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Despite the quiet, Cumberland hints at future growth

Nashville drug company makes key executive hires

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It's been more than 18 months since **Cumberland Pharmaceuticals Inc.** launched an effort to take the company public by raising \$80 million, but the specialty drug company remains silent, seemingly biding its time until the economy recovers.

While competitors have withdrawn their initial public offerings, Nashville-based Cumberland appears to be moving forward, quietly hiring industry heavyweights and continuing with drug trials.

But Cumberland is not talking during the mandated silent period — that span of time between filing a registration statement with the U.S. Securities and Exchange Commission and when the company goes public.

Analysts say Cumberland, like most small biotechs, is always hungry for capital. But the company's working capital has increased more than 106 percent in the past two years.

Cash on hand, meanwhile, has grown by 78 percent, according to SEC filings.

"The long silent period could mean the company is in a strong enough position to wait it out," says Michael Ryan, managing director at **Avondale Partners**, a Nashville-based investment firm.

In recent months, Cumberland has reeled in a couple of key pharmaceutical industry players.

In September, Martin Cearnal, an industry veteran involved in the launches of household-name drugs such as Lipitor, Botox and Humira, came on board as senior vice president of commercial development.

Earlier this month, Barry Lee was hired as the national product director. Lee oversaw the launch of the oral contraceptive Yasmin, which reached \$92 million in sales in the first year and grew to \$320 million in sales in four years.

The 10-year-old Cumberland has two drugs on the market, which analysts say gives the firm an advantage.

“Companies like Cumberland that already have products on the market have more options than others that only have them in development,” says Adam Greene, a pharmaceuticals analyst at **Stanford Group Co.** in New York.

Cumberland introduced Acetadote, an injectable treatment for acetaminophen poisoning, in 2004, and Kristalose, a prescription laxative, came to market in 2002. The two drugs brought in a combined \$25.3 million in sales through September 2008, according to company filings.

Several other drugs are in pre-clinical trials, and Amelior, an intravenous form of ibuprofen, is in the final stages of development.

According to SEC filings, the company is hoping Amelior will be a breakout star that taps a potential \$302 million market for injectable pain relievers.

“Amelior currently represents our most significant product opportunity,” the company states in 2008 SEC filings. “If we complete clinical development and receive FDA approval for Amelior on our current projected timeline, we believe Amelior would be the first injectable product available for both pain and fever in the United States.”

So far, Cumberland has been funded by about \$14 million in private equity capital, according to an SEC filing.

“We have supplemented this equity funding by re-investing our profits and utilizing our credit facilities in order to support our operations,” the company states in the filing.

Another sign of the company’s health, Greene says, is that Cumberland has remained profitable since 2004. The company’s latest earnings report showed profits of nearly \$3.7 million through Sept. 30. In 2007, the company earned about \$4 million.

Cumberland and its CEO, A.J. Kazimi, have been “leaders in the effort” to bring more biotech companies to Middle Tennessee, says Jerry Collins, a retired **Vanderbilt University** biotech research scientist.

“Biotech has struggled to find an identity in Tennessee,” Collins says. “There really are very few companies that have worked as hard to create a core of biotechnology companies here.”

Cumberland was instrumental in creating Cumberland Emerging Technologies, a joint venture with Vanderbilt and **Tennessee Technology Development Corp.** that supports biotech start-ups, Collins adds.

Biotech has not seen an IPO since November 2007, when **Nanosphere Inc.**, which develops diagnostic tests, made a \$113 million entrance.

Furthermore, companies of similar size to Cumberland have cancelled IPO’s in recent months, citing the economy as the reason. Among them, Ohio-based **Xanodyne Pharmaceuticals**, which focuses on pain management, withdrew its \$86.3 million public bid in late 2008.

“The window is shut now,” Greene says. “Small companies are going to need to seek alternative methods of financing.”

That means more partnerships between large drug companies and small biotechs, he says, and more mergers and acquisitions. One example: The recent \$71 million partnership between New York-based **Javelin Pharmaceuticals**, a pain management drug company, and **Therabel Europe**, a large pharmaceutical group.

Brentwood-based **BioMimetic Therapeutics**, which develops drug/device combinations to heal musculoskeletal injuries and disease, is Middle Tennessee’s only public biotech. President and CEO Sam Lynch says the industry has adapted well to market fluctuations because investors understand the long-term nature of the clinical development and product advancement required in biotech.

But he admits the current economy is uncharted terrain.

“This market downturn has been much broader and deeper than any that we’ve experienced recently,” Lynch says. “It will no doubt lead to consolidation in the life sciences. It’s estimated that about one-third of all life science companies have less than 12 months of operating capital.”

Lynch predicts that several small biotechs will be bought, merge or go out of business over the next 12 to 18 months.

“In the face of the current headwind most companies would be better off to wait to do an IPO until the economic environment improves unless they have a very strong story or are in need of cash to maintain operations.”

Blooming biotech

The 10-year-old Cumberland Pharmaceuticals has more than doubled sales since 2004, when it first turned a profit.

	Revenue	Net Income
2003	\$2.9 million	-\$4.47 million
2004	\$12 million	\$558,000
2005	\$10.6 million	\$1.96 million
2006	\$17.8 million	\$4.4 million
2007	\$28 million	\$4 million
2008*	\$25.2 million	\$3.67 million

* - through Sept. 30

Source: U.S. Securities and Exchange Commission filings

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