

**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	-
<b>Cumulative Gain</b>	<b>321%</b>
<b>Av Annual Gain (10 yrs)</b>	<b>21.2%</b>

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# Bioshares

29 April 2011

Edition 405

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

## Somnomed – 'Ready for Take-off'

Somnomed (SOM: \$1.30) has developed, manufactures and sells devices to treat sleep apnea (SomnoDent), snoring (SomnoSnore) and teeth grinding (SomnoBrux). The SomnoDent devices are custom made splints that fit inside the mouth and bring the lower jaw forward, thereby helping to keep the airways open during sleep. Somnomed this week informed investors that the market in the US and parts of Europe were in "take-off" mode, with very strong demand expected to continue for its products.

The company now employs over 80 staff, and sales of its devices are tracking at around 25,000 units a year. Unit sales grew by 30% in the last quarter from the same quarter a year ago, even with a considerable interruption due to wild snow storms in the US in February. However, sales in Europe jumped by 100% in the third quarter over the previous corresponding period to 1700 units. Barschow says that two and a half years ago there were no sales in Europe.

### More than 1600 Dentists Sell Somnomed Products in the USA

In the US over 1,600 dentists now actively offer the Somnomed products, which has increased by about 350 dentists over the last year. CEO Ralf Barschow believes that number will grow exponentially. In 2007, around 90% of the company's sales were in Australia. Australia and Asia now makes up only 10% of sales, with the US accounting for 65% of sales and Europe 25%. In the US, the company has 24 employees at the moment and is recruiting actively.

Each device sells for around \$500, however the end product is sold for around \$1,600, leaving a high margin for the dentist who measures and fits the device. This pricing strategy is one of the key factors that sees the product being embraced by dentists, with million dollar turnover clinics now having been established that focus on selling this product.

### Seamless Transition

Barschow, who recently moved to Dallas to be closer to the company's largest market, says that the economic downturn in the US has made dentists look for alternative products to sell. The Somnomed devices appear fill that void well in customers who are deferring their standard dental maintenance. The transition to the US has been seamless according to Barschow, with Dallas a good central hub from which to be based.

*Cont'd on page 7*

## Bioshares Biotech Summit

July 22-23, 2011 · Queenstown · New Zealand

*The Essential Australian Biotech Investment Event*

[www.bioshares.com.au/queenstown2011.htm](http://www.bioshares.com.au/queenstown2011.htm)

**See Preliminary Speaker List on Page 4**

## Mesoblast – Full Steam Ahead

There are no signs of things slowing down at Mesoblast (MSB: \$8.15). As well as planning for its late stage clinical studies and preparing to get its commercial manufacturing facility on line in coming years, the company is also expanding its preclinical trials to investigate new uses for its world leading, adult stem cell technology. That includes the potential use as a systemic therapy for restoring an array of natural body functions.

Mesoblast's partner, Cephalon, is under attack from a hostile takeover bid from **Valeant Pharmaceuticals**. To date Valeant has been tight-lipped about Cephalon's stem cell deal with Mesoblast, while publicly denouncing a number of the Cephalon's smaller deals. This may indicate tacit endorsement of the Mesoblast deal by Valeant. But either way, if Valeant is successful in acquiring Cephalon, the future of the partnered programs with Cephalon will continue, with Mesoblast extremely well funded to maintain development. For Cephalon it has been a good investment, with its US\$220 million stake in Mesoblast close to doubling.

Mesoblast continues to take full advantage of its fortunate position during recent and current economic downturns. During the biotech funding slump in Australia and through the global financial crisis, the company picked up many experienced local biotech managers. It is continuing that process in the US, where Big Pharma is going through major cost cutting, allowing Mesoblast to attract top quality people, some of whom will become involved with the company's clinical programs in the US.

The company's financial and corporate base will continue to be in Australia. CEO Silviu Itescu says that currently Australia provides better support for high risk ventures than the US, which is a surprising reversal of positions. The company had previously considered listing Angioblast in the US, but decided against it due to poor appetite for risk capital in the US.

