

In this edition...

Well what a year for Australian biotech! Three acquisitions of local companies by international groups during the year, and in particular two \$300 million plus deals have highlighted the potential value that can be generated from such technologies. Will we see more? The year ahead in 2010 promises to be just as eventful with many late stage companies potentially in play.

In this edition we give our Top 5 mid cap and Top 5 small cap picks for 2010. And on a very relevant issue, Marilyn Sleigh, former CEO of Evogenix, which was acquired by Arana Therapeutics, looks at the impact on the local sector from businesses that have been acquired by larger suitors in recent years. We wish you a safe and festive season ahead and look forward to assisting you with your investments in 2010!

The Editors

Companies Covered: ACR, ACL, ACG, BDM, BOD, CGS, CXS, MSB, PAB, 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 - May '09)	-7.3%
Year 9 (May '09 - Current)	73.7%
Cumulative Gain	237%
Av Annual Gain (9 yrs)	21.2%

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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* –

Stock Picks – 2010

It has been an exceptional year for the Australian biotech sector. In this last edition for 2009, we select our top five mid-cap biotechs (greater than \$50 million) and the top five biotech small caps (less than \$50 million).

Larger Caps

Starpharma (SPL)

Share Price: \$0.64

Capitalisation: \$152 million

Starpharma is one company whose share price has come out of 2009 as a stock with real momentum. SPL shares were as low as 16.5 cents in March, and have marched on boldly ever since. The company completed a \$15.6 million capital raising in November, in a funding round where demand significantly exceeded supply. **Orbis Funds Management**, a Sydney-based investor with a portfolio of investments in biotech, including **Pharmaxis** and **Acrux** (and until the year, **Peplin**) took up a 7.7 % holding in the stock.

Starpharma's recently announced bacterial vaginosis program with Vivagel is a more than interesting product development opportunity (see *Bioshares* 337), given the significant unmet need in that disease area and fits within a three year outlook.

Of closer term interest for Starpharma in 2010 may be in opening up new areas of application. The company continues to implement new research and collaboration deals for its dendrimer chemistry, the latest being in the agricultural pesticides with an un-named company. The chances of seeing further agri-chemical collaborations initiated have been flagged by the company, and such events may drive growth in SPL share price. Any price weakness in SPL stock is likely to be met by with keen interest by stock accumulators looking to benefit ahead of anticipated flow of revenue in 2011 from Starpharma's condom coatings product with SSL.

Bioshares recommendation: **Speculative Buy Class A**

Bioshares

Publication Dates – Break over Holiday Period

Bioshares is published 48 times per year.

The next edition of Bioshares (343), will be mailed on Monday January 4, 2010. Bioshares 344 will be mailed on January 25, 2010.

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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