

In this edition...

Invision has had a stellar run of late, in fact ever since that company's CMO Dr Mitchell Glass presented at the 9th Bioshares Biotech Summit. As it was, Dr Glass said less about Invision per se and much more about the 'how' of drug development. The point is Invision has a very experienced team at its helm, with its re-purposed drug INV102 spitting out some early data by the end of CY 2012. IDT Australia is a stock to consider for its long term potential. To what degree and when its new CEO Paul Macleman can turn this company around will be well worth monitoring.

To find out which ASX-listed life science companies are profit makers, turn to page 4 for our summary of results for FY2013.

Companies covered: IDT, IVX, FY2013 Results Summary

	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 - May '13)	3.1%
Year 13 (May '13 - Current)	54.3%
Cumulative Gain	450%
Av. annual gain (12 yrs)	16.6%

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Bioshares

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

Invision – Three Phase II Readouts Approaching and No Cash Required

Over the next six to eight months, Invision (IVX: \$0.095) is anticipating interim results from three Phase II results. With these trials sufficiently funded with no immediate plans for a capital raising, and a \$44 million market capitalisation, Invision is an appealing investment consideration. This is especially the case given the continuation of positive sentiment towards biotech stocks.

Invision has brought back together the experienced Chemgenex Pharmaceuticals (sold to Cephalon for \$225 million in 2011) team of Greg Collier (as CEO) and James Campbell (as Executive Director).

The three Phase II trials underway are in chronic bronchitis (smoking cessation) with drug candidate INV102, asthma also with INV102, and lupus with INV103 (the drug that CBio had previously evaluated in rheumatoid arthritis). Invision was formed through the merger of Inverseon (which brought the INV102 asset) and listed company CBio (which had the asset cpn10, now called INV103). The companies merged in 2012 and the new company was renamed Invision.

The first stage for the company was to get sufficient cash to have these Phase II trials underway. The asthma trial was started in the first quarter of 2013 in 60 patients. The smoking cessation trial started in July this year and will enrol 136 patients. The lupus trial also started in July this year. It is now enrolling patients with a target of 32 patients.

Interim Readouts Smoking Cessation

Before the end of the year, Invision expects to have completed its smoking cessation trial with some results available from sputum samples from patients. The primary outcome in this trial is the changes in the number of cigarettes smoked in a week. The rationale here is that one of the reasons smokers can not stop is the smoker's cough that is occurs, which is aggravated by not smoking any more.

INV102 is thought to work by restoring the epithelium and the mucous clearance function of the airways. Only about 30% of people who try to give up smoking are successful, with one of the major reasons for poor success rates being the bronchospasms experienced in the first two weeks after stopping.

This program represents the fastest speed to market program for the company. If this trial is successful, the company will meet with the FDA and plan for a Phase III trial to get this product to market. There are over 600,000 people who try to give up smoking each year but fail due to the smoker's cough experienced. For a drug treatment that will cost as low as \$1,000-\$2,000, it still represents a very large annual market opportunity (\$600 million plus).

Cont'd over

Asthma

In Q1 2014 Invion expects to get some early data from the Phase II asthma study. Final data is expected at the end of 2014, but the company will have results early next year, taking lung samples from patients. Patients will receive INV102 for between 18-22 weeks. This study is fully funded by a US\$4 million NIH grant.

Lupus

The lupus trial involves four cohorts of patients, each with different doses. There are eight patients in each cohort, with six received the drug candidate INV103, and two receiving a placebo. Safety and efficacy data is expected from the first two cohorts by the end of the year. If there are early signs of success, the company may stop the trial to progress the program to the next stage. The company is also in constant business development discussions with this program, said CEO Greg Collier.

Next Stage

Invion has sufficient funds to complete the current round of trials and will not raise money until it has started its inhaled program. Currently INV102 is in an oral form, and that is the form that will be pursued for smoking cessation. However, the company is formulating an inhaled version that could have applications for the treatment of COPD and cystic fibrosis.

Collier is clear that Stage I of the company's strategy, completion of the current Phase II programs, is fully funded and that it will only raise additional funds for the next strategic step for the company.

Including the \$1.4 million tax rebate to be received post June 30, 2013, the company had cash assets of \$4.5 million, with some additional funds to be received from a settlement with one of the former executives of the company.

Invion is capitalised at \$44 million.