### Manufacturing

Mesoblast currently manufactures its product for clinical trials in Maryland in the US with a third party under contract. It is in the process of negotiating with third parties to build, own and operate commercial manufacturing facilities, and these discussions are at an advanced stage. These three facilities would likely be built in the US, Europe and in another tax-effective jurisdiction. We expect the facilities will not be built and approved until 2016/17 at the earliest. However, the company may be able to manufacture sufficient material for commercial use at its current facility for the treatment of heart failure, which the company believes can be on the market in 2015.

### US Base

Mesoblast's base in New York will house its clinical, regulatory and manufacturing teams. The US office currently deploys 30 people and the company is actively recruiting staff.

Currently between 15%-17% of the company is held by UK funds. Mesoblast is making the most of its links to Cephalon investors, using the Cephalon link to educate those investors on the potential of its stem cell technology, and grooming those investors as

potential future shareholders in Mesoblast. Those investors target companies valued between \$2-\$5 billion in size. Its US base is also in a handy location, literally being in walking distance of many of those investors.

### Importance of Pre-Clinical Studies

One of the reasons the company believes that a competitor failed in late stage trials was because it did not conduct sufficient large animal preclinical studies. The company is currently using a natural diabetic primate group to investigate the systemic delivery of its stem cells. The company appears confident that its cells can be successfully applied for this use. An intravenous version of its cells could have multiple applications the company believes, including also metabolic syndrome, inflammatory lung diseases and rheumatoid arthritis. Itescu says it is because the stem cells secrete multiple (growth) factors that gives them such utility and activity, where the human genome work looked at one target and one drug, delivery few results.

### Pivotal Studies

The company's bone marrow transplant cell expansion trial is due to commence Phase III studies in the third quarter of this year. The company is due to meet with the FDA in Q3 this year for its cardiovascular heart failure trial, with pivotal studies expected to begin in early 2012. The company is likely to use the smallest dose it used in the successful Phase II trial, with safety of the therapy one of the most important factors.

A Phase II disc repair trial is due to start shortly in around 100 patients, with a Phase III study planned for mid 2012. These trials are expected to be easy to recruit, reflecting the demand for such a therapy.

The company will also look to start Phase II studies in treating eye diseases (age related macular degeneration and diabetic retinopathy), diabetes and in heart attack patients receiving intra-coronary therapy such as stents.

### Acquisitions

Mesoblast is very well placed to use its size to acquire other technologies or companies. However, the company says any acquisitions need to be carefully considered.

### Summary

Mesoblast is a difficult company to value given the wide number of applications of the technology and the difficulty in judging the probability of this new generation technology getting through the regulatory pathway.

The biggest concern with commercialising this technology is not its efficacy, which has been consistently good, but if any serious side effects occur, which to date there have been none.

The data continues to look very good for all of the indications assessed to date, including bone repair, expansion of cells used in bone marrow transplant and in the treatment of congestive heart failure.

– Cont'd over

## **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.

### **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**

– *Mesoblast cont'd*

Mesoblast is extremely well funded and there is the opportunity for significant positive news flow over the next 12 months. Mesoblast is capitalised at \$2.28 billion and retained cash of \$272 million at March 31, 2011.

### **Major Milestones Ahead**

- Primate studies in diabetes
- Disc repair Phase II study to begin shortly
- Results from Phase II orthopedic trials
- Phase II intra-coronary heart failure trial to begin
- 12 month Phase II data from CHF study, **Q3 2011**
- Start Phase III study in bone marrow transplant, **Q3 2011**
- Meeting with FDA for planned Phase III CHF study
- Congestive heart failure (CHF) trial to begin in **early 2012**
- Phase III disc repair study expected to begin **mid 2012**

