ISSN 1443-850X

In this edition...
Acrux has achieved arguably one of the most successful commercial outcomes in Australian biotech this week when its drug, Axiron, was approved by the FDA. This triggers a US$87 million milestone payment to Acrux with the drug expected to reach the market in early 2011.
Next cab off the rank could be Alchemia, and we report from its AGM this week.
Biota Holdings has signalled a much more aggressive approach forward at its AGM this week. We also continue the AGM coverage with a report on Hexima.
And Bionomics looks like it will fight its proposed sale by tender all the way, appointing a corporate advisor from the US.
Well, the final quarter of 2010 was always expected to be an exciting one!

The Editors
Companies Covered: ACR, ACL, BNO, BTA, HXL

	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 - Current)	12.3%
Cumulative Gain	**225%**
Av Annual Gain (9 yrs)	**18.5%**

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

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Individual Subscriptions (48 issues/year)
$350 (Inc.GST)
Edition Number 387 (26 November 2010)
ISSN 1443-850X

Bioshares

26 November 2010
Edition 387

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

Simply Magnificent Acrux!

Acrux's (ACR: $3.31) Axiron testosterone product, which is licensed to **Eli Lilly**, was approved by the FDA this week. This approval represents an outstanding achievement for the Australian biotech sector. Axiron is a formulation of testosterone as a topical solution, which uses a device similar to a roll-on deodorant applicator to deliver the drug under the armpit. Axiron is the first drug approved for delivery of a molecule in this manner.

The approval triggers a US$87 million milestone payment from Eli Lilly, increasing Acrux's cash position to approximately $145 million. Since Acrux licensed Axiron to Eli Lilly in March, it has received a US$50 million upfront payment and a payment of US$1 million in respect of the transfer of manufacturing assets to Lilly. A further US$2 million payment is expected before the end of 2010.

Under the terms of the license agreement, royalty rates are not disclosed. However we estimate the rate is in the order of 20%, commensurate with many other products licensed at the Phase III stage of development.

Axiron is approved for replacement therapy in males for conditions associated with a deficiency or absence of endogenous testosterone. In a single Phase III study of Axiron in 155 hypogonadal males, Acrux found that at day 15 (very early into the study), 76% of patients achieved normal levels of testosterone. Acrux found that 84% of subjects obtained levels of testosterone within normal ranges after 120 days of treatment. The FDA's hurdle for Axiron was that at least 75% of subjects maintained testosterone in the normal range. This endpoint was unambiguously achieved.

The Axiron applicator is approved to deliver variable doses of testosterone gel. The initial dose of 60 mg is delivered through two 30 mg doses to each armpit. The actuator on the device delivers 30 mg per action. The maximum daily administration of testosterone is 120 mg, with dose titrated according to the more specific need of the patient.

Under Acrux's global exclusive license arrangement, Eli Lilly is responsible for obtaining product registrations in all other territories outside the US.

The Market Opportunity

The market opportunity for Axiron is significant from several points of view. The value of the testosterone replacement market is measured at close to US$1 billion in the US. According to Eli Lilly, it has been estimated that up to 13 million men over 45 years of age in the US may exhibit symptoms associated with low testosterone.

The symptoms associated with low testosterone levels include low libido, moodiness, fatigue, depression and also osteoporosis. A safer testosterone product, formatted for delivery in a much more patient friendly manner, has the potential to open up a wider market for the treatment of testosterone deficiency. According to Acrux, currently ap-

proved testosterone products in the US are eligible for reimbursement of approximately US$300 per month. Testosterone medication is an ongoing treatment for a chronic condition.

The Development of Axiron

Axiron is one of a number of products that has risen out of that company's transdermal drug delivery platform licensed from the **Victorian College of Pharmacy** (now part of **Monash University**). It is the second drug developed by Acrux to be approved by the FDA, with Evamist approved by the FDA in July 2007. This product is licensed to **KV Pharmaceuticals** in the US. In Europe, Evamist is known as Ellavie, with European approval in process. Evamist/Ellavie is transdermally delivered estradiol (a hormone) indicated for the relief of symptoms associated with menopause.

The company is also developing Luramist, a testosterone replacement product for women, Nestorone MDTS (a contraceptive spray) and a nicotine transdermal product for smoking cessation. Other products in the final stages of development are animal health products. These were partnered to Eli Lilly's animal health division, Elanco, in 2004. A regulatory decision regarding the first product is expected in 2011.