Bioshares recommendation: **Speculative Buy Class A**

Bioshares

Bioshares Model Portfolio (6 September 2013)

Company	Price (current)	Price added to portfolio	Date added
Invion	\$0.095	\$0.060	August 13
IDT Australia	\$0.330	\$0.260	August 13
Viralytics	\$0.345	\$0.300	August 13
Circadian Technologies	\$0.260	\$0.270	March 2013
Tissue Therapies	\$0.340	\$0.255	March 2013
Benitec Biopharma	\$0.300	\$0.40	November 2012
Somnomed	\$1.07	\$0.94	January 2011
Cogstate	\$0.410	\$0.13	November 2007
Universal Biosensors	\$0.75	\$1.23	June 2007

Portfolio Changes – 9 September 2013

IN:
No changes.

OUT:
No changes.

IDT – A Deep Value Play

IDT Australia (IDT: \$0.33) is giving its pharmaceutical manufacturing business a much needed overhaul. Its business involves the contract manufacturing of drugs in development, contract manufacturing of drugs on the market, and it operates a Phase I clinical trial business, CMax, in Adelaide. In FY2013, sales increased by 7% to \$10.5 million. However, its loss for the year was \$5.4 million. Its capitalisation at the moment is \$25 million (including capital raising underway), although at its peak was \$250 million.

IDT recently appointed a new management team, its long serving chairman has given way to the experienced Graeme Kaufman, and the company recently announced it was raising \$6 million, half through a private placement and half through a rights issue at 27 cps, both fully underwritten by Wilson HTM Corporate Finance.

In April this year the company appointed the 'corporate fix-it' CEO, Paul MacLeman, who was formerly CEO at Genetic Technologies (GTG). MacLeman has brought with him from GTG David Sparling, who has a Corporate Development and General Counsel role.

Other board members at IDT are Graeme Blackman, Roger Aston (formerly CEO of Mayne Pharma), David Williams, Geoff Lord, and Reo Shigeno (representing the Japanese group I'rom Holdings, which took an 18.8% stake in IDT in May this year).

Three Plank Strategy

IDT has a threefold strategy to accelerate sales and move it back into profitability. The first is to undertake 'more vigorous sales and marketing efforts'. This may seem straight forward. However, efforts in driving the business efficiently had been poorly managed for several years, which is one of the main reasons sales had fallen. By enforcing a more 'efficient' process to following up sales leads, the company is already seeing an improvement. The impact of this change should not be understated and is occurring faster than the company had anticipated.

The second is to fund the formation of a clinical site management business. I'rom Holdings invested \$2 million in IDT specifically to address this opening market, in the same way I'rom Holdings successfully achieved in Japan. It involves setting up a network of medical institutions to serve the needs of the global pharmaceutical industry in Australia in the clinical trials area. I'rom Holdings pioneered a site management organisation (SMO) in Japan which now employs 331 staff and last year generated revenue in Japan of \$70 million. The companies believe that the SMO industry in Australia has yet to be developed in any meaningful way.

The third area where IDT will seek to grow its business is in converting its manufacturing assets, filing IDT-owned drug registrations (ANDAs) with the FDA, which when approved, the company can license to generic drug distributors.

IDT will also seek to improve on efficiencies in its pricing for its drugs that it manufactures for its local and international pharmaceutical customers. This involves reaching a better understanding of the under user and the number of competing manufacturers in the market place.

IDT has a large manufacturing facility across a number of sites in Boronia. Its property plant and equipment is valued at \$23 million at book value, although its replacement value would be substantially higher. The company has borrowings of \$1.9 million from a floating debt facility which has a limit of \$3.5 million.

Comment

IDT was started in 1975. After 38 years the business had become tired and inefficient. It was also been a victim of the GFC, with the funding hit to biotechs causing many drug development projects to be shelved. Given that part of IDT's business is the manufacture of drugs in the development phase, its business has been affected. It has also priced its work in Australian currency, which has not helped in recent years, however the company believes that price is not a crucial factor in it winning contracts.

The changes made recently are welcomed and should translate to improved financial outcomes. Some of the changes being implemented should have rapid results (improving efficiencies in the current business), some have medium term timelines (creation of an SMO in Australia) and others are longer term strategic changes (filing and licensing its own ANDAs).

