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**In this edition...**
LEO Pharma from Denmark this week announced a bid for Peplin, at $1.03 a share. It will not be the price that many smaller shareholders were looking for but it's a very tidy result for GBS Venture Partners.
The appeal of Acrux continues to improve, with its Axiron product getting the OK from the FDA to file for approval. Will Acrux be a third biotech to be acquired this year by international pharma?
And we continue our coverage from the 2009 Thredbo Biotech Summit.

**The Editors**
**Companies Covered: ACR,GBI, PLI, Therdbo Summit coverage**

| | Bioshares Portfolio |
|---|---|
| Year 1 (May '01 - May '02) | 21.2% |
| Year 2 (May '02 - May '03) | -9.4% |
| Year 3 (May '03 - May '04) | 70.0% |
| Year 4 (May '04 - May '05) | -16.3% |
| Year 5 (May '05 - May '06) | 77.8% |
| Year 6 (May '06 - May '07) | 17.3% |
| Year 7 (May '07 - May '08) | -36% |
| Year 8 (May '08 - May '09) | -7.3% |
| Year 9 (May '09 - Current) | 35.0% |
| **Cumulative Gain** | **162%** |
| **Av Annual Gain (8 yrs)** | **14.7%** |

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# Bioshares

**4 September 2009**
**Edition 327**

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

## *Peplin To Be Acquired For $348 Million*

Peplin is to be acquired by **LEO Pharma** from Denmark for approximately US$287 million ($348 million) in a cash deal, which implies a price for Peplin of $1.03 per share. Since inception, approximately $120 million has been invested in Peplin.

This deal will be seen as one of Australia's most successful drug development *investment* ventures to date. Starting out as a small Queensland drug developer in 1998 and listing on the ASX in 2000, Peplin has done what few other companies in Australia have achieved, and that is to generate substantial investment returns from a drug development company with Australian origins.

Unlike the acquisition earlier this year by **Cephalon** for the assets of **Arana Therapeutics** in a bid that fell well short on price in the view of *Bioshares*, this deal value should be better received. However, it is not an outcome that delivers to every shareholder in a compelling way. There will be many long standing shareholders, who bought into the company at the float price of 40 cents a share, who will be disappointed Peplin was not able to bring the product to market on its own and potentially deliver a several fold return.

However, in its nine year ASX trading history, the stock rarely rose above the $1.00 mark. At the end of June, Peplin had only US$17.7 million in cash. If it was to commercialise the PEP005 product alone, the company was needing to raise a further US$60 million. The problem for the company was the cost blowout that has occurred because not one but two Phase III trials are required for both the head and neck and the rest of the body i.e. four Phase III trials in total to see the drug to approval in the US.

### Stellar Result for GBS Venture Partners

**GBS Venture Partners** invested in Peplin for the first time in October last year (at 35 cps), making a US$11.5 million investment. GBS will receive US$38 million for its 15 month investment, if and when the deal is completed by year's end. The IRR for GBS will be around 100%, or around a 150% gain in total we estimate, taking currency considerations into account.

This is a perfect example of how VC groups can profit from investing in later state publicly listed publics, which occurs with surprising infrequency in Australia. The result will not be quite as stellar for **MPM Capital** which invested at 71 cps (2006), 90 cps (2007) and 35 cps (2008).

The company's CEO, Thomas Wiggins, is to be recognised for achieving an efficient sale process, assuming the deal is completed. We estimate he will be rewarded with US$7 million over the 17 months of employment, from August last year to the end of this year, assuming all performance bonuses are granted.

Recognition should also go to Peplin's previous CEO, Michael Aldridge, who did an outstanding job of building the Peplin business over five years, and also to Garry Redlich,

*Cont'd over*

a Brisbane-based lawyer who was CEO of Peplin from 1999-2003, the scientific founder Jim Aylward, and the many scientists and staff at Peplin who were the backbone of this company.

### Product returned by Allergan

In a major setback for Peplin at the time, in 2004, Allergan in the US handed back Peplin's lead compound after a licensing deal signed in 2002, following an internal re-prioritisation of programs. However, following the investment in Peplin by MPM Capital in May 2006 when $40 million was raised, Peplin's path to market was accelerated with major changes effected, including redomiciling to the US and the controversial replacement of CEO Michael Aldridge last year.

