

In this edition...

The Bioshares Biotech Summit is an intense affair as far as conferences go. This year's event saw attendees hear speakers from Biota, Universal Biosensors, Acrux, Cogstate, QRxPharma, pSivida, Phylogica, Alchemia, Phosphagenics, Sunshine Heart, Neuren Pharmaceuticals, Bioniche and Genetic Technologies as well as a half a dozen private companies.

And four leading biotech analysts discussed their two current top stock picks.

This edition of Bioshares brings you coverage of a number of those presentations, with more to follow next week.

The Editors

	Bioshares Portfolio
Cumulative Gain	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)	45.4%
Year 11 now commenced	-4.4%
Cumulative Gain	303%

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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) 9329 3350
Email: info@bioshares.com.au

David Blake
Ph: (03) 9326 5382
Email: blake@bioshares.com.au

Mark Pachacz
Ph: 03 9348 9317
Email: pachacz@bioshares.com.au

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

The 7th Bioshares Biotech Summit – Report

The 7th Bioshares Biotech Summit was held in Queenstown over Friday July 22 and Saturday July 23, with approximately 120 people in attendance. The conference program ranged from presentations on what follows once a company has launched a product and begun to generate revenues, the use of cash flow businesses to fund higher margin products, on biotech company strategy from the earliest days in the life of a biotech, a walk through Alchemia's fondaparinux approval, the role of patient capital in biotech, to a suite of presentations from a group of biotechs that might be considered to be on the 'cusp of success'.

In this edition we report on several presentations made at the summit, with more to follow in a later edition.

Extract from Bioshares –

Genetic Technologies CEO Paul MacLeman spoke in the session entitled 'Using Cash Flow Businesses to Fund Higher Margin Products'.

Genetic Technologies – The Brevagen Story

While the GFC was terrible for many companies around the world, one company that may turn out to be a beneficiary is Genetic Technologies (GTG), through its acquisition of a test for non-familial breast cancer called Brevagen. Genetic Technologies' CEO Paul MacLeman described how GTG obtained the asset and the market strategy for the product in the US.

GTG was a shareholder in a US genetics company **Perlegen**. The stake was gained as a consequence of patent infringement enforcement of GTG's non-coding DNA patents. GTG was therefore familiar with the Perlegen's fiscal status, and the product development status of the Brevagen test. Perlegen had expended US\$320 million in the course of its life, of which a large portion was devoted to the development of Brevagen.

GTG had in 2009 approached Perlegen in 2009, seeking the rights to the product for Australia and New Zealand. Perlegen was unable to obtain funding in late 2009 and simply ran out of cash, after a potential funder decided to withdraw a funding offer at the last minute.

MacLeman secured an option over Perlegen's assets, including the Brevagen asset through the payment of Perlegen's outstanding IP bill and the cost of a CLIA certificate. The deal was finally settled for less than \$1.5 million in March 2010.

After analyzing companies such as **Myriad Genetics**, **Genomic Health** and **Response Genetics**, MacLeman decided to push GTG down the path of being a 'direct sales force, single test product' company. On the staffing front, the GFC and labour market weakness in the US offered further benefits, by enabling very good hires to be made. The GFC also saw a competitor, **DeCode Genetics** leave the field, and drop their breast cancer stratification product, after losing 'cash assets' held in mortgage backed securities.

A concern for GTG was how to pay for its plan to build a US sales force. In Australia, savings were made from staff cuts, reagents costs and rent reductions. A new round of IP assertion suits also delivered \$14 million in non-dilutive revenue, although MacLeman qualified this revenue as not a part of the Brevagen strategy.

In addition to hiring staff, GTG spent money pre-market development. GTG invested in focus group research, so that the company could set the most appropriate label claim for the test. The company also spent time on the discovery of product advocates and 'anti'-advocates, seeking especially to 'neutralise' the opponents of the product.

GTG also hired a number of US service firms such as Premier Source, a specialist molecular diagnostics reimbursement house, which helped with reimbursement strategy and do billing and appeals process. MacLeman said that process of understanding the US reimbursement system was "mind-numbing".

MacLeman said that risk-mitigation and honesty was key to the process he and the company went through in getting Brevagen to market. You have to lay the strategy out on the table and say "where are the warts?" he said. According to MacLeman, quantification of risks mattered so that one could get "a real handle on the relativities of the annualized loss or the annualized benefit for each component of the strategy". It's not so much the numbers that matter but the ranking in the stack, to help you know where to focus time and attention, he concluded.

Brevagen was finally launched three weeks ago in the US.

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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