

In this edition...

Not all is doom and gloom for biotech stocks. While it takes time for companies to bring products to market and even more time to see strong revenues emerge, there are companies posting growth in sales and profits. An example is Cellestis which looks to have found that spot on the J-curve (or hockey stick) where growth appears set to accelerate with the dollars streaming through to the bottom line. Likewise Cogstate is shifting into profitability and monitoring of its quarterly figures is a 'must do' task. We also note positive progress with Antisense Therapeutics ATL1101 in preclinical studies. This compound may have benefit as treatment for cancer. And with funding a major problem looming for many companies, we canvass some options available to biotechs to help them deal with the funding drought.

Companies covered: ANP,CGS,CST

	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)	-31.0%
Cumulative Gain	43%
Av Annual Gain (7 yrs)	17.8%

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

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Individual Subscriptions (48 issues/year)
\$320 (Inc.GST)
Edition Number 286 (24 October 2008)
ISSN 1443-850X

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Bioshares

24 October 2008
Edition 286

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

Extract from *Bioshares* –

Cogstate Moves to Profitability

Another company in the sector that looks to have turned the corner into profitability is Cogstate. The company recently reported its best quarter result, generating sales of \$2.0 million, a 170% increase over the previous corresponding quarter. The company is delivering good consistency in its revenue growth, with trailing 12 months revenue of \$5 million. The falling Australian dollar has also been benefiting Cogstate with that benefit set to continue.

The company now appears to be a profitable business. Over the last 12 months it has generated a net operating cash flow of \$0.5 million when the increases in debtors for the same period are included, which is a valid measure given the company has negligible bad debts to its business.

Cogstate provides cognitive testing services for pharmaceutical companies conducting clinical trials. Its clients are primarily top 20 pharmaceutical businesses and this business is expected to be unaffected by the current financial market turmoil.

The growth in the business has come from improved branding of the company's services and improved capabilities. In the last financial year the company was provided services for 37 clinical trials compared to just 17 in the previous year. In the first quarter of this financial year Cogstate has signed contracts to conduct 16 clinical trials, including one Phase III trial and four phase II trials, valued at \$3.5 million.

A predictability is emerging with the company's business. The company has an order book valued at \$3.1 million, with \$2.2 million expected to be recognised as revenue in this financial year. The company is forecasting revenue in excess of \$1.5 million for the current quarter with a profitable first half of this financial year. At 30 September the company held cash assets of \$1.9 million with trade debtors of \$1.5 million and liabilities of just over \$550,000.

Potential market size for clinical trial cognition testing

As the company is aggressively growing the business, it is of benefit to look at the potential market size for cognitive testing in the clinical trial setting. The table on the next page lists the number of drug trials registered with the National Institutes of Health in the US for central nervous system diseases and disorders. The disease categories below include those for which the Cogstate product has found regular use. Based on the estimated proportion of these disease categories that would use cognitive testing and the average cost of conducting these trials, we estimate the potential market for this service to be around \$190 million a year.

The competition to the Cogstate product comes from pencil and paper tests and from competitors **The Brain Resource Company** (also listed on the ASX), **Cambridge Cognition**, **Cognitive Drug Research** and **Cogtest**.

Cont'd over

Cogstate has continued to build its scientific profile. In addition to founder and neurologist Dr David Darby, neuropsychologist Professor Paul Maruff and Professor Peter Snyder, who was formerly with **Pfizer**, the company recruited CNS specialist Dr John Harrison in December last year who is highly recognised in cognition testing in the Alzheimer's disease field.

Given the strong branding and improving capability, we estimate that Cogstate has the potential to build its sales to in excess of \$30 million a year within the pharmaceutical testing market. The partnership with pharmaceutical services group **United Biosource Corporation** (UBC) entered into in July this year will allow Cogstate to bid for larger Phase III programs without expanding its clinical trials teams. In the last two years the company has only secured one Phase III trial contract. UBC will conduct the on-site assessments using the Cogstate product with data to be managed by Cogstate.