### Sale of Peplin Expected

When the change in CEOs occurred in August last year, we ran with the title 'VCs Take Control of Peplin' (*Bioshares* 277), with our view being that 'a successful M&A transaction will be effected within 24 months'. Well it occurred at the bottom end of our timeframe expectations, and while this was denied by management and key investors, it has proven to be a correct prediction.

In that edition we also made these comments that are worth repeating, highlighting the change in direction for the company when a large US venture capital group became a substantial investor. 'Bringing on board a large investor such as MPM Capital, which is one of the world's largest life science investment firms, there was always the risk, and in fact evident from early on, that it would exert considerable influence on the company…. One of the risks moving forward now is if the company is being primed for sale, the focus is not on creating a sustainable business but on generating an investment return outcome.'

Parlous financial market conditions and the willingness for VC investors to seek exits is indicative of the strains some US VC investment groups may be under and the difficulty in securing large sums of follow-on finance to fund drug development programs.

### Other acquisition targets

For biotech companies, the pharmaceutical industry represents the sales and distribution network. So any companies nearing the final stages of product development are obvious targets for M&A. The table below lists some local biotech acquisition targets.

**Other biotech acquisition targets**

| Company |
|---|
| Chemgenex Pharmaceuticals |
| Acrux |
| Universal Biosensors |
| Starpharma |
| QRxPharma |
| Pharmaxis |
| Mesoblast/Angioblast |
| Clinuvel Pharmaceuticals |

**Chemgenex Pharmaceuticals** sits on the top of this list. It also has venture capital shareholders, including GBS Venture Partners, that will be looking for a trade sale exit. Unless the share price of Acrux increases significantly, it is just as likely that a potential licensor of the Axiron product will consider buying the company outright.

**Universal Biosensors** will become a very appealing asset to a range of diagnostic companies, including **Johnson & Johnson**. **SSL International** may well find an increasing interest in the potential of Starpharma's Vigagel microbicide. **QRxPharma** is looking to secure a licensing deal in the US but an outright acquisition may also be an option. And **Pharmaxis**, **Mesoblast** and **Clinuvel Pharmaceuticals** all have late stage assets that may be of interest to Big Pharma.

### Summary

Peplin is perhaps now Australia's best example, together with **Biota Holdings**, of how a drug development concept can become a commercial success and deliver good returns for shareholders (although that clearly depends on the entry price). Both companies listed on the ASX at the pre-clinical stage. Not all shareholders in Peplin will be pleased with the acquisition price. But the reality is that the Global Financial Crisis has taken its toll on this sector, meaning that companies will trade at significant discounts compounded by the fact that access to capital is more difficult and more expensive compared to what it was two years ago.

Hopefully, we will see some of the returns from the Peplin acquisition re-circulate into Australian biotech, and this re-circulation may improve valuations. It is unlikely to be the last acquisition we will see in Australian biotech over the next 18 months.

Much more importantly, what needs to happen in Australia is for companies such as **Pharmaxis** and **Acrux** to form the backbone of a sustainable drug products industry, in similar ways that has occurred with **ResMed**, **Cochlear** and **CSL** in their respective medical products sub-sectors.

*(Peplin has been removed from the Bioshares Model Portfolio at 90 cents.)*

**Bioshares**

## *Acrux Gets the Green Light from the FDA*

Acrux's (ACR: $1.45) CEO has had a successful pre-NDA meeting with the FDA for its Axiron program. Axiron is a roll-on male testosterone gel with Phase III studies now completed and results due out at the end of this month. The FDA has given the green light for Acrux to proceed with filing its drug for approval in the US. This is a major step forward for Acrux given the FDA's concerns about other testosterone products on the market and paves the way for potentially Australia's largest licensing deal in the next six to nine months in the drug development area.

