ISSN 1443-850X

In this edition...
Pharmaxis reported positive results for its Bronchitol Phase III trial this week. This news was not only good for Pharmaxis but also for the sector, as Pharmaxis is a stock full with expectations of future profits and is now capitalised at more than $700 million.

Consolidation is another theme we discuss, arguing the case for continued M&A following the completion of the third merger between two listed biotechs in Australia.

Updates on Probiotec and Portland Orthopaedics complete another bumper edition!

The editors
Companies covered: ANP, BDM, PBP, PLD, PXS, PTD

	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 (from 4 May '07)	-4.6%
Cumulative Gain	**211%**
Av Annual Gain (6 yrs)	**26.8%**

Bioshares is published by Blake Industry & Market Analysis Pty Ltd. The company also provides market and company analysis of the Australian pharmaceutical and biotech industries for local and international funds management institutions, venture capital funds and other related industry groups. For further details contact David Blake (see details below).

Blake Industry & Market Analysis Pty Ltd
ACN 085 334 292
PO Box 193
Richmond Vic 3121
AFS Licence
No. 258032

Enquiries for *Bioshares*
Ph: (03) 9326 5382
Fax: (03) 9671 3633
Email: info@bioshares.com.au
David Blake
Ph: (03) 9326 5382
Email: blake@bioshares.com.au
Mark Pachacz
Ph: (03) 9671 3222
Email: pachacz@bioshares.com.au

Individual Subscriptions (48 issues/year)
$320 (Inc.GST)
Edition Number 230 (31 August 2007)
ISSN 1443-850X

Bioshares

31 August 2007
Edition 230

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

Pharmaxis Reports Positive Phase III Results for Bronchitol

Pharmaxis (PXS: $4.07) has released preliminary results of a Phase III trial (DPM B301) of its Bronchitol product in patients with bronchiectasis. Bronchiectasis is a degenerative lung condition in which the lower airways of the lung are permanently dilated. It is also an end-stage respiratory illness that can be initiated by the occurrence of other ailments including bacterial and viral infections, the presence of lung tumours, mucous plugs and other obstructions, immune deficiencies and immune disorders.

Bronchitol is designed to act as a mucolytic agent, meaning that it promotes the clearance of mucous from the lungs and restores the lung's capacity to clear mucous normally.

The B301 trial was located at 22 sites in Australia, New Zealand and the United Kingdom. The randomised, placebo-controlled, double-blind trial enrolled 362 subject.

Bronchitol was administered by inhalation twice daily for 12 weeks in the trial. The primary endpoints were to assess whether bronchitol improved health related quality of life assessed using the St George Respiratory Questionnaire. A second primary endpoint was to assess the impact of Bronchitol on 24-hour sputum volume. The trial showed that Bronchitol provided a highly significant improvement in quality of life and generated a highly significant difference in the quantum of sputum produced.

Commentary

The positive, although preliminary, results from the B301 trial have a high level of importance to Pharmaxis. The results allows the company to confidently progress other clinical trials, including a Phase III registration study in the US, planned to commence in 2008, and to build a new manufacturing plant in Sydney.

Pharmaxis is now capitalised at $724 million, with its share price increasing by 20% from a week ago. This is a hefty valuation for a company that has only one marketed product, which is the Aridol lung function test that is now approved in Australia and Europe. We expect the Aridol product will make a relatively smaller contribution to the overall sales that Pharmaxis could generate from sales of Bronchitol.

The value expectations in the Pharmaxis stock price are based on potential sales that can flow from Bronchitol, especially in the poorly characterised and understood bronchiectasis treatment market. Pharmaxis has estimated that in developed countries, 600,000 patients are seeking treatment (USA ~ 110,000), with current treatment options such as antibiotics, steroids, bronchodilaters and other mucolytics agents and therapies only partially effective. Use of antibiotics is limited because of problems pertaining to resistance.

An alternative assessment of the bronchiectasis market suggests that between 30% and 50% of patients diagnosed with the blanket label of chronic obstructive pulmonary dis-

– Pharmaxis cont'd

ease (COPD) have undiagnosed bronchiectasis. The global estimate for people categorised as suffering from COPD is 30 million.

