

**In this edition...**

If you didn't hear the sound of a crashing stockmarket on Friday, you will know about it soon enough as single digit performance returns to most industry sectors. The exception may be healthcare, which offers a number of safe haven stocks, led by CSL, Cochlear, Resmed and Sigma Pharmaceuticals.

But the attractiveness of quality biotechs might get a boost in the near term if the worlds top pharma and device companies decide to go shopping for new products and projects. The top twenty companies with US listings hold more than US\$130 billion in cash and cash investments. Pfizer alone holds US\$25 billion. We expect that an aggressive round of take-overs will commence soon, starting with companies with weakened cash positions but with attractive products in development.

**Companies covered: ACG, HGN, IPD**

	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)	-28.5%
<b>Cumulative Gain</b>	<b>49%</b>
<b>Av Annual Gain (7 yrs)</b>	<b>17.8%</b>

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

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Individual Subscriptions (48 issues/year)  
**\$320** (Inc.GST)  
Edition Number 284 (10 October 2008)  
ISSN 1443-850X

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# Bioshares

10 October 2008  
Edition 284

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

*Extract from Bioshares –*

## **Safe Haven Stocks in the Life Sciences Sector**

The ASX Healthcare Index fell 5.2% on Friday, but less than the 8.2% loss recorded for the All Ords, on what may be seen as a Black Friday event for global equity markets. However, investors have been gravitating to large cap healthcare and pharma for some time and a desire by some investors to convert holdings in **CSL, Resmed, Cochlear** and **Sigma Pharmaceuticals** into cash on a day of extreme volatility was to be expected.

However, for both the short term (while authorities wrestle with the restoration of liquidity in the world's banking system) and the medium term (as the economies of many countries fall into inevitable recession), life science stocks that represent profitable, mature businesses, with lower levels of gearing, will represent a safe haven for investors.

The stocks of healthcare and pharmaceutical companies are defensive plays because the demand for medicines and medical services is generally not subject to the same types of falls in discretionary income that is felt by many households in recessionary periods. In the Australian context, governments are major payors of medical and healthcare bills, adding considerable security to the sector overall.

We have selected six sets of companies (see page 3) for investors to monitor over the coming weeks as market conditions stabilise and adjust to downgraded earnings outlooks for many other industry sectors. Our view is that the relative appeal of life science stocks has increased and will continue to do so, although investors must retain a high degree of selectivity regarding investment opportunities. The first of the six sets includes the previously mentioned four large cap stocks. The next group is a list of profitable smaller cap stocks including **Blackmores, Cellestis, Sirtex Medical, IDT Australia, Probiotec** and **Clover Corp**.

The third set comprises five biotech stocks with very strong cash resources, enough to carry them through at least four years of operations based on recent spending patterns. Included here is **Pharmaxis, Arana Therapeutics, Acrux, Hexima** and **Circadian Technologies**. The standout offering here is Circadian which is trading at a 44% discount to cash.

The fourth group includes eleven companies that have solid cash resources or have very solid investor support. The example in this case is ChemGenex Pharmaceuticals, which recently raised \$12 million in very, very difficult market conditions but was able to call on a committed investor base for support. The fifth group includes six companies that should at least be able to weather the next twelve months reasonably well. The sixth group includes a handful of smaller cap companies that are emerging as sales generating companies on the cusp of profitability, if not profitable already. Although lacking in capital scale to warrant the attention of some investors, they certainly qualify as relatively better investment destinations than many other stocks.

