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Biosares

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Edition 300

Delivering independent investment research to investors on Australian biotech, pharma and healthcare companies.

In this edition...

The mid year profit reporting season is well underway. The resilient nature of the healthcare sector during the global economic slowdown is clear. With many companies in the sector being predominantly exporters, the positive impact of the lower Australian dollar gives these companies added appeal at the moment.

CSL has produced a half year profit result of over $500 million and looks set to deliver a $1 billion net profit result for the full year. Resmed and Cochlear continue to grow well, and the increasing pool of profitable businesses, such as Cellestis and Atcor Medical bodes well for the ongoing success of Australian life sciences sector.

The Editors

Companies Covered: ACG, BTA, BKL, CGS, CTE, CST, COH, CSL, HIN, LBT, IDT, PBP, RMD, UBI

	Bioshares Portfolio
Year 1 (May '01 - May '02)	21.2%
Year 2 (May '02 - May '03)	-9.4%
Year 3 (May '03 - May '04)	70.0%
Year 4 (May '04 - May '05)	-16.3%
Year 5 (May '05 - May '06)	77.8%
Year 6 (May '06 - May '07)	17.3%
Year 7 (May '07 - May '08)	-36%
Year 8 (May '08 - current)	-36%
Cumulative Gain	**32%**
Av Annual Gain (7 yrs)	**17.8%**

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Strong Profit Season Underway

The half yearly reporting season is well underway. This gives investors the opportunity to take stock of the losses incurred by many life science companies, which is to be expected of the many cash depleting biotechs that are listed on the ASX. At the same time there is a reasonable number of companies with a history of sales and profits. Furthermore, some life science companies such as **Cellestis**, **Atcor Medical** and **Labtech Systems** are examples of companies that have moved in the recent past from being loss makers to profit makers. In the case of Cellestis it took $28 million in shareholders funds and seven years from its IPO before it posted a profit for FY2008. It has announced it will pay its first interim dividend. Actor Medical listed in late 2005, raising $15 million and has now reached profitability. These are important metrics for the conscientious investor. Summaries of companies reporting profits (to date) are presented on pages 2 through 5.

One trend emerging from the current set of reports is the positive impact of a lower AUD relative to the USD. While this currency relationship is maintained, Australian companies that export their goods and services should do well, as will companies that sell their services in USD and repatriate income back to Australia. Another feature impacting on several companies, including **Blackmores** and **Probiotec** is that of high debt levels. Interestingly (and positively) some companies such as **Atcor Medical**, **IDT Australia** and **Cellestis** are debt free.

Forthcoming results to monitor include those from **Sirtex Medical**, **Cogstate** and **Clover Corp**. And although six months away, it will be well worth monitoring **CSL's** full year results for FY2009, with a billion dollar profit likely to be delivered.

H1 FY 2009: Half-year Results - Profitable Life Science Companies (filed to date)

Company	Code	Net profit ($M)*	Change PCP	Comment
CSL	CSL	$501.90	44%	Strong demand for IVIG products
Cochlear	COH	$69.94	22%	Bone anchored pdts drive growth
Resmed	RMD	$61.88	21%	Strongest growth in the US
Blackmores	BKL	$11.95	-2%	Treading water
Biota Holdings	BTA	$7.21	31%	Received litigation settlement
Probiotec	PBP	$4.27	73%	Boosted by branded products
IDT Australia	IDT	$3.07	8%	Lower AUD aids business
Cellestis	CST	$2.85	769%	Announces dividend
Labtech Systems	LBT	$0.74	NA	Received milestone payments
Cryosite	CTE	$0.23	-47%	Relocating to new facilities
Atcor Medical	ACG	$0.18	NA	Maiden profit

** RMD in USD*

Cont'd over

FY2008-09 Half Year Profit Reviews – Part 1

The half yearly reporting season has commenced for most companies listed on the ASX. For a few companies full year results are also filed. Below we provide summaries of pharmaceutical, biotech and other life science companies that have recently reported profits.

Atcor Medical – Posts Maiden Profit

Atcor Medical markets the Sphygmocor system, which non-invasively measures central blood pressure and arterial stiffness. A target market for the product is the clinical trials sector. The company has posted a maiden half-yearly profit of $180,477, on the back of sales of $5.4 million. Sales increased 76% from the previous corresponding half year. This represented a 64% increase in constant currency terms. Atcor anticipates sales for the full year to be over $10 million and expects a depreciate Australian dollar to reinforce its earnings profile.

