

11 August 2011

## Bionomics

Year End	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/09	4.3	(6.2)	(2.5)	0.0	N/A	N/A
06/10	3.4	(7.4)	(2.5)	0.0	N/A	N/A
06/11e	4.4	(7.7)	(2.4)	0.0	N/A	N/A
06/12e	4.1	(9.8)	(2.9)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding goodwill amortisation and exceptional items; revenue is adjusted to exclude interest income, per IFRS. Excludes commercialisation revenue.

### Investment summary: 105 combination strategy

Bionomics is to focus future development of its vascular disrupting agent BNC105 on combinations with chemotherapy, after a review of interim data from the two Phase II studies. Its RCC study will continue, while the single-agent study in mesothelioma will be closed in favour of a future combination strategy. A new Phase II study will start in early 2012 in ovarian cancer, with the drug given with standard doublet chemotherapy. The shift should not materially change the attractiveness or potential of the drug. Bionomics' investment case remains centred on securing big pharma partnerships for this compound and BNC210 (anxiety, pre-Phase II).

### Initial data prompts shift to combination strategy

Interim data from the Phase II studies of BNC105 in metastatic renal cell carcinoma and mesothelioma showed evidence of activity, but highlighted the desirability of its use in combination with chemotherapy – a result that was not unexpected given its mechanism. Bionomics intends to close its study in mesothelioma to further recruitment in favour of a new combination strategy.

### New study planned in ovarian cancer

A new study of BNC105 is being initiated in ovarian cancer with the drug expected to be tested in combination with carboplatin/gemcitabine doublet chemotherapy.

### Partnership for BNC210 is first priority

Bionomics is focusing on partners for its anxiety drug BNC210, following the successful Phase Ib studies that were completed earlier this year. If it can secure a deal, it may allow it to delay partnering BNC105 until after the results of the studies become available and thereby potentially capture the upside from a positive result.

### Valuation: A\$256m risk-adjusted NPV

Our valuation of Bionomics' key R&D programmes, based on our risk-adjusted NPV, has been revised to A\$255m, which compares with the current EV of A\$154m, highlighting an attractive investment case. Risk-adjusted NPVs rise rapidly as products advance through development and at each stage justify higher probabilities of success.

Price 50c  
Market Cap A\$174m

#### Share price graph



#### Share details

Code BNO/BMICY  
Listing ASX/NASDAQ  
Sector Biotech  
Shares in issue 344.7m

#### Price

52 week High 77c Low 24c

#### Balance Sheet as at 30 June 2011\*

Debt/Equity (%) N/A  
NAV per share (c) 5.6  
Net cash (A\$m) 20.2\*

\* Including sale and leaseback proceeds.

#### Business

Bionomics is an Australian biotech company focused on developing small molecule products for cancer, anxiety, epilepsy, cognition and multiple sclerosis. Its lead programmes are a VDA (BNC105) and an anxiolytic/anti-depressant compound (BNC210).

#### Valuation

	2010	2011e	2012e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

#### Revenues by geography

UK	Europe	US	Other
0%	75%	5%	20%

#### Analyst

Robin Davison +44 (0)20 3077 5737  
healthcare@edisoninvestmentresearch.co.uk

*Bionomics is a research client of Edison Investment Research Limited*

## Investment summary: Funded to start new trials

### Company description: CNS/cancer focused biotech

Bionomics is an Australian biotech company focused on the development of products for cancer and CNS conditions. The company is based in Thebarton, a suburb of Adelaide, South Australia, and also has a CNS-focused CRO subsidiary in Illkirch, near Strasbourg, France. It has a total of 36 employees. Bionomics was founded in 1996 and listed on the ASX in 1999 (it also has a Level 1 ADR on NASDAQ [ticker BMICY]) and has raised c A\$90m in equity funding to date. Bionomics has three core technologies: Angene, an angiogenesis target and drug discovery platform; MultiCore, a diversity-orientated chemistry platform; and ionX, a set of novel technologies for the identification of drugs targeting ion channels in CNS disease. R&D programmes are summarised in Exhibit 1.

