

**In this edition...**

Biotech companies have reported their cash positions for the end of December 2007. Whilst the result is similar to that 12 months ago, the outlook may be more ominous for several smaller companies in the sector with less than 12 months cash if market conditions continue to deteriorate.

Healthcare stocks should be more resistant to economic setbacks than the broader market. Three revenue generating biotechs covered in this edition show that to be the case delivering solid performances in the most recent quarter in top line growth.

**The editors**

**Companies covered: AAH, CGS, NDL, PBT, SRX**

	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)	-28.0%
<b>Cumulative Gain</b>	<b>133%</b>
<b>Av Annual Gain (6 yrs)</b>	<b>26.8%</b>

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# Bioshares

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

## December Quarter Cash-Survival Analysis

Our regular analysis of the cash position of listed biotechs that are required to report on a quarterly basis shows that 35 out of 92 companies reported cash balances that could support less than one years worth of operational activities, compared to 34 out of 88 companies a year ago. At December 31, 2007, there were 18 companies which had less than six months cash in the bank, which was, coincidentally, the same figure reported one year ago. Since the close of 2007, several cash-depleted companies have raised funds, for example, **Neuren Pharmaceuticals**, which has raised \$7.1 million, and **Dia-B Tech**, which has secured a \$4 million convertible note.

In total, the 92 companies covered for this analysis collectively held \$894 million in cash assets, which translates to a Survival Index of 2.0. However, the figures are skewed by the fact that cash resources are concentrated in the hands of a small number of biotechs. The top five biotechs by cash holdings, held \$330 million, with the next five holding another \$161 million. The median cash holding was \$3.1 million, which translated to a Survival Index of 1.1.

Based on the latest data, two companies that look to be in extreme financial stress include **RiTract**, which expects a re-capitalisation to occur by the end of February, and **Avantogen**, a company which has struggled for quite some time now. **Apollo Life Sciences** (SI 0.5; cash \$4.3m) and **Giaconda** (SI 0.3; cash \$0.7m) are two more companies that appear to be facing a difficult period ahead in terms of accessing funding.

Several companies, including **Biolayer** and **Rockeby Biomed** have rights issues or

### The Survival Index

A key analytical measure we present each quarter is the 'Survival Index' (SI) (see tables on the following pages). The index measures how many years cash reserves will last, based on the company's recent spending patterns. It is limited because it does not account for companies that may increase spending in the next period of activity.

The index is derived for this quarter firstly by annualising net operational cash flows for the last half year. This annualised figure is then divided into each company's cash assets as recorded at December 31, 2007.

As a rule of thumb, companies that present with an SI of less than one are likely to be raising funds to support their activities, or are in the process of doing so. A healthy SI is either two or more. Companies with SIs of less than 0.5 may be in positions of funding stress and should therefore be investigated cautiously by investors.

SPPs underway. While current market conditions remain extremely soft and interest in biotech is off the boil while investors deal with the broader equity market's volatility, the capacity of smaller biotechs such as Biolayer and Rockeby Biomed to raise funds as desired is in doubt leading to extensions in capital raising completion dates.

If current market conditions prevail till mid-year, then there is every chance for five or six biotechs to enter voluntary administration towards the end of 2008.

