

In this edition...

An observation gained from analysis of profit reporting life science companies which report on a June 30 basis is that this is a sector that is quite alive and not all in the doldrums. A number of companies have recovered from previously weak or unprofitable years to be back in the black, sometimes comfortably so.

The standout growth story is without doubt Sirtex Medical. It could be seen to be fairly valued these days while it sits on a PE ratio of 25, a price/sales ratio of 5 times and an EBITDA multiple of 20, much the same as CSL. However, what Sirtex has that CSL doesn't have is a gross margin of 81% and average volume growth over the last five years of 24%. The foundations that Sirtex is continuing to build today may result in delivering spectacular flows of cash in the not too distant future.

Companies Covered: CGS, SOM, 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)	70.6%
Year 4 (May '04 - May '05)	-16.3%
Year 5 (May '05 - May '06)	77.8%
Year 6 (May '06 - May '07)	17.4%
Year 7 (May '07 - May '08)	-36%
Year 8 (May '08 - May '09)	-7.4%
Year 9 (May '09 - May '10)	50.2%
Year 10 (May '10 - May '11)	45.4%
Year 11 (May '11 - May '12)	-18.0%
Year 12 (May '12 - current)	-17.4%
Cumulative Gain	185%
Av. annual gain (11 yrs)	17.8%

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Bioshares

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

Profit Wrap – FY2012

ASX life science firms that reported profits for the year ended June 30, 2012, produced a generally positive but diverse set of results, which is not surprising given that this pool of 15 companies ranges from CSL (with revenues of \$4.6 billion) to Cryosite (with revenues of \$8 million). It is also not surprising because the group covers a broad range of activities, from contract manufacturing, generic drug development, cognition testing, nutraceuticals, implantable hearing devices, plasma-based replacement therapies and the sale of other medical devices and equipment. Only two companies share a common market focus, being Resmed and Somnomed, which sell products that are used to manage sleep apnea.

The pool does not include other profitable firms including Sigma Pharmaceuticals, API, Clover Corp and Vita Life Sciences, among others, which do not report on a June 30 basis.

Below is a summary table which records sales, change in sales, net profit, change in net profit and EBITA, price/sales multiples and price/earnings ratios. An expanded table can be found on the next pages. It is firstly displayed with figures sorted by revenues, and then by change in sales from the previous year and finally by gross margin.

Cont'd on page 3

Summary of Financial Results – Life Science Companies Reporting Profits at June 30, 2012

Company	Code	Cap'n (\$M)	Share Price	Sales FY2012 (\$M)	Sales % ch.	NPAT FY2012 (\$M)	NPAT % ch.	EBITDA Multiple	Price/Sales	Price/Earnings
AcruX	ACR	523	\$3.14	\$0	NA	\$7	-87%	144	NA	71
Cochlear **	COH	3,817	\$67.04	\$699	-4%	\$57	-68%	16	5.5	67
Somnomed	SOM	33	\$0.78	\$15	24%	\$0.7	-5%	36	2.1	47
Sirtex Medical	SRX	430	\$7.70	\$83	18%	\$17	49%	20	5.2	25
CSL	CSL	22,858	\$45.09	\$4,433	6%	\$983	4%	16	5.2	23
Medical Developments	MVP	63	\$1.17	\$11	11%	\$2.7	55%	13	5.5	23
Resmed Inc. (Results in USD)	RMD	5,418	\$3.78	\$1,369	10%	\$255	12%	17	4.0	21
Blackmores	BKL	500	\$29.80	\$261	11%	\$28	2%	11	1.9	18
Ellex Medical Lasers	ELX	18	\$0.21	\$48	10%	\$1.1	NA	6	0.4	17
ITL*	ITD	20	\$0.19	\$28	1%	\$1.3	41%	5	0.7	15
Cryosite	CTE	13	\$0.29	\$8	21%	\$1.0	206%	8	1.7	13
Mayne Pharma Group	MYX	61	\$0.40	\$50	10%	\$6.2	266%	5	1.2	10
Cogstate	CGS	20	\$0.27	\$12	48%	\$2.5	NA	7	1.7	8
Probiotec***	PBP	17	\$0.33	\$66	-8%	\$2.6	158%	4	0.3	7
Southern Dental Industries	SDI	12	\$0.11	\$56	3%	\$2.0	63%	2	0.2	6

Summary of Financial Results – Life Science Companies Reporting Profits at June 30, 2012

