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# Biosharesl

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

**In this edition...**
The weakening Australian dollar is good news for exporters that write contracts in US dollars. Currency gains have boosted the half-year performance of several companies including Cogstate, Atcor Medical and Sirtex. There is now a group of healthcare companies that are shining a light through dark and difficult times as a number of cash dependent biotech companies appear to be on the verge of collapse. Yet even in these times, quality companies can raise money with Impedimed closing a $2 million placement on Friday and Bionomics successful in having a set of options underwritten.

**The Editors**
**Companies Covered: ACG, BTA, CGS, CST, SRX, Cash Analysis**

| | 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) | -35% |
| **Cumulative Gain** | **35%** |
| **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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*Exract from Bioshares –*

## Cogstate Reports Impressive Maiden Profit for First Half

Cogstate has built its business around a cognitive testing program and service used by pharmaceutical and biotech companies in clinical trials. The product is primarily used in measuring changes in cognitive function in central nervous system disorders, with a particular expertise in the areas of Alzheimer's disease and Schizophrenia.

Cogstate has posted its most impressive quarter to date. The company generated net operating cash flow of $905,000. Sales for the first half were $3.8 million, up 136% over the pcp. The company is forecasting a net profit after tax of between $1.2 million - $1.3 million. The 12 months trailing revenue for the company is $6 million. Based on this half year profit guidance, the company is currently trading on a PE of 7.5 (applying a corporate tax rate of 30% although the company has $6.9 million in un-recouped income tax losses).

The lower Australian dollar is also having a significant positive effect on Cogstate, with sales contracts written in US dollars. Cogstate's business is now dominated by larger Phase II and Phase III trials. The first half result includes only a few smaller contracts conducted with the company's strategic alliance partner, United Biosource Corporation.

As Cogstate builds its business, the degree of continuity in its revenue streams improves. The company's larger contracts extend for between two to three years, providing ongoing sales revenue and receipts over that period. The level of repeat business is also steadily increasing with the major pharmaceutical groups. Cogstate's partnership with UBC positions the company to confidently bid for very large contracts without the need to make large additions to staff.

At the end of last year, the company had $2.8 million in cash and $1.2 million in debtors, with all trade debts expected to be collected. If the steady progress continues over the next 12 months, the company will be in a position to expand its cognitive testing platform using its excess funds, into areas such as at-home Alzheimer's disease assessment via the Internet.

CGS: 19 cents

| | |
|---|---|
| Cash position (31/12/08) | $2.8 million |
| Market capitalization | $12 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***

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**Bioshares**
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