

In this edition...

The week just passed saw Pharmaxis raise \$47 million and the total funds raised to date for biotech reach \$119 million, up from \$27 million in the first quarter of 2009. Positive news flow has been met with market interest, and share prices have moved up, prompting the capital flow. For the Tier-1 companies the future is looking brighter.

Tyrian Diagnostics is shaping up as a biotech with a realistic grip on its strengths and opportunities in developing point-of-need disease tests. The fundamentals remain strong for Cogstate with revenue expected to double this year. And four Australian companies presented data at ASCO, a major cancer conference, which is also discussed in this edition.

The Editors

Companies Covered: ACR, BNO, CGS,CXS,CYT, GTG (Immunaid), 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)	12.9%
Cumulative Gain	119%
Av Annual Gain (8 yrs)	14.7%

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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* –

Cogstate – Demand Remains Strong

One of the facets that characterizes companies selling products into the healthcare/pharmaceutical industry is the resilient nature of these businesses largely during all parts of the global economic cycle. Cogstate, which sells its product/service to pharmaceutical companies, has shown consistent and strong growth in sales over the last two years.

In the 2008 financial year, the company generated revenue of \$3.9 million with a net loss of \$0.75 million. This year we anticipate revenue will double, with sales contracts in April and May alone of this year totaling \$3.5 million, almost that achieved in FY2008. The company is maintaining a profit outlook of \$1.5 - \$1.75 million for this financial year.

What is driving the strong growth in the company's business? Two factors. The first is that Cogstate is clearly building its profile in the cognitive testing arena. We estimate that Cogstate is now the number two player in cognitive testing market for clinical trials. However we believe the company is on track to become the market leader because of the investment the company has made in its scientific team. Where its competitors have only one key scientist (estimate), Cogstate has a scientific team of six, having last year recruited Dr John Harrison. Harrison is regarded as an expert in the Alzheimer's field, having developed the NTB (Neuropsychological Test Battery) for Alzheimer's testing in 2007. The NTB test is becoming an increasingly accepted test, used also by Prana Biotechnology in its Phase II trial.

Whilst the investment in the scientific team gives Cogstate a higher cost base than its competitors, this is set to pay off once a sales threshold for the company is passed, which we would suggest has now occurred.

The second factor driving the company's business is the natural growth and the move of the industry away from pencil and paper tests to computerized testing. Whether Cogstate is taking market share away from its competitors is unknown, however it appears the market is showing healthy and sustainable growth.

In October last year we counted just under 100 clinical trials in the US underway or planned in Alzheimer's disease, which is one of the core markets for Cogstate, together with schizophrenia. There were 21 Phase III trials registered with the NIH, yet Phase III trials do not use electronic cognitive testing platforms yet, with the standard being the ADAS-cog test, which is a cruder test for measuring changes in cognitive function.

We expect the accepted test platform for Alzheimer's disease drugs will change as other tests such as NTB or computer-based tests such as that provided by Cogstate and its competitors will gain acceptance by regulators. This could double the market cognitive testing in Alzheimer's disease.

Cont'd over

Summary

Cogstate is moving into a position where demand for its services will naturally increase because its profile with customers has improved, and because the market for electronic means of cognitive testing continues to ramp up. The lack of adequate therapeutics coming to market for Alzheimer's disease will drive more refined methods of testing for cognitive change to be employed. And Cogstate's expenditure on its scientific infrastructure and product development is now delivering on that investment.

At the end of March Cogstate had \$2.7 million in cash with a further \$1.3 million in trade debtors. In this financial year it has signed \$9.0 million worth in contracts, with \$5.4 million of that to be recognised largely in FY2010.

Bioshares recommendation: **Buy**

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: 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

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