Sorted by Revenues

Company	Code	Cap'n (\$M)	Share Price	Revenues FY2011 (\$M)	Revenues FY2012 (\$M)	% ch.	Sales FY2011 (\$M)	Sales FY2012 (\$M)	Sales % ch.	EBITDA FY2011 (\$M)	EBITDA FY2012 (\$M)	% ch.	NPAT FY2011 (\$M)	NPAT FY2012 (\$M)	NPAT % ch.	Gross Margin FY11	Gross Margin FY12	P. pts ch.
CSL	CSL	22,858	\$45.09	\$4,322	\$4,624	7%	\$4,188	\$4,433	6%	\$1,357	\$1,386	2%	\$941	\$983	4%	49%	48%	-1%
Resmed Inc. (Results in USD)	RMD	5,418	\$3.78	\$1,282	\$1,411	10%	\$1,243	\$1,369	10%	\$288	\$317	10%	\$227	\$255	12%	60%	60%	0%
Cochlear **	COH	3,817	\$67.04	\$810	\$779	-4%	\$726	\$699	-4%	\$270	\$241	-11%	\$180	\$57	-68%	80%	63%	-18%
Blackmores	BKL	500	\$29.80	\$237	\$263	11%	\$234	\$261	11%	\$47	\$47	1%	\$27	\$28	2%	70%	71%	0%
Sirtex Medical	SRX	430	\$7.70	\$73	\$87	19%	\$70	\$83	18%	\$13	\$21	64%	\$11	\$17	49%	81%	81%	1%
Probiotec***	PBP	17	\$0.33	\$72	\$70	-4%	\$72	\$66	-8%		\$4.6	NA	\$1.02	\$2.6	158%	47%	44%	-3%
Southern Dental Industries	SDI	12	\$0.11	\$55	\$57	3%	\$55	\$56	3%	\$4.2	\$5.4	30%	\$1.2	\$2.0	63%	56%	53%	-3%
Mayne Pharma Group	MYX	61	\$0.40	\$50	\$53	5%	\$46	\$50	10%	\$5	\$11	145%	\$1.7	\$6.2	266%	51%	46%	-5%
Ellex Medical Lasers	ELX	18	\$0.21	\$44	\$48	10%	\$43	\$48	10%	\$3.3	\$3.1	-4%	-\$0.7	\$1.1	NA	51%	50%	-1%
ITL*	ITD	20	\$0.19	\$29	\$29	0%	\$28	\$28	1%	\$2.9	\$4.0	40%	\$0.9	\$1.3	41%	38%	42%	4%
Somnomed	SOM	33	\$0.78	\$12	\$15	24%	\$12	\$15	24%	\$0.8	\$0.9	14%	\$0.7	\$0.7	-5%	66%	68%	2%
Cogstate	CGS	20	\$0.27	\$8	\$12	48%	\$8	\$12	48%	-\$0.6	\$3.0	NA	-\$0.9	\$2.5	NA	54%	65%	10%
Medical Developments	MMP	63	\$1.17	\$10	\$12	12%	\$10	\$11	11%	\$2.8	\$4.7	66%	\$1.7	\$2.7	55%	64%	69%	5%
AcruX	ACR	523	\$3.14	\$93	\$10	-89%	\$0	\$0	NA	\$86	\$4	-96%	\$57	\$7	-87%	NA	NA	NA
Cryosite	CTE	13	\$0.29	\$7	\$8	20%	\$6	\$8	21%	\$0.8	\$1.6	95%	\$0.3	\$1.0	206%	47%	51%	4%