The board of Atcor has stated that it does not expect to raise funds for working capital requirements in the medium term. The company has not raised any funds beyond the $15 million it received from its IPO in November 2005. Atcor holds cash resources of $2.9 million.

Atcor Medical			CMP	$0.18
ACG	Cap'n ($M)	$18	PE (Ann.)	50
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$1.7	$2.6	$3.1	$5.4
Change		52%	17%	76%
EBIT ($M)	-$1.1	-$2.3	-$1.6	$0.2
Change		NA	NA	NA
Net Profit ($M)	-$1.1	-$2.3	-$1.7	$0.2
Change		NA	NA	NA

Biota Holdings – Back in the Black

Biota Holdings moved back into profitability after a loss reported for FY2008. Biota posted a profit of $7.2 million for the half year ending December 31, 2008. Revenues from continuing operations, excluding interest, were $10.5 million, 60% less than reported for H1 FY2008. These figures do not include the receipt of $20 million paid in respect of the settlement of litigation with **GlaxoSmithKline**. Total revenues for the period were $33.5 million. A decrease in Relenza royalties of 77% from H1 FY2008 is primary reason for the drop in Biota's core revenue figure. However, since December 31 an order by the UK Department of Health for Relenza may provide royalty income to Biota of $18 million. However, the company is unable to be certain as to when these estimated royalties might be paid.

As of December 31, 2008, Biota held cash reserves of $55.4 million.

Biota Holdings			CMP	$0.46
BTA	Cap'n ($M)	$80	PE (Ann.)	6
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)*	$1.6	$19.0	$26.2	$10.5
Change		1089%	38%	-60%
EBIT ($M)	-$8.7	$4.1	$7.5	$10.1
Change		NA	84%	35%
Net Profit ($M)	-$8.7	$4.1	$5.5	$7.2
Change		NA	35%	31%

* revenues from continuing operations, excluding interest

Blackmores – Marginal Drop in Profits

Blackmores markets vitamin pills and supplements. This company has developed one of the strongest nutraceutical brands in Australia, and holds a 21.5% market share. The company posted sales of $96.3 million for the half-year ending December 31, 2008, a 6% increase on the previous corresponding period. Net profit fell 2% to $12 million. The company expects to deliver a full year result broadly in line with FY2008's result.

The company is carrying borrowings of $47.3 million, equating to a net debt to equity ratio of 40.2%. This explains the company's low annualised PE ratio of 8.

Blackmores appointed a new CEO, Christine Holgate, late in 2008, replacing Marcus Blackmore, who has assumed the role of chairman. Holgate has been tasked with expanding the company's growth, including in overseas markets.

Blackmores			CMP	$12.00
BKL	Cap'n ($M)	$196	PE (Ann.)	8
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$73.1	$85.0	$90.9	$96.3
Change		16%	7%	6%
EBIT ($M)	$11.2	$15.0	$17.8	$17.7
Change		33%	19%	-1%
Net Profit ($M)	$7.4	$10.2	$12.3	$12.0
Change		37%	20%	-2%

Cellestis – Pays a Dividend

Following its maiden full year profit for FY2008, TB diagnostic marketer Cellestis has continued to report strong growth in sales and profits. Sales for the latest half year period were $14.5 million, up 92% from the first half of FY2008. The company reported a half yearly net profit of $2.85 million. Cellestis has announced an interim 1 cent unfranked dividend.

Cellestis holds cash resources of $17.9 million, which may provide the company with a sound buffer should its target markets experience financial uncertainty. Financial instability affects the employment rate and hiring of new hospital workers, who generally must undergo testing for latent TB. Separately *Bioshares* notes that financially stressed US states may change incarceration policies, taking a lead from California's budget cuts that may see a reduction in the number of prisoners it houses and parolees it oversees. (see *The Economist*, Feb 19, 2009, and *The Los Angeles Times*, Feb 21, 2009). US prison systems are one of several target markets for Cellestis' TB test.