This was a crucial meeting for Acrux. Even though the company had formed its clinical trial design following dialogue from the FDA, the regulator still (a) could have asked Acrux to modify its

*Cont'd on page 5*

# *More Session Coverage from the Bioshares Thredbo Biotech Summit 2009*

**Session: Productivity Tools For the Healthcare System**

Mark Morrisson the CEO of **Universal Biosensors** was invited to discuss what opportunities that Universal Biosensors might encounter from the decentralisation of healthcare and the push for improved preventative medicine. He was also asked to consider if it would in fact occur, what the impediments to change might be, and what the healthcare system might look like in 20 years time should major changes eventuate.

Morrisson commenced his talk by reminding the conference of a never ending stream of headlines that focus on the unsustainable stress on healthcare systems. He noted that in the US, if government spending is held at a constant of GDP, and healthcare spending rises at the same rate for twenty years, it will crowd out all other spending, including education and defence.

He said that according to the National Health and Hospitals Reform Commission, the Australian system (as we know it today) would be gone as well in 25 years if radical changes do not take place.

***13 Jumbo jets***

Morrisson claimed that growth in healthcare spending might be acceptable if it was linked to gains in quality and safety. However, the number of people lost to medical mistakes in Australia is the equivalent of 13 Boeing 747 Jumbo jets crashing, fully loaded, each year. 'If we reduced costs from medical mistakes by 50% we would save $1 billion' he said.

And if improvements through frontline practice, in general practice and community centres were adopted, an estimated 700,000 hospital admissions a year could be saved.

One of the major drivers for escalating healthcare costs is the increase of an aging population and increased rates of urbanization in developing countries. Morrisson stated that there will be an additional 500 million people aged over 60 in the next 20 years. Of these, 80% will have at least one chronic condition; 50% will have at least two and 20% will have diabetes. He also noted that advances in medical technology have turned acute diseases into chronic conditions.

Morrisson posed the question: 'If healthcare systems are under potentially unsustainable stress what is going to happen?'

'There is no going back' he said. 'If you are going to rely on government or reformers or policy to help it's going to be a long, long wait.'

***Money will power reform***

Instead he suggested that 'one of the fundamental laws of nature, the ability for money to seek out a return is going to be a likely saviour. New business and new ways of doing business will remake the landscape. Entrepreneurs will continue to create new ways and money will flow to higher rates of return and this is a feature of all industries.'

Morrisson referred to work conducted by Clayton Christensen from Harvard University, who coined the term 'disruptive innovation'. [Christensen is the author of *The Innovators Dilemma* (2003) and more recently *The Innovators Prescription - A Disruptive Solution for Healthcare* (2009)]

Christensen has studied changes in industries across their life cycles for a number of decades and has analysed waves of change through all types of industries. Christensen view is that disruptive innovation has essentially three prerequisites – they require sophisticated technologies that simplify, they make use of low cost innovative business model and they must exist in an economically coherent value network.

Morrisson said that the regulations and standards that facilitate change are the 'throttle that governs the rate of change'.

'Disruption is not that complicated. It is really just a simpler, more affordable, more convenient way of providing solutions to problems that users and consumers in an industry face' said Morrisson. Morrisson noted that when the *The Innovators Prescription - A Disruptive Solution for Healthcare*' came out earlier this year it was made mandatory reading for senior executives in a number of global life science companies.

According to Morrison 'big companies, the incumbents, aren't waiting (for change) and neither are physicians. If you were at ASCO this year there were many streams devoted to how the cost in providing care to cancer patients could be addressed. Physicians aren't waiting for governments to intervene. They are looking actively the ways they can provide more convenient, simpler and more affordable care.'

***'Winners and losers***

'Who will be the winners and losers' asked Morrisson. The winners will be those who can capitalise on the drivers which include globalization, consumerism, changes in demographics and lifestyles, on diseases that are more expensive to treat, new medical technologies and treatments. These drivers exist in a changing market landscape that is typified by increased focus on value, increases in individual responsibility, new approaches to promoting and delivering healthcare and the addressing of resource and personnel challenges. 'Those that can't or won't or don't will be swept away' he concluded.

Morrison moved on to relate Universal Biosensors to this changing landscape. 'We believe we have a place in this brave new world and the existing world. What we want to do is to provide simpler, more affordable and convenient solutions for a variety of touch points across the industry.' At Universal Biosensors, which manufactures test strips for glucose meters, the economics is (evident) in a manufacturing line that can churn out 750 million glucose strips per year, and a second suite now built that doubles capacity to 1.5 billion to 2 billion per year.

