

**In this edition...**

One long held view on capital sourcing has been a perceived requirement that to successfully raise funds from US investors, a company must set up a Nasdaq listing. With two Australian biotechs, Pharmaxis and Chemgenex now set to de-list from the Nasdaq, it appears that requirement is no longer the case, with US institutional investors now comfortable with direct investment in ASX listed biotechs.

Diagnostic company Genera Biosystems is facing a crucial period as it completes four studies of its PapType HPV test and then seeks to have the product registered in Australia and Europe. Acrux and BioMD have passed significant clinical milestones, with the Axiron and Cardioceel products respectively, and Cogstate has flagged it will post a \$1.4 million profit for the full year.

**The Editors**

**Companies Covered: ACR, BOD, CGS, GBI**

	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)	12.5%
<b>Cumulative Gain</b>	<b>119%</b>
<b>Av Annual Gain (8 yrs)</b>	<b>14.7%</b>

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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 –*

## **Maiden Full Year Profit For Cogstate**

Cogstate (CGS: 27.5 cents) provides cognitive testing services to pharmaceutical companies conducting clinical trials, which use its proprietary software program. The company released unaudited results for FY2009. The company will record a net profit of \$1.38 million. This is a very good result for the company, although it falls slightly short of the profit guidance figure (\$1.5-\$1.75 million) due to the strengthening of the Australian dollar. Most of Cogstate's sales are transacted in US dollars.

Including cash to be received from debtors (all of which is expected to be received under its standard trading terms), the company now has a very healthy cash position, with over \$5 million at June 30 and no external debt. The company has a market capitalisation of \$18 million. The company is trading at a PE ratio of 13.

Sales for the last financial year were \$8.3 million (up from \$3.8 million), with sales contracts signed during FY2009 totalling \$9.2 million. The company has not experienced any softening in its market as a result of the global financial crisis, with strong sales growth continuing. In the second quarter just passed, the company recorded its strongest quarterly sales to date, of \$2.8 million.

Cogstate now employs 30 staff, with 10 in the US, 19 in Australia and one in Europe. The company is well managed, with a clear commercial strategy that has been well executed over the last four years. The company has delivered its maiden profit result and we anticipate growth in sales and net profit will be solid over the next three years. With a further \$5 million in unrecouped tax losses, the company will be able to build its cash balance to \$10 million before taxes on earnings are payable.

The next 12 months will see the company concentrate on delivering improved efficiencies in its business. We anticipate demand for the company's product/service will continue to grow as a result of improved branding and awareness. The move to increased computerised testing in pharmaceutical trials in the Alzheimer's and schizophrenia fields will also see a natural enlargement of the market for Cogstate and its competitors' services.

Cogstate is capitalised at \$18 million

*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, Bionomics, ChemGenex Pharmaceuticals, Circadian Technologies, Biota Holdings, Halcygen Pharmaceuticals, Peplin, BioMD, Impedimed, QRxPharma, Patrys, Labtech Systems, Hexima, Tyrian Diagnostics, Mesoblast, Atcor Medical, CathRx

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