Cellestis			CMP	$2.13
CST	Cap'n ($M)	$204	PE (Ann.)	36
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$1.8	$5.1	$7.5	$14.5
Change		179%	49%	92%
EBIT ($M)	-$1.64	-$1.19	$0.33	$3.02
Change		NA	NA	NA
Net Profit ($M)	-$1.64	-$1.19	$0.33	$2.85
Change		NA	NA	769%

Cochlear – Benefits from Depreciating AUD

Hearing implant manufacturer Cochlear recorded a half-yearly profit of $70 million on the back of sales by $347 million. Sales, excluding FX contracts, increased by 22% and profits by 22% from same half year period a year ago. In constant currency terms sales increased by 12%. Unit sales of implant systems grew by 2% for the period (but maintaining a ~70% market share), whereas sales of bone anchored systems increased by 25%.

Cochlear stated that the impact of the global financial crisis on major customers was relatively minor overall in H1 FY2009. The company also stated that there would be no change to the its fundamental strategies around technologic innovation, business innovation and scale and leverage of internal and external activities. Cochlear expects core earnings for FY2009 to increase between 15% and 20%.

Cochlear			CMP	$56.35
COH	Cap'n ($M)	$3,155	PE (Ann.)	23
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)*	$208.7	$270.7	$284.2	$346.9
Change		30%	5%	22%
EBIT ($M)	$63.0	$73.6	$84.7	$100.4
Change		17%	15%	19%
Net Profit ($M)	$43.0	$47.3	$57.1	$69.9
Change		10%	21%	22%

*excluding FX contracts

Cryosite – Awaiting Reg. Approvals for New Facility

Cryosite is a specialist biological products storage services company based in Sydney. The company reported sales of $3.3 million for H1 FY2009, 14% less than the figures reported for the same period a year ago. The fall off in sales was due to decreased demand for Cryosites services from **Animal Health Australia**'s equine vaccination program. Net profit declined 47% to $230,000.

Cryosite has completed the construction and fit-out of new premises (we estimate costing $1.1 million) and is waiting on regulatory approvals before it can vacate its existing premises at Lane Cove.

Cryosite			CMP	$0.13
CTE	Cap'n ($M)	$6	PE (Ann.)	13
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$1.6	$2.3	$3.8	$3.3
Change		42%	66%	-14%
EBIT ($M)	-$0.41	$0.11	$0.43	$0.23
Change		NA	305%	-47%
Net Profit ($M)	-$0.41	$0.11	$0.43	$0.23
Change		NA	301%	-47%

CSL – A Strong Performance

CSL generated a strong performance for the half year ending December 31, 2008, posting sales of $2.2 billion, an increase of 26% from the previous corresponding period. EBIT rose by 40% and net profit of $502 million increased by 44%.

Seen on a CY2008 calendar year basis, CSL recorded sales of $4 billion, supporting a net profit of $855 million. CSL's guidance is for revenues of $4.6-$4.7 billion for FY2009 and net profit in the range $1.02 - $1.06 billion. (Net profit for FY2008 was $702 million.)

CSL reported Gardasil royalties (which flow the from the sale of the HPV vaccine Gardasil in territories outside Australia) of $82.6 million [H1 FY2008 $81.9 million].

For the latest half year, sales of Gardasil fell to $84 million from $143 million from the previous corresponding period, due to a normalisation of immunisation activity towards age-relevant younger females.

CSL			CMP	$36.80
CSL	Cap'n ($M)	$22,190	PE (Ann.)	22
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$1,393.1	$1,541.4	$1,750.1	$2,206.7
Change		11%	14%	26%
EBIT ($M)	$260.9	$390.7	$499.9	$701.5
Change		50%	28%	40%
Net Profit ($M)	$176.4	$257.3	$348.7	$501.9
Change		46%	36%	44%

IDT Australia – A Challenging Environment

IDT Australia's half-yearly results included an 8% lift in net profit despite a 4% fall in sales for the period ending December 31, 2008, when compared to period ending December 31, 2007.

IDT Australia negotiates its contracts in Australian dollars.The IDT Australia board said that results were achieved in what has been a challenging commercial environment. Where a lower AUD has stimulated demand for IDT Australia's services from overseas firms, the weakened financial circumstances of smaller local drug development companies has meant that a number of projects have been delayed or put on hold. The company expects business to be subdued in the short term while the financial crisis runs its course.

