

In this edition...

The competition for capital is set to increase, and so will questions about the efficiency of the Australian biotech capital market. We prise open one aspect of the efficiency of the market in a short analysis.

The US Government placed its first order for Relenza this week, inking a stamp of acceptance on the arguments for stockpiling flu drugs.

And we note Cogstate's fine tuning of its business plan, examine the earnings of Ellex and Compumedics and consider whether Antisense is ready for investors to take a look at yet.

Companies covered:
ANP,BTA,CGS, CMP, ELX

	Bioshares Portfolio
Year 1	21.2%
Year 2	-9.4%
Year 3	70.0%
Year 4	-16.3%
Year 5 (to date)	21.2%
Cumulative Gain	90.0%
Average Annual Gain	17.3%

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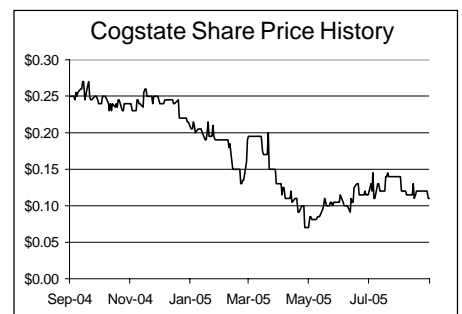
Bioshares

16 September 2005
Edition 136 Extract

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

Cogstate Moves to Exit Drug Development

Cogstate (CGS: 11.5 cents) has revised its strategy this week, moving away from a broader biotech focus to concentrate specifically on cognitive testing using its proprietary software products. Whilst the market has sold down this stock over the last 12 months – largely due to the sell off one of its larger investors departing the biotech space, QIC – internally it's been an exceptionally productive year for Cogstate.



The decision by Cogstate to seek to out-license its R&D programs in the area of Alzheimer's disease and Parkinson's, is a sensible one. Cogstate was always going to be too small a player to develop therapeutics and the areas of cognitive testing and drug development are completely different businesses, even if the products share a common end user.

Cogstate's software products have a range of applications, including concussion testing on the sports field, measuring cognitive function in the elderly, and cognitive testing in the workplace. However using the product in a clinical trial setting is proving to be the leading application for this product and the company is making considerable progress.

Take-up of software in clinical studies

In June last year, the product had only been used in three Phase I clinical studies (to measure cognitive changes on therapeutics in development) and in one Phase II - IV trial. However now, Cogstate's product has been used in 11 Phase I trials, and four Phase II, III or IV trials in the CNS area. This uptake of the technology, primarily by Pfizer, has been the main reason for the ramp up in sales to \$1.0 million in the last financial year, a four-fold increase over the previous corresponding period. Roche and J&J (Alza Corporation) have also trialed the product.

Repeat business?

Pfizer can now be relied upon to provide repeat business to Cogstate and has gone as far as sponsoring the company to set up an office in the US. The growth plan for Cogstate moving forward is two-fold. Firstly to increase the number of major pharmaceutical companies that regularly use Cogstate's product. If Cogstate could secure five of the top pharmaceutical companies to use its products in regular testing of CNS therapeutics, then it would be reasonably profitable company given the high margins the company can achieve. With 10 of the major pharmaceutical groups using it regularly, Cogstate would be a very profitable business. There are currently

Continued over

over 200 compounds in trials for CNS (central nervous system) treatments and Cogstate has secured less than 1% of the Phase I testing market.

The second major growth plan for the company is to incorporate its test as part of an effective Alzheimer's therapeutic, when one reaches the market. It would be very probable that a company marketing an effective Alzheimer's therapeutic would market an early cognitive impairment test such as Cogstate's. It's worth noting the one of the leading Alzheimer's drugs on the market today, Aricept, which only slows the emergence of symptoms of Alzheimer's by up a number of months, is marketed by Pfizer.

In other developments, Cogstate has acquired a voice analysis software product used in clinical trials to identify symptoms of Parkinson's disease. Cogstate became involved with this product through Pfizer, which was using the product but needed some improvements made to the diagnostic. It appears to be a small acquisition by the company made in scrip with a further cash payment pending achievement of agreed revenue milestones.

Cogstate is capitalised at \$4 million with \$3.4 million in cash at 30 June 2005. In the last financial year the company recorded a net loss of \$2.2 million. The Board of Directors includes Dr Geoff Brooke, Managing Director of GBS, the largest life science VC group in Australia, and Martin Myer, formerly a director of Coles Myer. Cogstate has moved from being a product development company to a marketer and distributor of healthcare software and services. We expect financial year 2006 will be another strong year for the company and should see this reflected in the share price over that period.

Bioshares recommendation: **Speculative Buy Class B**

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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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