The breakthrough technology that has enabled the diagnosis of the bronchiectactic condition is the use of high resolution computed tomography (CT) scanners.

Pharmaxis has gathered data that shows that for 2001, the average annual medical expenditure for bonchiectactic patients in the US was $US13,000. The drug Pulmozyme, which is approved to manage mucous clearance in cystic fibrosis patients, sells for approximately US$20,000 per annum. It failed to achieve efficacy in clinical trials in bronchiectasis. This drug generated global sales of US$360 million in 2006. What these figures indicate is that the potential for pricing Bronchitol upwards of US$5,000 is not out of the question. This would indicate an addressable market worth US$550 million, and indicates an accessible market, assuming a 30% penetration rate, worth US$165 million. When tied to the fact that there are no other products in development for bronchiectasis, these figures help explain Pharmaxis' hefty valuation.

Risks and Unknowns

However, unknowns remain with the development of Bronchitol, including what proportion of bronchiectatic patients would use Bronchitol on a less frequent basis, and therefore decrease the annual earnings potential of the product. A second risk is whether the company would have to develop a reimbursement strategy in the USA (it may not need to) and thirdly, the company has yet to commence and complete US registration trials and gain approval from the US FDA. It needs to firstly agree on a Phase III trial design with the FDA, which is not an insignificant hurdle.

Investment Question

The question for investors is whether Pharmaxis shares are worth buying. An old biotech investing rule of thumb (see *Bioshares* edition 1, page 14) is that the time to buy companies with a major Phase III program is after clinical trial results have been released. Gains of around 25% post data release are likely. Pharmaxis' share price posting around a 20% gain is consistent with this historical rule of thumb. This is because the ANZ-UK Phase III trial looks to have eliminated the technical risk associated with Bronchitol but leaves regulatory and market risk outstanding.

Bioshares recommendation: **Speculative Accumulate Class A**

Bioshares

Progress at Portland Orthopaedics

Portland Orthopaedics (PLD: 28 cents) may be back on track with its goal to carve out a niche in the global joint replacement industry. Joint replacement covers the replacement of hip, knee, shoulder and other joints with prosthetic devices. The market is further divided into primary, revision, oncology-related and difficult anatomy sub-markets.

M-Cor Hip

Portland is targeting its prosthetic devices at the revision and difficult anatomy markets, although it has products that address the primary hip replacement market. The company has advanced beyond its first generation product, the DTC Hip, with the M-Cor Hip, of which the key feature is its modularity. Portland is developing four different M-Cor products, including the M-Cor Primary Press-Fit, the Zweymuller Press-Fit, the M-Cor Revision Press-Fit and the M-Cor Cemented products.

Equator Plus cup

The company is now also selling the Equator Plus cup. An acetabular cup is the immobile part of a hip replacement system that is fitted into the pelvis. The ball attached to the neck of the stem unit (fixed into the femoral bone) is inserted into the cup. Previously the company used a third party's acetabular cup system, but it has now developed its own proprietary device. This product incorporates several improvements over existing technology. The 'polyethylene' version of the cup has a solid metal backing, which prevents eroded polyethylene particles escaping and causing damage to the joint. The company's 'ceramic' version of the cup was launched in the US market in January 2007.

To develop a 'full bag' of products

In addition to its replacement hip products, the company intends to develop products for knees, hips, shoulders and other extremities such as ankles. The company holds the view that the successful marketing of orthopedic products is improved when sales personnel can offer a catalogue of products.

The Plus Orthopedics setback

Portland Orthopaedics listed in December 2005, when it raised $4 million. The share price at IPO was 25 cents. The stock reached a high of 49 cents in December 2006, but fell to a low of 22 cents in June this year. Portland has raised a further $9.2 million since listing. The company received a major setback in March 2007 when its US distributor **Plus Orthopedics** was acquired by **Smith and Nephew**, one of the four large companies that dominate the orthopedic products space. The distribution agreement with Plus was terminated in July 2007. This termination has meant that Portland gained the right to distribute directly to 13 US distributors. Since then Portland has added another two distributors. However, rest-of- world distribution arrangements are still to be finalised by Portland.

