

**In this edition...**

We provide an in depth update and analysis of Mesoblast, which is seeking to commercialise an adult stem cell technology. The company now has one Phase II trial underway in orthopaedic applications and its investee company, Angioblast, has two Phase II trials underway in the US in cardiac applications to rebuild the heart muscle. The next 12 months will be an important period for the company.

Across the sector many companies are making strong progress, including Bionomics and Cogstate. Bionomics recently signed a licensing deal with Merck Serono, the second MS deal this year by Australian biotechs.

The editors

**Companies covered: BNO, CGS, MSB, OIL**

	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 - current)	-7.3%
<b>Cumulative Gain</b>	<b>93%</b>
<b>Av Annual Gain (7 yrs)</b>	<b>17.8%</b>

Bioshares is published by Blake Industry & Market Analysis Pty Ltd.

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

Individual Subscriptions (48 issues/year)  
**\$320** (Inc.GST)  
Edition Number 268 (20 June 2008)  
ISSN 1443-850X

Copyright 2008 Blake Industry and Market Analysis Pty Ltd. ALL RIGHTS RESERVED.  
Secondary electronic transmission, photocopying, reproduction or quotation is strictly prohibited without written consent of the publisher.

# Bioshares

20 June 2008  
Edition 268

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

*Extract from Bioshares –*

## **Solid Growth Continues at Cogstate**

For the third successive year, Cogstate (CGS: 11 cents) should deliver on consistent revenue growth, this financial year expected to be 50%, to approximately \$3.5 million. There is a degree of certainty building into this business, which provides cognitive testing services to biotech and pharmaceutical companies, in trials of drug candidates primarily for the treatment of central nervous system disorders. With strong growth expected to continue, the challenge for the company, which now employs 27 people, will be to manage that growth and the increasing size of its clinical trial contracts.

Although it is still a small company, capitalised at only \$5.7 million, it has been a very successful 12 months for the Cogstate. In this financial year the company doubled the number of its customers, to 14, has signed \$4.8 million of contracts this year (compared to \$1.95 million for the previous year), has signed 12 contracts for Phase II clinical trials (none in the previous year) and one Phase IV study (similar to the previous year).

Another measure of the interest in the company's service is the level of quotes the company provided this year, over \$7 million, with a conversion rate of around 80%. The company has reached a stage where it has become well known and well respected by its clients, with regular customers including the majors **Pfizer**, **Merck**, **GlaxoSmithKline** and **AstraZeneca**. Last year Cogstate was winning contracts mainly for Phase I studies, this year there has been a large emphasis on Phase II studies, and in the next year we expect the company to be bidding for several large Phase III studies.

This year has seen the company move into new indications such as pain and obesity drug trials. The acceptance by the FDA of the Elan/Wyeth protocol for a new testing battery (NTB) for a Phase III Alzheimer's disease trial, the same as that being used by Prana Biotechnology, over the industry standard ADOSCOG test, may also have significance for Cogstate. This change has the potential also for Cogstate's testing regime to be considered as a primary measure for future clinical Alzheimer's disease trials.

This half should see the company reach at least a cashflow neutral position. We forecast sales to exceed \$5 million in FY009, which should see the company deliver a maiden profit next year. With \$4.8 million of contracts signed this year, strong revenue can be expected from existing contracts. At the end of March, the company had \$870,000 in cash, which should be sufficient for the company although does not leave much room for error.

Much of the hard work in developing a brand name and reputation in the industry has been achieved. The company is now position to accelerate its level of work into major Phase III contracts. The risk for the company is to manage that growth and its cost base moving forward. With a capitalisation of only \$5.7 million, the stock is appealing and should offer good prospects over the next three years.

*Bioshares* recommendation: **Speculative Buy Class A**

**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, Pharmaxis, NeuroDiscovery, Biotech Capital, Cytopia, Arana Therapeutics, Starpharma Holdings, Cogstate, Xceed Biotechnology, Optiscan Imaging, Bionomics, ChemGenex Pharmaceuticals, Circadian Technologies, Biota Holdings, Stem Cell Sciences, Halcygen Pharmaceuticals, Peplin, BioMD, Impedimed, QRxPharma, Patrys, Labtech Systems, Hexima

**Disclaimer:**

Information contained in this newsletter is not a complete analysis of every material fact respecting any company, industry or security. The opinions and estimates herein expressed represent the current judgement of the publisher and are subject to change. Blake Industry and Market Analysis Pty Ltd (BIMA) and any of their associates, officers or staff may have interests in securities referred to herein (Corporations Law s.849). Details contained herein have been prepared for general circulation and do not have regard to any person's or company's investment objectives, financial situation and particular needs. Accordingly, no recipients should rely on any recommendation (whether express or implied) contained in this document without consulting their investment adviser (Corporations Law s.851). The persons involved in or responsible for the preparation and publication of this report believe the information herein is accurate but no warranty of accuracy is given and persons seeking to rely on information provided herein should make their own independent enquiries. Details contained herein have been issued on the basis they are only for the particular person or company to whom they have been provided by Blake Industry and Market Analysis Pty Ltd. The Directors and/or associates declare interests in the following ASX Healthcare and Biotechnology sector securities: AAH, ACL, ACR, BLS, BOS, BTA, CGS, CXD, CYT, CUV, CXS, HXL, MBP, PAB, PLI, PXS, SHC, SPL, TIS, UBI. These interests can change at any time and are not additional recommendations. Holdings in stocks valued at less than \$100 are not disclosed.

**Subscription Rates (inc. GST)**

48 issues per year (electronic distribution): **\$320**

For multiple email distributions within \$550 2-3 email addresses  
 the same business cost centre, our \$750 4-5 email addresses  
 pricing structure is as follows: \$950 6-10 email addresses

To subscribe, post/fax this subscription form to:

**Bioshares**  
**PO Box 193 Richmond VIC 3121**  
**Fax: 61 3 9671 3633**

I enclose a cheque for \$ \_\_\_\_\_ made payable to **Blake Industry & Market Analysis Pty Ltd**, or

Please charge my credit card \$ \_\_\_\_\_ MasterCard  Visa

Card Number

Signature \_\_\_\_\_ Expiry date \_\_\_\_\_

**Subscriber details**

Name \_\_\_\_\_

Organisation \_\_\_\_\_

Ph ( ) \_\_\_\_\_

Emails \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_