*Cont'd over*

*– Morrisson cont'd*

'The ability to provide volume to a mass market is there. I would say we are proud of the fact that is this is an industry where costs truly do come down in volume. The other thing that is rather special is we do not have to compromise quality or content ourselves with an increase in defect rates as volumes go up. This is the first (manufacturing) process in the industry where the ability to track each and every sensor through the process is available' he said.

'Creation of value is the opportunity to take profit and surely that motivates everybody in this room, all the entrepreneurs, all the innovators. If you can create value in the right way so that people at all points who use your product can also create new forms of value and have the opportunity to create efficiencies, productivity and profits for themselves, then you have something that is going to truly spread.'

Morrison argued that 'the old model of the hospital, specialist, and primary healthcare practitioner is looking increasingly like a thing of the past. It is going the way of the dinosaur.'

***2030 Outlook***

On the topic of what healthcare would look like in 2030, Morrisson said 'you will see empowered self-diagnosed patients as the entry point into the system. Medical practice will be one based less on intuitive arts and one based more on rules, processes and equipment.'

'Because in fact so much of it will be based on rules and equipment. Much of what we expect doctors to do today will be done by nurse practitioners and physicians assistants. Doctors won't be the rugged individualists who call on others in their profession for a consult when they need to solve a problem. In fact they will be taught to work in teams and medical training and the way doctors go through university education and hospital based practice will be in my view radically upended.'

Furthermore, he said 'patients will teach each other how to live with disease. That's happening already in the cystic fibrosis community, with those with Crohn's disease and with diabetes. Information technology will be ubiquitous and will provide a radical makeover in the way in which healthcare is delivered and the way in which communities interact with each other.

Finally, Morrison closed his presentation saying that (in 2030) there will be 'no hospitals as we know them today.'

**Bioshares**

## *Private Company Profiles*

While the Thredbo Summit is a topic driven program, an opportunity is provided for several CEOs of private companies to present on their business. This year, private company presenters included Alan Liddle from **Immune System Therapeutics**, Ray Wood from **Cell Therapies** and Shanny Dyer from **Seagull Technologies**. We report on Shanny's talk this week.

### Seagull Technologies - Shanny Dyer

Seagull Technologies is a drug delivery technology company that was founded in 2004. The company has developed a non-invasive technology for delivering drugs. Its first application of this technology is to deliver drugs to treat diseases of the back of the eye including advanced macular degeneration (AMD), diabetic retinopathy and uveitis.

There are eleven drugs on market to treat diabetic retinopathy, seventeen for AMD and ten to treat uveitis, with more than 100 in development to treat AMD alone.

These diseases can be treated if very early symptoms are detected. However, the main challenge is improving on the injection route of administration, every six weeks and this represents an unmet need.

The issues with using a needle are retinal detachment and infection and two in 1000 eyes are lost through injection.

Seagull has developed a non-invasive approach that uses a combination of ultrasound (which makes the cells more permeable) and an electro-conducting polymer that in a gel binds the drug and can only be released upon delivery when activated by the device. Drugs pass through and between cells assisted by ultrasound. A nano-particle encapsulation can be applied to aid drug-polymer binding. However, the delivery process removes the particle to allow the drug to reach the target tissue.

The Seagull system is a two part device. One part is an electrical unit, the SonoActuator, which activates gel-drug stored in the second part, the SonoPod. The gel protrudes from the SonoPod and is shaped to optimise delivery onto the eye (or target tissue). Although the technology delivers drug to the front of the eye it takes advantage of blood vessels to distribute the drug to back of the eye.

Prior to placement on the eye, a small amount of anaesthetic is applied and then the device tip is placed on the eye. The gel contacts with the front of the eye, the sclera, but not the cornea, which could easily be damaged. The activator is initiated and ultrasound moves the drug through the gel and from whence it is distributed to the back of the eye.

A problem with injection is that a bolus of drug is delivered which only lasts for a couple of days and a bolus of drug in the vitreous humor serves no purpose. Seagull argues it can concentrate the drug where it is needed.