IDT's aim is to reduce its base business to profitability as soon as possible. IDT has a speciality in high containment drugs (such as oncology drugs) and the company says its systems are why people come to IDT. Its CMax clinical trials business is a very profitable business and is the largest Phase I testing facility in the country. CEO MacLeman believes the company has some outstanding assets that are under-driven and under-utilised.

As a 'deep value play' turnaround story, IDT is worth considering.

As mentioned earlier, IDT Australia is capitalised at \$25 million.

Bioshares recommendation: **Speculative Buy Class B**

Bioshares

Results Summary June 30 Reporting Companies – FY2013

SORTED BY SALES

All Figures in AUD [USD Reporting Companies Converted with Exchange Rate June 30 for Analysis]

Company	Code	Cap (\$M)	Price 6/09/13		2012	2013	2012	2013	%ch.	2012	2013	%ch.	P	PE	P/S < 50
					Revenues	Revenues	Sales	Sales		Profit/Loss	Profit/Loss				
CSL	CSL	\$32,538	\$66.80	US\$	\$4,723.38	\$5,530.46	\$4,529.88	\$5,337.36	18%	\$1,004.71	\$1,311.37	31%	P	25	6.1
Resmed Inc.	RMD	\$7,771	\$5.42	US\$	\$1,371.40	\$1,670.02	\$1,342.87	\$1,632.84	22%	\$250.07	\$331.14	32%	P	23	4.8
Cochlear	COH	\$3,242	\$56.84		\$774.74	\$755.03	\$779.00	\$752.72	-3%	\$56.80	\$132.56	133%	P	24	4.3
Blackmores	BKL	\$467	\$27.53		\$262.10	\$327.54	\$260.83	\$326.60	25%	\$27.81	\$24.98	-10%	P	19	1.4
Sirtex Medical	SRX	\$726	\$13.01		\$86.58	\$100.30	\$82.63	\$96.77	17%	\$16.67	\$18.92	13%	P	38	7.5
Mayne Pharma Group	MYX	\$324	\$0.58		\$52.55	\$84.07	\$51.90	\$83.43	61%	\$6.15	-\$2.84	-146%			3.9
Probiotec	PBP	\$19	\$0.35		\$66.17	\$67.35	\$66.05	\$67.34	2%	\$1.25	\$0.60	-52%	P	31	0.3
SDI	SDI	\$81	\$0.68		\$57.36	\$56.68	\$46.40	\$56.61	22%	\$1.97	\$4.69	138%	P	17	1.4
Ellex Medical Lasers	ELX	\$25	\$0.30		\$47.86	\$43.09	\$47.50	\$42.80	-10%	\$1.05	-\$0.82	-178%			0.6
Compumedics	CMP	\$14	\$0.09		\$28.50	\$27.93	\$27.92	\$27.15	-3%	-\$2.83	-\$1.49	-47%			0.5
ITL	ITD	\$30	\$0.34		\$31.05	\$24.95	\$30.61	\$24.89	-19%	\$2.75	\$2.46	-11%	P	12	1.2
Somnomed	SOM	\$46	\$1.07		\$15.33	\$18.58	\$15.25	\$18.49	21%	\$0.70	\$0.71	1%	P	66	2.5
Mesoblast	MSB	\$1,741	\$5.53		\$38.28	\$28.79	\$27.68	\$18.26	-34%	-\$71.15	-\$61.66	-13%			
