

In this edition...

We take a look at the performance of the biotech sector last year. 2005 was a very good year for biotech companies in Australia although surprisingly not so good for biotech investors. A record amount of money was invested into the sector and there were 14 new listings. Although there were strong gains in some leading stocks, for 75% of them, returns were poor to dreadful. Careful stock picking selection has become more important and biotech companies need to provide clarity and a point of difference to garner investor attention.

The editors

Companies covered: **CCE, CGS, NDL, PYC**

Bioshares

**20 January 2006
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Delivering independent investment research to investors on Australian biotech, pharma and healthcare companies.

	Bioshares Portfolio
Year 1	21.2%
Year 2	-9.4%
Year 3	70.0%
Year 4	-16.3%
Year 5 (to date)	55.1%
Cumulative Gain	143.0%
Average Annual Gain	24.1%

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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

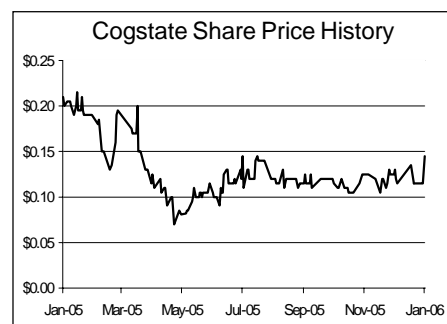
Mark Pachacz
Ph: (03) 9671 3222
Email: pachacz@bioshares.com.au

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Cogstate (CGS: 14.5 cents)

Cogstate released its Quarterly 4C cashflow report this week and it indicates the company is tracking very well. Receipts from customers for the last quarter were \$393,000, down from the previous quarter when receipts of \$610,000 were received. However in the first two weeks of this year, the company has received a further \$874,000 in payments from customers. For the year to date, receipts from customers exceed \$1.8 million and may pass \$3 million for the full financial year, which would translate to an increase of more than 240% over the previous year.

Tracking well



Cogstate should be in a position this year to be crossing over to a cashflow positive position although its revenue stream will vary from month to month depending on new contracts negotiated. The company has reduced its staff costs per quarter by \$250,000 to \$500,000, which includes the addition of new sales staff to the UK and US, by streamlining its management team and ceasing its drug development work. Cogstate has \$2.3 million in cash and is capitalised at \$5.6 million.

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, Neuren Pharmaceuticals, Pharmaxis, NeuroDiscovery, Prima Biomed, Biotech Capital, Cygenics, Psivida, Cytopia, Biodiem, Peptech

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Bioshares
PO Box 193 Richmond VIC 3121
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