

In this edition...

With the AGM season in full swing, more than a handful of biotech companies have taken the opportunity to time their annual reporting meetings with announcements regarding new investments or new product development opportunities. Biota announced at its AGM the acquisition of two companies with early stage programs in the field of antibiotics. Starpharma put forward a plan to develop Vivagel as a treatment for bacterial vaginosis. Starpharma also conducted its AGM while in a trading halt, in effect while it completes a capital raising. Capital inflows have certainly opened up for well structured, advanced stage biotechs, with QRxPharma announcing a \$23 million placement.

The Editors

Companies Covered: ACR, BTA, HXL, SPL, UBI

	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)	80.6%
Cumulative Gain	251%
Av Annual Gain (9 yrs)	22.0%

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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 Seeks New Product Opportunity for Vivagel

Starpharma (SPL: \$0.60) is one of the few platform technology companies in the biotech space listed on the ASX. Platform technology companies are those from which multiple products or applications can be derived from a core technology base, which in the case of Starpharma is dendrimer chemistry. Although dendrimers can be constructed using different chemical base units, they can be constructed in a very precise and uniform fashion, often but not always conforming to a star shape, but certainly using branch-like structures.

The dendrimer construct itself is not always the active molecule, with additional chemical groups added to the surface or bound within the larger dendrimer macromolecule as a payload. Starpharma's Priostar dendrimers (partnered with **EMD Merck**) are used to deliver siRNA and DNA into cells. Another product, Stratus CS (partnered with **Siemens Healthcare**) has been developed as cardiac diagnostic. The dendrimer molecules in this application have antibodies attached to their surface.

An attractive feature of dendrimer chemistry is that it offer chemists the ability to build large molecules in a very precise fashion.

AGM Notes

Although platform technology stocks have not been a favourite with investors for many years, Starpharma's share price has appreciated by 140 % over the last twelve months. As highlighted at the company's AGM, Starpharma has recorded a year of solid progress (a "seminal year" in the words of the chairman Peter Bartels) and in particular, the market has become better informed of the potential revenue prospects for one of the company's partnered programs.

Starpharma has a partnership with **SSL International** for the coating of Vivagel , a dendrimer product which incorporates anti-viral compounds which inhibit HIV and HSV-2, on certain condom products to be marketed by SSL. Although Starpharma has stated that it expects to receive more than \$100 million in receipts from the arrangements, which in-

Capital Flows Again

Capital is well and truly flowing into biotech sector once again. This week **QRxPharma** announced a fully underwritten \$23 million placement. The funds will be used largely to complete the Phase III trials of the company's lead drug candidate, MoxDuoIR, an immediate release opioid combination, and to file this drug candidate for approval in the US.

The raising will include a private placement and a renounceable rights issue. It will be fully underwritten by RNS Morgans Corporate.

Starpharma has also announced a capital raising that appears to be targeted at the development of Vivagel as a treatment for bacterial vaginosis.

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cludes double digit royalties of net sales, the potential exists for greater revenues where a higher proportion of Vivagel is used as in condom coatings. For example, if a 'high' proportion is used Starpharma could receive \$30 million per annum, assuming SSL maintains a 40%-42% market share. Sales of Vivagel coated condoms are expected to commence in 2011. Starpharma estimates that its investment to date in application of Vivagel as a condom coating is \$3 million.

Opportunity in Bacterial Vaginosis

As announced at its AGM this week, Starpharma is currently in a trading halt while completes a capital raising. Based on remarks made by CEO Jackie Fairley at the AGM, our inference is that the funds would primarily be devoted to a new application of Vivagel to treat the condition of bacterial vaginosis (BV). According to Starpharma, as many as 21 million women experience BV infection in the US alone. While antibiotics are currently used to treat the infection, they are not fully effective (less than 50%) and the driver for developing new medicines is to bring down the recurrence rate, and therefore reduce the reliance on antibiotics.

Vivagel was found to be effective in resolving BV when the company was conducting safety studies. So somewhat serendipitously, the company has found a promising new drug development opportunity for Vivagel.

The company believes that it could over a 24 month period, conduct one Phase II study and two Phase III studies, which could give rise to a licensing opportunity in the 25%-30% royalty range. The Phase II study would enrol in the order of 100 subjects for the purpose of dose determination, with testing for clinical cure after seven days and prevention of recurrence. The Phase III studies would have similar goals, with the exception of dose determination. Each Phase III study would enrol approximately 200 patients.

The product development proposal for Vivagel as a treatment for BV is attractive for several reasons. In the first instance, it builds on a significant body of clinical development already conducted, with safety studies completed for Vivagel. The two year timeline is a reasonably short period of time in which to see substantial pharmaceutical product value creation and related to this is the proposed investment outlay; Starpharma holds the view that the clinical development of Vivagel for BV will cost between \$9-\$10 million.

Axiron Inspiration?

The proposed program bears comparison to Acrux's Axiron product development (see next page), which this year successfully completed Phase III evaluation for treating testosterone deficiency in males, convincingly addressing the US FDA requirements. Axiron was developed on the back of a \$22.5 million fund raising in July 2007. Acrux has sufficiently de-risked that program so that the chances of Axiron being licensed on very attractive terms, or being acquired is very high.

Summary

While more recent investors have certainly seen their investment in Starpharma perform well, it is beginning to look like long term holders of the stock will see a positive return on their investment in the near-to-mid term. Starpharma has flagged that other partnerships are being pursued, which when added to the current portfolio of partnerships, can only strengthen the company's revenue prospects.

Starpharma is capitalised at \$124 million.

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

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

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