Financial Performance

Portland generated revenues for FY2007 of $5.7 million, an increase of 135% from the previous year. US sales increased from $706,000 in FY2006, to $4.2 million in FY2007. However, the company posted a loss of $5.7 million. The loss includes a $1.1 million stock write off from older now discontinued products.

Cont'd over

– Portland Orthopaedics cont'd

Current strategy

Portland Orthopaedics was founded 16 years ago. However, the next phase of Portland Orthopaedics could be traced to the time when the company elected to outsource primary manufacturing in the second half of 2007 to US manufacturers (Orchid Orthopaedics Group and Symmetry Medical). The company believes that out-sourcing can save as much as 75% in primary manufacturing costs and also enable the company to more efficiently manage its inventory. The company also expects gross margins to increase from around 20% when products are manufactured completely in-house, to above 50%, based on use of external suppliers.

Disadvantages of out-sourcing

There are disadvantages in out-sourcing manufacturing, with weakening of production control and quality important issues. However, the board and management of Portland Orthopaedics should be given due credit for being sufficiently adaptable and flexible to consider that the strengths of the company lie in other areas that can be exploited. These are links to US based surgeon opinion leaders through the company's surgical advisory board, its engineering design capability, and regulatory affairs strengths and a direct relationships to 16 distributors in the US, giving the company to some degree greater control of its own channel in the US market.

Parallels

The Portland product development story has parallels with several other Australian life science companies where first generation products were replaced by second and even third generation products, or even manufacturing and distribution arrangements changed over time. Examples include **Optiscan's** hand held rigid confocal microscope that was designed for the dermatogical market, but was followed by the flexible endomicroscope partnered with **Pentax**. And **Cellestis'** Quantiferon TB diagnostic was effectively replaced by Quantiferon TB Gold, and then the improved Quantiferon TB Gold In-tube.

Summary

The tracking of Portland's sales on a quarterly basis will be the most effective means to judge the company's revised strategy that is based on a management of a sales network in the USA, a greater reliance on out-sourced primary manufacture and the development of a full suite of products. We do not expect Portland to be profitable in the current financial year.

However, expectations of the company becoming cash flow positive in the first or second quarter of CY 2008 are not out of the question if the trend of strong sales growth is maintained. Investors should also recognise that it is conceivable that over the medium term Portland may seek to raise further funds to support specific product development or in-licensing opportunities. Such capital raisings would be consistent with the company's strategy to also build value as a small company with the capacity and expertise to 'Americanise' orthopedic products from other parts of the world. Portland Orthopaedics is capitalised at $44 million.

Bioshares recommendation: **Speculative Buy Class B**

Probiotec – A Strong Result, As Expected

Over-the-counter (OTC) products company Probiotec (PBP: $1.16) has delivered a very solid result for its first year as a listed company. Sales increased by 30% to $54 million and net profit increased to $5.0 million. The company listed in November last year at $1.00 per share raising $17 million. The company reached or marginally exceeded all performance measures in its prospectus, which is indicative of the quality of this business.

Probiotec sells and distributes OTC pharmaceutical, nutraceutical products and healthcare products, predominantly in Australia. It has an expanding sales team that reaches most pharmacies in Australia as well as health food stores. The company also provides contract manufacturing services to pharmaceutical companies. Products under the company's in-house range include the Milton antibacterial cleaning products and nutraceuticals such as Arthro-Flex Max, developed in-house for osteoarthritis. It also sells slimming products such as Medislim and Celebrity Slim.

The company is forecasting growth in profit before tax for the current financial year of 30% to $7.8 million. It is likely to consider paying dividends, as early as this financial year (FY2008). Probiotec is very well positioned to increase revenues from its established sales team and manufacturing capacity, as it continues to develop new products in house but also in-license products from other parties. The company expects to introduce about six new products a year. This vertically integrated business structure allows the company to extract full value from its products.

The company is continuing to look for acquisitions to supplement its growth. During the year it acquired the rights to three products from **Johnson & Johnson** for Australia and New Zealand for $4.25 million. Probiotec's acquisitions have been funded through debt and equity. The company has a high gearing ratio, with just under $26 million in borrowings. Its net debt-to-equity ratio is around 100% although it has a comfortable ability to cover its borrowing costs, with a net interest cover of 4.8 times.

