



# Avigen, Inc. (Ticker: AVGN)

Activist Investor: Biotechnology Value Fund

24 March 2009

## CATALYST SUMMARY

Biotechnology Value Fund (BVF), which owns approximately 30% of Avigen, is seeking to replace the entire board of directors at a **Special Meeting Scheduled for March 27, 2009**.

In order to remove the entire board, BVF's director nominees will have to obtain votes from a supermajority (66.67%) of Avigen's shareholders.

If successful, BVF intends to immediately review two options for the company: (i) liquidating and distributing all of the company's net cash to shareholders (in a March 23 SEC filing Avigen estimates a cash balance of \$1.15/share by June 30, 2009), or (ii) examining the sale of the business to interested parties.

On a February 11 earnings call, Avigen stated there are four qualified offers to purchase the business, including MediciNova (Ticker: MNOV) – a competitor who has made an innovative and compelling offer; see details of the MediciNova offer below.

*In an effort to garner the necessary votes required to obtain board representation, and as a means for shareholders to insulate themselves from additional share value degradation, BVF has offered to purchase all of the outstanding shares of Avigen for \$1.20 (a 6% premium to the current stock price). The offer is contingent upon BVF's nominees being elected. As a result, shareholders looking for immediate liquidity will have the ability to cash out their investment and receive a payment of \$1.20 by tendering their shares into the offer. Stockholders who do not wish to sell their shares will have the opportunity to participate in the future potential for share value appreciation via a strategic transaction orchestrated by BVF. To this end, BVF stated they will only consider transactions that will quantify a worst-case outcome of Avigen's liquidation value. In addition, any transaction that satisfies this condition will be presented to stockholders for their approval.*

In the event BVF is unsuccessful achieving board control it is likely they will attempt to run a proxy contest to replace the two directors up for election at the company's next annual meeting. Last year's meeting was held on May 19, 2008.

### COMPANY PROFILE

Previous Close:	1.13
52 -week Range:	0.49 – 4.66
Market Cap:	34.5M
Enterprise Value:	-7.0M
Net Cash:	47.8M
Net Cash per Share:	1.29
EBITDA:	Negative
EV/EBITDA:	N/A

### INVESTOR PROFILE

Principal Activist	Biotechnology Value Fund
Shares Held by Activists:	8,819,600
Percent Outstanding:	29.63%
Cost Basis:	\$0.66
Total as a % of float	42%

### CAPITAL STRUCTURE

Common Shares Outstanding	29,769,115
Preferred Shares:	0
Long Term Debt	7.0M

## ACTIVIST INVESTOR PROFILE

Founded in 1993 Biotechnology Value Fund (BVF) is one of the leading providers of capital to small cap biotechnology companies.

While usually a passive investor, BVF filed an "active ownership" position in late 2008 with CombinatoRx, Incorporated (Ticker: CRXX) and demanded that the company either distribute all excess cash to shareholders now, or buy back shares via a Dutch auction. CRXX is a drug development company with a portfolio of products in Phase II development. The company had approximately \$51M in cash and \$19M in debt at year-end (equal to \$0.91 net cash/share; as of March 23 CRXX shares traded around \$0.69). CRXX and BVF are currently engaged in confidential discussions about the company's future.

Separately, on December 23, 2008 BVF sent a letter to Neurobiological Technologies Inc. (Ticker: NTII) demanding they wind up the business as a result of an unsuccessful drug trial. As of December 31, 2008 NTII had \$0.85/share in net cash plus another \$0.33/share in long-term Auction Rate Securities. NTII is currently trading at 0.64/share.

## COMPANY PROFILE

Avigen Inc. ([www.avigen.com](http://www.avigen.com)) is a development stage biopharmaceutical company focused on acquiring or developing products to treat serious disorders. The company's most recent product candidate, AV650 (tolperisone HCl), which was designed to treat spasticity associated with multiple sclerosis was terminated in October, 2008 after clinical trials did not achieve statistical significance. Avigen continues to develop AV411, drugs designed to help patients cope with neuropathic pain, opioid withdrawal and methamphetamine addiction.

### MEDICINOVA (MNOV) PROPOSAL TO ACQUIRE AVIGEN

MediciNova originally offered to purchase Avigen on December 9, 2008. As consideration for the transaction, Avigen shareholders would receive a combination of MediciNova common stock and shares of a MediciNova convertible security.