IDT Australia			CMP	$1.61
IDT	Cap'n ($M)	$69	PE (Ann.)	11
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$11.0	$12.4	$14.3	$13.7
Change		12%	16%	-4%
EBIT ($M)	$1.02	$1.19	$4.09	$4.43
Change		17%	243%	8%
Net Profit ($M)	$0.65	$0.22	$2.84	$3.07
Change		-67%	1214%	8%

Labtech Systems – Anticipates Royalty Income

Labtech recorded revenue of $1.96 million and a net profit after tax of $0.74 million for H1 FY2009. The revenue has come from milestone payments from the company's partner, **BioMerieux**.

BioMerieux has licensed the company's MicroStreak technology, which was developed by Labtech into a robotic processing system for laboratory agar plates. The first instruments were sold late last year. Labtech has completed product development and the instruments are now manufactured directly by Invetech for BioMerieux.

This year Labtech Systems will start to receive royalty payments from each consumable applicator used in the instruments worldwide. It does not receive payment from any instrument sales. Labtech also expects to receive a further 2 million Euros in 2010 as a milestone payment from BioMerieux.

Labtech is now actively considering its next development projects. The company anticipates it will be in a better position to comment on its corporate strategy in the next few months, as well give investors a better understanding of its expected future royalty stream.

Labtech Systems			CMP	$0.14
LBT	Cap'n ($M)	$13	PE (Ann.)	9
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$0.0	$0.0	$0.3	$2.0
Change		NA	1073%	463%
EBIT ($M)	-$0.29	-$0.79	-$0.54	$5.57
Change		NA	NA	NA
Net Profit ($M)	-$0.29	-$0.66	-$0.54	$0.74
Change		NA	NA	NA

Probiotec – Strong Growth from Branded Products

Probiotec pushed through a strong set of results for the half year ending December 31, 2008. Sales for the period were $46.5 million, an increase of 41% from the previous corresponding period. More impressively, net profit rose 73% to $4.27 million for the period. The company has declared a 1.25 cent fully franked dividend.

Probiotec			CMP	$1.35
PBP	Cap'n ($M)	$63	PE (Ann.)	7
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$19.0	$23.7	$32.9	$46.5
Change		25%	39%	41%
EBIT ($M)	$1.37	$2.89	$4.54	$7.14
Change		111%	57%	57%
Net Profit ($M)	$0.45	$1.42	$2.46	$4.27
Change		214%	73%	73%

Probiotec's performance was aided by a significant lift in the proportion of sales it generates from branded products. Branded products accounted for 74.7% of sales [56.7% pcp], additives and nutritionals 8.7% [21% pcp] and contract manufacture 16.6% [22.3% pcp]. This in turn positively impacted on the company's gross profit margin which was lifted to 45.7% from 40.2%. Branded products revenue for the half year was $34.7 million, an increase of 86% from the same period a year ago.

The board of Probiotec has maintained its guidance that net profit for FY2009 will increase by 20% from the previous year. The company recently rolled over $7.3 million of debt into an extended term. The company was carrying $27 million of debt at Dec. 31, 2008 and had a net debt to equity ratio of 54.3%.

Resmed – Healthy Performance

Resmed produced a healthy result for the six months ending December 31, 2009. Sales of US$440.9 million represented an increase of 14% from same period a year ago. Net profit of $62 million was 21% higher than that reported for the same period a year ago.

Growth was supported by stronger sales in the US and improvements to margins contributed to the stronger profit performance.

Resmed			CMP	$6.45
RMD	Cap'n ($M)	$4,881	PE (Ann.)	25
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
	US$	US$	US$	US$
Sales ($M)	$273.5	$342.0	$388.4	$440.9
Change		25%	14%	14%
EBIT ($M)	$56.79	$76.01	$67.99	$79.81
Change		34%	-11%	17%
Net Profit ($M)	$38.76	$53.99	$50.99	$61.88
Change		39%	-6%	21%

Cogstate Terminates Partnership with UBC

Cogstate and United BioSource Corporation have terminated their strategic partnership formed last year. For Cogstate, working with UBC was a means to secure larger clinical trial contracts. UBC was to provide the on-site teams to coordinate the cognitive testing, and Cogstate would conduct the data analysis and provide its software.

It appears that early on the companies discovered their relationship would not work as planned. For Cogstate, it's been important to establish this early, before its business became heavily reliant on the partnership. Cogstate has indicated the end of the partnership would not have a material effect on earnings. To date, only a few smaller trials had been conducted together.

