

In this edition...

Pharmaxis announced results of its first Phase III cystic fibrosis trial for Bronchitol and the results were good. Not all data was released but the trial results indicate that Bronchitol was comparable to Genentech's Pulmozyme registration data.

And speaking of Genentech, we also include a succinct analysis of how workplace culture has been arguably decisive in creating the powerhouse that Genentech became, prior to its acquisition by Roche. The question is will that culture be maintained.

We also take note of strong and consistent demand for Cogstate's cognition tests. Virotherapy company Viralytics is in a capital raising mode and looks to be the first biotech to adopt an options rights issue as a fund-raising technique.

The Editors

Companies Covered: CGS, PXS, VLA

	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)	5.0%
Cumulative Gain	104%
Av Annual Gain (8 yrs)	14.7%

Bioshares is published by Blake Industry & Market Analysis Pty Ltd.

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

Individual Subscriptions (48 issues/year)
\$320 (Inc.GST)
Edition Number 310 (8 May 2009)
ISSN 1443-850X

Copyright 2009 Blake Industry and Market Analysis Pty Ltd. ALL RIGHTS RESERVED.
Secondary electronic transmission, photocopying, reproduction or quotation is strictly prohibited without written consent of the publisher.

Bioshares

8 May 2009
Edition 310

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

Extract from Bioshares –

Strong & Consistent Demand Continues For Cogstate Service

Cogstate continues to deliver a consistent result from operations. The company is now generating annual revenue of just under \$7 million a year (\$6.88 million trailing 12 months). It has become a profitable business. And we expect strong sales growth to continue that could exceed \$10 million in financial year 2010.

Cogstate provides cognitive testing services to pharmaceutical companies running clinical trials using its proprietary software system. Demand for its services continues to be strong and has not been affected by the global economic slowdown, which the company cautiously warned previously might occur. For this financial year the company expects to record a net after tax profit of between \$1.5 – \$1.75 million (with only a small amount of tax payable from the use of some unrecouped tax losses totaling \$6.9 million at the end of June last year).

Net cash flow for the first quarter of this year was just positive for the second consecutive quarter, at \$30,000, although adding the change in debtors for the period (the company has no bad debts this financial year so it can be assumed these additional funds will be received), the figure is just under \$160,000. Cash flow for the first nine months of this financial year was \$535,000 (or \$1.2 million including the increase in debtors from nine months ago).

The lower Australian dollar has had a significant impact on profitability for the company. The company may look to hedge its foreign currency exposure as revenue increases and becomes more predictable. The company is also working on delivering cost efficiencies into its service over the next 12 months.

The growth in the business is coming from expanding the company's customer base and increasing market share from competitors. The market continues to grow as more pharmaceutical companies move from pencil-and-paper type cognitive tests to more advanced electronic testing procedures. In April alone, the company signed an additional \$1.12 million in contracts. Cogstate has at least two major competitors that also supply electronic cognitive testing products and services.

We estimate sales for this financial year will be around \$7.5 million which will double the previous year. We expect the strong sales growth to continue into FY2010 exceeding \$10 million in revenue with a profit after tax of between \$2 – 2.5 million (with further use of unrecouped tax losses).

Cogstate is capitalised at \$14 million with \$2.7 million in cash. Based on the company's forecast earnings for FY2009, the company is trading on a PE of between 11 – 13. There is a strong consistency building in the Cogstate business. We expect Cogstate to continue to deliver strong growth in sales and net profit that should remain relatively unaffected by a slowing world economy.

Bioshares recommendation: **Buy**

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

Disclaimer:

Information contained in this newsletter is not a complete analysis of every material fact respecting any company, industry or security. The opinions and estimates herein expressed represent the current judgement of the publisher and are subject to change. Blake Industry and Market Analysis Pty Ltd (BIMA) and any of their associates, officers or staff may have interests in securities referred to herein (Corporations Law s.849). Details contained herein have been prepared for general circulation and do not have regard to any person's or company's investment objectives, financial situation and particular needs. Accordingly, no recipients should rely on any recommendation (whether express or implied) contained in this document without consulting their investment adviser (Corporations Law s.851). The persons involved in or responsible for the preparation and publication of this report believe the information herein is accurate but no warranty of accuracy is given and persons seeking to rely on information provided herein should make their own independent enquiries. Details contained herein have been issued on the basis they are only for the particular person or company to whom they have been provided by Blake Industry and Market Analysis Pty Ltd. The Directors and/or associates declare interests in the following ASX Healthcare and Biotechnology sector securities: AAH, ACL, ACR, ADO, BTA, CGS, CST, CXD, CYT, CUV, CXS, HXL, IDT, IMU, MBP, PAB, PBP, PLI, PXS, SHC, SPL, TIS,UBI. These interests can change at any time and are not additional recommendations. Holdings in stocks valued at less than \$100 are not disclosed.

Subscription Rates (inc. GST)

48 issues per year (electronic distribution): **\$320**

For multiple email distributions within \$550 2-3 email addresses
 the same business cost centre, our \$750 4-5 email addresses
 pricing structure is as follows: \$950 6-10 email addresses

To subscribe, post/fax this subscription form to:

Bioshares
PO Box 193 Richmond VIC 3121
Fax: +61 3 9671 3633

I enclose a cheque for \$ _____ made payable to **Blake Industry & Market Analysis Pty Ltd**, or

Please charge my credit card \$ _____ MasterCard Visa

Card Number

Signature _____ Expiry date _____

Subscriber details

Name _____

Organisation _____

Ph () _____

Emails _____