#### Exhibit 1: Bionomics R&D programmes

Programme	Indication	Notes
BNC105	Renal cell carcinoma/ ovarian cancer/Phase II	Final data from RCC due in 2012. New study in ovarian planned. Possible combination study in mesothelioma.
BNC210	Anxiety/depression Phase II-ready	Novel small molecule with undisclosed mechanism. Positive results in Phase Ib studies.
Kv1.3 inhibitor	MS/autoimmune preclinical	Lead optimisation. Partnered with <b>Merck KGaA</b> (milestones of up to \$47m per compound plus royalties).
$\alpha$ -7 nAChR PAM Kinase	AD/cognition preclinical Cancer	Preclinical. Preclinical. Undisclosed.

Source: Edison Investment Research

### Valuation: Risk-adjusted NPV of A\$255m

We revised our valuation of Bionomics based on the current development timelines for its two lead products. The valuation, based on a risk-adjusted net present value, yields a valuation of A\$255m, which we compare with an EV of A\$154m (market cap of A\$174m, less A\$20m cash), highlighting an attractive investment case. The rNPV is derived from our assessment of the potential peak sales, economics of licensing deals, probabilities and timelines associated with the successful development and commercialisation. Risk-adjusted NPVs rise rapidly as products advance successfully through development and justify higher probabilities of success.

### Sensitivities

The key sensitivities to the investment case are the success of the current BNC105 studies and Bionomics' ability to secure partnering deals for BNC105 and BNC210 on attractive economic terms. As with all drug development programmes there are risks associated with unfavourable outcomes in clinical trials, success of competitors and a dependence of potential and actual commercial partners.

### Financials

Bionomics has reported a quarterly cash flow statement ahead of full FY10/11 accounts, due shortly. This shows that FY10/11 revenues (from customers) for the year were A\$4.4m and cash at 30 June was A\$16.1m, before the A\$4.1m proceeds of the facility sale and lease-back. Hence, adjusted cash will be c A\$20.2m, which should provide funding to mid calendar 2013 (end FY12/13), based on a model that does not anticipate growth in revenues or up-front payments and milestones from any new licensing deals.

## Review: Combination focus for BNC105

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Bionomics has decided to focus development of its vascular disrupting agent BNC105 as a combination with chemotherapy rather than pursue its previous twin-track approach that included monotherapy. The decision is based on a review of the interim data from its Phase II studies in metastatic renal cell carcinoma (mRCC) and mesothelioma. As a result, Bionomics will close its single-agent study in mesothelioma to new recruitment in favour of a future combination study in this indication. The mRCC study will continue as planned and should complete enrolment by late 2012. A new Phase II study should start in early 2012 in ovarian cancer with the drug given with standard doublet chemotherapy. The shift in approach should not materially change the attractiveness of BNC105. Bionomics' investment case remains centred on securing big pharma partnerships for this drug and anxiety/depression agent BNC210.

### mRCC study to continue; full recruitment targeted end 2012

The mRCC study examines BNC105 in combination with everolimus (Afinitor, Novartis) as second-line treatment after failure of first-line therapy with a tyrosine kinase inhibitor (probably sunitinib). The study has two stages with a dose escalation phase followed by an efficacy evaluation stage. The first stage has a 3x3 design with four dose levels (4.2, 8.4, 12.6 and 16mg/m<sup>2</sup>). The drug has so far been administered at doses up to 12.6mg/m<sup>2</sup> and some patients have received over 12 cycles of treatment. The safety was sufficient for the final dose escalation to 16mg/m<sup>2</sup>. At 12.6mg/m<sup>2</sup>, it has been possible to measure a significant reduction polymerised tubulin levels.

After this last dose escalation, the study can move to the randomised phase, which will recruit 134 patients. It is designed to allow comparison of BNC105 plus everolimus vs everolimus alone (the study is powered to detect a 66% improvement in PFS). The study also allows patients failing on the control arm to elect to receive BNC105 as monotherapy. Bionomics aims to complete enrolment by the end of 2012.