One program discontinued by Acrux was for transdermally delivered fentanyl, despite filing an IND for the product in 2007. Our view is that development was discontinued due to the vastly increased regulatory requirements that have been placed on opioid medicines in the US.

The 2007 Decision to Develop Axiron

In July 2007 Acrux decided to advance Axiron into a Phase III program, following a positive Phase II study. Investors may wish to note that the clinical studies conducted by Acrux have been much less onerous than those required for new molecular entities.

The Phase II trial results gave a clear understanding of what the drug candidate could achieve in a Phase III program. The Phase II study evaluated both a 30 mg and 60 mg dose in 33 evaluable subjects (over 14 days of daily dosing). The 60 mg dose elevated the average level of testosterone to within the normal range in 88% of trial participants, whereas the 30mg dose increased average levels in 76% of subjects.

Also in favour of a commitment to a Phase III program was that one trial would be sufficient, that the cost of a trial was within the capacity of the company to fund (through additional equity funding), that patient numbers (~150) were small but sufficient to generate a clinical result, and that the program could be completed in a timely manner. The trial commenced in June 2008 and was completed in September 2009. The elapsed time from investment decision to FDA approval was three years and three months.

Acrux raised $22.5 million to fund the Phase III program. The company also conducted market research to better understand how the product would be received by physicians in the US.

Looking Ahead

Acrux has announced that it will pay a dividend for the half year ending December 31, 2010. This could be announced as soon as next week, at the company's AGM. The chairman of Acrux, Ross Dobinson, has maintained for some time that shareholders should see a return on their investment. Our view is that the company could comfortably return 50 cents per share.

Acrux has also announced that it is conducting a review of its current and potential product pipeline. We expect that the financing of any of Acrux's future product development programs will be determined by the sales performance of Axiron, which are expected to commence in H1 2011, and the status of Acrux's licensee for Evamist in the US, **KV Pharmaceuticals.** KV Pharmaceuticals' financial position is somewhat tenuous, although we note it recently secured a US$60 million loan. KV Pharmaceuticals entered into a consent decree with the FDA in March 2009. A consent decree prevents the company from selling drugs it manufactures unless it is complies with FDA regulations and standards. The company is still not compliant with FDA regulations. However, because Evamist is manufactured by a third party, it has been able to continue to sell that particular product. Should KV Pharmaceuticals cease operations, we understand the Evamist asset may revert to Acrux.

Comment

With the US approval of Axiron, Acrux has delivered on a timeline objective it stated in the investment presentation it produced to argue the case for funding the Phase III trial of Axiron in July 2007. This objective was to obtain approval in the second half of 2010. The company had more recently set a H1 2011 approval window, we suspect to give itself a margin of error that companies working with the FDA and similar regulatory authorities realistically need. By meeting its objectives on time and on budget Acrux has achieved a level of credibility that sceptical yet potential investors in Australian biotech seek but too often do not find.

With cumulative income generated of US$138 million, Axiron has the chance to become one of a handful of successful products, or IP, developed or exploited by small Australian biotech start-ups, which continue independently to this day. Axiron joins the ranks of **Biota's** Relenza (estimated cumulative income $186 million), **Sirtex Medical's** SirSpheres (e.c.i. $ 257 million), **Cellestis'** Quantiferon (e.c.i. $ 114 million), and **Genetic Technologies** non-coding DNA patents (e.c.i. $69 million). Acrux has become one of the most outstanding commercial successes in Australian biotech.

Acrux is capitalised at $540 million.

Bioshares recommendation:
Long-term investors – Speculative Buy Class A
Short-term investors – Take Some Profits at around $4.00

Bioshares

Inavir One of Three Potential 'Game Changers' For Biota Holdings

Biota Holdings' (BTA: $0.98) share price has fallen to very appealing levels for investors. This has not gone unnoticed by the board and management. In the company's AGM presentation this week there was a very heavy emphasis on how value would be realised. This includes the options of M&A transactions, a restructuring of the company and its assets, and raising funds to pay for Phase III studies for Inavir.

