



ImmunoCellular Therapeutics A Biotech Value Play?

By: Jacob Wolinsky | Mar 17, 2011

ImmunoCellular Therapeutics LTD. is a relatively young company that focuses on the clinical development of products to treat cancer by utilizing the body's own immune system. Currently, the company is in the process of developing active immunotherapies, similar to Dendreon's (DNDN): 41.78, -0.62) product Provenge, which was approved by the FDA last year for prostate cancer. While it is difficult to understand all of the research and testing that IMUC is involved in, there could be a significant amount of upside to this stock as explained below:

In their short lifetime of four years, the company has already developed some very promising products for the most aggressive brain tumors called glioblastoma, which the late Senator Ted Kennedy passed away from. The Phase I data reported so far has been most impressive clinical data for this dreaded disease where the median survival is only 15 months. Their clinical data shows an 80% survival at two years compared to a historical survival of only 26%. The phase II trial was initiated earlier this year and if the results are only half as good as the phase I data, this vaccine has a chance of getting FDA approval.

Biotech investing for value based investors is tricky. One of the key things to consider is how efficiently capital is utilized to create shareholder value, because most of these companies have no source of income during developmental stage. The reason is because all their cash is going towards spending on research and clinical trials. What is remarkable about IMUC is that burned through less than \$5 million last year.

IMUC, which is currently trading on OTC, is reportedly going to be listed in the AMEX in near future. This would allow more institutions and individuals to be able to invest in the company and would ultimately continue to allow IMUC to gain more capital to fund their research (not to mention capital appreciation). Many institutions are forced to buy when a company gets added to an index. Seth Klarman likes to look for cases of forced selling or forced buying. In this case many institutions would be forced buyers. When you couple the idea of a highly capital efficient company, with the fact that they also have a large cash reserve of ~\$12 million, this looks more attractive.

With IMUC the investment thesis is not only the potential of the company, but also the potential of the product. The company is currently achieving great success in advancing a vaccine that primarily targets cancer stem cells, which are widely perceived as the root of cancers. If this success is further validated in the phase II trial, it would unlock the entire cancer market for potentially a new modality of treatment. Investors should also be aware that a successful oncology product like Dendreon's Provenge has made the company worth almost \$5 Billion (in market cap). Amgen (AMGN) recently acquired BioVex, a product which just started a phase III study for almost \$1 Billion. With a market capitalization of only \$60 Million and the product in the phase II clinical trial, there is significant upside if the clinical data pans out.

Probably the most important factor to remember when looking at IMUC is not just their products, but also their process and the way and how they achieved their current status. Their past success lies in their intellectual property, which they acquired from a number of leading academic institutions. They have also found a way to become more efficient in their manufacturing operations than other big names such as Dendreon (to whom they have been compared in many categories recently). By producing 20 doses of vaccine in each production run, some anticipate them being able to reduce COGS to as much as 5 - 10%.

This is not a stock for someone to simply jump on and hope to day trade with. The market does have multiple listings of small stocks that can rival this, and there is the potential for almost no news for weeks or months at a time with this stock as research and development could go on for long increments without any news to report.

However, this company has already shown through their innovative processes, and through their ability to leverage intellectual property developed at top academic centers that they have an edge over competitors. IMUC has also shown with their products and developments (at least thus far) why they should be considered as an addition to your portfolio. They may not be at the top yet, but with continued success and the additional listing in the Amex in the near future, this company could grow from a micro-cap to a small or mid cap stock.

Disclosure: None