* EBITDA from continuing operations

** EBITDA excludes product recall costs of \$138 M

*** Excludes non-cash impairment expenses

Sorted by % Change in Sales

Company	Code	Cap'n (\$M)	Share Price	Revenues FY2011 (\$M)	Revenues FY2012 (\$M)	% ch.	Sales FY2011 (\$M)	Sales FY2012 (\$M)	Sales % ch.	EBITDA FY2011 (\$M)	EBITDA FY2012 (\$M)	% ch.	NPAT FY2011 (\$M)	NPAT FY2012 (\$M)	NPAT % ch.	Gross Margin FY11	Gross Margin FY12	P. pts ch.
Cogstate	CGS	20	\$0.27	\$8	\$12	48%	\$8	\$12	48%	-\$0.6	\$3.0	NA	-\$0.9	\$2.5	NA	54%	65%	10%
Somnomed	SOM	33	\$0.78	\$12	\$15	24%	\$12	\$15	24%	\$0.8	\$0.9	14%	\$0.7	\$0.7	-5%	66%	68%	2%
Cryosite	CTE	13	\$0.29	\$7	\$8	20%	\$6	\$8	21%	\$0.8	\$1.6	95%	\$0.3	\$1.0	206%	47%	51%	4%
Sirtex Medical	SRX	430	\$7.70	\$73	\$87	19%	\$70	\$83	18%	\$13	\$21	64%	\$11	\$17	49%	81%	81%	1%
Blackmores	BKL	500	\$29.80	\$237	\$263	11%	\$234	\$261	11%	\$47	\$47	1%	\$27	\$28	2%	70%	71%	0%
Medical Developments	MMP	63	\$1.17	\$10	\$12	12%	\$10	\$11	11%	\$2.8	\$4.7	66%	\$1.7	\$2.7	55%	64%	69%	5%
Mayne Pharma Group	MYX	61	\$0.40	\$50	\$53	5%	\$46	\$50	10%	\$5	\$11	145%	\$1.7	\$6.2	266%	51%	46%	-5%
Ellex Medical Lasers	ELX	18	\$0.21	\$44	\$48	10%	\$43	\$48	10%	\$3.3	\$3.1	-4%	-\$0.7	\$1.1	NA	51%	50%	-1%
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AcruX	ACR	523	\$3.14	\$93	\$10	-89%	\$0	\$0	NA	\$86	\$4	-96%	\$57	\$7	-87%	NA	NA	NA

* EBITDA from continuing operations

** EBITDA excludes product recall costs of \$138 M

*** Excludes non-cash impairment expenses

**Summary of Financial Results –
Life Science Companies Reporting Profits at June 30, 2012
Sorted by Gross Margin**

Company	Code	Cap'n (\$M)	Share Price	Revenues FY2011 (\$M)	Revenues FY2012 (\$M)	% ch.	Sales FY2011 (\$M)	Sales FY2012 (\$M)	Sales % ch.	EBITDA FY2011 (\$M)	EBITDA FY2012 (\$M)	% ch.	NPAT FY2011 (\$M)	NPAT FY2012 (\$M)	NPAT % ch.	Gross Margin FY11	Gross Margin FY12	P. pts ch.
Sirtex Medical	SRX	430	\$7.70	\$73	\$87	19%	\$70	\$83	18%	\$13	\$21	64%	\$11	\$17	49%	81%	81%	1%
Blackmores	BKL	500	\$29.80	\$237	\$263	11%	\$234	\$261	11%	\$47	\$47	1%	\$27	\$28	2%	70%	71%	0%
Medical Developments	MVP	63	\$1.17	\$10	\$12	12%	\$10	\$11	11%	\$2.8	\$4.7	66%	\$1.7	\$2.7	55%	64%	69%	5%
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Cogstate	CGS	20	\$0.27	\$8	\$12	48%	\$8	\$12	48%	-\$0.6	\$3.0	NA	-\$0.9	\$2.5	NA	54%	65%	10%
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* EBITDA from continuing operations

** EBITDA excludes product recall costs of \$138 M

*** Excludes non-cash impairment expenses

– Cont'd from page 1

Sales Performance

Amongst the group of 15, the greatest percentage increase in sales was achieved by Cogstate, which posted a 48% increase over the previous year. Somnomed registered year-on-year sales growth of 24%, followed by Cryosite with 21% and Sirtex Medical with 18%. Two companies which experienced declines in sales were Cochlear (down 4%) and Probiotec (down 8%).

Profitability

Overall profitability improved significantly for nine companies, with Ellex Medical Lasers and Cogstate moving from a loss in the previous year to profitability in the year reported. Mayne Pharma's reported profits rose 266%, Cryosite's by 206% and Probiotec's by 158% (taking adjustments into consideration).

Three companies reported decreases in net profit, with Acrux down 87% as licensing income dropped off, Cochlear was down 68% due to product recall costs and Somnomed's profits down by 5% but weaker due to its re-investment philosophy.

Gross Margins

The company with the greatest gross margin was Sirtex Medical (81%), a figure that was unchanged from the previous year. This company's gross margin is an indicator of the potential for growth in free cash flows available to the company over the next few years, assuming a number of growth milestones are achieved. The

average gross margin for the group (excluding Acrux) was 58%, illustrating an investment metric that is common to successful life science firms i.e gross margins in this industry tend to be higher rather than for other industries.

Cogstate registered an impressive 10 point gain in its gross margin figure.

More detailed commentary on three of the top performing companies – Somnomed, Sirtex Medical and Cogstate – by sales growth and by other measures continues on pages 4 & 5.