Biota's new generation flu drug, Inavir, launched by its partner **Daiichi Sankyo** in Japan last month, is on the verge of becoming a major asset for the company. The main likely driver of the company's share price over coming months will be the traction that this drug can gain in the Japanese flu market, and more specifically the market share it can take from competing products Tamiflu and Relenza.

The seasonal Japanese market for flu drugs we estimate at US$375 million a year. Biota receives only a small royalty from sales in this market (we estimate at around 4%). However for the rest of the world, Biota has 50% ownership of the drug.

The traction that Inavir can achieve in Japan will be more important for assessing the potential of the drug to take a substantial chunk of the global flu drug market, which is estimated at around $750 million a year for seasonal use (not pandemic drug stockpiling or related use).

Inavir offers substantially better dosing characteristics, needing to be taken only once as opposed to twice daily for five days for Relenza and Tamiflu. In clinical studies in Japan, Inavir taken once was shown to be as effective in treating the flu as Tamiflu taken twice daily for five days.

Funding Phase III Studies of Inavir Outside of Japan

For Inavir to gain approval in Europe and the US, the drug will need to be tested in Phase III studies in those regions. To fund those trials the company is considering a number of options. These are:

- The potential for non-dilutive funding from an 'overseas agency'
- Licensing the drug to a major pharmaceutical company
- Raising money to fund the trials in-house from US investors
- M&A opportunities

Agency funding

Biota chairman Jim Fox said that one benefit in the delay in licensing Inavir outside of Japan has been to explore other options. In the next three to six months the company expects to find out whether it is successful in receiving non-dilutive agency funding (our guess from the NIH in the US). Agency funding would allow product development for Inavir to be substantially completed to bring the drug to market in Europe and the US, and with a licensing deal then potentially to be secured before market launch.

US capital markets

Biota has indicated that substantial Phase III testing would still be required to bring the drug to market outside of Japan. Another option is raising funds from US institutional investors. CEO Peter Cook said the US markets have more appetite to fund such a program and are more familiar and can better value late stage clinical assets such as Inavir.

M&A

Another option is for Biota to explore M&A possibilities with like companies overseas to help fund the Phase III trials. The company has recently appointed Greenhill Caliburn, the same advisor Bionomics has appointed this week, to assist it with that option.

Licensing

In all likelihood, Biota will see how Inavir is received in Japan before it takes action on licensing or commencing Phase III trials independently. The option of starting Phase III trials without a partner is a markedly more aggressive tack by the company and represents a greater level of confidence around the market potential of the drug. The company remains in discussions with three pharmaceutical companies – no doubt this includes **GlaxoSmithKline** and **Roche** which sell Relenza and Tamiflu – although any such deal will first have to see whether Biota is successful in gaining international government funding.

Funding & Inavir Sales Forecasts

At the end of June this year the company had $105 million in cash. Biota intends to retain at least two years funding at all times. Its current burn rate is $38 million a year, which leaves only $30 million excluding royalty income. The company will now being receiving royalty income both from Relenza and Inavir sales.

Inavir was released at least one flu season ahead of schedule in Japan because of the encouragement given by the Japanese Government to get this drug on the market. Biota expects to start receiving royalties in this financial year. Daiichi Sankyo will be reporting Inavir sales quarterly and dividends will also be paid quarterly to Biota.

According to Biota, Daiichi Sankyo is forecasting sales of Inavir of 2.5 million courses by the end of this year and sales of 4 million courses by the end of March next year. At $50 per course, which is premium pricing to existing flu drugs, that represents $200 million of sales in the first season in Japan alone. If that level of take-up can be achieved, interest from potential licensing partners should seriously accelerate.

There is excellent length on the patent around Inavir, going out to 2027, which includes a new disposable disk inhaler. At this stage there are still uncertainties on how inhaled generic powdered drugs can still get to market. Biota stands to receive Relenza royalties for at least another four years from major markets and for another nine years from sales in Japan. GSK now has three versions of Relenza: the original inhaled product; a new inhalation system that uses standard capsule design and allows much higher production volumes; and an intravenous version which saved lives during the recent influenza pandemic. Cook said that seasonal sales of Relenza will continue to deliver a valuable royalty stream even outside of a pandemic threat.

