

**In this edition...**

In what will be the fourth acquisition of a listed Australian biotech/pharmaceutical company in the last 12 months, CSL has bid for Zenyth Therapeutics at a healthy premium. Whether M&A activity in the sector will continue is unknown, however it's a healthy development when intellectual property assets in the sector are acquired for reasonable premiums and grouped into more synergistic structures.

We also update readers on recent developments at Avexa, Prana Biotechnology, Mesoblast and Cogstate with what has mainly been a very positive week for biotech in Australia.

**The editors**

**Companies covered:** AVX, CSL, CGS, MSB, PBT, ZTL

	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 (from 5 May '06)	-12.6%
<b>Cumulative Gain</b>	<b>143%</b>
<b>Average Annual Gain</b>	<b>21.8%</b>

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# Bioshares

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

## Cogstate: Doubles year-on-year sales

Cogstate (CGS: 18 cents) released its sales and cashflow figures for the recent quarter. There continue to be no surprises with this company, indicating that management has a good understanding of its business as sales continue to grow very consistently. In the last quarter, sales increased by 125% to \$683,000 over the previous corresponding quarter. Sales for the last financial year were just under \$2.1 million, representing a 102% increase over FY2005.

Staff costs have fallen considerably by approximately \$1 million a year whilst the strong sales growth has been enacted. We expect the company will reach profitability this financial year with sales anticipated to continue with strong growth whilst costs should be largely maintained.

Although the clinical trials market for the company's cognitive testing technology currently represents the majority of the company's sales – and this should continue to increase at the current rate – entry to the workplace environment with the company's 'Alert 4 Work' product may begin to see progress. In *Bioshares* view, this application may be very significant for the company and it represents a better quality of repeat earnings for the business. Cogstate is capitalised at \$8 million with \$2.6 million in cash.

*Bioshares* recommendation: **Speculative Buy Class B**

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*

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