*Cont'd over*

*– Acrux cont'd*

trial requirements, (b) asked for additional safety data given the heightened concerns over secondary exposure to this type of drug or (c) could have requested further information that was not expected.

Acrux anticipates to file its drug for approval by year's end pending positive Phase III data. Its drug Evamist took only 10 months to gain approval from the FDA so we would anticipate a decision from the regulator by the end of 2010.

Acrux will now launch into formal licensing discussions with a view of getting a licensing deal for the US in the first half of 2010. It has already received strong interest from potential licensing partners.

### Option 1

What might a licensing deal look like? There are a number of options. Firstly and the preferred deal would be to out-license rights to the US with a upfront payment (at least US$20 million), a milestone payment on FDA approval and sales milestone payments (bother latter payments we would estimate could total between US$180 million - US$280 million). Under such an arrangement Acrux could still stand to receive a royalty payment of around 15% - 20%.

***Look at: Evamist deal***

As a comparator deal, in 2007, **KV Pharmaceutical** acquired US rights to Acrux's Evamist product from Vivus for US$150 million and was still required to pay Acrux's royalty stream entitlements, which we estimate may reach as high as 12%-13%. At the time of the deal, KV estimated peak sales of Evamist at US$125 million.

***Look at: Endo Pharmaceuticals deal***

A deal was completed just last week in the male testosterone gel space, where **Endo Pharmaceuticals** will pay **ProStrakan Group** up to US$210 million based on achievement of certain milestones for US rights alone for that product. The product is currently being reviewed by the FDA. Our view is that this is an inferior product to Acrux's Axiron. ProStrakan will receive US$10 million up front, US$40 million upon FDA approval, and US$160 million based on certain sales targets being met. ProStrakan will manufacture the product for Endo and receive a manufacturing margin.

We anticipate Axiron will achieve sales between US$200 million - US$300 million, although this could be conservative given the lead product, which we believe is also inferior to Axiron (see last week's Bioshares) generates sales in excess of US$550 million a year, the global market for male testosterone products is worth US$1 billion a year, and that market is growing at 20% a year.

### Option 2

The second option is that Acrux could sign a global licensing deal.

### Option 3

The third possibility is that the product could be sold outright.

### Option 4

The fourth option is that Acrux is acquired outright.

### Summary

According to Acrux's CFO Jon Pilcher, the Axiron program is more advanced that Peplin's program and is more commercially attractive in terms of sales potential. Given that Peplin is being acquired for $350 million and that Acrux is capitalised at only $231 million, and given that Acrux has a portfolio of products with one on the market, several in development and some animal health products due to reach the market shortly through Eli Lilly, there is considerable upside with this stock, we would argue.

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

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*– Seagull cont'd*

To date, Seagull has evaluated seven different drugs, mostly small molecules but also Avastin, a large protein.

Pre-clinical studies conducted by Seagull, using triamcinolone indicate that the method delivers significantly greater drug to the retina, a desired area of penetration.

The technology can be applied to target drugs to the mouth and cervix, the G-I tract and the bronchial tree. It can also be applied for systemic delivery of drugs using buccal or nasal mucosa.

***Partnering***

Seagull's strategy is to partner with companies that already have approved ophthalmic drugs, or are seeking approval for both ophthalmic and other drugs. The company will also look at partnering the platform technology across other areas. However, it intends to take its first product into the clinic and then potentially then sell that eye product to a pharmaceutical firm.

***Funding***

Funding to date has been obtained from a high net-worth ophthalmologist, who achieved success with the **Vision Group** of opthalmic care centres. This individual formed a view that an unmet market need existed in the area.

The company has calculated that it needs $5 million to complete the work to meet four milestones, including finalising elements of the delivery system, complete toxicology studies and complete AMD efficacy studies in rabbits. In this next phase, Seagull will also be conducting reproducibility studies. Dyer said 'With this gel we know how much drug is loaded in and we can tell how much drug (goes) out. The conductivity of the gel changes as it is released. We have immediate feedback.'

The funding will also be applied to manufacture production models and complete a pilot clinical program.