Somnomed Reinvests for Future Profits

Somnomed (SOM: 77 cents) manufactures, markets, sells and distributes its range of medical devices for the treatment of snoring, sleep apnea and bruxism (tooth grinding).

FY2012 Result

In the last financial year the company sold 30,878 devices. The devices sell for around \$500 each, delivering the company \$15.2 million in revenue in FY2012. Sales increased by 23% over the year and the number of units it sold increased also by 23%.

The company generated a net profit of only \$589,000, however it should be remembered that surplus cash flow is being reinvested into the business to grow top line growth.

The company continues to improve growth margins, which increased from 68% in FY2011 to 70% in FY2012. Over the last five years, unit sales have grown consistently, with the compounded annual growth rate being 53% over this period. Its growth margin has also considerably over this period, from 53% in 2007.

Future Growth

Somnomed should be commended for provided detailed sales forecasts to the market. Unit sales through its network of dentists is forecast to grow at 23% in this financial year, to around 38,000 units. The company currently has a global network of over 3,800 dentists who are trained to fit the company's devices.

Earlier this year the company defined a new strategy to drive sales of its devices. The company is seeking to deliver unit sales growth of between 30%-35% per annum. Rather than relying on the dental network to market its product, it will now shift its attention to medical specialists (sleep specialists) who refer patients to the Somnomed therapy.

The company is expecting that marketing the product to the sleep specialist network will help drive unit sales to above 30% a year.

Estimated revenue for FY2013 is between \$18 - \$20 million, which corresponds to revenue growth of between 18% - 31%.

The company is also seeking to expand its trained dental network to over 5,000 dentists globally.

Growth is also expected to come from entry into new markets, including France, Belgium, Denmark and Finland. In France the market for Mandibular Advancement Splints has been developed by **Laboratories Narval**, which was acquired by **ResMed** in 2009. In June this year ResMed launched its Narval CC device in the US. Both the Somnomed and the ResMed devices are based on the same concept. It involves two rigid mouthguards, whereby the lower guard prevents to jaw from moving backwards during sleep, extending the lower jaw forward. This helps stop the airway closing during sleep. It's shown to be an effective way to stop snoring and reduce the occurrence of sleep apnea.

In France, these devices are reimbursed, mainly through the public health system.

Although the proportion of sales for the company in the US has increased in FY2012, to 62%, Europe, which accounts for about 25% of sales, has also displayed strong growth for Somnomed, increased by around 27% last financial year.

Next Generation Product – The Somnodent G2

Another driver of sales for Somnomed is the launch of the Somnodent G2 into all of its markets. The G2 system is 20% smaller, with comfort being directly related to patient compliance. There are also some other improvements, including an absence of metal parts. With the existing product, the advancement of the splint to bring the jaw forward is achieved by rotating two metal screws in the splints. The new system has interchangeable plastic parts to achieve the same effect. The company expects that by the end of CY2013 the G2 system will be the volume driver of sales.

Profitability

Somnomed's current approach is to grow sales and expand into existing markets using its excess cash. Somnomed's group operating profit last year before corporate expenses and R&D was \$3.2 million. The company will maintain this approach at this stage unless it has a new project to invest in.

Summary

Somnomed is comfortable that its base growth in sales is 20% – 25%. However the company is seeking to push sales growth to above 30% a year using the above mentioned strategies.

At June 30 the company had cash of \$3.5 million. It is capitalised at \$32 million.

Bioshares recommendation: **Speculative Buy Class A**

Bioshares

The Sirtex Growth Record

Sirtex Medical (SRX: \$7.70) manufactures, markets, sells and distributes a liver cancer therapy called Sir-Spheres, which contain a short acting radio-isotope to irradiate tumours.

The company increased sales in FY2012 by 18% to \$83 million. It increased its net profit by 49% to \$17 million. Worldwide sales on a volume basis increased by 23% to 6,141 units. Over the last five years dose sales have increased at an average rate of 24% a year.

But the most important measure in our view is the increase in the number of treatment centres using the product. During the year 70 new treatment sites were added that can now administer the Sir-Spheres therapy. Arguably, this is where the bottleneck is for this product, together with enough trained nuclear medicine interventional radiologists to administer the therapy.

The company is conducting a number of major clinical studies around the world to move the Sir-Spheres from a salvage therapy to a first line therapy for secondary liver cancer, and also to move it from a therapy for secondary liver cancer in the US to also be applied to the treatment of primary liver cancer as well, where it is currently used off label in the US (in other regions the therapy is approved for primary liver cancer also).

Once these trials are completed and results are in – results from the first two major trials will be in by 2015-2016 – the company expects a 'step change' in demand to occur.

