referring to new capital raised in June.

A partner would help the company market the drug in the United States and overseas, beyond the capabilities of its own staff.

Derma Sciences, based in Princeton, New Jersey, plans to increase its sales force to 80 from 25 by 2015. It sells its existing wound-care products—Medihoney, Bioguard, Xtrasorb and Algicell—in hospitals, nursing homes and other health care facilities.

"Our sales force could reach around 1,200 wound clinics in the U.S., but we feel the sales force is not big enough to cover all the primary care physicians and podiatrists," Quilty said.

Companies with large sales teams and a strong presence in wound healing include Kinetic Concepts Inc, Smith & Nephew and Shire.

Quilty, who has more than 35 years of experience in the healthcare industry, joined Derma Sciences from biopharmaceutical company Palatin Technologies in 1996.

U.S.-based LBI Group Inc, Jennison Associates LLC and New Zealand-based Comvita, which supplies medical grade honey for Medihoney, are the three largest shareholders of the company.

Shares in the company jumped 25 percent when it released its latest data on DSC127 on May 25 to \$11.65, but have since retreated to under \$8 with a broader market sell-off. Analysts see the stock hitting \$19-\$21 in the next 12 months.

Averting Amputation

DSC127 works by increasing the number of mesenchymal stem cells (MSCs) at the site of injury. MSCs have the ability to differentiate into various types of cells found within the human body, including muscle cells, bone cells, and skin cells.

The most recent data shows that at the end of 24 weeks, foot ulcers in 73 percent of patients treated with DSC127 healed completely, compared with 46 percent of patients treated with a placebo. There were no drug-related adverse safety events during the study period.

About 3 million diabetic patients develop foot ulcers in the U.S. annually, and about 14 percent to 24 percent of them require amputation.

Quilty, who expects peak annual DSC127 sales of over \$300 million in the U.S. and over \$1 billion worldwide, said the high healing rates with better safety profile will differentiate it against current drugs for diabetic ulcers like Healthpoint Biotherapeutics' Regranex, Shire's Dermagraft and Organogenesis' Apligraf.

Dermagraft and Apligraf are both bioengineered tissue products that contain living skin cells to help healing, while Regranex is a topical ointment.

Derma Sciences expects its advanced wound care sales to grow in the coming years.

"We reported strong sales in the second quarter and we expect to report solid third-quarter sales," said Quilty.

For the second quarter, Derma Sciences reported better-than-expected sales of \$15.9 million, helped by a 60 percent jump in sales of its flagship product Medihoney.

It is a dressing for the management of chronic wounds and burns that contains active leptospermum honey, produced from bushes that grow in Australia and New Zealand.

(Reporting by Anand Basu in New York; Editing by [Michele Gershberg](#) and [Tim Dobbyn](#))