**Bioshares**

## *Genera Biosystems – Compelling Result from Head-to-Head Trial*

Genera Biosystems (68.5 cents) has delivered a positive clinical trial result for its novel human papillomavirus (HPV) test. Going up against the gold standard in the industry, the HC2 test (Hybrid Capture 2), Genera's PapType test showed a clear outperformance in a trial involving just under 900 abnormal Pap smears.

The trial was conducted using samples from the **Royal Women's Hospital** in Melbourne. There is a strong link between HPV infection and cervical cancer. Using the same samples, Genera's test missed only 8.9% of samples from women who went on to develop high grade cervical disease, versus 20.9% missed by the market leading HC2 test.

The test also showed an improved performance in picking up women's samples that were most at risk of progressing to cancerous tissue, missing only 5.5% of the class CIN3 samples, versus 16.2% missed by the HC2 test.

The Genera test has shown not only to be more accurate in a large trial now, but its test has several other advantages. These are a lower sample volume (0.8ml versus 4ml for the HC2 test), it can void a test if there is no genetic material in the sample, and it delivers information on the type of HPV strain.

The next major challenge is for Genera to show that its test can be replicated across a number of different sites with different operators, which is being conducted by **Sonic Healthcare** across 4,000 samples. Other milestones over the next nine months include receipt of a manufacturing license from the TGA, Australian regulatory approval which should then be reciprocated in Europe, and securing one or more licensing partners.

**Qiagen**, through its acquisition of **Digene** for US$1.6 billion, created the existing US$350 million market for this test which took more than 10 years to achieve and may exceed US$1 billion a year. Whilst entry in the US market will be more difficult and will likely require a partner, the product is expected to be selling in Europe and Australia within 12 months, and then into other areas such as Latin America and Asia.

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

**Bioshares**

**Bioshares Model Portfolio (4 September 2009)**

| Company | Price (current) | Price added to portfolio | Date added |
|---|---|---|---|
| QRxPharma | $0.75 | $0.25 | December 2008 |
| Hexima | $0.45 | $0.60 | October 2008 |
| Atcor Medical | $0.16 | $0.10 | October 2008 |
| CathRx | $0.33 | $0.70 | October 2008 |
| Impedimed | $0.59 | $0.70 | August 2008 |
| Mesoblast | $0.99 | $1.25 | August 2008 |
| Cellestis | $3.48 | $2.27 | April 2008 |
| Circadian Technologies | $0.75 | $1.03 | February 2008 |
| Patrys | $0.10 | $0.50 | December 2007 |
| Bionomics | $0.24 | $0.42 | December 2007 |
| Cogstate | $0.26 | $0.13 | November 2007 |
| Sirtex Medical | $4.33 | $3.90 | October 2007 |
| Clinuvel Pharmaceuticals | $0.31 | $0.66 | September 2007 |
| Starpharma Holdings | $0.49 | $0.37 | August 2007 |
| Pharmaxis | $2.35 | $3.15 | August 2007 |
| Universal Biosensors | $1.26 | $1.23 | June 2007 |
| Biota Holdings | $2.02 | $1.55 | March 2007 |
| Probiotec | $2.42 | $1.12 | February 2007 |
| Chemgenex Pharma. | $0.65 | $0.38 | June 2006 |
| Cytopia | $0.15 | $0.46 | June 2005 |
| Acrux | $1.45 | $0.83 | November 2004 |
| Alchemia | $0.48 | $0.67 | May 2004 |

### *Portfolio Changes – 4 September 2009*

**IN:**

No changes

**OUT:**

***Peplin***

We will take profits on Peplin following the takeover bid by LEO Pharma. We have removed it from the portfolio.

***IDT Australia***

IDT posted a 10% fall in profits. Trading conditions have become more difficult for that company and we have removed it from the portfolio.

***ASDM***

ASDM has had a strong rise in its share price. We will take some profits with that stock.

## 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***

**Corporate Subscribers:** Phylogica, Pharmaxis, Cytopia, Arana Therapeutics, Starpharma Holdings, Cogstate, Bionomics, ChemGenex Pharmaceuticals, Circadian Technologies, Biota Holdings, Halcygen Pharmaceuticals, Peplin, BioMD, Impedimed, QRxPharma, Patrys, Labtech Systems, Hexima, Tyrian Diagnostics, Mesoblast, Atcor Medical, CathRx



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