To make sure it is in a position to service this demand, it has formulated a '2020Vision' program, to ensure that by 2020 it is in a strong position to 'take full advantage of the growth potential'.

Sir-Spheres Evolution Program

The company has also put in place the Sir-Spheres Evolution Program. This is a very important element of its growth plan. It incorporates not just a new delivery device, which finished factory testing earlier this year, but also a patient planning system to tailor delivery of the therapy to each patient. Preparation for each patient involves imaging of the patient's vasculature and is crucial to safe delivery of Sir-Spheres. The most significant side effect is if the radio-isotopes are not contained in the liver and move to the stomach, causing ulceration. Screening patients is also important to understand which patients will benefit most from this therapy.

Interest in Sir-Spheres continues to grow, according to the company, which states in its annual report that in 2011 there were 138 peer-reviewed publications involving Sir-Spheres. Two retrospective studies involving results from more than 1,000 patients showed that the therapy delivered a prolonged survival benefit in both trials.

Sirtex is also working on its second generation Sir-Spheres product and on new technologies to commercialise which it can fund from its existing cash flow from Sir-Spheres. The company says it has a number of 'promising new therapeutic products' that are 'poised to move into the clinic'.

Sirtex generated cash flow from its operational activities of \$20 million and finished the end of June with \$49 million. It is capitalised at \$430 million.

Bioshares recommendation: **Buy**

Bioshares

Cogstate's Record Profit

Cogstate (CGS: \$0.27) has developed products that aid in the testing and assessment of cognition. The company has three core markets. These are for clinical trials of drug candidates, for concussion management in sport, and for dementia screening. The company is also commercialising sports training software programs.

FY2012 was the best financial performance to date for Cogstate. It achieved revenues of \$12.1 million (up 48%), and it delivered its largest profit result, with a net profit of \$2.45 million.

The result needs to take into account a revaluation of the 50% interest the company had in Axon Sports, its sports cognition business. This asset previously had no recognized value on the company's balance sheet. However when it acquired the remaining 50%, it was required to revalue that 50% investment in Axon Sports. Together with some reimbursement of costs, it resulted in a paper profit of \$1.4 million.

Its first half of FY2012 was much stronger than its second half, with revenues of \$6.9 million followed by \$5.1 million revenue in the second half. The clinical trials business generates most of the revenue for Cogstate at this point (97% of total revenue).

An important measure of future sales is the value of contracts the company has secured at the start of this financial year. At the start of this year, the company had already locked in \$7.8 million in sales, of which \$5.66 million is expected to be realized in this financial year. At the start of July last year, the company had only \$5.65 million in sales locked in for future years sales.

From the first half of the FY2013 financial year, Cogstate expects to start generating revenue from its dementia screening collaboration in Canada with **Merck**. Merck will market the Cogstate test to general practitioners to aid them in detecting early signs of Alzheimer's disease.

Bioshares recommendation: **Speculative Buy Class A**

Bioshares

Bioshares Model Portfolio (7 September 2012)

Company	Price (current)	Price added to portfolio	Date added
Nanosonics	\$0.500	\$0.495	June 2012
Osprey Medical	\$0.35	\$0.40	April 2012
QRxPharma	\$0.68	\$1.66	October 2011
Mayne Pharma Group	\$0.400	\$0.435	September 2011
Somnomed	\$0.78	\$0.94	January 2011
Phylogica	\$0.024	\$0.053	September 2010
Biota Holdings	\$0.69	\$1.09	May 2010
Tissue Therapies	\$0.48	\$0.21	January 2010
Bionomics	\$0.31	\$0.42	December 2007
Cogstate	\$0.270	\$0.13	November 2007
Sirtex Medical	\$7.70	\$3.90	October 2007
Clinuvel Pharmaceuticals	\$1.56	\$6.60	September 2007
Pharmaxis	\$1.12	\$3.15	August 2007
Universal Biosensors	\$0.65	\$1.23	June 2007
Alchemia	\$0.600	\$0.67	May 2004

Portfolio Changes – 7 September 2012**IN:**

No changes

OUT:

No changes

Clarification and Correction

The gross margin figures pertaining to Mayne Pharma in Bioshares 470 were absolute dollar figures not percentages.

Mayne Pharma's SUBACAP has been recognised as approvable by the UK's MHRA, not approved as was stated.

The company will follow a decentralised procedure to seek approval in Germany, Spain and Sweden.

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. For both groups, the rating “Take Profits” means that investors may re-weight their holding by selling between 25%-75% of a stock.

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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