**Bioshares**

### Safe Haven Stocks in the Life Sciences Sector

Company	Code	Price 10/10/08	Cap (\$M)				
<b>Group 1 - Life Science Leaders</b>				<b>PE Ratio</b>			
CSL	CSL	\$36.65	\$22,071				31
Resmed Inc.	RMD	\$5.14	\$4,156				27
Cochlear	COH	\$55.00	\$3,072				29
Sigma Pharmaceuticals	SIP	\$1.32	\$1,138				13
<b>Group 2 - Profitable Smaller Caps</b>				<b>PE Ratio</b>			
Blackmores	BKL	\$17.50	\$285				15
Cellestis	CST	\$2.08	\$200				89
Sirtex Medical	SRX	\$1.90	\$106				88
Institute of Drug Technology	IDT	\$1.76	\$76				11
Probiotec	PBP	\$1.26	\$61				10
Clovercorp	CLV	\$0.18	\$30				11
<b>Group 3 - Speculative Biotech - Exceptional Cash Resources</b>				<b>Cash (\$M)</b>	<b>S.I. **</b>		<b>EV(\$M)</b>
Pharmaxis	PXS	\$1.90	\$370	\$112	5.9		\$258
Arana Therapeutics	AAH	\$0.84	\$197	\$182	NA		\$15
Acrux	ACR	\$0.70	\$112	\$34	11.2		\$77
Hexima	HXL	\$0.60	\$45	\$36	5.9		\$9
Circadian Technologies	CIR	\$0.66	\$26	\$46	4.6	est	-\$20
<b>Group 4 - Speculative Biotech - Solid Cash Resources or Investor Base</b>					<b>S.I.</b>		
ChemGenex Pharmaceuticals	CXS	\$0.59	\$141	\$23	1.4	est	\$118
Universal Biosensors	UBI	\$0.69	\$108	\$36	2.8		\$73
Mesoblast	MSB	\$0.83	\$99	\$14	2.7		\$85
Peplin	PLI	\$0.30	\$91	\$87	2.1	est	\$4
Biota	BTA	\$0.44	\$80	\$61	2.0	est	\$19
Clinuvel Pharmaceuticals	CUV	\$0.21	\$64	\$26	3.6		\$38
Impedimed	IPD	\$0.72	\$63	\$13	1.6	est	\$50
Nanosonics	NAN	\$0.19	\$36	\$24	3.4		\$12
QRxPharma	QRX	\$0.41	\$31	\$30	2.1		\$1
CathRx	CXD	\$0.60	\$26	\$18	1.9		\$8
Halcygen	HGN	\$0.20	\$15	\$11	3.7		\$4
<b>Group 5 - Speculative Biotech - Reasonable Cash Resources</b>					<b>S.I.</b>		
Heartware	HTW	\$0.55	\$171	\$46	3.2		\$125
Novogen	NRT	\$1.09	\$111	\$34	1.9	est	\$77
Starpharma Holdings	SPL	\$0.27	\$49	\$8	1.4		\$41
Patrys	PAB	\$0.23	\$35	\$15	2.0		\$20
Alchemia	ACL	\$0.18	\$29	\$16	1.9		\$13
Genera Biosystems	GBI	\$0.17	\$9	\$4	2.1		\$4
<b>Group 6 - Speculative Emerging Revenue Generators</b>					<b>S.I.</b>		
Labtech Systems	LBT	\$0.15	\$14	\$10	NA		\$4
Cogstate	CGS	\$0.15	\$10	\$1	1.7		\$9
Atcor Medical	ACG	\$0.11	\$11	\$3	0.9		\$8
ASDM	AMT	\$0.32	\$12	\$1.5	NA		\$10
Brain Resource Corp*	BRC	\$0.26	\$24	\$19	6.6		\$5
*cash at Sept 30							
** S.I. - Survival Index - refer to Bioshares 274 for definitions. Some companies' SIs have been estimated (est)							
<b>Cash Box Companies</b>							
Progen Pharmaceuticals	PGL	\$0.67	\$40	\$77			-\$36
Diversa (formerly Ambri)	DVA	\$0.01	\$2	\$4			-\$1

**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**

**Corporate Subscribers:** Phylogica, Pharmaxis, Biotech Capital, Cytopia, Arana Therapeutics, Starpharma Holdings, Cogstate, Xceed Biotechnology, Optiscan Imaging, Bionomics, ChemGenex Pharmaceuticals, Circadian Technologies, Biota Holdings, Stem Cell Sciences, Halcygen Pharmaceuticals, Peplin, BioMD, Impedimed, QRxPharma, Patrys, Labtech Systems, Hexima, Proteome Systems

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