**Bioshares**

### 4.7B Reporting Companies – Cash Balances Dec. 31, 2007 Sorted by Survival Index

Code	Company	Cash End 31/12/07 (AUD \$M)	Survival Index	Events since Dec 31; other comments	Change in Cash -Qtr (\$M)	
1	ACR	Acruz	\$38.7	8.7		\$1.0
2	ACW	Actinogen	\$3.0	8.2		\$3.0
3	CUV	Clinuvel Pharmaceuticals	\$56.9	7.8		-\$3.1
4	LBT	Labtech Systems	\$5.9	7.5		-\$1.5
5	UBI	Universal Biosensors	\$45.3	CY 6.1		\$28.7
6	HXL	Hexima	\$36.9	6.0		-\$2.5
7	EMS	Eastland Medical Systems	\$0.6	5.9		-\$1.0
8	HGN	Halcygen	\$13.2	5.0		-\$0.6
9	PXS	Pharmaxis	\$120.8	4.9		\$53.4
10	PAB	Patrys	\$22.5	4.6		-\$2.4
11	ABI	Ambri	\$4.4	4.5		-\$0.2
12	NAN	Nanomics	\$28.1	4.3		-\$0.6
13	QRX	QRxPharma	\$39.9	4.0		-\$3.6
14	CXD	CathRx	\$25.0	3.5		-\$2.8
15	CCE	Clinical Cell Culture	\$10.7	3.4	Merging with VSG	-\$0.9
16	AVX	Avexa	\$66.6	3.4		-\$4.2
17	MSB	Mesoblast	\$16.8	3.2		\$7.6
18	FER	Fermiscan	\$21.0	CY 3.2		-\$1.6
19	SOM	Somnomed	\$6.5	2.9		\$5.1
20	OBJ	OBJ	\$1.7	2.7		-\$0.2
21	ACL	Alchemia	\$20.3	2.6		-\$1.8
22	RHT	Resonance Health	\$2.0	2.5		\$0.3
23	SRX	Sirtex Medical	\$8.8	2.4		-\$1.5
24	BPO	BioProspect	\$4.7	2.3		-\$0.5
25	BDM	Biodiem	\$8.1	2.2		\$6.3
26	XCD	Xceed Capital	\$4.4	2.1		-\$0.5
27	CBB	Cordlife	\$9.5	2.1		-\$1.2
28	MGZ	Medigard	\$0.4	2.0		-\$0.1
29	GBL	Genesis Biomedical	\$1.7	1.9		\$0.4
30	NDL	NeuroDiscovery	\$3.2	1.8		-\$0.4
31	BZI	Brainz	\$3.6	MY 1.7		-\$1.4
32	BOD	BioMD	\$1.9	1.6		-\$0.1
33	IPD	Impedimed	\$12.6	1.6		\$12.6
34	ANP	Antisense Therap.	\$5.7	1.5		-\$0.8
35	LCT	Living Cell	\$7.6	1.5		\$6.4
36	SPL	Starpharma	\$10.2	1.4		-\$1.1
37	BLT	Benitec	\$3.6	1.4		-\$0.5
38	ALT	Analytica	\$1.0	1.3		\$0.8
39	BNO	Bionomics	\$8.9	1.2		-\$1.5
40	BPH	Biopharmica	\$1.5	1.2		-\$0.3
41	UCM	USCOM	\$3.0	1.2		-\$0.6
42	VLA	Viralytics	\$3.4	1.2		\$2.0
43	SBP	Solbec Pharm.	\$2.1	1.2		-\$0.3
44	STC	Stem Cell Sciences	\$9.0	CY 1.1		-\$1.5
45	STI	Stirling Products	\$2.1	1.1		\$1.3
46	NAL	Norwood Abbey	\$2.6	1.1		\$2.1
47	VSG	Visioned	\$1.3	1.0	Merging with CCE	-\$0.7
48	PRR	Prima Biomed	\$1.7	1.0		\$1.5
49	ACG	Atcor	\$4.6	1.0		-\$1.0
50	KSX	KarmelSonix	\$4.6	1.0		-\$0.9
51	BIT	Biotron	\$1.3	1.0	Completed SPP (\$0.6m + u/w \$2.5m)	\$0.6
52	ICV	Incitive	\$1.3	0.9		\$0.1
53	PYC	Phylogica	\$5.4	0.9		-\$1.5
54	AOS	Advanced Ocular Systems	\$1.7	0.9	Completed \$3.5m placement	\$0.7
55	PAA	Pharmaust	\$2.3	0.9		\$2.2