### New ovarian study planned

Bionomics is planning to evaluate BNC105 in a new Phase I/II trial in ovarian cancer in combination with carboplatin and gemcitabine. This suggests it is looking at second-line (but platinum-sensitive) patients. It is currently finalising the design and expects to start the study in the first half of 2012. Roche's Avastin (bevacizumab, Roche), a VEGF antibody with anti-angiogenic activity, is expected to be filed for ovarian cancer this year (both for front-line, in combination with carbo/tax, and relapsed, in combination with carboplatin/gemcitabine), based on three positive Phase III trials.

### Mesothelioma study to close in favour of combination strategy

Bionomics' study of BNC105 in second-line malignant pleural mesothelioma will be closed to new enrolment, after an interim analysis of the first 24 patients did not show sufficiently strong evidence to support continued development as monotherapy. The study, in which all patients received BNC105 at 16mg/m<sup>2</sup>, did, however, show some evidence of activity. In the 21 patients who have been evaluated to date, one achieved a PR (with a 57% reduction in tumour measurement) and five were in SD, for an overall clinical benefit rate of ≥25% (three patients remain under evaluation). Bionomics is considering a future development of BNC105 in combination with pemetrexed (Alimta, Lilly) and cisplatin, which would position it as a first-line therapy.

## Competition

Bionomics is now effectively targeting three orphan indications with BNC105 (mRCC, ovarian cancer and mesothelioma). It is the only VDA to address mRCC and mesothelioma, while it has more competition in ovarian cancer. Two competing agents, ombrabulin and fosretabulin, are in Phase II studies for ovarian cancer, while a third, combretastatin, has shown encouraging data in a single-arm Phase II study. Furthermore, MolMed's NGR-hTNF, which has vascular targeting/anti-tumour activities, has just entered a Phase II for platinum-resistant/refractory ovarian cancer in combination with pegylated liposomal doxorubicin, the standard of care in this setting.

However, RCC is a competitive area with other therapeutic approaches. There are a number of TKIs and other compounds (generally immunomodulators) in late development for this indication, which if successful, may change the landscape. Competing agents are shown in Exhibit 2.

### Exhibit 2: Competing developments in metastatic renal cell carcinoma

Drug	Trials/notes
Axitinib/Pfizer	Filed for second line use in US (Jun 2011) based on 723-pt Phase III <a href="#">study</a> . ASCO 2011. 447-pt Phase III <a href="#">study</a> vs sorafenib as first line therapy (results: Jan 2012).
Tivozanib (AV-951)/AVEO/Kirin	500-pt Phase III <a href="#">study</a> (TIVO-1) vs sorafenib as first line therapy (results: Dec 2011). 272-pt Phase II study showed the median PFS of 14.8 months. ASCO 2011.
Anyara (naptumomab)/Active Biotech	524-pt Phase II/III <a href="#">study</a> (final survival data will be analysed after 384 events, expected H112). Interim data show median survival of 26.2 months (c 2x expected).
Dovitinib (TKI258)/Novartis	550-pt Phase III <a href="#">study</a> of study of TKI258 vs sorafenib (third line, one prior TKI and one prior mTOR; results: May 2013). 91-pt Phase I/II <a href="#">study</a> (results: June 2012).
IMA901/Immatics	330-pt Phase III <a href="#">study</a> (IMPRINT) study in combination with first line therapy (results: Apr 2014).
Foretinib/GSK/Exelixis	71-pt Phase II <a href="#">study</a> (results: Dec 2011).
AGS-003/Argos	Phase III planned. 50-pt Phase I/II <a href="#">study</a> of showed PFS of 11.9 months (cf historical PFS of up to 8.0 months in unfavourable-risk advanced RCC) (ASCO 2011).
Aflibercept/Sanofi	ECOG-sponsored 120-pt Phase II <a href="#">study</a> (results: April 2016).
Regorafenib/Bayer	41-pt Phase II <a href="#">study</a> (results: Nov 2011).
Ramucirumab/Lilly	39-pt Phase II <a href="#">study</a> (results: Nov 2011).
AMG 386/Amgen	80-pt Phase II <a href="#">study</a> after cytokine failure in combination with sunitinib (results: Nov 2014).
Revimid/Celgene	68-pt Phase I/II <a href="#">study</a> (results: Oct 2012).
BMS-936558/BMS/Ono	150-pt Phase II <a href="#">study</a> in pts who have received prior anti-angiogenic therapy (results: Apr 2013).
Lenvatinib (E7080)/Eisai	180-pt Phase I/II <a href="#">study</a> alone and in combination with everolimus (results: Sept 2013).