Probiotec is capitalised at $56 million. At 2008 profit forecasts, the company is trading at a prospective PE ratio of 10.3 which makes it an attractive investment. The company is well managed and appears to understand its business well. The company is currently involved in a litigation action brought against it, for which the company has stated the potential liability to be up to $5 million. The litigation relates to a minority interest the company held in 2004 and this will be a one-off cost if the company is unsuccessful in defending the action.

Bioshares recommendation: **Buy**

A Case for More M&A in Australian Biotech

The last two years has seen positive movements towards a more efficient technology-based sector. Biotech companies are beginning to overcome the obstacles that in the past have prevented healthy M&A activity to occur. Over this period there have been three mergers between listed life science companies and five companies have been acquired by international competitors (**Vision Systems**, **Mayne Pharma**, **GroPep**, **Bresagen** and **Scigen**). Value and synergies are being recognised, albeit slowly, and market trends may force a continuation of the necessity in an emerging sector to rationalise limited assets in the most effective manner.

Trend 1: Large cap biotechs increase share of funding flows

The trend within the sector has seen larger cap biotech companies take an increasing share of capital inflow in the Australian biotech industry. The last two years has seen half of all funds raised by the top 20 biotech companies (excluding the billion dollar companies such as CSL, Resmed and Cochlear), up from 34% in 2005 (financial year). The larger biotechs are conducting big capital raisings with apparent ease as their programs approach the market.

Trend 2: Small cap biotechs face funding challenges and dis-interest from investors

The sub-$100 million biotechs however are finding fund raising more difficult as retail investor interest in speculative stocks maintains its loyalty to the resources sector and global access to capital is more restrictive as a result of volatile public equity markets.

The biotech sector moves through cycles, generally over four years, where one single development can trigger a resurgence in interest in the sector worldwide. This was certainly the case in 2003 when the positive Phase III results with the oncology drug Avastin alone was responsible for a dramatic turnaround in the global biotech sector. However, while the market once again awaits for the uplift in sentiment, which has been tracking sideways for the last three years, smaller biotechs need to re-examine the most efficient use of their capital and technology assets and need to continue to explore M&A opportunities.

For any merger, there needs to be clear and rational justification for bringing companies together. In biotech, expertise in drug development in a therapeutic space, such as oncology, warrants the combining of skills and projects into the one entity. Similarly combining platform-based companies with complementary technologies, such as drug delivery, also makes sense. **Acrux** has recently flagged its intention to consider acquiring complementary technologies to its transdermal delivery platform.

Diseases of the Eye

One disease area that has generated considerable attention by the biotech sector is the treatment of eye diseases, where several Australian biotechs now have drug development programs and a case for consolidation can be made.

Global interest was stimulated in 2005 when **Eyetech Pharmaceuticals** was acquired by **OSI Pharmaceuticals** for its Macugen product for US$638 million. That product has since been overtaken by **Genentech's** Lucentis, a fragment of the Avastin antibody, to inhibit the formation of unwanted blood vessels in the eye. In the first six months of this year, Genentech generated sales of US$420 million with Lucentis for the treatment of leaky blood vessels in the eye, which was 38% of sales from the parent molecule, Avastin (US$1097 million), as an oncology therapy.

Biodiem

Biodiem (BDM: 30 cents) has two core development programs. One is a live attenuated flue vaccine, partnered with **Akzo Nobel**. The second is a tetra-peptide for the treatment of eye disorders, called BDM-E. What makes the compound particularly interesting is that it is believed to have a dual mechanism of action. The compound has shown in human studies to not only inhibit unwanted blood vessel formation in the eye, but also stimulate growth of new epithelial cells in the retina at different dosages. The compound had previously shown to improve visual acuity in 56 patients with macular degeneration by 82% and reduced the extent of retinal damage (presumably from unwanted blood vessel formation) by 68%.

The company has completed a Phase II study in Russia using an independent contract research organization to test the compound in 188 patients suffering from diabetic macular odema (that has resulted from unwanted blood vessel formation). Enrolment in the trial is now completed and results are expected by year's end. What will make the drug even more appealing if it gets to market is that it is delivered by a subcutaneous injection through the skin, rather than a direct injection into the eye.