– Cont'd over

Three Game Changers

Biota says it has three potential game changers in its pipeline if product development can be completed. The leading candidate is Inavir. The second potential game changer is the company's HRV program (human rhinovirus). The company is conducting a Phase IIb trial in 400 patients, which will cost the company $25 million if it takes two years to recruit. The company is attempting to complete recruitment in the current northern hemisphere. The success of recruitment will to some degree depend on the prevalence of the rhinovirus, which is responsible for the common cold. The target patient population is those with an underlying lung condition such as asthma. To date at least 100 patients have been recruited.

The third potential game changer is the respiratory syncytial virus (RSV) program. This is an early program with the company having selected a lead candidate from its group of back-up compounds from its previous collaboration with **AstraZeneca**. RSV is a billion dollar market and the company says it is attracting commercial interest in this program. The new scaffold being used delivers none of the liabilities of the previous lead licensed to AstraZeneca. Within 12 months the company has been able to turn the back-up compound into a lead compound. A commercial licensing outcome for this program is been targeted for the next six to 12 months.

Summary

Biota has just added more zing into its blue sky potential by being prepared to lay larger bets in late stage clinical trials, an approach it had previously declined to follow. This more aggressive approach is perhaps the influence of chairman Jim Fox, who previously built up **Vision Systems** and sold it for just under $880 million. One of the keys to Vision Systems success was some very appropriate international acquisitions that allowed Vision Systems to reach higher up the value chain.

Biota is aggressively reinvesting its cash and royalty revenue to ensure the company remains a sustainable business and to generate further shareholder value. Excluding the company's cash Fox said the market is currently valuing Biota's assets at only $95 million.

The company is clearly not pleased with the share price decline over the last 12 months and that it could not license Inavir outside of Japan to within the previously set target of mid 2010. As a result salaries of executive team and the board have been frozen.

Jim Fox and Peter Cook recently returned from a three-week trip overseas and indicated that the Biota assets were held in very high regard internationally. Cook does not believe the market's current valuation reflects even just the cash and future Relenza royalties and believes the company is clearly undervalued. *Bioshares*' view is that we strongly agree with him.

Bioshares recommendation: **Speculative Buy Class A**

Bioshares

Achemia AGM – Focus Starts to Move to Phase III Oncology Trial

Alchemia (ACL: $0.62) held a very positive AGM this week. The approval of the company's lead drug, generic fondaparinux (Fonda), could be only be 'days away not weeks', according to CEO Pete Smith. The focus is now moving to the next product in development, HA-Irinotecan, for the treatment of colon cancer.

As soon as approval of Fonda is received, Alchemia will begin its Phase III study with HA-Irinotecan. HA-Irinotecan is a combination of the now generic drug irinotecan with the company's cancer drug delivery carrier, hyaluronic acid (HA). The company believes this drug has the potential to generate sales of between $400-$600 million a year.

Smith said at the AGM that another drug in development, pegylated irinotecan by **Nektar**, which extends the half-life of irinotecan in the body, is estimated by some analysts of generating peak sales of $2 billion a year. There is no clinical evidence of improved patient outcomes with that drug candidate which is currently in Phase II clinical studies for the treatment of colon, breast and ovarian cancer. Smith said the company was very comfortable with its competitive position.

Clear Strategy for Company

The strategy with the HYACT platform is very clear for Alchemia. Appropriate spending will be made ensure the forthcoming Phase III study is conducted to deliver the best result possible as the future of this technology application rests with the results from the Phase III colon cancer trial. Expected excess funds from Fonda sales will not be re-invested into expanding the application of the HYACT platform until Phase III study results are received. If the Phase III study is a success, then it opens the door to combining hyaluronic acid with a raft of existing cancer drugs on the market.

A physician sponsored Phase II study in small cell lung cancer is planned to look at the effect HA-Irinotecan has on cancer stem cells. HA-Irinotecan is expected to knock out cancer stem cells because the receptor, CD44, binds to hyaluronic acid. This study will begin in the first quarter of 2011 and will enroll 40 patients with this disease which is extremely difficult to treat.

Phase III Program

The Phase III HA-Irinotecan study, expected now to begin in early 2011 (if Fonda is approved shortly), will now enroll 390 patients, up from 330 patients. This is because more favourable progression free survival outcomes have recently been reported using current therapies (which will be the control arm). This will increase trial costs from $20 million to around $25 million for the trial. The trial will be conducted at 60 sites across seven countries.