### 4.7B Reporting Companies – Cash Balances Dec. 31, 2007 Sorted by Survival Index

Code	Company	Cash End 31/12/07 (AUD \$M)		Survival Index	Events since Dec 31; other comments	Change in Cash -Qtr (\$M)
56 SLT	Select Vaccines	\$1.6	CY	0.8		-\$0.6
57 IMI	IM Medical	\$2.7		0.8		-\$0.9
58 PXL	Proteome Systems	\$5.4		0.8		\$3.8
59 PBT	Prana Biotechnology	\$9.2		0.8		-\$0.8
60 SHC	Sunshine Heart	\$8.2		0.7	Stated that further funding will be required	\$3.3
61 UNI	Unilife	\$5.7		0.7		\$1.3
62 HTW	Heartware	\$32.1		0.7		-\$5.8
63 MTY	Medical Therapies	\$1.2		0.7		-\$0.5
64 BNE	Bone Medical	\$1.4		0.6	Raised \$1.245m in private placement	\$0.7
65 BLS	Biolayer	\$0.7		0.6	NRRI for \$3.7m; ext. to 28/3	-\$0.4
66 HTX	Healthlinx	\$1.1		0.6		-\$0.6
67 IMU	Imugene	\$0.6		0.6	Undertaking u/w rights issue for \$1.8M	-\$0.2
68 MVH	Medic Vision	\$2.1		0.6	Ann. Buy back of 3.4 m shares from 93.4m	\$1.0
69 AOP	Apollo Life Sciences	\$4.3		0.5	"considering a number of cash flow proposals..."	-\$2.3
70 BOS	Biosignal	\$1.9		0.5		-\$0.7
71 PLD	Portland Orthopaedics	\$2.6		0.5	24/12 arranged \$1.5m convertible loan	-\$0.6
72 PSD	pSiVida	\$11.2		0.4	Rec'd \$0.56 sale of bus.; to rec. \$0.56 from Pfizer	-\$7.4
73 CGS	Cogstate	\$0.9		0.4	(See commentary on page 5)	-\$0.6
74 DIA	Dia-B Tech	\$0.8		0.4	Announced \$4m convertible note	-\$0.6
75 NLS	Narhex Life Sciences	\$0.6		0.3		-\$0.2
76 ATW	Atos Wellness	\$0.9		0.3	Formerly MAA; placement to raise \$0.5m by 28/2	-\$0.1
77 OMI	Occup. & Medical Innov.	\$0.9		0.3		\$0.2
78 GIA	Giaconda	\$0.7		0.3		-\$0.6
79 SLA	Solagran	\$0.8		0.3	Call on partly paid due 28/2 to raise \$2.4m	-\$1.1
80 RBY	Rockeby Biomed	\$0.8		0.3	SPP to raise \$2m ext to 8/2; has \$5m standby fac.	\$0.4
81 CAU	Colltech	\$0.6		0.2		-\$0.7
82 PCC	Probiomics	\$0.2		0.2	Signed (Dec) lic. & dev. agreement with Nestle	\$0.0
83 TIS	Tissue Therapies	\$0.9		0.2	Announced \$0.5m convertible note facility	-\$1.1
84 ACU	Avantogen	\$0.2		0.1		-\$0.2
85 NEU	Neuren Pharmaceuticals	\$1.14	CY	0.1	Closed rights issue raising \$7.1M	-\$0.2
86 RTL	RiTract	\$0.0		0.0	Expecting a recapitalisation to occur by 02/08	\$0.0
87 GTG	Genetic Technologies	\$14.3		Not App.		-\$2.0
88 CTE	Cryosite	\$1.9		Not App.		\$0.3
89 CST	Cellestis	\$12.2		Not App.		\$0.5
90 BRC	Brain Resource Corp	\$20.3		Not App.		-\$0.4
91 AVS	Avastra	\$7.6		Not App.		\$2.5
92 SIE	Scigen	\$5.60	CY	Not App.		-\$3.0
	<b>Total</b>	<b>\$893.8</b>		<b>2.0</b>		<b>\$44.9</b>
	<b>Average</b>	<b>\$9.8</b>		<b>1.8</b>		
	<b>Median</b>	<b>3.2</b>		<b>1.2</b>		

#### Legend:

**Not App.:** The SI calculation for these companies is not calculated due to the companies reporting positive operational cash flows.

