

**In this edition...**

What a big week for Australian biotech! It started off with an acquisition bid for Chemgenex by Cephalon, which was no real surprise, then Bionomics released some excellent Phase I data for its anxiety treatment drug candidate which could become the next Valium or Prozac, setting the company up for a significant licensing deal. Then to finish off the week Biota stunned the market with a US\$231 million funding grant from BARDA to bring its flu drug to market in the US on its own. And if that wasn't enough, at the time of release of this edition, Qiagen has just made a \$341 million bid for Cellestis (to be covered in the next edition).

We also look at the AFL and the ARL taking up Cogstate's cognition test for players and provide an update on Alchemia.

**The Editors**

**Companies Covered: ACL, BNO, BTA, CGS, CXS, Quarterly Review**

	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)	38.5%
<b>Cumulative Gain</b>	<b>301%</b>
<b>Av Annual Gain (9 yrs)</b>	<b>18.5%</b>

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

Blake Industry & Market Analysis Pty Ltd  
ACN 085 334 292  
PO Box 193  
Richmond Vic 3121  
AFS Licence  
No. 258032

Enquiries for *Bioshares*  
Ph: (03) 9326 5382  
Fax: (03) 9329 3350  
Email: info@bioshares.com.au

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

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

Individual Subscriptions (48 issues/year)  
**\$350** (Inc. GST)  
Edition Number 402 (1 April 2011)  
ISSN 1443-850X

Copyright 2011 Blake Industry and Market Analysis Pty Ltd. ALL RIGHTS RESERVED.  
Secondary electronic transmission, photocopying, reproduction or quotation is strictly prohibited without written consent of the publisher.

# Bioshares

1 April 2011  
Edition 402

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

*Extract from Bioshares –*

## ***Bionomics – Sitting on a Goldmine?***

Bionomics (BNO: \$0.50) released results from two Phase I trials of its anti-anxiety compound BNC210, which is orally administered and potentially suitable for once a day dosing.

The first trial enrolled healthy volunteers who were given a substance that induced a panic attack. Fifteen people in the study group of 59 experienced a panic attack. When administered BNC210, the number and intensity of symptoms decreased faster than placebo. This was statistically significant. Subjects who received BNC210 recovered to a 'normal' state more quickly – in 10 minutes compared to 60 minutes for those on placebo.

In the second trial, BNC210 was compared to Lorazepam, a drug similar to Valium. Twenty-one of 24 enrolled subjects were evaluated. The study showed that with BNC210 there was no addiction, memory impairment, sedation loss of coordination or reduction in attention, whereas the opposite occurred with Lorazepam.

The point about BNC210 is that it appears to be a 'clean' drug, appearing to have eliminated many of the side effects associated with current anti-anxiety drugs. Its 'clean' profile could be worth billions, given that it is addressing two key problems of addiction and sedation. The worst side effect encountered in the 100 or so subjects administered the compound has been a slight headache, when administered as a dose of 2000mg, more than 15 times the clinical dose.

We now expect Bionomics to licence BNC210 to a large pharmaceutical firm, perhaps by mid-year. Its first challenge will be in developing sufficient competitive tension for the deal. However, in our view that should not be that difficult to achieve if BNC210 is such a promising molecule. Its second challenge will be in deciding the terms of such a licensing deal, whether to load more cash into the front-end of the deal and take a lower royalty rate, or vice versa. We expect it to structure a deal that will allow it to maintain an independent future, although that would almost certainly rule out a prospective partner taking an equity stake in the company.

Bionomics has spent approximately \$4 million on developing BNC210 to date. With potential up-front payments under a license for BNC210 ranging from, in our estimate, \$25 to \$75 million, the investment return on that project cost could be one of the best licensing returns achieved for Australian biotech drug development program. The terms could be even more attractive given that BNC210 has potential as an anti-depressant medicine as well as an anxiolytic.

### **Start-up Australia Tender Offer**

Start-up Australia, which holds a 27.76% stake in Bionomics, has elected to not extend a tender process to sell its holding. Start-up Australia declared this in a letter to Bionomics on the same day (Wednesday March 30) that Bionomics released its BNC210 trial results.

– Cont'd over

The deadline for the tender was March 31, 2011. A consequence of the tender process would have been that a successful tenderer would have been required to make a take-over bid for Bionomics. The implication of the Start-up Australia decision to not extend the tender period is that Bionomics has been successful in maintaining its goal sustaining an “independent future”.

Although it appears that the Start-up Australia stake will not be sold by tender, Start-up Australia may seek to sell some or all of its stake through broker channels, however such selling would likely be to more than one investment group.

### **Summary**

Bionomics has created in the form of BNC210 one of Australia’s most promising therapeutic products, appearing to have solved chemistry problems unsolved in the wider pharmaceutical community. Bionomics is capitalised at \$159 million.

*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**

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

**Disclaimer:**

Information contained in this newsletter is not a complete analysis of every material fact respecting any company, industry or security. The opinions and estimates herein expressed represent the current judgement of the publisher and are subject to change. Blake Industry and Market Analysis Pty Ltd (BIMA) and any of their associates, officers or staff may have interests in securities referred to herein (Corporations Law s.849). Details contained herein have been prepared for general circulation and do not have regard to any person's or company's investment objectives, financial situation and particular needs. Accordingly, no recipients should rely on any recommendation (whether express or implied) contained in this document without consulting their investment adviser (Corporations Law s.851). The persons involved in or responsible for the preparation and publication of this report believe the information herein is accurate but no warranty of accuracy is given and persons seeking to rely on information provided herein should make their own independent enquiries. Details contained herein have been issued on the basis they are only for the particular person or company to whom they have been provided by Blake Industry and Market Analysis Pty Ltd. The Directors and/or associates declare interests in the following ASX Healthcare and Biotechnology sector securities: ACL, ACR, ADO, BNO, BTA, CGS, COH, CSL, CUV, FLS, MYX, HXL, IDT, IMU, PAB, PBP, PXS, PYC, SHC, SOM, SPL, TIS, UBI. These interests can change at any time and are not additional recommendations. Holdings in stocks valued at less than \$100 are not disclosed.

**Subscription Rates (inc. GST)**

48 issues per year (electronic distribution): **\$350**

For multiple email distributions within the same business cost centre, our pricing structure is as follows:	\$550	2-3 email addresses
	\$750	4-5 email addresses
	\$950	6-10 email addresses

To subscribe, post/fax this subscription form to:

**Bioshares**  
**PO Box 193 Richmond VIC 3121**  
**Fax: +61 3 9329 3350**

I enclose a cheque for \$ \_\_\_\_\_ made payable to **Blake Industry & Market Analysis Pty Ltd**, or

Please charge my credit card \$ \_\_\_\_\_ MasterCard  Visa

Card Number

Signature \_\_\_\_\_ Expiry date \_\_\_\_\_

**Subscriber details**

Name \_\_\_\_\_

Organisation \_\_\_\_\_

Ph ( ) \_\_\_\_\_

Emails \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_