The outcome for Cogstate is that the company will need to directly expand its employee base as its business expands, something the company was hoping to limit by effectively outsourcing its ground operations work to UBC. There will be no steps skipped for Cogstate as it builds its business however the risk is also reduced by limiting the reliance on third parties.

Cogstate is expected to report a maiden half year profit next week of between $1.2 - $1.3 million. We anticipate growth of the Cogstate business will continue unchanged.

CGS:19.5 cents

Cash position (31/12/08)	$2.8 million
Market capitalization	$13 million
Bioshares recommendation	Speculative Buy Class A

Bioshares

Thoratec to Acquire Heartware

Thoratec last week announced plans to acquire heart pump company Heartware. Heartware is a US incorporated company that listed on the ASX in 2005 at 50 cents a share. The company has Australian operations as well as in the US with 80% of its shareholders based in the US.

Thoratec will pay US$282 million for Heartware ($429 million) with half to be paid in cash and half in Thoratec shares. The price equates to $1.32 share and a 98% premium to Heartware's last traded price before the deal was announced. It is a resounding success for Heartware, particularly given the dire position its more advanced competitor Ventracor is in. Thoratec will also provide Heartware with a US$28 million loan facility.

Heartware is about two years behind **Ventracor**. Thoratec has just received CE Mark approval in Europe and its US trial has recruited only seven of the 150 patients in the US trial as last announced at the end of January. By comparison Ventracor started its first US trial in June 2007 and that 140 patient trial is now fully enrolled. Ventracor received CE Mark approval at the end of 2006.

Four investors, including three investment funds, own about 60% of Heartware. These include Apple Tree Partners (which manages two life science VC funds with US$135 million under management), Fidelity Investments, and Deephaven Capital Management (a US hedge fund that is closing down).

The decision to list in Australia originally came about because of the interest from Australian investors willing to support the listing, ironically due to the familiarity of the Left Ventricular Assist Device (LVAD) space in Australia following the success at the time enjoyed by Ventracor.

Heartware will begin trading next week on the Nasdaq exchange. The stock is currently trading in Australia at around a 20% discount to the offer price. This is due to a number of factors. Firstly, anti-trust approval will be required in the US, but it is difficult to see this being an issue with numerous LVAD developers in exstence. The acquisition will require Heartware shareholder approval (50%) and it is difficult to imagine shareholders will knock this back.

The deal will likely take five to six months to complete, which may not appeal to some, and there is the time value of money over this period which also marginally impacts on the trading price of Heartware. With Thoratec being the clear leader in the LVAD space and the only foreseeable aquiror, there is unlikely to be a competing bid.

The key investor in Heartware has been **Apple Tree Partners,** which has invested around US$20 million in Heartware over a 10 year period. The deal highlights the expertise of venture capital groups, whose expertise is not only in making the initial investment and managing that investment, but also coordinating a sale process of that company, which quite likely would have been initiated between 12 - 24 months earlier. It is probable that the sale process for other Australian life science assets, such as **Peplin** and **Chemgenex Pharmaceuticals**, both which have major Australian and US VC investors, is also well underway.

Compared with Ventracor, the Heartware device is smaller and the company is working on even smaller pumps that can be implanted with less invasive surgery. This appears to have attracted the interest of Thoratec. Its success can also be attributed to understanding the suitable exit path for this company and its investors well ahead of time, and executing on that strategy. It's a characteristic or skill that Australian life science companies still have still need to develop. The lower hurdle for shareholder approval for US incorporated companies (50%) being acquired also assists the sale process compared to Australian companies where 90% shareholder approval is required or 75% under a Scheme of Arrangement.

(Other Australian life science assets that have been incorporated in US companies include **Universal Biosensors**, **Sunshine Heart, Peplin** which last year redomiciled to the US, and also **Resmed**.)

HIN: $1.10

Cash position (31/12/08)	$30 million
Market capitalization	$342 million
Bioshares recommendation	Hold

Bioshares

Biota Benefits from Influenza Drug Stockpiling Orders

Biota Holdings has delivered a positive first half result thanks in large part to the $20 million litigation payment from **GlaxoSmithKline**. The company recorded total revenue of $33.5 million with a net profit result of $7.2 million. At the end of 2008 the company had $55 million in cash and is currently capitalized at $80 million.

