ISSN 1443-850X

Bioshares

23 July 2014
Edition 560

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

Companies covered: Summit Coverage - ALT, IMC, IPD, RNO

	Bioshares Portfolio
Year 1 (May '01 - May '02)	21.2%
Year 2 (May '02 - May '03)	-9.4%
Year 3 (May '03 - May '04)	70.6%
Year 4 (May '04 - May '05)	-16.3%
Year 5 (May '05 - May '06)	77.8%
Year 6 (May '06 - May '07)	17.4%
Year 7 (May '07 - May '08)	-36%
Year 8 (May '08 - May '09)	-7.4%
Year 9 (May '09 - May '10)	50.2%
Year 10 (May '10 - May'11)	45.4%
Year 11 (May '11 - May '12)	-18.0%
Year 12 (May '12 - May '13)	3.1%
Year 13 (May '13 - May '14)	26.6%
Year 14 (May '14 -)	3.8%
Cumulative Gain	**367%**
Av. Annual gain (14 yrs)	**16.4%**

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

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Individual Subscriptions (48 issues/year)
$400 (Inc.GST)
Edition Number 560 (23 July 2014)

Extract from Bioshares –

Reports From The 10th Bioshares Biotech Summit

The 10th Bioshares Biotech Summit was held in Queenstown, New Zealand over Friday July 18 and Saturday 19 July. More than 170 people registered for the event to hear presentations from a diverse group of speakers. Our coverage of a selection of sessions from the event follows.

Investment Panel

The Investment Panel comprised Danny Sharp (Director - Corporate Finance, Canaccord Genuity), Scott Power (Senior Analyst, Morgans), Steve Yatomi-Clarke (Director - Corporate Finance, Paterson's Securities), Stuart Roberts (Analyst - Baillieu Holst), Anton Uvarov (Analyst - Forrest Capital), and Eddie Grieve (Senior Manager - Listings and Issuer Services, ASX).

In reviewing recent activity in the sector, Scott Power agreed that it has been a rollercoaster experience. The year started off well, with Benitec and Viralytics raising some good money which was followed by number of companies causing disappointment, so the sentiment really fell out of the sector. Power is now sensing that there are a number of green shoots starting to emerge again. He believes there is a lot more interest in health generally, which is driven at the larger end by the Healthscope float and a couple of aged care providers coming onto the listed market, so the actual sector is getting larger. Power said that we are going to see that increase quite significantly over the next decade as the thematic of an aging population really starts to take hold. There is a lot more investor interest in companies in that space. However, in the near term he believed things are pretty patchy – investors are looking for near term milestones which will drive the share price, as opposed to getting carried away with long term plans.

Stuart Roberts said that he thought the interest level (in biotech) was at its highest level in all of the 12 years he has been doing biotech stock research. Impedimed's gaining of its CPT1 code was noteworthy because previously that was a busted up company which is now on the road to recovery. "Investors have to pay attention to that sort of thing," he said.

Danny Sharp said that from an institutional investor perspective there has been both a combination of opportunity and frustration, with the frustration stemming from the fact that there is not enough choice from an institutional viewpoint in the sector. "We have seen a lot of companies of quality go out too early in terms of being taken out and that has left a quite a void between the $50 million market cap and $500 million market cap groups, which we are working really hard to fill with IPOs and new issues. I think that also that there is a general sense of mis-pricing in the Australian market," he said.

Anton Uvarov discussed the importance of US markets to Australian markets. "Without strong US markets we wouldn't have seen the Viralytics or Benitec capital raisings, or the Bionomics-Merck deal or Shire acquiring Fibrotech. So the fundamental link between the ASX and US markets is very important."

Cont'd over

Uvarov said that the US Federal Reserve chairman, Janet Yellen, recently mentioned that the valuations on small cap biotech companies and media companies are quite stretched and the Federal Reserve would like to see some cooling down in the sector. “In my experience it is the first time the Federal Reserve has mentioned biotech. Biotech dropped 5% that day. Fortunately biotech in the US has its own Stuart Roberts, and there were lots of people saying that the Fed should focus on monetary policy rather than the markets.”

Continuing with the US-Australia markets discussion, Steve Yatomi-Clark said that one of the problems is to believe that the grass is always greener. “Anything under $200 million is struggling in the US. VCs continue to struggle from what I have seen,” he said. Yatomi-Clark sees two-to-three opportunities from the US a week, from companies seeking to raise money in Australia.

Uvarov said that the difference in the valuations (between the US and Australia) can be explained by the general nature of the ASX. “To price Viralytics at the price it could be trading at in the USA, you would need a big volume, and you can't get that on the ASX. That is why Viralytics is trading at where it is right now,” he said.

Yatomi-Clark said there are a number of US investors who are waking up to the fact that you can get quality assets (in Australia) at the ‘pointy end’ of clinical trials, at a fraction of what you would pay in the US. “I am hoping that Viralytics and Benitec will be the thin edge of the wedge,” he commented.

ASX and Listings

Eddie Grieve said that the ASX has had its best IPO year in 13 years. “Things are pretty buoyant, the market is pretty much open for floats.” He repeated Power’s views that “we have seen a lot of interest in health related type floats, for example Monash IVF. In fact with three IVF companies listed, we are the only exchange in the world with IVF companies listed.”

Grieve said the challenge is that we live in a country that has the third largest pool of investment funds in the world. Self managed super funds hold $550 billion in assets and 38% of that goes into ASX stocks. “So there is plenty of money there. The challenge is to get it to come to this sector,” he said.

The ASX has over the years looked at the ways to drive the connections between companies and investors. In 2006 the ASX started with the biotech reporting code. The ASX is now in the third year of an equity research scheme. This is a fund made available to cover companies which are currently not covered and now about 160 companies are covered, which previously weren't .

At the end of 2012, the ASX reduced the minimum spread requirement from 400 to 300 shareholders. The ASX originally wanted 200 but ASIC rejected that. The other area of change has been freeing up the placement capacity for smaller companies, so that they can get a mandate to raise up to 25% of issued capital rather than 15%. “Unfortunately the way we implemented that made it quite cumbersome. We are keen to get feedback on how to improve that. It's due for review at the end of this year,” said Grieve.

12 Month Outlook

Sharp was generally optimistic for the next 12 months, expecting Australian life sciences sector market valuations to increase even while the Nasdaq valuations start to cool off. In his view “there is a huge valuation gap and that must close over a period of 12 months.”

Roberts remains bullish on the sector. “It has too much going for it!”

Yatomi-Clark was also positive about the next 12 months. “We are in a much better state of health than 12 months ago. There was a fantastic few months of the window opening and clever companies raised a lot of capital which will give then some oxygen to get some runs.”

Power anticipates a lot more interest coming in health and more floats coming through both at the big end and at the small end. Power said “there are lot of these companies sitting on cash and that there are good milestones to come. So the sector should sit much higher. The broader market is a bit toppy, that's general investors being quiet, but they are looking for sectors which will move and health is one of them.”

Uvarov said that (in the US) “everybody expects the 3rd quarter and 4th quarter to be strong again. We will see another over performance of biotech compared to the general market . In Australia we will see some good wins in the fourth quarter of this year. We are done with the misses and will be back to the hits.”

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: Cogstate, Bionomics, Impedimed, QRxPharma, LBT Innovations, Tissue Therapies, Viralytics, Phylogica, pSivida, Antisense Therapeutics, Benitec BioPharma, Admedus, Calzada, Invion, Circadian Technologies, Imugene, Analytica