Source: Edison Investment Research

BNC105 is one of seven VDAs in active clinical development and is effectively in joint second position behind ombrabulin. Competing VDAs are shown in Exhibit 3.

### Exhibit 3: Vascular disrupting agents: competing agents

Product/Company	Indication	Notes
Ombrabulin/AVE8062/Sanofi	Soft tissue sarcoma/ NSCLC	300-pt <a href="#">Phase II/III study</a> in advanced-stage soft tissue sarcoma after failure of anthracycline and ifosfamide (results: May 2012). 150-pt <a href="#">Phase II study</a> (DISRUPT) in first line NSCLC in combination taxane/platinum (results: Jul 2012). 150-pt <a href="#">Phase II trial</a> in platinum-sensitive ovarian cancer in combination with carboplatin/paclitaxel (results: Apr 2012).
Zybrestat (fosbretabulin/combretastatin/CA4P)/OXIGENE	Thyroid cancer/liver cancer/NSCLC	110-pt GOG-sponsored <a href="#">Phase II study</a> of bevacizumab ± fosbretabulin in ovarian epithelial, fallopian tube/peritoneal cancer (results: Jul 2013). 63-pt <a href="#">Phase I/II study</a> in HCC (results: July 2011). Results of 80-pt <a href="#">Phase II/III</a> (FACT) study in anaplastic thyroid cancer (ASCO 2011) and 60-pt <a href="#">Phase II</a> (FALCON) study in first-line NSCLC (ASCO 2011).
Plinabulin/NPI-2358/Nereus	NSCLC	180-pt <a href="#">Phase I/II study</a> (ADVANCE) of docetaxel ± plinabulin in advanced NSCLC (results due: Feb 2011). Interim data published at <a href="#">ASCO 2010</a> on 64 pts showed 6/27 (22%) PRs vs 2/37 (5%) for docetaxel alone (p=0.04).
Azixa (verubulin/MPC-6827)/Myrexis	GBM	68-pt <a href="#">Phase II study</a> in recurrent glioblastoma multiforme (results: Sept 2011). 128-pt <a href="#">Phase II study</a> in newly-diagnosed GBM, in combination with temozolomide (results: Feb 2013). 30-pt Phase I/II with carboplatin in recurrent/relapsed GBM reported at <a href="#">ASCO 2011</a> .
ABT-751/E-7010/NCI	Neuroblastoma	88-pt NCI-sponsored <a href="#">Phase II study</a> in refractory neuroblastoma (results: Jan 2012).
Corlibulin/(EPC2407)/EpiCept	Thyroid cancer	NCI-sponsored 70-pt <a href="#">Phase I/II study</a> in solid tumours with a focus on anaplastic thyroid cancer (results: Sept 2012).

Source: Edison Investment Research

## BNC210: Licensing partner sought based on Phase Ib results

Bionomics' key near-term priority is to secure a licensing deal for BNC210, following the completion of two Phase Ib trials earlier this year. The drug showed an attractive profile in anxiety, with evidence of activity (to date only in healthy volunteers, although in response to an anxiety challenge) without any of the side effects typically associated with the currently-available anxiolytic drugs. Bionomics believes that its CCK challenge data has impressed potential partners, some of which are considering whether a similar approach could be used in a Phase II study in patients with anxiety and panic disorder. The drug has potential in depression (showing stimulation of neurite outgrowth by primary cortical neurons at a potency equivalent to that of BDNF). Moreover, stimulation of neurite out-growth may indicate that the drug has potential in other indications requiring neurogenesis such as Alzheimer's disease. A profile of anxiety, its lead indication, is shown in Exhibit 4, and competing development programmes in Exhibit 5.