The first half result included final litigation costs on $7.3 million, which included payments to lawyers, barristers and final payment of witness statement costs. The company generated a Relenza royalty income of $3.8 million (down from $16.5 million over the previous corresponding period) and collaboration income of $6.6 million.

Biota has three clinical programs underway. The most advanced is a Phase III program in collaboration with **Daiichi Sankyo** for a long acting neuraminidase inhibitor (LANI) for the treatment of influenza (compound is names CS-8958). The trial is being conducted by Daiichi Sankyo in Japan with the trial having started in December and recruitment progressing well. If the trial recruits sufficient patients in the current flu season in Japan and if the results from the trial are positive, Daiichi Sankyo may be in a position to file the drug for approval this year. The trial is comparing a once a week flu drug of the LANI drug candidate against twice daily Tamiflu for the treatment of seasonal influenza.

It's not an insignificant influenza market in Japan, worth around US$100 million a year, most of which is for Tamiflu sales. A locally development drug with superior delivery benefits should be very competitive in Japan. Other factors going against Tamiflu in Japan is the incidence of side effects in adolescents and the increasing virus resistance to Tamiflu.

Biota will receive an undisclosed royalty payment from any sales of the long acting flu drug (estimated as a single digit royalty). Biota and Daiichi initially teamed up their respective long acting flu drug programs because of the intellectual property position Biota has over zanamivir (Relenza). The LANI compound is a prodrug of the active compound zanamivir. Outside of Japan both companies equally share the rights to this program.

Biota has US$5.6 million of NIH funding available to conduct bridging studies with LANI outside of Japan. If the Japanese studies are successful, Biota will look to partner the program for the rest of the world. It will take a particular type of pharmaceutical company that will be prepared to break the effective monopoly enjoyed by Roche in the seasonal market and the pandemic stockpiling duopoly enjoyed by Roche (Tamiflu) and GlaxoSmithkline (Relenza). However a once a week treatment (LANI) versus a twice a day treatment (Relenza and Tamiflu) for stockpiling should be an achievable sell to the government healthcare authorities.

Life left in the stockpiling market

Recent stockpiling orders from the UK Government (10.6 million courses) highlights the ongoing need to stockpile influenza drugs against a future pandemic. The UK Government will stock 33% of its pandemic supplies with Relenza following the supply of the current order (GlaxoSmithKline is a UK company). The increasing resistance to Tamiflu is pushing governments to hold a more balanced supply of the flu drugs. Demand will be ongoing as the existing stockpiles are replaced, much of which should be before Biota's Relenza patents start to expire. The patents begin to expire in various territories in 2011 and expire in 2013 in the US.

BTA: $0.46

Cash position (31/12/08)	$55 million
Market capitalization	$80 million
Bioshares recommendation	Speculative Buy Class A

Bioshares

Change of Strategy for Universal Biosensors and Lifescan

There has been a change of strategy between Universal Biosensors and its partner **LifeScan** (**Johnson & Johnson**). LifeScan has decided not to proceed with the first generation system, but to delay market launch and work on the second generation glucose sensor which offers some undisclosed product benefits, either to the end user, the manufacturer or both. The delay to product launch we estimate will be between six to nine months.

What is the impact for Universal Biosensors? New contract terms (a variation to the Master Services Agreement signed in October 2007) will need to be negotiated. The commercial terms will either better, worse or similar to the existing terms, with the outcome being determined by the strength of UBI's position and the importance this product has to LifeScan.

UBI and LifeScan have had a professional and respectful relationship since 2002 when the first development agreement was formed. Since that time seven contracts/agreements have been negotiated between the two groups. Lifescan has and continues to have several staff working at the UBI facility in senior positions which reflects the importance of this relationship to LifeScan.

Our view is that the decision to focus on the second generation glucose monitoring device and test strips by LifeScan is not about negotiating better contract terms. The decision has been influenced by the rapid development progress made with the enhanced product resulting in this product development being only nine months at worst behind the first generation system.

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Universal Biosensors - from previous page

The rapid and strong progress at UBI has not only been with the glucose monitoring test. LifeScan has full marketing rights to the use of this technology for glucose monitoring only. All other rights rest with UBI. UBI has the opportunity to develop a suite of point-of-care biosensors; tests that at present need to be carried out at pathology center but within two years may become available to be conducted at the doctor's surgery, at home or at the chemist.

