

In this edition...

Solid progress is being made by many companies in the biotech sector. Among these is Starpharma which has secured an important licensing deal with condom manufacturer SSL International. Starpharma stands to receive over \$100 million in milestone payments and royalties. And Sunshine Heart finally received the greenlight from the FDA for the US trial of its C-Pulse device, albeit conditional on some minor change being made to the trial protocol. We also update readers on a new found focus at Proteome Systems and a note a key milestone ahead in the December quarter for Clinovel Pharmaceuticals.

Companies covered: CUV, PXL, SHC, SPL

| | 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 - current) | -10.0% |
| Cumulative Gain | 87% |
| Av Annual Gain (7 yrs) | 17.8% |

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Blake Industry & Market Analysis Pty Ltd
ACN 085 334 292
PO Box 193
Richmond Vic 3121
AFS Licence
No. 258032

Enquiries for *Bioshares*
Ph: (03) 9326 5382
Fax: (03) 9329 3350
Email: info@bioshares.com.au

David Blake
Ph: (03) 9326 5382
Email: blake@bioshares.com.au

Mark Pachacz
Ph: (03) 9671 3222
Email: pachacz@bioshares.com.au

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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 –

Starpharma Secures Major Licensing Deal

Starpharma Holdings (30 cents) has secured its most important commercial agreement to date, signing an exclusive licensing deal with the maker of the Durex condom, **SSL International Plc**. The agreement covers the use of Starpharma's microbicide, Vivagel, in SSL's condoms worldwide. The product is expected to be on the market within 18 months and to deliver Starpharma over \$100 million in milestone payments and royalties.

What is incredibly appealing about the Vivagel product is that there are no effective microbicides available on the market and very few in development. Nonoxinol-9 (N-9), which was previously used, has in fact been found to increase the probability of sexually transmitted diseases. Starpharma's Vivagel works not only as a spermicide, as did N-9, but also very effective at killing viruses such as HIV and HSV-2 (herpes virus).

Spermicides have previously been incorporated into around 30%-40% of condoms on the market and SSL commands around 30% of the global branded condom market. The estimate of future income for Starpharma is spread over the life of the company's patents – roughly the next 15 years – however, this figure assumes SSL will not increase its current market share. There is the potential for the total future income stream to be considerably higher if the product is well accepted by consumers. Condoms with an effective microbicide can also command a 50% pricing premium.

Ex-vivo trials will be conducted and it is expected that a small human safety study will be needed before the product gets to market. Both companies will be involved in final product development and regulatory submissions. Manufacturing of the active ingredient will be conducted by third parties on behalf of SSL.

Future milestones will be payable on regulatory submission of the product, regulatory approval, and the achievement of sales targets. According to Starpharma's CEO, Dr Jackie Fairley, SSL is extremely excited by this product and the concept of a condom with virocidic properties has also received very positive feedback from consumers.

Starpharma is also commercialising Vivagel as a standalone product to prevent the transmission of sexually transmitted diseases, such as HIV and herpes, to be sold both in developing countries and in major western markets such as the US. These programs are being funded by the NIH grants of US\$26 million. The company has a collaborative deal with another unnamed condom manufacturer for developing countries outside of the regions covered in the SSL deal.

Starpharma is capitalised \$54 million with \$7.5 million in cash at mid year. This cash balance should increase with the receipt this quarter of an upfront payment from SSL. The company generated \$9.9 million in the last financial year from government grants and royalty and licensing revenue.

Bioshares recommendation: **Speculative Buy Class A**

Bioshares

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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