### Exhibit 4: Anxiety - background

<b>Description</b>	An exaggerated response to a natural fear or an excessive fear in a normal situation. Comprises various disorders including panic disorder, social phobia, obsessive-compulsive disorder (OCD), post-traumatic stress disorder (PTSD) and generalised anxiety disorder (GAD). Often co-morbidity of other psychiatric conditions such as depression, schizophrenia and addiction.
<b>Incidence/prevalence</b>	Prevalence is ~20% of the population worldwide. >40m persons in US: including 6.8m with GAD, ~6m with panic disorder, 15m with social phobia, 2.2m with obsessive-compulsive disorder and 7.7m with PTSD.
<b>Current drug treatment</b>	<p><b>Benzodiazepines</b> (alprazolam, bromazepam, clazepam, lorazepam, diazepam) are rapid acting but with problems of sedation, memory impairment/confusion and reduced muscle coordination/balance. Hence suitable for short-term (acute) use because of risk of tolerance and habit formation.</p> <p><b>SSRI</b> (paroxetine, escitalopram, sertraline, fluvoxamine). Lack of sedation or cognitive impairment but slow onset of action (several weeks) and sexual dysfunction/weight gain. Also problem of discontinuation syndrome. Various drug-drug interactions (contraindicated with MAOIs). Approved for panic, social anxiety and GAD in adults (paroxetine is contraindicated for children).</p> <p><b>Busprione</b>: Lack of addiction/dependence/tolerance issues means suitable for chronic use. Not sedative, but slow onset of action.</p> <p><b>SNRIs</b> (duloxetine, venlafaxine) Lack of addiction/dependence/tolerance issues. Venlafaxine has withdrawal symptoms and is contraindicated in children and adolescents because of risk of suicidal ideation.</p>

Source: Edison Investment Research

### Exhibit 5: Competing developments in anxiety

Class	Company	Notes
Lyrica (pregabalin)	Pfizer	600-pt <a href="#">Phase IV study</a> in GAD (results: Jan 2012).
Seroquel (quetiapine)	AstraZeneca	100-pt <a href="#">Phase III study</a> in of major depression with co-morbid GAD (results: Dec2011); MAA for GAD filed; NDA withdrawn.
Lu AA21004	Lundbeck/ Takeda	Two Phase III studies completed in GAD ( <a href="#">no results yet</a> ). Four Phase III studies underway for major depression. 5-HT <sub>3</sub> antagonist/5-HT <sub>1A</sub> agonist/5-HT enhancer.
ABIO 0801	Abiogen/BTG	Phase II studies (no details disclosed).
Orvepitant (GW823296)	GSK	240-pt Phase II completed in adult PTSD (no results available). Remains listed in GSK's pipeline although Phase II for depression was terminated due to AEs. NK1 antagonist
MN-305/ MKC-242	MediciNova/ Mitsubishi Tanabe	416-pt Phase II in GAD showed trends in all efficacy outcome measures and significant improvements in HAM-A total score and item 1 of HAM-A (anxious mood). 5HT <sub>1A</sub> agonist.
Nepicastat	Biotie	120-pt Phase II for PTSD (results: Sep 2011). Dopamine beta-hydroxylase inhibitor
JNJ-40411813	Addex/J&J	Planned Phase II in anxiety. Competed Phase I in anxiety challenge model. mGluR2 PAM

Source: Edison Investment Research

## New $\alpha$ -7 nAChR PAM programme

Bionomics is conducting a preclinical programme to develop a positive allosteric modulator of the alpha-7 nicotinic acetylcholinesterase receptor ( $\alpha$ -7 nAChR). This addresses a target that is now well validated for cognition in schizophrenia and Alzheimer's. Bionomics has shown results with an exemplar compound, BNC001881, in a scopolamine-induced cognitive impairment model.