Acrux	ACR	\$520	\$3.12		\$10.71	\$16.66	\$10.47	\$16.53	58%	\$7.39	\$6.93	-6%	P	75	31.4
Nanosonics	NAN	\$230	\$0.88		\$13.04	\$17.59	\$12.30	\$14.90	21%	-\$4.68	-\$5.77	23%			15.5
Cogstate	CGS	\$32	\$0.41		\$12.17	\$12.60	\$12.01	\$12.46	4%	\$2.52	-\$2.12	-184%			2.5
Medical Developments	MVP	\$85	\$1.48		\$11.67	\$11.83	\$11.31	\$11.73	4%	\$2.70	\$2.31	-15%	P	37	7.2
IDT Australia	IDT	\$25	\$0.33		\$9.98	\$10.66	\$9.98	\$10.66	7%	-\$1.84	-\$5.35	191%			2.3
Alchemia	ACL	\$144	\$0.45		\$0.73	\$10.38	\$0.00	\$9.62		-\$15.08	-\$4.77	-68%			15.0
Medical Australia	MLA	\$45	\$0.10		\$9.24	\$9.16	\$9.21	\$9.15	-1%	-\$0.67	-\$1.32	97%			5.0
Atcor Medical	ACG	\$20	\$0.13		\$6.44	\$9.06	\$6.44	\$9.06	41%	-\$1.99	\$2.37	NA	P	8	2.2
Life Corporation	LFC	\$11	\$0.08		\$7.29	\$12.62	\$6.27	\$8.96	43%	-\$7.78	-\$1.37	-82%			1.3
Cryosite	CTE	\$25	\$0.53		\$8.02	\$8.76	\$7.76	\$8.50	10%	\$1.02	\$1.25	22%	P	20	2.9
Living Cell Technologies	LCT	\$16	\$0.05		\$15.91	\$10.59	\$3.71	\$7.51	102%	\$5.68	-\$2.98	-152%			2.1
Allied Health Group	AHZ	\$104	\$0.10		\$6.46	\$7.42	\$6.44	\$7.40	15%	-\$10.22	-\$2.42	-76%			14.0
Advanced Surgical	AMT	\$3	\$0.06		\$8.11	\$7.18	\$7.95	\$7.16	-10%	-\$0.17	-\$0.57	230%			0.4
Genetic Technologies	GTG	\$38	\$0.08		\$8.38	\$6.83	\$8.38	\$6.83	-19%	-\$5.30	-\$9.35	77%			5.6
Holista Colltech	HCT	\$4	\$0.07		\$5.49	\$5.48	\$5.44	\$5.20	-4%	-\$0.54	-\$1.60	196%			0.7
LBT Innovations	LBT	\$7	\$0.07		\$1.02	\$4.42	\$0.84	\$4.34	415%	-\$1.16	\$0.53	NA	P	14	1.7
SUDA	SUD	\$20	\$0.03		\$4.00	\$4.07	\$3.91	\$4.05	4%	-\$4.44	-\$1.67	-62%			4.8
QRxPharma	QRX	\$105	\$0.73		\$1.92	\$4.24	\$1.81	\$4.01	122%	-\$10.08	-\$16.05	59%			26.2
Pharmaxis	PXS	\$43	\$0.14		\$4.52	\$6.22	\$1.33	\$3.24	143%	-\$45.54	-\$38.64	-15%			
Brain Resource Corp	BRC	\$39	\$0.43		\$5.97	\$3.46	\$3.32	\$3.17	-4%	\$0.39	-\$1.46	-476%			12.4
Unilife Corporation	UNS	\$331	\$0.62	US\$	\$5.70	\$3.44	\$5.42	\$2.93	-46%	-\$51.32	-\$68.14	33%			
Progen Pharmaceuticals	PGL	\$11	\$0.19		\$2.83	\$3.51	\$2.01	\$2.82	40%	-\$3.44	-\$2.09	-39%			3.7
Avita Medical	AVH	\$41	\$0.13		\$5.18	\$4.05	\$3.35	\$2.82	-16%	-\$7.76	-\$8.22	6%			14.4