*Bioshares* recommendation: **Speculative Hold Class A**

**Bioshares**

**Registration Now Open**

# The 7th Bioshares Biotech Summit

July 22-23, 2011 · Queenstown · New Zealand

## ***The Essential Australian Biotech Investment Event***

We are delighted to announce the following speakers for this year's summit will include:

A Key Note interview with **Mesoblast CEO & Founder, Silviu Itescu**

**Paul Wright**, CEO of Universal Biosensors

**Paul Ashton**, CEO of Psivida

**Janette Dixon**, QRxPharma

**Marie Roskrow**, CMO & President of Patrys

**Paul Macleman**, CEO of Genetic Technologies

**Martyn Myer**, Chairman of Cogstate

**Nick Woolf**, Phylogica

**Rudi Michelson**, Founder of Monsoon Communications

Other contributors to this event will include **Geoff Brook** (Co-founder GBS Venture Partners), **Mike Hirshorn** (Four Hats Capital) and representation from **Biota Holdings**

A full program and complete speaker line up will be released later this month.

### Sponsors

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### 4.7B Reporting Companies – Cash Balances March 31, 2011 Sorted by Survival Index

Code	Company	Cash Receipts (\$M)	Nett Op. Cash Fl. (\$M)	Cash End 31/3/11 (\$M)	Survival Index	Comments
1	ACR AcruX	\$89.06	\$70.31	\$135.08	A	<b>Not App</b> Paid a \$100M dividend
2	GTG Genetic Technologies	\$16.24	\$4.16	\$7.15	A	<b>Not App</b>
3	IMU Imugene	\$0.00	\$1.21	\$1.93	A	<b>Not App</b>
4	MSB Mesoblast	\$131.94	\$115.79	\$271.72	A	<b>Not App</b>
5	NEU Neuren Pharmaceuticals	\$0.00	-\$0.03	\$1.64	<b>CY</b>	<b>15.5</b>
6	HCT Holista Colltech	\$4.81	-\$0.09	\$1.58	A	<b>13.9</b>
7	NDL NeuroDiscovery	\$0.16	-\$0.25	\$2.83	A	<b>8.4</b>
8	RVA Reva Medical	\$0.00	-\$3.28	\$74.82	<b>CY</b>	<b>5.7</b>
9	SOM Somnomed	\$8.86	-\$0.56	\$3.64	A	<b>4.8</b>
10	CBB Cordlife	\$18.17	-\$1.99	\$10.75	A	<b>4.1</b>
11	OBJ OBJ	\$0.00	-\$1.01	\$4.71	A	<b>3.5</b>
12	AVX Avexa	\$0.00	-\$4.27	\$18.51	A	<b>3.3</b>
13	ADO Anteo Diagnostics	\$0.71	-\$1.56	\$6.74	A	<b>3.2</b>
14	SPL Starpharma	\$1.50	-\$5.40	\$20.12	A	<b>2.8</b>
15	UBI Universal Biosensors	\$5.79	-\$2.10	\$20.57	<b>CY</b>	<b>2.4</b>
16	PCC Probiomics	\$0.64	-\$0.05	\$0.14	A	<b>2.3</b>
17	CUV Clinuvel Pharmaceuticals	\$0.17	-\$6.82	\$20.23	A	<b>2.2</b>
18	LBT LBT Innovations	\$0.00	-\$1.29	\$3.83	A	<b>2.2</b>
19	RHT Resonance Health	\$1.30	-\$0.54	\$1.59	A	<b>2.2</b>
20	HCG Helicon Group	\$0.00	-\$0.55	\$1.39	A	<b>1.9</b>
21	HXL Hexima	\$0.23	-\$6.78	\$16.58	A	<b>1.8</b>