Bionomics has the only PAM addressing the  $\alpha$ -7 nAChR, although there are four agonists in clinical development – Exhibit 6.

**Exhibit 6: Competing  $\alpha$ -7 nAChR programmes (Phase II or later)**

Notes: CIAS = cognitive impairment in schizophrenia.

Drug	Company	Development status/notes
TC-5619	Targacept	Positive result in 185-pt Phase II study in CIAS ( $p=0.054$ ). Significant at two of three measurement dates (4 wks, $p=0.018$ and 12 wks, $p=0.041$ ). Results were favourable for tobacco users vs non-users, where no activity was seen (note the prevalence of smoking in schizophrenia pts ~80%).
EVP-6124/ MT-4666	EnVivo Pharma/ Mitsubishi Tanabe	282-pt Phase II study shows significant difference on overall cognition (full CogState overall cognitive index; $p=0.05$ ) with strong trend on the MCCB Battery of cognition tests. Significant effects seen in key secondary endpoints: improvement in clinical function and negative symptoms. 300-pt, 24-wk Phase II study in mild to moderate AD (results due: Jun 2011).
RG3487 (RO5313534 /MEM 3454)	Roche	212-pt Phase II trial in CIAS completed (no results published). 360-pt, 24-wk Phase II study as add-on to donepezil in mild to moderate Alzheimer's disease (results: May 2011). An 80-pt Phase II study in mild to moderate AD showed statistical significant efficacy at the two lower (5 and 15mg/day) of the three doses tested ( $p\leq 0.05$ ) and a trend at the high (50mg/day) dose ( $p=0.083$ ).
AQW051	Novartis	132-pt Phase I/II study (results due: Mar 2011). 32-pt Phase II study (results: Sept 2011).

Source: Edison Investment Research

**Merck Serono Kv1.3 deal extended**

Merck Serono (Merck KGaA) has recently extended its collaboration with Bionomics to develop orally active Kv1.3 inhibitors of for multiple sclerosis for a further year to June 2012. Kv1.3 is a key regulator of the effector-memory T-Cells of the immune system that are key mediators of inflammatory diseases. Bionomics can earn up to US\$47m in milestones per compound based on successful development and commercialisation plus undisclosed royalties.

**Valuation**

We have revised our valuation to reflect our estimates of the current timelines of Bionomics' key R&D programmes and the potential markets addressed and have also made certain changes to the licensing assumptions to reflect our views of current industry trends. The risk-adjusted net present value (rNPV) now comes to A\$255m, which we compare with Bionomics' EV of A\$154m (market cap of A\$174m less A\$20m cash), highlighting an attractive investment case.

We assume BNC1205 will target three specific cancer indications: mesothelioma, RCC and ovarian cancer, for which we have projected potential market values and shares. The rNPV is also based on Edison's assumptions of the economics of potential licensing deals, as well as the timelines and probability associated with successful development (shown in Exhibit 7).

We have also revised our prior assumptions on the potential economics of licensing deals, such that there is now a larger earlier element (upfront and development milestones) with a slightly lower royalty. These payments are risk adjusted in the model (eg we assume a 50% probability of obtaining a \$50m upfront for BNC105).

**Exhibit 7: Edison rNPV model inputs**

Note: The rNPV is calculated using assumptions of clinical development times, peak sales, potential royalty rates, milestones and development costs up to the expected point of licensing. Preclinical projects are only included if at the IND stage or partnered.

Product	Indication	Status	Probability of success	Est launch	Est peak market	Current market value	Est maximum royalty	Est peak sales
BNC105	mesothelioma	Phase II	30%	2015	15%	\$750m	16%	\$128m
BNC105	mRCC	Phase II	30%	2014	15%	\$1,500m	16%	\$491m
BNC105	ovarian cancer	Phase II	30%	2015	10%	\$1,500m	16%	\$241m
BNC210	anxiety	Pre-Phase II	20%	2014	8%	\$5,000m	12%	\$661m
BNC210	Other CNS	Pre-Phase II	20%	2015	5%	\$10,000m	12%	\$826m
Kv-1.3	MS/other autoimmune	Preclinical	5%	2016	5%	\$10,000m	8%	\$900m

