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Biosshares

29 January 2010
Edition 345

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

In this edition...
For small biotechs cutting a development deal with a larger market-focused firm can provide not only cash but also validation of the firm's technology. This makes the Patrys licensing of two early stage antibodies to CSL a significant step forward.

Cogstate continues to power away in driving sales, with another strong half year just posted. In contrast, Atcor Medical half year sales fell although the company expects growth in the second half to revert upwards.

One company in the fundraising mode is Benitec, but that company may be more successful going forward now that it has re-written an agreement with the CSIRO.

The Editors

Companies Covered: ACG, BLT, CGS, PAB, CEO/MD Salaries Survey

	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)	74.2%
Cumulative Gain	**247%**
Av Annual Gain (9 yrs)	**21.3%**

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Extract from Bioshares –

Cogstate Posts Another Strong Performance

It has been a very strong 12 months for Cogstate (CGS: 29 cents). Measured in US dollars – the US is where most of the company's business is sourced – earnings increased from US$4.9 million in CY2008 to US$7.8 million in CY2009, an increase of 58% (or in Australian dollars from $6.0 million to $9.6 million).

The company is expected to report a net profit after tax for the first half of this financial year of $0.5 million. In the last six months the company generated sales of $5.1 million, and signed contracts worth $6.3 million, some of which may take more than 12 months to recognise.

The appeal with this stock is that with the consistent and strong growth shown over the last three years, we estimate that sales of $20 million per annum are achievable within three years. From those sales the company should be able to deliver a net profit of at least $3 million a year.

Based on a price-earnings ratio of 20 times, the company should be valued in excess of $60 million (or three times sales). That translates to a share price of 92 cents or over a 200% potential share price gain over three years.

More certainty is emerging from within the Cogstate business. It is signing contracts at a rate of around 50 a year, based on the last six months, up from 38 on the previous corresponding period. It is currently operating in 800 sites around the world in 35 countries, with its programs having been translated into 40 languages. A year ago the company appointed an operations manger in the US, a former Pfizer employee, to co-ordinate the supply of the clinical trial testing services.

While Cogstate is expanding its customer base and likely taking some market share away from its competitors (this can be difficult to measure), the market for electronic-based cognitive testing services for pharmaceutical trials continues to enjoy solid growth.

Cogstate is expanding its offering to existing clients with modest additional services. And there is still the application of the cognitive testing outside of clinical trials, such as concussion management in athletes, and cognitive testing for the workplace, which as the company grows it will be able to invest more into these new markets.

At the end of last year, the company held $2.5 million in cash, with a further $1.3 million outstanding in net current assets. Cogstate offers a good investment opportunity where a 30% plus annual growth in sales is realistically achievable over three years that should translate into an even stronger improvement in the bottom line result and very healthy share price performance. Cogstate does have a currency risk, where an appreciating Australian dollar impacts negatively on top and bottom line results.

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

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