

Tobin Smith: Hey, this is Toby Smith with the Next Big Thing, and we're talking to Matthew Hogan – I'll go back to the Irish thing today – with DURECT Corporation. These guys are in the business of making stuff, pharmaceuticals, better or faster, or, in some cases, **un-deformable**. Tell us about your oxycodone product.

Matt Hogan: Well, one of our lead products is a new formulation for oxycodone, which is a widely-used painkiller, and it works very well for a lot of people with chronic pain –

Tobin Smith: And widely abused, unfortunately.

Matt Hogan: – unfortunately, widely abused. People crush this thing and they snort it, they inject it, they mix it with drinks and they get a euphoric high, and then people die because of it. It's a major public health problem. What we've got is a formulation of oxycodone with some proprietary technology that makes it more difficult to extract the drug quickly, so you can't snort it, you can't inject it. If you mix it with drinks, it comes out much more slowly. So, it gives you the same benefit for pain patients, but you don't have all this residual risk of people abusing it widely.

Tobin Smith: Well, one of the things we look at development stage pharmaceutical companies is – you're beyond development stage now, you're in –

Matt Hogan: So, we've already done phase 3, all that shows that the drug works.

Tobin Smith: – right.

Matt Hogan: We've actually had an NDA submitted. There has been a complete response letter, but it's for non-safety or efficacy reasons, and the product is in the hands of Pfizer at the moment –

Tobin Smith: They are your partner?

Matt Hogan: – they're our partner. They will commercialize it, and they're dealing with the FDA to get it over these last hurdles to get it approved.

Tobin Smith: What is the market for oxycodone? I know it's –

Matt Hogan: Well, in dollars, it's about \$3 billion –

Tobin Smith: – okay.

- Matt Hogan:* – and it's probably the most widely-used painkiller in the world, and yet the abuse is more common than cocaine or marijuana, things like that.
- Tobin Smith:* So, the idea would be that Pfizer would manufacture a version of this that had your technology that was **un-disruptable** –
- Matt Hogan:* **Tamperable.**
- Tobin Smith:* – tamperable is the word, and it doesn't add any costs.
- Matt Hogan:* No.
- Tobin Smith:* But, if I'm the health plan, I want that product, and if I'm paying for it, I'm the payer, I want that product to be **delivered.**
- Matt Hogan:* It doesn't cost any more than the existing product, presumably, but the benefit is you have fewer of these people going to the emergency room, which are very costly to treat.
- Tobin Smith:* Sure, absolutely. All right, so that's one. Tell us about the other stuff that you're **farther down the trail.**
- Matt Hogan:* So, the second most advanced program we have we call POSIDUR, and it's a formulation of a local anesthetic called Bupivacaine, which is widely used. You've heard of novocaine –
- Tobin Smith:* Novocaine, right.
- Matt Hogan:* – lidocaine. But what we did is we **put in a formulation** that lasts for three full days, so instead of a few hours numbing a wound after surgery, it will last you for three days, and the product concept is treat the pain locally, then you don't need as many of these systemic drugs –
- Tobin Smith:* Can I get some now? I've got a –
- Matt Hogan:* – **like opiates.**
- Tobin Smith:* – _____.
- Matt Hogan:* I'm not sure that's legal.
- Tobin Smith:* All right, okay.
- Matt Hogan:* But the next time you go into surgery, this is what you would want.
- Tobin Smith:* All right, and what do you guys do? What's the voodoo that you do here that other people have not been able to do?

Matt Hogan: Well, our expertise is in drug delivery, so these different formulations, whether they're injectable, or transdermal products or oral products that have these other properties, that's our proprietary knowledge that we bring to these drugs.

Tobin Smith: Now, this type of investment is where, in the next let's call 24 to 36 months, one of these products hit, and then your business model is you're getting paid a **milestone** from Pfizer, **you plus** get a royalty –

Matt Hogan: Yes.

Tobin Smith: – but these are all big markets you're going after, right?

Matt Hogan: Every one of the products we target are large opportunities. As I mentioned, with Remoxy, it's a \$3 billion market. What share of that can Pfizer capture with their huge primary care sales force and with these features, and then we get a royalty in that case of 6 to 11.5 percent. So, as an example, if they did \$900 million after a couple years, that's only 30 percent of the market, we'd get a \$70 million royalty –

Tobin Smith: \$70 million **royalty**.

Matt Hogan: – **here**, which goes straight to the bottom line.

Tobin Smith: Right, right.

Matt Hogan: So, all we need is one to hit, that's the whole story of our industry.

Tobin Smith: You've raised \$100 million-plus over the last couple years.

Matt Hogan: Yes.

Tobin Smith: Is your burn rate such that you have enough cash to make it to the goal line here?

Matt Hogan: Because of this licensing model, where our partners typically pay for a lot of the development expense, our burn rate is pretty modest.

Tobin Smith: Okay.

Matt Hogan: So, we're in pretty good shape, and we've got other products that aren't partnered yet that we hope will be the basis for future collaborations.

Tobin Smith: All right. So, again, when we look at investments in this space, which is essentially the drug delivery platform, we're looking for a company that has broad sectors, that you can be in a lot of different spaces, that we're in at least phase 2 on most of these, or at least a couple of them, so we've got _____ –

Matt Hogan: Yes.

Tobin Smith: – and we're actually trying to buy these stocks at the low end. We don't want to buy them when they were up, you know, **the euro** is as high as 2.00, you're now .85 cents, **or something**. We certainly _____ . I don't know if you mind that, but we sort of like getting a low-cost basis in a portfolio of these companies, and, when it gets snapped up, you know.

Matt Hogan: So, we think we've diversified the risk in terms of technology and in terms of multiple product **opportunities**, so we've got a lot of shots on goal, and the history of our industry is you need one to hit, and then you're in –

Tobin Smith: You need one to hit.

Matt Hogan: – a totally different place.

Tobin Smith: That's exactly – all right, well when it comes to any sort of chronic pain, the next big thing is right here with DURECT. Matt Hogan, thanks for the time.

Matt Hogan: Thank you.

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