<b>Total rNPV</b>	<b>A\$255m</b>
<b>Current net cash</b>	<b>A\$20m</b>
<b>Total valuation</b>	<b>A\$275m</b>

Source: Edison Investment Research

The sales potential of BNC210, particularly in anxiety, is difficult to assess at this point. Anxiety has historically been a large CNS market, but is now largely served by generic products and has contracted significantly to around \$5bn/year. Depression remains much larger, some \$19bn in 2009, although again with many agents now generic. Because of this, we assume development would be targeted by a potential partner at poorly-served sub-populations. For the purposes of valuation, we have therefore made the assumption, presumed conservative, of BNC210 peak sales of around \$0.8bn in each of the two indications, although note that sales of leading agents, such as Effexor (venlafaxine, indicated for anxiety and depression) have been measured in the order of several billion dollars per year.

## Sensitivities

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Key sensitivities relate to the success of the ongoing BNC105 studies and Bionomics' ability to secure partnering deals for both BNC105 and BNC210 on attractive economic terms. As with all drug development activities, there are risks associated with the possibility of unfavourable outcomes in clinical trials, success of competitors and a dependence of potential and actual commercial partners.

## Financials

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Bionomics has reported a quarterly cash flow statement ahead of full FY10/11 accounts, due shortly. This shows that FY10/11 revenues (from customers) for the year were A\$4.4m and cash at 30 June was A\$16.1m, before the A\$4.1m proceeds of the facility sale and lease-back. Hence, cash afterwards will be c A\$20.2m. This should provide funding to mid calendar 2013 (end FY12/13), based on a model that does not anticipate growth in revenues or upfront payments and milestones from any new licensing deals (although the forecasts have not been updated to reflect any differences in planned R&D expenditure as a result of the new development plan for BNC105).

Cash was boosted by the share issue in May, which raised A\$14.3m (and at the same time placed 60m of the 80m shares held by Start-up Australia Ventures, a founder shareholder).

Edison's financial model (shown in Exhibit 8) does not anticipate upfront payments or milestones from any new licensing deals, as per our normal policy.

**Exhibit 8: Financial results and forecasts**

Note: Under Australian accounting standards, interest income is treated as a revenue item. For international comparability, we have adjusted financial forecasts to exclude this and include grant income, per IFRS. Interest income is shown separately in the P&L (reported pre-tax profit is the same as under Australian accounting standards). The facility sale-and-leaseback is expected to take place early in FY12, but we assume it will be treated as a FY11 event. No assumption of potential licensing deals is anticipated in the model.