Impedimed	IPD	\$34	\$0.19		\$3.18	\$2.93	\$2.95	\$2.73	-7%	-\$12.34	-\$8.46	-31%			12.6
Resonance Health	RHT	\$5	\$0.01		\$1.83	\$1.71	\$1.56	\$1.53	-2%	-\$0.27	-\$0.36	34%			3.3
Clinuvel Pharmaceuticals	CUV	\$63	\$1.66		\$1.29	\$1.96	\$0.72	\$1.52	111%	-\$9.77	-\$6.80	-30%			41.7
Bionomics	BNO	\$265	\$0.65		\$6.83	\$3.72	\$0.86	\$1.03	21%	-\$3.14	-\$10.00	219%			
Optiscan Imaging	OIL	\$11	\$0.07		\$0.38	\$0.98	\$0.43	\$0.99	132%	-\$2.50	-\$0.64	-74%			10.7
NuSep Holdings	NSP	\$6	\$0.05		\$2.25	\$1.47	\$1.32	\$0.92	-31%	-\$9.69	-\$1.84	-81%			6.7
Starpharma Holdings	SPL	\$304	\$1.07		\$2.90	\$2.43	\$0.88	\$0.84	-5%	-\$13.66	-\$5.23	-62%			
Phylogica	PYC	\$7	\$0.02		\$2.09	\$0.77	\$1.92	\$0.60	-69%	-\$3.90	-\$3.44	-12%			11.1
USCOM	UCM	\$12	\$0.18		\$0.86	\$0.59	\$0.79	\$0.58	-27%	-\$1.82	-\$1.37	-25%			21.2
Cellmid	CDY	\$18	\$0.03		\$0.17	\$0.60	\$0.13	\$0.54	311%	-\$1.97	-\$1.54	-22%			33.6
Analytica	ALT	\$12	\$0.02		\$0.19	\$0.54	\$0.16	\$0.50	207%	-\$2.22	-\$1.14	-49%			24.7
Anteo Diagnostics	ADO	\$43	\$0.06		\$0.72	-\$0.68	\$0.15	\$0.22	50%	-\$2.38	-\$2.18	-8%			
Immuron	IMC	\$5	\$0.01		\$1.31	\$0.28	\$0.93	\$0.15	-84%	-\$2.30	-\$3.54	54%			
Bluechiip	BCT	\$19	\$0.17		\$1.08	\$1.24	\$0.02	\$0.09	372%	-\$2.87	-\$3.59	25%			
Bioxyne	BXN	\$1	\$0.01		\$0.02	\$0.85	\$0.12	\$0.08	-35%	-\$1.78	-\$6.19	247%			16.7
Biodiem	BDM	\$7	\$0.05		\$1.70	\$0.02	\$1.33	\$0.08	-94%	-\$1.01	-\$2.32	130%			
Genera Biosystems	GBI	\$6	\$0.07		\$0.34	\$0.07	\$0.03	\$0.04	29%	-\$2.09	-\$2.26	8%			
Isonoa	ISN	\$134	\$0.61		\$0.07	\$0.08	\$0.01	\$0.01	9%	-\$5.59	-\$5.58	0%			
Actinogen	ACW	\$1	\$0.01		\$0.06	\$0.08	\$0.00	\$0.00		-\$1.53	-\$0.16	-89%			
Agenix	AGX	\$3	\$0.03		\$0.03	\$0.01	\$0.00	\$0.00		-\$1.36	-\$3.26	140%			
Antisense Therapeutics	ANP	\$22	\$0.02		\$1.06	\$1.30	\$0.00	\$0.00		-\$1.80	-\$2.45	36%			
Aveva	AVX	\$14	\$0.02		\$2.02	\$2.52	\$0.00	\$0.00		-\$3.51	-\$2.98	-15%			
Biotron	BIT	\$14	\$0.10		\$0.50	\$0.89	\$0.00	\$0.00		-\$2.38	-\$3.85	62%			
Benitec	BLT	\$25	\$0.30		\$0.50	\$1.46	\$0.00	\$0.00		-\$4.11	-\$3.49	-15%			
Bone Medical	BNE	\$1	\$0.00		\$0.01	\$0.01	\$0.00	\$0.00		-\$1.57	-\$1.85	18%			
Consegna Group	CGP	\$13	\$0.04		\$0.08	\$0.30	\$0.00	\$0.00		-\$1.30	-\$19.56	1403%			