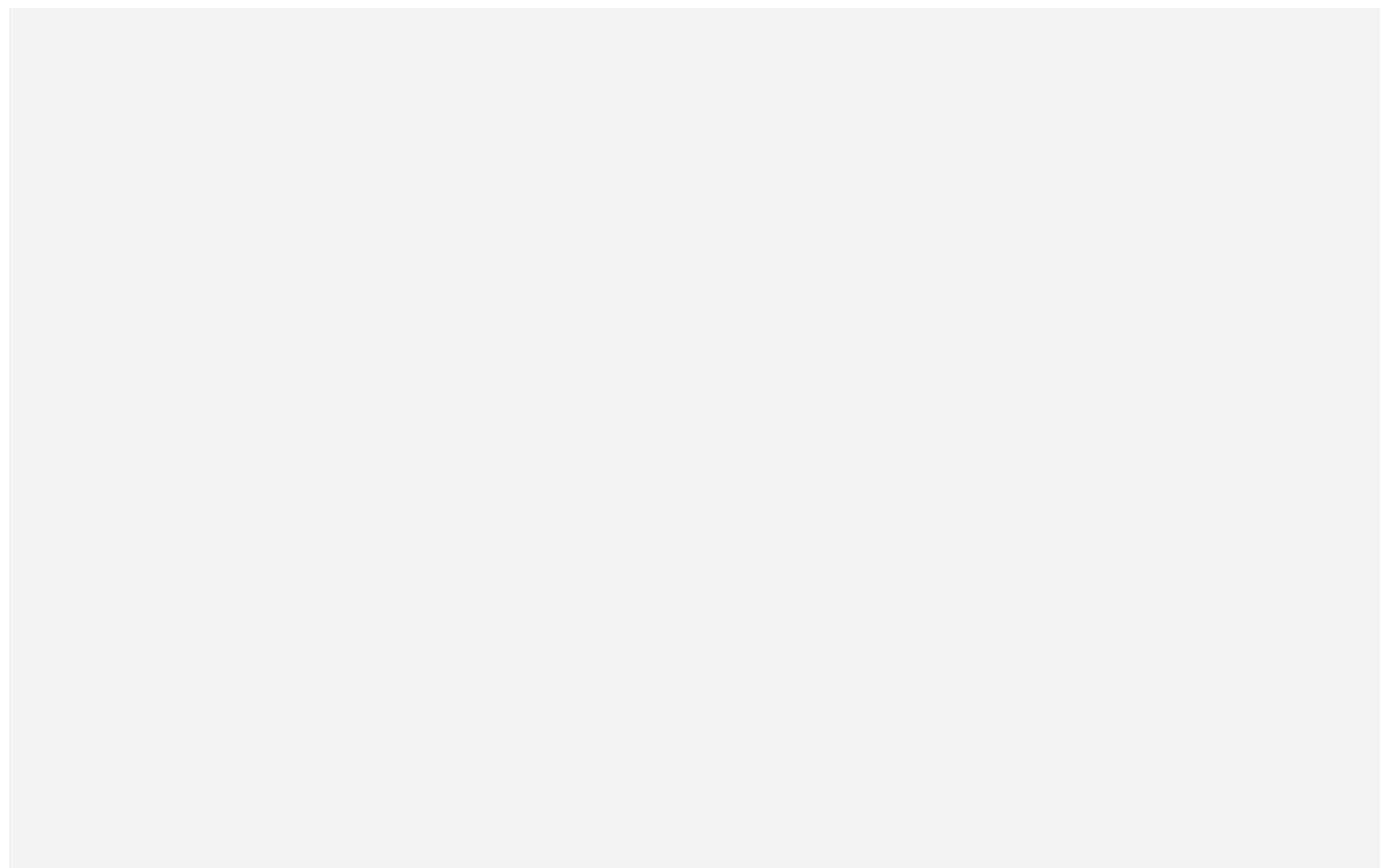
Cogstate is capitalized at \$10.5 million. We anticipate continued strong growth with sustained profitability moving forward. Of interest to follow will be how the UBC partnership progresses, and whether the company successfully moves into larger Phase III trial contracts with its larger partner.

Bioshares recommendation: **Speculative Buy Class A**

NIH registered CNS trials

Disease category	Phase I	Phase II	Phase III	Phase IV
Alzheimer's disease	29	36	21	22
Schizophrenia	17	55	59	86
Depression	18	86	62	104
Insomnia	2	8	17	15
ADHD	1	14	16	35
Traumatic brain injury	10	30	42	25

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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Subscription Rates (inc. GST)

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

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