	A\$'000s	2008 IFRS	2009 IFRS	2010 IFRS	2011e IFRS	2012e IFRS
Year end 30 June						
<b>PROFIT &amp; LOSS</b>						
<b>Revenue</b>		<b>6,513</b>	<b>4,321</b>	<b>3,396</b>	<b>4,467</b>	<b>4,060</b>
Cost of sales		(213)	(338)	0	0	0
Gross profit		6,300	3,983	3,396	4,467	4,060
<b>EBITDA</b>		<b>(4,058)</b>	<b>(5,628)</b>	<b>(7,163)</b>	<b>(7,882)</b>	<b>(10,104)</b>
<b>Operating profit (before GW and except.)</b>		<b>(4,661)</b>	<b>(6,159)</b>	<b>(7,644)</b>	<b>(7,932)</b>	<b>(10,154)</b>
Intangible amortisation		(479)	(502)	(474)	(500)	(500)
Exceptionals		0	0	0	0	0
Share-based payments		(258)	(242)	(336)	(242)	(241)
<b>Operating profit</b>		<b>(5,398)</b>	<b>(6,903)</b>	<b>(8,454)</b>	<b>(8,674)</b>	<b>(10,895)</b>
Net interest		(313)	4	240	204	350
<b>Profit before tax (norm)</b>		<b>(4,975)</b>	<b>(6,156)</b>	<b>(7,404)</b>	<b>(7,728)</b>	<b>(9,804)</b>
<b>Profit before tax (FRS 3)</b>		<b>(5,712)</b>	<b>(6,899)</b>	<b>(8,214)</b>	<b>(8,470)</b>	<b>(10,545)</b>
Tax		359	37	0	0	0
<b>Profit after tax (norm)</b>		<b>(4,616)</b>	<b>(6,119)</b>	<b>(7,404)</b>	<b>(7,728)</b>	<b>(9,804)</b>
<b>Profit after tax (FRS 3)</b>		<b>(5,353)</b>	<b>(6,862)</b>	<b>(8,214)</b>	<b>(8,470)</b>	<b>(10,545)</b>
Average number of shares outstanding (m)		225.3	243.0	300.8	324.8	344.7
EPS - normalised (c)		(2.0)	(2.5)	(2.5)	(2.4)	(2.8)
EPS - FRS 3 (c)		(2.4)	(2.8)	(2.7)	(2.6)	(3.1)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross margin (%)		96.7	92.2	100.0	100.0	100.0
EBITDA margin (%)		N/A	N/A	N/A	N/A	N/A
Operating margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>						
<b>Fixed assets</b>		<b>19,457</b>	<b>18,837</b>	<b>17,618</b>	<b>9,530</b>	<b>9,000</b>
Intangible assets		10,839	10,458	9,711	9,211	8,711
Tangible assets		8,618	8,379	7,908	319	289
Investments		0	0	0	0	0
<b>Current assets</b>		<b>8,856</b>	<b>5,888</b>	<b>13,896</b>	<b>21,531</b>	<b>11,593</b>
Stocks		79	122	113	149	135
Debtors		2,315	775	847	850	773
Cash		6,280	4,757	12,612	20,444	10,597
Other		182	232	324	88	88
<b>Current liabilities</b>		<b>(3,051)</b>	<b>(2,791)</b>	<b>(3,236)</b>	<b>(3,043)</b>	<b>(2,879)</b>
Creditors		(2,109)	(1,626)	(2,008)	(1,869)	(1,705)
Other current liabilities		(241)	(109)	(70)	(69)	(69)
Short-term borrowings		(572)	(529)	(627)	(627)	(627)
<b>Long-term liabilities</b>		<b>(3,955)</b>	<b>(3,850)</b>	<b>(3,343)</b>	<b>(597)</b>	<b>(597)</b>
Long-term borrowings		(3,536)	(3,165)	(2,692)	0	0
Other long-term liabilities		(50)	(50)	(50)	(50)	(50)
<b>Net assets</b>		<b>21,307</b>	<b>18,083</b>	<b>24,936</b>	<b>27,421</b>	<b>17,118</b>
<b>CASH FLOW</b>						
<b>Operating cash flow</b>		<b>(6,512)</b>	<b>(4,986)</b>	<b>(7,100)</b>	<b>(8,058)</b>	<b>(10,177)</b>
Net interest		569	287	468	204	350
Tax		0	0	0	0	0
Capex		(386)	(107)	(43)	(20)	(20)
Payment of deferred consideration		0	0	0	0	0
Capitalisation of development costs		0	0	0	0	0
Expenditure on intangibles		0	(4)	(3)	0	0
Acquisitions/disposals		0	0	0	4,124	0
Financing		103	3,739	14,944	14,274	0
Dividends		0	0	0	0	0
Net cash flow		(6,226)	(1,070)	8,266	10,524	(9,847)
<b>Opening net debt/(cash)</b>		<b>(8,401)</b>	<b>(2,173)</b>	<b>(1,063)</b>	<b>(9,293)</b>	<b>(19,817)</b>
HP finance leases initiated		0	0	0	0	0
Other		(4)	(39)	(37)	0	0
<b>Closing net debt/(cash)</b>		<b>(2,172)</b>	<b>(1,063)</b>	<b>(9,293)</b>	<b>(19,817)</b>	<b>(9,971)</b>

Source: Edison Investment Research, Bionomics accounts

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