Last month Biodiem reported positive preclinical studies in mice conducted at **Monash University** by Associate Professor Jenny Wilkinson-Berka. Tested in a model of retinopathy, the researcher described the results as outstanding and that the drug candidate could be a useful agent to treat angiogenic eye diseases. Biodiem has commissioned four further preclinical studies at Monash University to explore the compound's function in preventing retinal damage as well as repair in various eye diseases, including dry age-related macular degeneration (AMD), for which there is no treatment and is up to five times more common that wet AMD. (Lucentis is approved for the treatment of wet AMD only).

Antisense Therapeutics

Another Australian biotech company developing a compound for the treatment of eye diseases is Antisense Therapeutics (ANP: 3.8 cents). As discussed in last week's edition, the company's lead program is with ATL1102 for the treatment of patients with multiple sclerosis. Phase II results are due in the next six months.

The company's other program is with an antisense compound, ATL1103, for the treatment unwanted blood vessel growth in the eye. The compound aims to inhibit the growth hormone receptor and reduces IGF-1 levels in the blood. The company this week announced that a paper was published from research conducted

Cont'd over

by the same Associate Professor Jenny Wilkinson-Berka at Monash that ATL1103 significantly suppressed blood vessel overgrowth in the eye in a mouse model of retinopathy, most likely the same model used in the Biodiem trial.

Antisense Therapeutic's eye disease program arguably has a much higher chance of success than its MS program because the growth hormone receptor it targets that causes IGF-1 production resides in the liver. The target organ is arguably crucial for antisense to work and another company, Isis Pharmaceuticals is generating very good results from its obesity treatment compound, which also acts on the liver. Antisense Therapeutics has also generated positive primate studies with ALT1103.

A merger possibility…

Although using completely different technology, there is an interesting case for two companies such as Biodiem and Antisense Therapeutics to merge. Both companies are approaching the release of pivotal Phase II data. Both companies have eye disease programs. Both companies are conducting clinical trials in Russia (Antisense is about to open clinical trial sites in Russia for its MS trial). The companies have similar market capitalisations (Biodiem $15 million; Antisense Therapeutics $18 million). The two companies are Melbourne based. Each has struggled to build critical mass and gain the confidence of investors. And a failure by either company in their current Phase II study could prevent the opportunity to fully investigate the respective companies' programs. A larger combined biotech company with a capitalisation of $33 million with $10 million in cash, two Phase II programs and two preclinical programs could also make the case for a more appealing investment consideration with a lower risk profile and a stronger management team.

Summary

This merger may or may not occur, but it's an example of the type of consolidation that should be being considered by biotech company boards and management and investors to increase the appeal and success of biotech commercialisation in Australia. As public equity markets tighten, access to capital to fund product development programs has become more difficult. Biotech companies can either wait for the next upswing in the biotech sector, or take the opportunity to strengthen their development programs and management teams through M&A strategies.

Bioshares recommendations:
Biodiem – **Speculative Buy Class B**
Antisense Therapeutics- **Wait for results from Phase II MS study**

Evogenix and Peptech – A Postscript

On Monday August 20, the scheme of arrangement governing the merger of **Peptech** with **Evogenix** became effective. Following the mergers of **Meditech Research** with **Alchemia** in August 2006 and **Zenyth Therapeutics** with **CSL** in November 2006, the Peptech-Evogenix merger provides further evidence that the Australian biotech sector is amenable to consolidation. However, anecdotal evidence would suggest that far greater consolidation could take place if biotech company boards and significant shareholders were less concerned about loss of board positions, dilution and loss of control.

An argument for consolidation, that is a reduction in the number of private and public companies, is that capital and management, both scarce resources, could be more efficiently applied to the development of drug candidates, diagnostics and medical device products. There is a case to be made for specific consolidation plays in cancer drug development, in biomarkers and immunoassay (antibody-based) diagnostic product development, in peptide drug development and possibly amongst certain companies developing drugs to treat eye diseases.

An alternative is that companies run out of cash and fail to complete the product and technology development that they could be reasonably expected to do in an Australian business development context.