Notes: Revenues exclude R&D Tax Refunds; Sales include Licensing and Royalty Income; P - denotes Profitable, June 30, 2013; PE - Price/Earnings Ratio; P/S - Price/Sales Ratio [less than 50]; US\$ - Reports in US dollars

Results Summary June 30 Reporting Companies – FY2013

SORTED BY SALES

All Figures in AUD [USD Reporting Companies Converted with Exchange Rate June 30 for Analysis]

Company	Code	Cap (\$M)	Price 6/09/13	2012	2013	2012	2013	%ch.	2012	2013	%ch.	P	PE	P/S < 50
				Revenues	Revenues	Sales	Sales		Profit/Loss	Profit/Loss				
Circadian Technologies	CIR	\$13	\$0.26	\$1.49	\$1.15	\$0.00	\$0.00		-\$4.91	-\$5.00	2%			
Calzada	CZD	\$29	\$0.08	\$0.28	\$0.71	\$0.09	\$0.00	-100%	-\$2.70	-\$1.50	-45%			
Imugene	IMU	\$2	\$0.01	\$0.30	\$0.02	\$0.00	\$0.00		-\$3.13	-\$1.56	-50%			
Invion	IVX	\$44	\$0.10	\$0.32	\$0.11	\$0.00	\$0.00		-\$5.54	-\$5.30	-4%			
Medigard	MGZ	\$2	\$0.03	\$0.05	\$0.01	\$0.00	\$0.00		-\$0.33	-\$0.27	-18%			
Novogen	NRT	\$24	\$0.17	\$1.45	\$1.11	\$0.00	\$0.00		-\$1.35	-\$0.78	-42%			
OBJ	OBJ	\$19	\$0.02	\$0.73	\$0.79	\$0.00	\$0.00		-\$1.41	-\$1.33	-6%			
Oncosil Medical	OSL	\$28	\$0.17	\$0.14	\$0.10	\$0.00	\$0.00		-\$0.43	-\$0.88	104%			
Patrys	PAB	\$19	\$0.04	\$1.07	\$0.98	\$0.00	\$0.00		-\$5.11	-\$3.53	-31%			
Prana Biotechnology	PBT	\$214	\$0.56	\$0.29	\$0.23	\$0.00	\$0.00		-\$5.24	-\$7.79	49%			
Prima Biomed	PRR	\$96	\$0.08	\$4.20	\$2.59	\$0.00	\$0.00		-\$19.94	-\$15.23	-24%			
Tissue Therapies	TIS	\$73	\$0.34	\$0.87	\$0.28	\$0.00	\$0.00		-\$6.77	-\$5.74	-15%			
Viralitics	VLA	\$30	\$0.35	\$0.33	\$0.26	\$0.00	\$0.00		-\$4.78	-\$4.13	-14%			

Notes: Revenues exclude R&D Tax Refunds; Sales include Licensing and Royalty Income; P - denotes Profitable, June 30, 2013; PE - Price/Earnings Ratio; P/S - Price/Sales Ratio [less than 50]; US\$ - Reports in US dollars

Method

We have compiled revenue, sales and profit/loss results for 75 ASX listed life science companies that reported their full year results for the financial year ending June 30, 2013.

Companies not included were Asian American Medical Group, Osprey Medical, GI Dynamics, Reva Medical, Universal Biosystems, Phosphagenics, Clover Corp, Cyclopham, Sigma Pharmaceuticals, API, Heartware International, Scigen and Neuren Pharmaceuticals, which report under different financial years.

Acuvax did report but data was not presented owing to its suspension from trading.

Data was not yet available for pSivida and Bioniche, whose primary listings are on the Nasdaq and Toronto Stock Exchange respectively.

Revenues includes sales and all other income, including interest, grants but excludes R&D Tax Incentive scheme refunds.

Sales includes income from sale of products and services as well as licensing and royalties income.

The results for three companies which report in USD (CSL, Resmed and Unilife) were converted to AUD for the purposes of analysis in this discussion.

Analysis

Of the 75 companies for which financial results were tabulated, 14 were profitable for the year ending June 30, 2013. Of profitable companies with sales, six companies posted an increase in net profit: Cochlear (133%), Resmed (32%), CSL (31%), Cryosite (22%), Sirtex Medical (13%) and Somnomed (1%).

Two companies, LBT Innovations and Atcor Medical, shifted from being loss making into being profitable.

The largest profit from companies with sales was recorded by CSL (\$1.3 billion) followed by Resmed (\$331 million), Cochlear (\$133 million) and Blackmores (\$25 million).

There were 33 companies which reported an increase in sales, 22 companies reported a decrease, with the balance of 20 companies reporting no sales.

There were 22 companies which reported sales of greater than \$1 million but less the \$10 million. Ten companies reported sales of greater than \$10 million but less than \$50 million. Four companies reported sales of greater than \$50 million but less than \$100 million – Sirtex Medical, Mayne Pharma, Southern Dental and Probiotec.

Price/Sales Analysis

One financial ratio that can be used to analyse companies with sales but no or low profits is that of the price-to-sales ratio.

One rule of thumb is that high growth companies with sales but small or no profits or even losses can trade on multiple of 4 - 5 times sales.

For mature companies with low growth in sales, a sales multiple of 1 times is often considered as a benchmark measure of performance.

In the table above, three companies with sales of greater than \$20 million – Probiotec, Compumedics and Ellex Medical Lasers – are trading on price/sales ratios of 0.3, 0.6 and 0.5 respectively, indicating that these companies are expected to struggle to grow sales unless investment in futures sales has or is being made.

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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