**CY:** The SI calculation for these companies is based on the latest 12 months figures.

**MY:** The SI calculation for these companies is based on the latest nine months figures, annualised.

*Small cap life science companies that are not required to comply with the 4.7B Rule include:*

*Agenix, Anadis, Arana Therapeutics, Biota Holdings, Circadian Technologies, Clovercorp, Compumedics, ChemGenex Pharmaceuticals, Cyclopharm, Cytopia, Eiffel Technologies, Ellex Medical Lasers, Genepharma, IDT Australia, ITL Corp, Life Therapeutics, Metabolic Pharmaceuticals, Medical Developments International, Novogen, Optiscan Imaging, Progen Pharmaceuticals, Polartech, Phosphagenics, Sirtex Medical, Ventracor and Virax Holdings – (26 companies).*

## Stock Updates

### NeuroDiscovery

Neurodiscovery (NDL: 17 cents) is progressing well on all fronts and has set a path to building an international biotech business specializing in the treatment of neuropathic pain. Its pharmaceutical service business (Neurosolutions) is on track, with consistent solid revenue growth and an outright profitable operation. The company has two clinical programs underway that are progressing well and most recently has installed a high level CEO in the UK.

### GSK Head of Pain Research New CEO

Neurodiscovery has been taken considerable steps to strengthen its board and management, suggesting the company is serious about putting together the necessary team to build a successful therapeutics business in neuropathic pain. In August last year, it appointed Dr Tony Evans a non-executive director. Evans has specific expertise in this therapeutic space, having previously been CEO of the Australian drug developer **Xenome**, which is developing peptides derived from marine cone snails for the treatment of neuropathic pain.

Last month the company signed on the current Head of Pain Research at **GlaxoSmithKline**, Dr Iain Chessell, as CEO of Neurodiscovery. Chessell is due to start with the company in April. His experience in the development of pain drugs will be extremely valuable for the company. In addition, his pharmaceutical company experience will help him drive the Neurosolutions business, which is growing revenue at around 30% a year. Chessell has contracted services from the Neurosolutions team for several years at GSK and has a good understanding of the business. The Neurosolutions team is well respected in the pharmaceutical industry for its ability to conduct preclinical electrophysiology testing.

Chessell's appointment will also be important in gaining better investor support, both at a retail and institutional level. And his expertise will be applied to screen additional programs that the company may seek to in-license.

### Neurosolutions half year result

In the first half of this financial year, Neurosolutions increased revenue by 27% to \$1.1 million, with gross profit increasing 90% to just over \$600,000. Revenue growth is expected to be strong, with the incoming CEO highlighting building this business as one of the priorities.

In the last half year, the company recorded a net operating cash outflow of \$874,000 with a cash balance at the end of last year of \$3.2 million.

### Clinical trials

Neurodiscovery has two compounds undergoing clinical trials. The first, NSL-101, is in two parallel Phase II trials as a topical pain relief product in dental applications. One trial is for pain relief in patients undergoing wisdom tooth extraction and the second for patients undergoing gum disease treatment. Results from both trials are expected next quarter. If successful, the company will seek to license the compound as a nutraceutical later this year.

The second compound, NSL-043, is in a Phase I trial for treatment of neuropathic pain, with Phase II studies expected to start in the second half of this year. Results are expected in mid 2009. The compound is being jointly developed with the Japanese biotech Sosei Group Corporation.

**Bioshares recommendation: Speculative Buy Class B**

*Stock Updates cont'd over*



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### Cogstate

Cogstate (CGS: 12.5 cents) sells a cognitive testing platform/service used primarily by pharmaceutical and biotech companies in clinical trials. Sales were up 38% for the first half of this financial year compared to the previous corresponding period, at \$1.6 million. The cash flow statement showed receipts from customers at \$1.0 million with a net operational outflow of \$1.1 million.