Comments on the Peptech-Evogenix merger

The are a number of aspects to the Peptech-Evogenix merger that merit comment. Firstly, the choice of a scheme of arrangement as the governing mechanism has once more proved to be an effective mechanism, following its application in the CSL-Zenyth merger.

Cont'd over

Australian biotechs with eye disease drug programs

Company	Cap'n. ($M)	Compound	Stage of development	Type of compound
Psivida	$84	Medidur	Phase III underway, partnered with Alimera Sciences. 750 from 900 patients recruited	Depot injection, corticosteroid
Biodiem	$15	BDM-E	Phase II 187 patient trial completed in diabetic macular oedema	Tetra-peptide
Peptech	$314	PMX53	Preclinical, AMD	C5aR antagonist inhibitor
Antisense Therapeutics	$18	ALT1103	Preclinical, diabetic retinopathy	antisense oligonuculeotide

Secondly, the terms of the merger for Evogenix shareholders would appear to have been sufficiently attractive, offering 15 cents in cash per Evogenix share and approximately one Peptech share for every two Evogenix shares. Thirdly, Evogenix was an attractive acquisition target for Peptech. Peptech is holding significant cash resources and was looking to broaden both its product pipeline and intellectual property portfolio. Finally, the merged entity, which is expected to be renamed in the near future, should not be discounted as a potential acquisition target in the medium term, especially if clinical development of PN0621, the domain antibody for arthritis, tracks a positive course.

Investment returns?

From a financial returns perspective, a shareholder who invested in the IPO of Evogenix in July 2005 would have made a gross return, based on the August 21 closing price of Peptech shares of $1.19, of just over 200% in a two year period. The principle venture capitalist investor in Evogenix, Start-up Australia Ventures, has by our reckoning made a 7-fold gross gain on what we estimate was at least a $4.6 million investment, up until the August 21 closing price.

The role of **Start-up Australia Ventures** looks to have been critical in the emergence and growth of Evogenix. Evogenix was spun out of the **CRC for Diagnostic Technologies** in July 2001, and commenced operations in August of that year. Start-up Australia Ventures, prior to the merger, held approximately 33% of Evogenix, and it is a reasonable assumption that this holding brought a degree of stability to the Evogenix register.

Start-up Australia Ventures has emerged as Peptech's largest shareholder, holding 9.6% of the company. This venture firm's specialised focus and experience with life science companies may mean that Peptech has now found a substantial shareholder willing to support a biotech business development objective, rather than returning cash to shareholders. In turn, stability and focus may pave the way for other investors with a similar orientation to take investment positions in Peptech. Start-up Australia Ventures also holds a 23% stake in **Bionomics** and a 3.8% stake in **Alchemia**.

Peptech is currently capitalised at $314 million. Subtracting cash assets and certain prospective royalty income gives Peptech an implied technology value of $74 million ($US 61 million). With recent board changes stemming from the merger with Evogenix, we expect Peptech to be run with a tighter focus and sound financial discipline going forward.

Bioshares recommendation: **Speculative Buy Class A**

Bioshares

Correction

In last week's edition we incorrectly stated the sales figure for Tysabri for treatment of MS. Tysabri is marketed outside of the US by Elan Corporation. Tysabri sales in the second quarter of 2007 were US$72 million.

Bioshares Model Portfolio (31 August 2007)

Company	Price (current)	Price added to portfolio
Acrux	$1.43	$0.83
Alchemia	$0.77	$0.67
Biodiem	$0.30	$0.29
Biota Holdings	$1.78	$1.55
Circadian Technologies	$1.23	$1.45
Clinuvel Pharmaceuticals	$0.80	$0.66
Cytopia	$0.63	$0.46
Chemgenex Pharma.	$0.89	$0.38
Optiscan Imaging	$0.41	$0.35
Peplin	$0.86	$0.83
Peptech	$1.34	$1.31
Pharmaxis	$4.07	$3.15
Phylogica	$0.29	$0.42
Probiotec	$1.16	$1.12
Progen Pharmaceuticals	$3.95	$3.52
Starpharma Holdings	$0.37	$0.37
Sunshine Heart	$0.16	$0.19
Tissue Therapies	$0.50	$0.58
Universal Biosensors	$1.17	$1.23

Portfolio Changes – 31 August 2007

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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