Under the terms of the proposal, each Avigen shareholder will receive a pro rata portion of 1.75 million shares of MediciNova common stock, which means Avigen shareholders could own approximately 45% of MediciNova stock post-merger. All of Avigen's residual assets less \$7 million in cash will be sequestered and not used until 12 months from the closing of the merger. The convertible security issued by MediciNova would allow each Avigen stockholder to either (i) convert each share of the convertible security into shares of MediciNova common stock at a conversion price of \$4.00 per share or (ii) have the convertible security redeemed by MediciNova at the end of 12 months for cash in an amount per share which represents the liquidation value of Avigen.

Since MediciNova and Avigen are working on a similar drug currently in Phase II clinical trial, the opportunity for a combined entity seems compelling.

### HEDGE FUND SOLUTIONS' VALUE ANALYSIS (IRRESPECTIVE OF THE ACTIVIST'S INVOLVEMENT)

As a development stage biopharmaceutical company, Avigen's revenue history is thin, which comes with the territory. With virtually no revenue in 2006 and 2007, the company recently sold its AV513 program, an early stage oral therapy for the treatment of bleeding disorders, to Baxter Healthcare for \$7.1 million, which represented total revenue for 2008. This came on the heels of the termination of the AV650 program. For the year, Avigen lost \$25.1 million, or \$0.84 per share, improved slightly from last year's \$25.2 million loss (\$0.90 per share).

In the simplest terms, development stage companies such as Avigen need a few things in order to be successful: cash, a product pipeline, and eventual success with a product or products within that pipeline. While the failure of AV650 was a blow to Avigen, the company still has a relatively large amount of cash and short-term marketable securities.

As of 12/31/2008, Avigen had \$9.3 million in cash and \$38.5 million in "available for sale" securities, including corporate debt (\$8.5 million), federal agencies (\$26.3 million), and asset backed and other securities (\$12.8 million). Total cash and securities of \$47.8 million equates to \$1.29 per share, 14% above the current stock price (\$1.13). Avigen also has \$9 million in restricted investments on the books (\$7million short term, \$2 million long term). The weighted average maturity of the entire portfolio is 233 days, including \$41.5 million with an effective maturity of less than 12 months, and the balance of \$15.3 million with an effective maturity of 1 to 2 years. Of course, with little or no revenue, the company will be burning through this cash, which is the main reason for the current shareholder activism.

In its current state, Avigen has a negative enterprise value, which essentially means that cash on the books is in excess of the company's market cap plus debt, and theoretically means that the market is *paying* prospective shareholders to purchase the stock, and throwing the business in for free.

Avigen is also a "net/net", or company trading below its net current asset value, another potential measure of deep value. However, due to the nature of the company as one that is burning through rather than retaining its major asset – cash, neither measure of deep value carries much weight.

Time is of the essence for Avigen, as its cash balance is fleeting.

### RECENT (MARCH 2009) INVESTOR PRESENTATIONS

BVF Shareholder Presentation (March 13, 2009):

[http://www.sec.gov/Archives/edgar/data/918923/000092189509000742/dfan14a07422003\\_03132009.htm](http://www.sec.gov/Archives/edgar/data/918923/000092189509000742/dfan14a07422003_03132009.htm)

Avigen Shareholder Presentation (March 11, 2009):

[http://www.sec.gov/Archives/edgar/data/932903/000120677409000466/avigen\\_defa14a.htm](http://www.sec.gov/Archives/edgar/data/932903/000120677409000466/avigen_defa14a.htm)

**ANALYSIS PROVIDED BY:**

**Damien Park** is the President and CEO of Hedge Fund Solutions, LLC, a Philadelphia-based firm focused on issues related to shareholder activism.

Mr. Park is widely considered an expert on activist investments. He is a featured commentator on *RealMoney.com* discussing activist investments and is often quoted in leading business publications, including: *The Wall Street Journal*, *Business Week*, *CFO Magazine*, *TheStreet.com*, *The Deal*, *CNN Money*, *The New York Times*, *The Nikkei* and *Newsweek Japan*.

Damien frequently speaks at professional conferences and is the Chairman of the Hedge Fund Activism and Shareholder Value Summit, the largest annual gathering of activist hedge funds in the world.

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Previously, Jon spent 17 years at Bloomberg Financial Markets in various roles which included the management of Bloomberg's Equity Fundamental Research Department and Bloomberg's Equity Data Research Department. Jon was also a senior markets editor of Bloomberg's Publishing Group, a writer for Bloomberg Personal Finance Magazine, and an associate editor and contributor for Bloomberg Markets Magazine. In 2005, Jon joined SEI Investments as director of investment communications within SEI's Investment Management Unit.

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**IMPORTANT DISCLOSURE INFORMATION**

Neither Damien Park nor Jonathan Heller holds long or short positions in the stocks mentioned in this analysis as of the date of this research.

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