Progress with CRP test and prothrombin time test

UBI now has a working prototypes for the C-reactive protein (CRP) and the prothrombin time test. CRP is fast becoming an extremely important marker for cardiovascular disease. The prothrombin time test will offer people on chronic warfarin to test the effectiveness of their warfarin therapy at say a chemist rather that going to a doctor's surgery, having a blood test and having that test sent to pathology.

In the next two months, new terms for the enhanced glucose biosensor product should have been negotiated, at which point the company will be able to give sales guidance for this year and possibly 2010. UBI has stated that the enhanced second generation glucose product should be ready for registration in the second half of 2009 with a product launch possible in the first quarter of 2010. We believe LifeScan will want to release the product as soon as it is approved, in which case we believe UBI should start manufacturing the test strips this year.

Under the existing agreement with LifeScan, UBI is a non-exclusive manufacturer for the glucose test strips for LifeScan. Last year UBI forecast sales this year of between $20 million - $30 million, although that estimate will likely be altered as a result of the product development changed announced.

For UBI the next two years will not only be busy with manufacturing glucose test strips and other product development, but also in negotiating global marketing deals for other point-of-care diagnostic products, which LifeScan may or may not be interested in.

UBI: $0.53

Cash position (31/12/08)	$28 million
Market capitalization	$83 million
Bioshares recommendation	Speculative Buy Class A

Bioshares

Bioshares Model Portfolio (20 February 2009)

Company	Price (current)	Price added to portfolio	Date added
ASDM	$0.35	$0.30	December 2008
QRxPharma	$0.25	$0.25	December 2008
Hexima	$0.30	$0.60	October 2008
Atcor Medical	$0.18	$0.10	October 2008
CathRx	$0.48	$0.70	October 2008
Impedimed	$0.72	$0.70	August 2008
Mesoblast	$0.78	$1.25	August 2008
Cellestis	$2.13	$2.27	April 2008
IDT	$1.61	$1.90	March 2008
Circadian Technologies	$0.69	$1.03	February 2008
Patrys	$0.05	$0.50	December 2007
Bionomics	$0.21	$0.42	December 2007
Cogstate	$0.20	$0.13	November 2007
Sirtex Medical	$2.40	$3.90	October 2007
Clinuvel Pharmaceuticals	$0.20	$0.66	September 2007
Starpharma Holdings	$0.17	$0.37	August 2007
Pharmaxis	$1.19	$3.15	August 2007
Universal Biosensors	$0.53	$1.23	June 2007
Biota Holdings	$0.46	$1.55	March 2007
Probiotec	$1.45	$1.12	February 2007
Peplin Inc	$0.55	$0.83	January 2007
Arana Therapeutics	$0.80	$1.31	October 2006
Chemgenex Pharma.	$0.33	$0.38	June 2006
Cytopia	$0.10	$0.46	June 2005
Acrux	$0.47	$0.83	November 2004
Alchemia	$0.14	$0.67	May 2004

Portfolio Changes – 20 Feb 2009

IN:
No changes

OUT:
No changes

How Bioshares Rates Stocks

For the purpose of valuation, *Bioshares* divides biotech stocks into two categories. The first group are stocks with existing positive cash flows or close to producing positive cash flows. The second group are stocks without near term positive cash flows, history of losses, or at early stages of commercialisation. In this second group, which are essentially speculative propositions, *Bioshares* grades them according to relative risk within that group, to better reflect the very large spread of risk within those stocks.

Group A

Stocks with existing positive cash flows or close to producing positive cash flows.

Buy	CMP is 20% < Fair Value
Accumulate	CMP is 10% < Fair Value
Hold	Value = CMP
Lighten	CMP is 10% > Fair Value
Sell	CMP is 20% > Fair Value

(CMP–Current Market Price)

Group B

Stocks without near term positive cash flows, history of losses, or at early stages commercialisation.

Speculative Buy – Class A
These stocks will have more than one technology, product or investment in development, with perhaps those same technologies offering multiple opportunities. These features, coupled to the presence of alliances, partnerships and scientific advisory boards, indicate the stock is relative less risky than other biotech stocks.

Speculative Buy – Class B
These stocks may have more than one product or opportunity, and may even be close to market. However, they are likely to be lacking in several key areas. For example, their cash position is weak, or management or board may need strengthening.

Speculative Buy – Class C
These stocks generally have one product in development and lack many external validation features.

Speculative Hold – Class A or B or C

Sell

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