

In this edition...

Selecting ten stocks (out of more than 100) that are expected to post great returns over a twelve month period is an ambitious undertaking in the world of biotech. Setbacks can appear unexpectedly and without warning, causing share prices to plummet.

Assuming things do go to plan, we expect our list of ten picks for 2011 to offer good returns, although some stocks may peak earlier in the year, enabling investors to lock in some profits and pick up stocks that have yet to run.

This year's selection includes Pharmaxis, which could do well if and when Bronchitol gains European approval, and Somnomed, a stock in the sleep medicine area which recently broke into profitability.

The Editors

Companies Covered: ACL, BTA, BNO, CUV, PYC, PXS, SHC, SOM, SRX, SPL

	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)	32.0%
Cumulative Gain	284%
Av Annual Gain (9 yrs)	18.5%

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Bioshares

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

The Bioshares Top 10 Picks for 2011

As measured by commercial deals, it was a stunning year for the Australian biotech sector in 2010. In the year ahead, positive sentiment and interest in the sector is set to continue and improve as biotech companies move through pivotal phases of their commercialisation pathways.

For investors looking at this sector, one point that must always be considered is that of locking in profits when times are good. The biotech sector is generally sentiment driven. This means that stocks generally become overbought at some period during the upswing, and are also oversold when sentiment turns sour. As a general rule when stocks double, investors should consider locking in some profits.

With this in mind, we take a look at our top 10 sector picks for 2011, with a focus on stocks that are due to move through major inflection points in 2011 or companies that expect to see strong operational growth. The investment mindset is to be on the lookout for stocks that will become the high achievers of 2011, in the way that Mesoblast and Acrux were in 2010.

The following 10 stocks have been selected from the **Bioshares Model Portfolio**, noting that **Somnomed** has been placed in the portfolio this week.

Bionomics (BNO: 34 cents)

(Share price change in 2010: -17%)

There are a few major forks in the road ahead for Bionomics in the first six months of 2011. Bionomics is expecting clinical trial results from both of its clinical stage compounds. Its major shareholder, Start-up Australia, has also initiated a tender sale process for its stake, which would trigger a sale of the company if it proceeds.

Bionomics has the leading vascular disrupting agent in development, called BNC105. The drug works by breaking up tumours from the inside by selectively destroying tumour blood vessels. Interim results from a 152 patient Phase I/II study (in the USA) in people with kidney cancer are expected to be released in the first quarter of 2011. This interim data will look at the safety aspect of dosing BNC105 with another cancer drug Afinitor. Some interim efficacy data, such as vascular disruption as measured by biomarkers in the blood stream and images of tumour destruction, will be received.

Once the maximum tolerated dose is determined, the trial will expand into a Phase II trial to compare Afinitor against a combination of Afinitor with the maximum tolerated dose of BNC105. The end point will be the improvement in progression-free survival at six months. This data is not expected until 2012.

By mid 2011, Bionomics also expects to receive interim data from its Phase II trial of BN105

– Cont'd over

Summary – Bioshares Top 10 Picks for 2011

Company	Code	CMP	Cap'n (\$M)	Investment Thesis
Alchemia	ACL	\$0.73	\$140	Fondparinux approval expected shortly
Bionomics	BNO	\$0.34	\$108	Drivers from interim data from multiple clinical trials
Biota Holdings	BTA	\$1.28	\$231	Potential early traction for Inavir in Japan
Clinuvel Pharmaceuticals	CUV	\$2.14	\$65	EU regulatory approval submission
Pharmaxis	PXS	\$3.00	\$678	European approval and launch of Bronchitol in Europe
Phylogica	PYC	\$0.077	\$22	Expects to sign three more library access deals in 2011
Sunshine Heart	SHC	\$0.035	\$35	Completion and positive results from feasibility trial
Somnomed	SOM	\$0.94	\$38	Strong growth in unit sales to be maintained for FY2011
Starpharma Holdings	SPL	\$0.84	\$202	Platform technology base to continue to yield new partnerships, launch of condom microbicide product
Sirtex Medical	SRX	\$6.12	\$341	Shipping from Singapore facility to commence 2011 H1, return to strong sales growth

(in Australia) in 60 patients with mesothelioma. This is a very difficult cancer to treat but one worth trying, particularly given the highly vascularised nature of the lung. Final results should be out in 2012.

The company is also anticipating results in the first quarter of 2011 from two Phase Ib studies (in Europe) with its alternative anxiety/depression treatment drug candidate, BNC210. The program is seeking to deliver the next, improved version of Valium or Prozac. The first trial will investigate how effective BNC210 is in reducing induced panic-like symptoms. The second trial will investigate what effect BNC210 has on memory and its sedation effects compared to an existing drug, Lorazepam, which is closely related to Valium.

Bionomics is capitalised at \$108 million and had \$12.6 million in cash at the end of June last year.

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, Halcygen Pharmaceuticals, Impedimed, QRxPharma, Patrys, LBT Innovations, Hexima, Mesoblast, Atcor Medical, BioMD, Tissue Therapies, Viralytics, Phosphagenics, Immuron

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