Alchemia announced that interim results from this trial are scheduled to be reported in Q3 2012, which is the point at which progression free survival data from 350 patients should be available. The company reinforced that only one Phase III trial will be re-

– Cont'd over

quired to get this drug to market and that Progression Free Survival will be accepted as the primary endpoint.

The company will seek to position HA-Irinotecan as a premium priced drug. Independent market research of 95 oncologists has indicated that between 53%-60% would convert to HA-Irinotecan from irinotecan if it reached the market. The company said it was confident there would not be a major change in the colon cancer treatment market in the medium term, with 45 drug candidates in Phase II trials but no obvious game changers.

Alchemia stated that there is considerable interest in the HA-Irinotecan therapy. Alchemia recently held an information day on the trial which was attended by 200 clinicians and other healthcare practitioners who will be involved in the trial and several NHS centres in the UK have expressed an interest to participate in the trial.

Smith said that 2011 promises to transform the company into a late stage clinical trial biotech supported by an ongoing revenue stream from Fonda sales. On the question of dividends, from founder Peter Andrews who would like to see further funds invested into the VAST drug screening platform, the company indicated that it would assess that question once clarity emerged on Fonda sales and that the company would certainly listen to the interests of its shareholders.

Partnering for HA-Irinotecan

The company believes that optimum value from HA-Irinotecan will be achieved once the Phase III trial has been completed and results are received. However there is always the possibility that a deal could be presented earlier that the company would not be able to refuse said Smith.

Fonda Approval

Smith said the company was coming to an end of uncertainty with final FDA inspection to come. The FDA has in fact made one inspection (of the API facility) and has been cleared and the second inspection is now due of the syringe filling facility of a third party, which is an FDA approved site. All ANDA (drug application) sections have now been reviewed by the FDA and the company has been told there are no further questions.

On the issue of a second generic emerging for Fonda, Smith said he expected the company would have at least a two and a half year jump on second generic manufacturer that has recently surfaced and hopefully more.

The blood anticoagulant market has become very fragmented, with the market leader Lovenox losing market share almost instantly (45% in nine weeks) to a generic from Sandoz with minimum pricing erosion. (If Alchemia gained a 50% market share through its partner Dr Reddy's with only 10% price erosion, *Bioshares* calculates it could generate a profit share to Alchemia of $50 million a year without a second generic competitor on the market).

VAST platform

The company has a drug discovery platform/library called VAST. It has signed several library access deals which have not been significant enough to announce and it is purposefully keeping its competitors in the dark. The company plans to either spin out this library or sell it outright.

Summary

Peter Smith believes there will be significant cash left over for the company from its Fonda revenue stream after paying for its Phase III HA-Irinotecan trial. If that trial is successful, Smith indicated that the potential of HA-Irinotecan is many times the value of Fonda. *Bioshares* estimates are that Fonda should deliver a revenue stream for Alchemia from the US market of between $36-$50 million a year assuming a second generic does not emerge.

Bioshares recommendation: **Speculative Buy Class A**

Bioshares

Bionomics Appoints Advisor

Bionomics (BNO: 33 cents) has appointed **Greenhill Caliburn** to advise the company on how it can prevent a takeover of its business following the move by Start-up Australia to sell its 27.7% stake in Bionomics. In the announcement Bionomics stated it believes it has an exciting future, or more specifically, "an exciting *independent* future".

The company has also appointed law firm **Johnson Winter Slattery.** This is a very strategic move, with this law firm acting previously for **Cephalon** in its acquisition of **Arana Therapeutics**. Cephalon is has advised previously by **Ferghana Partners** and Ferghana Partners has been enlisted by **Start-up Australia** to assist in the tender process. Given Cephalon's interest in acquisitions in Australia in the oncology space, we would suggest there is a reasonable possibility that Cephalon may be interested in a potential acquisition of Bionomics.

Bioshares recommendation: **Speculative Hold Class A**

Have Your Say....