The company had \$857,000 cash at hand at the end of last year which at first glance looks worrying. However the company had trade debtors of \$1.15 million at the end of the month, with almost half of that now received.

Cogstate had a setback during the quarter with a major schizophrenia trial, which was using the Cogstate service, cancelled. The company did however, book a portion of the revenue under the contract it had negotiated. This current quarter should see most of that \$1.15 million from debtors recorded in its next 4C cash flow statement.

We estimate that sales for the full year will be between \$3.2 - \$3.6 million, which will bring the company close to a breakeven position (estimated \$0.5 million loss). The 2009 financial year should see the company move into profitability. The company's CEO, Brad O'Connor, indicated he would be very disappointed if the company need to return to the market to raise additional capital.

Cogstate has been expanding its customer base. The company previously had a concentrated proportion of sales to Pfizer, although there are now at least four of the major pharmaceutical businesses that are a source of repeat business for the company.

A UK office has recently been opened to help drive business from that region, with the company now having operations in Australia and the US, employing 22 staff (FTEs). Dr John Harrison will head up the UK operations. He is a scientist with particular expertise in central nervous system disorders, particularly Alzheimer's diseases. For the last 10 years he has operated as a consultant to the pharmaceutical industry, also having worked for the main competitor to Cogstate, **Cognitive Drug Cognition**, which is the leading provider of cognitive assessment services to the pharmaceutical industry.

Harrison expands the neuropsychology scientific team at Cogstate, which is needed to establish and maintain credibility with its customer base. The company is now one of the best positioned groups in the provision of cognitive assessment platforms to the drug development industry. It is edging closer to profitability, with a more reliable revenue stream and more expanded customer base. Revenue of \$5 - \$6 million in the next financial year is a reasonable target for the company together with a profitable outcome. Cogstate is capitalised at \$6.5 million.

*Bioshares* recommendation: **Speculative Buy Class B**

*Note, Cogstate and Neurodiscovery were selected in edition 245 of Bioshares as two of the best value stocks in the sector under \$20 million.*

### Sirtex Medical

Sirtex Medical (SRX: \$3.80) reported a solid quarter ending 31 December, with receipts from customers at \$8.7 million and \$17.8 million for the first half. The quarter result is a 33% increase over the previous corresponding period. For the half year, the increase was 41% over the pcp. Sales in the first half were effected by supply issues, namely operation issues at the Lucas Heights facility in Sydney.

With approval of the Wilmington facility in the US now received, the supply risk for the Sirtex product - a liver cancer treatment - will be reduced. We estimate sales for the first half will exceed \$20 million. We place a **Hold** recommendation on the stock pending the outcome of the legal action by the University of Western Australia and further clarification of (Australian) supply issues for the company.

### Advanced Surgical Design and Manufacture

Advanced Surgical Design and Manufacture (ASDM) (AMT: 90 cents) made a successful listing on the ASX in November last year. The company manufactures and sells surgical implants such as knee and hip replacements, predominantly in Australia. However, it has also just completed the tenth patient implant of its Peripheral Access Device (PAD) which may have strong commercial potential for the company.

The PAD system is a unique process by which amputations may be prevented through internal pressurisation of degenerating vascular networks in limbs. Although no results have been released, the CEO is pleased with the trial to date and the company is now in a position to make a submission to the TGA to establish requirements for the full trial that will allow regulatory approval in Australia and correspondingly in Europe.

The company is anticipating the full trial will be completed this year, and as early as by mid year, depending on the outcomes from discussions with the TGA on trial size and length. It's a 90 day approval process for medical devices with the TGA which could see the device on the market as early as year's end or early 2009.

ASDM has manufacturing rights over the novel technology whereby it stands to receive 25% of sales for manufacturing the device. ASDM is capitalised at \$32 million.