22	IPD Impedimed	\$2.76	-\$8.63	\$21.04	A	<b>1.8</b>
23	PBT Prana Biotechnology	\$0.00	-\$3.71	\$8.91	A	<b>1.8</b>
24	VLA Viralytics	\$0.00	-\$2.07	\$4.73	A	<b>1.7</b>
25	PXS Pharmaxis	\$0.92	-\$27.40	\$56.20	A	<b>1.5</b>
26	BRC Brain Resource Corp	\$0.71	-\$2.63	\$5.22	A	<b>1.5</b>
27	ANP Antisense Therap.	\$0.00	-\$1.25	\$2.48	A	<b>1.5</b>
28	NAN Nanosonics	\$1.45	-\$7.07	\$13.75	A	<b>1.5</b>
29	PAB Patrys	\$1.21	-\$3.94	\$7.50	A	<b>1.4</b>
30	UCM USCOM	\$0.60	-\$1.48	\$2.79	A	<b>1.4</b>
31	PRR Prima Biomed	\$0.00	-\$8.68	\$16.10	A	<b>1.4</b>
32	OMI Occup.& Medical Innov.	\$0.00	-\$0.57	\$1.04	A	<b>1.4</b>
33	ACU Acuvax	\$0.00	-\$0.61	\$1.05	A	<b>1.3</b>
34	PYC Phylogica	\$2.19	-\$1.71	\$2.95	A	<b>1.3</b>
35	BDM Biodiem	\$0.26	-\$1.97	\$3.19	A	<b>1.2</b>
36	SHC Sunshine Heart	\$0.35	-\$6.18	\$9.34	A	<b>1.1</b>
37	UNI Unilife	\$5.44	-\$19.75	\$29.20	A	<b>1.1</b>
38	AGX Agenix	\$0.00	-\$2.19	\$3.01	A	<b>1.0</b>
39	BOD BioMD	\$0.00	-\$0.66	\$0.90	A	<b>1.0</b> Merging with Allied Medical
40	TDX Tyrian Diagnostics	\$0.79	-\$2.88	\$3.90	A	<b>1.0</b>
41	CXD CathRx	\$0.18	-\$5.26	\$6.89	A	<b>1.0</b>
42	MGZ Medigard	\$0.00	-\$0.51	\$0.64	A	<b>0.9</b>
43	CDY Cellmid	\$0.03	-\$1.54	\$1.82	A	<b>0.9</b>
44	ACG Atcor	\$5.76	-\$1.68	\$1.96	A	<b>0.9</b>
45	BPO BioProspect	\$0.13	-\$2.72	\$3.00	A	<b>0.8</b>
46	BIT Biotron	\$0.00	-\$1.25	\$1.30	A	<b>0.8</b>
47	SIE Scigen	\$3.12	-\$1.05	\$3.18	<b>CY</b>	<b>0.8</b>
48	PAA Pharmaust	\$1.37	-\$0.33	\$0.33	A	<b>0.8</b>
49	QRX QRxPharma	\$0.00	-\$15.01	\$14.91	A	<b>0.7</b>
50	LER Leaf Energy	\$0.07	-\$1.37	\$1.28	A	<b>0.7</b>
51	ACW Actinogen	\$0.00	-\$0.88	\$0.81	A	<b>0.7</b>
52	EMS Eastland Medical Systems	\$2.38	-\$2.37	\$2.13	A	<b>0.7</b>
53	LCT Living Cell Technologies	\$0.17	-\$3.87	\$3.47	A	<b>0.7</b> Received \$3.7M investment from Otsuka Pharm.
54	ACL Alchemia	\$0.00	-\$9.16	\$8.20	A	<b>0.7</b>
55	AVH Avita Medical	\$2.06	-\$2.48	\$2.20	A	<b>0.7</b>
56	BNO Bionomics	\$3.51	-\$6.53	\$5.79	A	<b>0.7</b>
57	TIS Tissue Therapies	\$0.13	-\$2.99	\$2.49	A	<b>0.6</b> Raising \$15M through placement and RI
58	KSX KarmelSonix	\$0.29	-\$3.86	\$1.76	A	<b>0.3</b>
59	GBI Genera Biosystems	\$0.04	-\$1.65	\$0.67	A	<b>0.3</b> Raised net \$2.3M from RI and placement
60	IMI IM Medical	\$3.20	-\$0.59	\$0.12	A	<b>0.1</b> Raised \$0.75M CN; Intends to raise \$1.85M through RI
61	BLT Benitec	\$0.15	-\$1.99	\$0.39	A	<b>0.1</b> Conducting underwritten RI to raise ~\$8M
62	HTX Healthlinx	\$0.01	-\$2.11	\$0.41	A	<b>0.1</b> Access CN funding from Springtree SOF

