

In this edition...

Sleep apnea is a significant opportunity for oral appliance company Somnomed. Unit sales of its products rose 30% in the March quarter from the same quarter a year. Strong growth is expected to be maintained as dentists gravitate to a new product line to sell. The sector's newest heavy-weight, Mesoblast, continues to open up new treatment possibilities for its adult stem cell therapies, with metabolic syndrome, inflammatory lung diseases and rheumatoid arthritis areas to watch. The company has strong news flow ahead in the the next 12 months. Genetic Technologies is one stock clearly in a 'turn the corner' mode, with costs contained, profitability reached and a approval of its Melbourne labs gained from the US CMS, enabling sales of its Brevagen non-familial breast cancer test to commence.

The Editors

Companies Covered: GTG, MSB, SOM,
Cash Analysis

	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 - May '09)	-7.3%
Year 9 (May '09 - May '10)	49.2%
Year 10 (May '10 - May '11)	45.1%
Year 11 now commenced	-
Cumulative Gain	321%
Av Annual Gain (10 yrs)	21.2%

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Bioshares

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

Extract from Bioshares –

Genetic Technologies' Facility Approved by Key US Center; A Turnaround Story in Play

Genetic Technologies (GTG: 15.5 cents) has received certification of its Melbourne-based DNA testing facility from the US Centers for Medicare and Medicaid Services (CMS). This now allows the company to start selling its DNA-based predictive breast cancer test into the US market.

The test, called Brevagen, was acquired from US biotech **Perlegen Sciences** last year. The test has been retrospectively tested on 50,000 samples and its accuracy prospectively confirmed in 3,500 samples from women at risk of developing breast cancer.

The test will sell for around US\$500, making it a very affordable, low cost predictive breast cancer test. It is expected that the test will be reimbursed by insurers under a variety of medical process codes.

The first of its regional sales managers has been appointed in North Carolina and a further seven are expected to be operational, selling the test, in five weeks time. Marketing material has been prepared for the test. The US Brevagen team will be led by Lewis Stuart, who has experience in setting up teams with several hundred specialty sales people. The marketing manager appointed previously worked with **Decode Genetics** and launched a similar test in the US.

Last December and January the company ran eight focus groups in the regions where it will launch the product, with around 14 specialists attending each meeting. There was good interest from these groups, with the pricing found to be acceptable. It was suggested there will be more need for the test for those women who have a high familial risk of breast cancer but have shown to be BRCA1/BRCA2 negative.

That patient group will have been identified with a test called BRACAnalysis, developed by **Myriad Genetics**. Myriad generated sales of US\$362 million last year, mostly from sales of that test, and the company has a market capitalisation of US\$1.9 billion. This test sells for US\$3,340 in the US.

About 85% of women test negative to this test, and it is these 300,000 women who are at high risk and test negative that the focus groups have indicated there is the greatest application for the test. This represents a target market of US\$150 million a year.

Genetic Technologies will also offer the test to the one million women in the US who each year have a positive mammogram, but an indeterminate result from a breast biopsy.

The test will be taken through a throat swab, placed in an envelope and sent to Melbourne for analysis. The company will also seek to commercialise the test in Europe and the Pacific Rim region.

– *Cont'd over*

Strong Cash Flow Result

For the first nine months of this year, the company has delivered a very strong result, with receipts from customers of \$16.2 million, and a net operating cash flow of \$4.1 million. Of that revenue, \$12.8 million has come from licensing fees for its non-coding DNA patent estate. The company has paid strong attention to reducing its costs, with \$2.0 million in net profit improvement ahead of budget in this financial year so far.

We expect a small profit in this financial year for the company, with strong licensing revenue anticipated to return in the second half of this year according to management.

Summary

Genetic Technologies has delivered an excellent year to date and looks set to be a turnaround story worth considering. It appears to be putting in place a very experienced team to launch the Brevagen test in the US, and that progress will be a key aspect to monitor with this company.

Genetic Technologies is capitalised at \$63 million and had \$7.1 million in cash at the end of March.

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. For both groups, the rating “Take Profits” means that investors may re-weight their holding by selling between 25%-75% of a stock.

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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