

In this edition...

A number of Australian biotech stocks have performed very strongly in this half of 2009. Why? Because the news has been, by and large, positive. The value of Pharmaxis' Phase III Bronchitol should not be underestimated, but then neither should Sirtex Medical's surging sales, the swine flu outbreak impacting on Biota's share price, drug rivals to Acrux's Axiron receiving FDA warnings and many more. For once, biotech investment markets seem to be functioning properly! Not all companies are succeeding, a case in point being Optiscan Imaging, and others, such as Sunshine Heart, need more capital. And standing back from the public markets are a bevy of promising private companies, such as Hunter Immunology, which is profiled inside.

The Editors

Companies Covered: MSB,OIL,SHC, SPL, SRX,UBI, Hunter Immunology

	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)	7.5%
Cumulative Gain	109%
Av Annual Gain (8 yrs)	14.7%

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Bioshares

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

Extract from Bioshares –

Stellar Performance by Leading Australian Biotech Stocks for Start of 2009

A recent strong flow of positive events in the biotech sector has seen the leading stocks in the sector produce a stellar share market performance so far in 2009. The interest has been in the main towards companies successfully reaching major, later-stage milestones. Many of these stocks run hard in anticipation of positive news events. Not only has liquidity returned to many of the top-tier stocks, but sustained share price rallies have in many cases following the good news.

The rally arguably started earlier this year with **Alchemia** (\$0.38) lodging its drug, generic fondaparinux, for approval with the FDA, generating a **300%** gain from that stock's 12 month low. **Pharmaxis** (\$2.57; change 52-w low **154%**) last week delivered positive Phase III results from its cystic fibrosis drug trial, opening the way for a regulatory submission later this year.

Starpharma (\$0.30; 52-w low **100%**) signed its ninth development agreement, this time with **Eli Lilly's** animal health subsidiary **Elanco** (see next page). **Clinuvel Pharmaceuticals** (\$0.375; 52-w low **103%**) earlier this year delivered positive Phase III interim results for its photo-protective drug candidate afamelanotide.

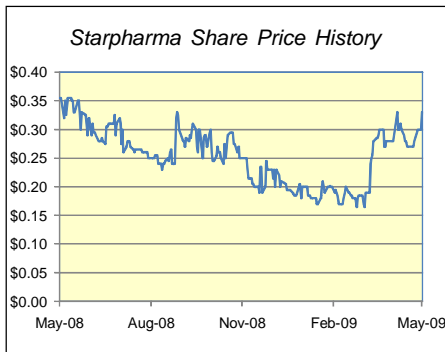
QRxPharma (\$0.51; 52-w low **155%**) delivered a positive outcome from its Phase III pilot study using its combination opioid product (see page 6). **Peplin** (\$0.66; 52-w low **136%**) delivered additional positive Phase II trial data with its skin cancer treatment drug candidate, paving the way for the start of Phase III trials. **Acrux** (\$0.94; 52-w low **124%**) completed recruitment into its pivotal male testosterone study, with results out in the second half of this year. **Mesoblast** (\$0.77; 52-w low **18%**) this week announced some striking interim results in its Phase II heart failure trial with its adult stem cell technology, through its associate company Angioblast (see p. 3).

Universal Biosensors (\$1.18; 52-w low **188%**) signed a new commercialisation agreement with **Johnson & Johnson's Lifescan** this week also, with its share price climbing 33% higher on Friday (see page 3). **Biota Holdings** (\$1.10; change 31/12/08 **273%**) has seen its share price surge in recent weeks on the back of an expected significant increase in Relenza following the recent swine flu (A/H1N1) outbreak.

This is certainly a unique period for the Australian biotechnology sector. There have never been as many companies with products in late stage clinical trials or approaching market as there are at present. In addition, two companies, **Arana Therapeutics** and **Heartware** are being bid for by international firms. The performance overall illustrates the appeal of the biotech sector to the value creation that has been achieved over the last five years that has not been recognised over 2007 - 2008, where seven consecutive negative quarters were recorded for the listed Australian small-mid cap biotechs. However, it should be noted that at this stage, the rally has generally been limited to the leading biotechs with more advanced portfolios or products.

Bioshares

Extract from Bioshares –



Stock Updates

Starpharma Signs Up Elanco

Starpharma Holdings (SPL: \$0.33) has entered into an agreement with **Elanco**, the animal health unit of **Eli Lilly**, to develop products based on Starpharma's dendrimer chemistry platform. This is the ninth commercial partnering deal achieved by Starpharma. While the details of the deal were not specified, Starpharma's dendrimer chemistry is likely to be used to improve the dosing characteristics of certain animal pharmaceuticals, for example, to provide controlled release formulations which may increase the intervals between doses. Such characteristics are desirable in the animal health sector where handling can be onerous and difficult. The deal may also have been driven by life cycle management demands. The collaboration is funded by Elanco, which will see Starpharma receive research fees, in addition to milestone payments and royalties.

Bioshares recommendation: **Speculative Buy Class A**

Cont'd over

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, Optiscan Imaging, Bionomics, ChemGenex Pharmaceuticals, Circadian Technologies, Biota Holdings, Stem Cell Sciences, Halcygen Pharmaceuticals, Peplin, BioMD, Impedimed, QRxPharma, Patrys, Labtech Systems, Hexima, Tyrian Diagnostics, Mesoblast, Atcor Medical

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