– Cont'd over

## 4.7B Reporting Companies – Cash Balances March 31, 2011 Sorted by Survival Index

Code	Company	Cash Receipts (\$M)	Nett Op. Cash Fl. (\$M)	Cash End 31/3/11 (\$M)	Survival Index	Comments
63 FLS	Fluorotechnics	\$1.76	-\$1.55	\$0.28	A	0.1 Seeking new investments
64 AYX	Austofix	\$1.32	-\$0.58	\$0.10	A	0.1 Access to bank facility; approv. to issue 5M shares
65 CBZ	Cbio	\$0.17	-\$10.74	\$1.67	A	0.1 Access to \$12.5M CN funding from Springtree SOF
66 STI	Stirling Products	\$0.69	-\$3.27	\$0.45	A	0.1 Conducting SPP
67 BNE	Bone Medical	\$0.00	-\$0.43	\$0.02	A	0.0 Access to \$6M CN from La Jolla Cove Investors
68 ALT	Analytica	\$0.00	-\$0.53	\$0.00	A	0.0 Holds \$400k line of credit
69 SLA	Solagran				A	Did Not Report

### Commentary

The number of companies for which funding is of some concern, based on their recording of a Survival Index of less than 1, has been consistent at the 26-27 number over the last twelve months.

Of the 68 companies in the sector that reported their quarterly cash flow positions for the quarter ending March 31, 2011, 27 had 12 months or less cash at hand. A year ago, 26 companies held 12 months or less cash at hand. One company, Solagran did not report at the required reporting date.

However, the composition of this group of companies does change over time, with various companies managing to access funds through capital raisings or through convertible note financings to replenish their funds at hand. One point to note is that some of the companies that draw down convertible note finances can maintain low effective end of quarter cash balances despite maintaining access to reasonable sums of convertible note finance. An example of this is CBio, which with a March quarter cash balance of \$1.7 million, has access to \$12.5 million of convertible note finance from **Springtree Special Opportunities Fund**. Similarly, Bone Medical, which has almost no cash in the bank, has access to a convertible note facility from **La Jolla Cove Investors**.

Perhaps one additional comment is that the Cash Balances table shows only one equity raising of significance underway, which is Tissue Therapies' combined placement and rights issue to raise \$15 million.

*Small cap life science companies that are not required to comply with the 4.7B Rule include: Advanced Medical Design and Manufact., Immuron, Biota Holdings, Cogstate, Cellestis, Circadian Technologies, Clovercorp, Compumedics, ChemGenex Pharm., Cryosite, Cyclopharm, Teleso Technologies, Ellex Medical Lasers, Ascent PharmaHealth, IDT Australia, ITL Corp, Calzada, Medical Developments Int., Novogen, Optiscan Imaging, Progen Pharm., Phosphagenics, Sirtex Medical and Virax Holdings.*

*Re-domiciled companies, pSvida and Heartware International no longer comply with the 4B Rule.*

### Legend:

**Not App.** : The SI calculation for these companies is not calculated due to the companies reporting positive operational cash flows, or in some cases marginally negative operational cash flows.

**A:** The SI calculation for these companies is based on the last 3 quarters NOCF, annualised.

**CY:** The SI calculation for these companies is calculated the last quarter of NOCF, annualised.

Each quarter, the majority of ASX listed biotech companies are required to report their cash positions. In turn, a key analytical measure we present each quarter is the 'Survival Index' (SI). The index measures how many years those cash reserves will last, based on a company's recent spending patterns. It is limited because it does not account for companies that may increase spending in the next period of activity.

