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Extract from

Bioshares

18 November 2005
Edition 145 Extract

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

In this edition...
Phylogica is a promising young company that has emerged from the Telethon Insititute for Child Health Research in Perth. We take a closer look at its approach to discovery and application of peptides to target validation and drug discovery.

Cogstate, a small cognitive testing firm recently appointed a new CEO and that may be one of several signs that the stock is set to strengthen in the near future. We also update readers on activities at Cygenics and in what is almost a regular fixture, include an update on Biota.

The editors
Companies covered: BTA, CGS, CYN, PYC

	Bioshares Portfolio
Year 1	21.2%
Year 2	-9.4%
Year 3	70.0%
Year 4	-16.3%
Year 5 (to date)	56.2%
Cumulative Gain	**144.0%**
Average Annual Gain	**24.3%**

Bioshares is published by Blake Industry & Market Analysis Pty Ltd. The company also provides market and company analysis of the Australian pharmaceutical and biotech industries for local and international funds management institutions, venture capital funds and other related industry groups. For further details contact David Blake (see details below).

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) 9671 3633
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

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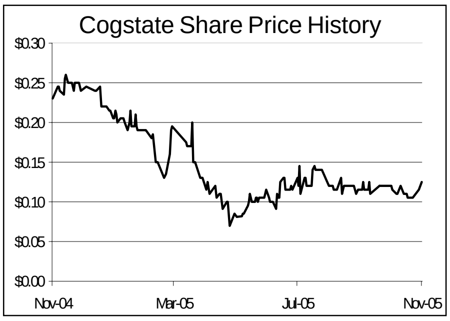
Cogstate Aims for Profitability Inflexion Point



Cogstate (CGS: 12.5 cents) has been through a somewhat evolutionary period since it listed on the ASX at 50 cents a share in February 2004. From a combined therapeutic and diagnostic business concentrating in the field of cognitive decline, in particular Alzheimer's disease, the company may finally found the right business model from which build a profitable and viable life science business. It's a company to keep a close eye on over the next 18 months with the possibility of some strong share market returns for some very clear reasons.

Reason 1 – Focused application
Cogstate sells a cognitive testing system, whereby cognitive health and decline is assessed through a proprietary software program with results analysed at the Cogstate head office. This is a high margin business and the company has narrowed down the application for use primarily to the clinical trial setting. It is divesting its drug development business and other applications for the diagnostic product have been sidelined to a large degree.

Reason 2 – New CEO
Last week saw a change in management in this company with the CEO Peter Bick stepping down and the CFO, Brad O'Connor, taking Bick's place. This is a positive move, with the former CEO's strength more in R&D than sales and marketing and O'Connor being very capable and a suitable choice. It also reduces costs substantially for the company, which is seeking to become profitable over the next 18 months.

Reason 3 – No development risk
Cogstate is a small diagnostic company and remains a speculative investment. However there is no development risk with this company, with the main risk attributed to the ability of the company to market the product. There is also a heavy reliance on one customer (**Pfizer**), which accounted for about 75% of sales in the last financial year.

Reason 4 – Stock heavily sold down with exit of significant investor
Over the last financial year, one of the company's significant shareholders exited the stock, selling 2.2 million shares over the period. This had a telling sign on the company's share price, which remains artificially depressed following this exit.

Cont'd over

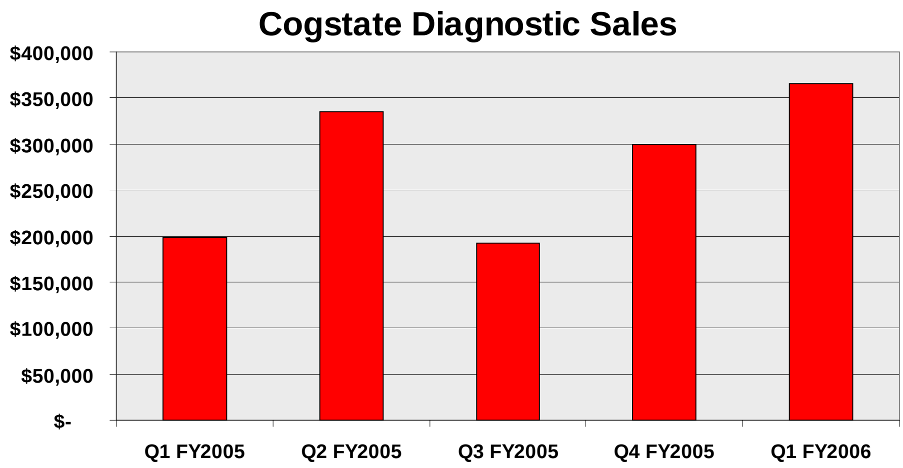
Reason 5 – Strong sales record over last five quarters
Admittedly from a low base, Cogstate has generated strong sales growth over the last five quarters. Sales in the last quarter were $366,000, an 85% increase over the previous corresponding quarter. Revenue from diagnostic sales for the trailing 12 months are $1.2 million, and sales could exceed $2.0 million in this financial year. At 30 September 2005, the company had $2.9 million in cash reserves and recorded a net loss of $2.2 million in the last financial year.

Reason 6 – Opportunity of strong share price growth as business approaches profitability
If the company manages to achieve sales in excess of $2.0 million in this financial year, there could be considerable upside in the share price over the next nine months. Applying a price-to-sales multiple of 5 times with this stock based on those sales, a fair value could be argued of $10 million. That equates to a share price of 28 cents.

Costs are being reduced with R&D staff reductions and the departure of the CEO, although some extra costs are anticipated as sales staff are appointed in the US and the UK.

A price-to-sales (market capitalisation/annual sales) multiple of 5 times is arguably reasonable if the company does achieve $2.0 million in sales, representing a solid sales growth trend over two years. It's worth comparing this company to another life science IT company, **Promedicus**, which is currently capitalised at $146 million. Promedicus trades on a price-to-sales multiple of 13.5 times and in the last financial year generated a net profit of $5.5 million on net revenue of $10.8 million.

Summary
Cogstate is currently capitalised at $4.4 million with $2.9 million in cash assets. The company may reach profitability in 2007, and if that can be achieved, a considerable re-rating would be appropriate for this stock. Bioshares places a **Speculative Buy Class B** on this stock.



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, Neuren Pharmaceuticals, Pharmaxis, NeuroDiscovery, Prima Biomed, Biotech Capital, Cygenics

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