One main risk with ASDM is that company's board lacks depth in medical device development experience (exclusive of the CEO's experience).

*Bioshares* recommendation: **Speculative Buy Class B**

### Arana Therapeutics

Arana Therapeutics this week completed its divestment process, with the sale of its animal health business to former chairman, Mel Bridges. Terms of the sale have not been released but the sale terms were superior to the only other offer for the business. The animal health business has been losing between \$2 - \$3 million p.a.

– Cont'd over

for the company. Arana will be entitled to a future royalty stream from any product sales derived from the business.

It's the third divestment for the company in the last two years, following on from the divestment of Domantis (not Diversys as stated in last week's edition), and the Biosceptre joint venture, although Arana retains a share in any future proceeds from the Biosceptre programs. Over this period the company has made three acquisitions that better reflect its focus moving forward, acquiring **Evogenix**, **Promics** and assets from **Scancell**.

*Bioshares* recommendation: **Speculative Buy Class A**

**Prana Biotech**

Some recent research posted in *The Scientist* (27/1) regarding a study in *Nature Chemical Biology*, indicates a number of compounds that have been known to inhibit amyloid formation have been shown to inhibit, or block other proteins, the implication being that if the compounds from the set of eight under investigation lack specificity for amyloid plaque, then they may have off target effects.

*The Scientist* quoted a former director and member of the Prana Research and Development Advisory board, Dr Colin Masters as saying that the study would help reconcile some unusual inhibiting activity data that his group had been trying to reconcile, regarding the compound clioquinol. Prana Biotech's lead compound PBT-2 is an improved version of clioquinol. It may well be more specific than clioquinol at binding with amyloid protein. However,

this new information that has come to hand will require clarification by the company.

Prana Biotech (PBT: 46 cents) has run strongly in the lead-up to the forthcoming announcement of results from the Phase II trial of its Alzheimer's compound PBT-2. We previously recommended PBT as a Speculative Buy Class B in *Bioshares* 244 (7 Dec 2007) at 27 cents. With a 70% gain since that recommendation, locking in profits may be an advisable strategy.

*Bioshares* recommendation: **Take Profits**

**Bioshares**

<b>Bioshares Model Portfolio (1 February 2008)</b>				<b>Portfolio Changes – 1 Feb 2008</b>
<b>Company</b>	<b>Price (current)</b>	<b>Price added to portfolio</b>	<b>Date added</b>	
Patrys	\$0.43	\$0.50	December 2007	<b>IN:</b> No Changes  <b>OUT:</b> No Changes
NeuroDiscovery	\$0.17	\$0.16	December 2007	
Bionomics	\$0.33	\$0.42	December 2007	
Cogstate	\$0.13	\$0.13	November 2007	
Ventracor	\$0.54	\$0.625	October 2007	
Sirtex Medical	\$3.80	\$3.90	October 2007	
Clinuvel Pharmaceuticals	\$0.36	\$0.66	September 2007	
Progen Pharmaceuticals	\$1.95	\$3.52	September 2007	
Starpharma Holdings	\$0.36	\$0.37	August 2007	
Pharmaxis	\$3.15	\$3.15	August 2007	
Universal Biosensors	\$1.05	\$1.23	June 2007	
Biota Holdings	\$0.97	\$1.55	March 2007	
Tissue Therapies	\$0.24	\$0.58	February 2007	
Probiotec	\$1.20	\$1.12	February 2007	
Phylogica	\$0.14	\$0.42	January 2007	
Peplin Inc	\$0.75	\$0.83	January 2007	
Arana Therapeutics	\$0.99	\$1.31	October 2006	
Chemgenex Pharma.	\$0.85	\$0.38	June 2006	
Cytopia	\$0.44	\$0.46	June 2005	
Optiscan Imaging	\$0.29	\$0.35	March 2005	
Acrux	\$1.15	\$0.83	November 2004	
Alchemia	\$0.55	\$0.67	May 2004	

**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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