The index is derived for this quarter by dividing the average of net operational cash flows (NOCF) for the last 3 quarters ending March 31, 2011, annualised, into each company's cash assets as recorded at December 31, 2010. For companies that report on Dec 31 full year basis, the index is based on last quarter of net operational cash flows (NOCF) annualised. The NOCF is the net of receipts and outgoings incurred in support of operational activities.

As a rule of thumb, companies that present with an SI of less than one are likely to be raising funds to support their activities, or are in the process of doing so. A healthy SI is either two or more. Companies with SIs of less than 0.5 may be in positions of funding stress and investors should investigate such stocks with a greater degree of concern.

**Bioshares Model Portfolio (29 April 2011)**

Company	Price (current)	Price added to portfolio	Date added
Bioniche	\$1.25	\$1.35	March 2011
Somnomed	\$1.30	\$0.94	January 2011
Phylogica	\$0.069	\$0.053	September 2010
Sunshine Heart	\$0.052	\$0.036	June 2010
Biota Holdings	\$1.20	\$1.09	May 2010
Tissue Therapies	\$0.52	\$0.21	January 2010
Hexima	\$0.39	\$0.60	October 2008
Atcor Medical	\$0.11	\$0.10	October 2008
Impedimed	\$0.70	\$0.70	August 2008
Patrys	\$0.15	\$0.50	December 2007
Bionomics	\$0.58	\$0.42	December 2007
Cogstate	\$0.20	\$0.13	November 2007
Sirtex Medical	\$5.33	\$3.90	October 2007
Clinuvel Pharmaceuticals	\$1.92	\$6.60	September 2007
Starpharma Holdings	\$1.26	\$0.37	August 2007
Pharmaxis	\$2.99	\$3.15	August 2007
Universal Biosensors	\$1.40	\$1.23	June 2007
Alchemia	\$0.68	\$0.67	May 2004

**Portfolio Changes – 29 April 2011****IN:**

No changes.

**OUT:**

Two of the star stocks of the portfolio, QRxPharma and Acrux, have been removed to take profits following exceptional performances. Acrux has generated a four fold gain since it was added in 2004, including its dividend payment, and QRxPharma has delivered an almost seven fold gain in just over two years.

– Somnomed cont'd

**Medicare Changes a Driver in the US**

The increased focus on the US was also partly driven by changes to Medicare announced in February. That reimbursement policy states that all oral appliance therapy products for the treatment of mild-to-moderate obstructive sleep apnea are now covered, regardless whether those patients are suitable for CPAP treatment or not. Barschow says Somnomed is the largest medical oral appliance company in the world. Medicare covers people over the age of 65 in the US and those who have no financial support.

The other condition from the Medicare ruling is that it covers only custom fitted devices, like the Somnomed products, not off-the-shelf devices. For patients to become eligible for a Somnomed device, they first require a sleep study to be conducted. Then that person is measured for the device by a dentist, with the device then manufactured by Somnomed, before the device is fitted.

**Repeat Business Model**

Somnomed has, with hard work and intelligence, built a repeat business model. The devices last for between three to five years. The company has now entered a stage where its earlier customers are returning for replacement devices, according to Barschow, and the newer devices are also an improvement, in terms of comfort, over the products sold previously. The company has just launched an upgrade model for these returning customers. Barschow believes the market for these devices is enormous and believes the company has the potential to treat more patients than Resmed with its devices.

**Manufacturing**

Somnomed manufactures the devices at 12 locations, three of which are in-house. Its largest manufacturing facility is in the Philippines.

**Financials**

Somnomed is capitalised at \$52 million. It had \$3.6 million in cash at the end of March. In the first nine months of this year the company generated receipts from customers of \$8.8 million with a net cash out flow of \$563,000. Based on annualised data, the company is currently trading on 4.4 times sales.

*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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