The move by **Start-up Australia** to initiate a sale by tender of Bionomics has generated fervent discussion. We invite readers to lodge their views on this topic and we extend this invitation to Start-up Australia. Forward your letters to feedback@bioshares.com.au

Bioshares Model Portfolio (26 Nov 2010)

Company	Price (current)	Price added to portfolio	Date added
Phylogica	$0.048	$0.053	September 2010
Sunshine Heart	$0.025	$0.036	June 2010
Biota Holdings	$0.98	$1.09	May 2010
Tissue Therapies	$0.49	$0.21	January 2010
QRxPharma	$1.01	$0.25	December 2008
Hexima	$0.35	$0.60	October 2008
Atcor Medical	$0.09	$0.10	October 2008
Impedimed	$0.84	$0.70	August 2008
Mesoblast	$3.19	$1.25	August 2008
Circadian Technologies	$0.62	$1.03	February 2008
Patrys	$0.10	$0.50	December 2007
Bionomics	$0.33	$0.42	December 2007
Cogstate	$0.26	$0.13	November 2007
Sirtex Medical	$5.94	$3.90	October 2007
Clinuvel Pharmaceuticals	$1.80	$6.60	September 2007
Starpharma Holdings	$0.80	$0.37	August 2007
Pharmaxis	$2.63	$3.15	August 2007
Universal Biosensors	$1.53	$1.23	June 2007
Acrux	$3.33	$0.83	November 2004
Alchemia	$0.62	$0.67	May 2004

Portfolio Changes – 26 November 2010

IN:
No changes.

OUT:
No changes.

Hexima AGM Report – De-Listing Considered

Since his appointment as Executive Chairman to the board and management of plant technologies company Hexima (HXL: $0.35), Ross Dobinson has embarked on a mission to re-tune the company's commercial focus and build momentum with the company's deep asset base.

At the company's AGM held this week, Dobinson said Hexima has sufficient cash to last the company for three years (2013). With royalties from the corn and soy disease resistance program licensed to **Dupont** expected to flow from 2019, the potential for earlier revenues could be achieved through the writing of new commercial contracts, cost recovery measures and milestone payments.

Dobinson said that management will consider de-listing the company because of poor liquidity in the stock and because attention on the share price can be a distraction and contribute to a weakened bargaining position (in partnering discussions).

One area which may see new commercial contracts entered into is that of the MGEV technology, a technology which allows multiple genes that give rise to different plant traits to be stacked together. Monsanto and Dupont have taken out research licenses to the technology. A multi-gene delivery technology has appeal in an industry where a need exists to conveniently introduce different plant traits e.g. drought tolerance, insect resistance and fungal resistance, at the same time. Commercial negotiations have commenced.

Other partnering opportunities exist for licensing the antifungal technology for crops outside of corn and soy. Advanced discussions are taking place for these applications.

Another area of potential commercial interest is Hexima's insect resistance technology. This technology involves the insertion of a gene that causes the expression of a particular kind of protein that insects cannot digest. This program has been run as a lower priority project while Monsanto's bt technology has dominated the market. However, recent signs of resistance to bt protected crops have begun to emerge which may open the gate again for Hexima's insect resistance (proteinase) technology.

Hexima has continued to advance in-house research in the management of fungal diseases. It expects shortly to file patents on newly discovered anti-fungal proteins in the next few weeks and file a patent on molecules that enhance the activity of anti-fungal proteins.

As part of a set of changes the company is going through, company co-founder and former Chief Scientist Professor Adrienne Clark has stepped down from the board, with co-founder and Chief Scientist Professor Marilyn Anderson taking up a board seat.

Comment

The 'tabling of a notice' by Executive Chairman Ross Dobinson that Hexima might be de-listed is meant send to the market the same message that revenue and profit generating companies do through share buy-backs do, which is that a company's stock is trading substantially below the value that the board believes the stock is worth.

What is more likely to appeal to investors is the generation of meaningful revenue from a variety of sources over the near and medium term and certainly well before 2019. Judging by comments made at the AGM by Dobinson and CSO Anderson, then it may that a number of new deals are close to hand.

Hexima is capitalised at $28 million and holds $20.8 million in cash.

Bioshares recommendation: **Speculative Buy Class A**

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

Corporate Subscribers: Pharmaxis, Starpharma Holdings, Cogstate, Bionomics, ChemGenex Pharmaceuticals, Circadian Technologies, Biota Holdings, Halcygen Pharmaceuticals, Impedimed, QRxPharma, Patrys, LBT Innovations, Hexima, Mesoblast, Atcor Medical, BioMD, Tissue Therapies, Viralytics, Phosphagenics, Immuron

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