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# US funds trawling for biotech bargains

**EXCLUSIVE**

**RICK WALLACE**  
INVESTMENT

US investment funds are sifting the Australian biotech sector for potential bargains even as Australian institutional investors continue to shun local medical and health companies.

An explosion in the value of US biotech stocks — which are trading at 49 times projected earnings on the main index — has led funds to search for cheaper investments abroad, including in Australia.

Malcolm McColl, the managing director of cancer immunotherapy hopeful Viralytics, said there was strength in Australia's biotech innovation but it would be US funds that would profit from breakthroughs under the current investment settings.

Dr McColl told *The Australian* that Viralytics — like many Australian biotech firms — was raising money in the US with far less difficulty than in Australia, where institutional investors largely shun the sector.

"It is tough here. We spent a fair bit of time trying to raise money in Australia," he said.

However, in the US and Britain, Viralytics had little difficulty raising \$27m on the back of phase II trial results for its virus-based therapy for melanoma.

"It's fair to say that since that capital raising some of those funds have been looking for assets in Australia and there have been some examples where they have invested in stocks here," Dr McColl said.

"In the US, the biotech sector has been on such a run that it is

possibly overvalued. They look at us and think there is a lot of upside.

"They are really surprised about our market capitalisation. We see similar companies in the US that are (worth) multiple hundreds of millions.

"(But) it's not just 'this looks cheap'. It's about what the data looks like."

Among the main holders of Viralytics' stock are the US-based BVF Partners, Sabby and Cormorant. Britain's Adingworth holds more than 6 per cent of the company.

Viralytics' experience mirrors that of fellow small-cap biotech hopeful Benitec Biopharma, which recently raised \$30m overseas to expand trials of its gene therapy treatment for hepatitis C and other diseases, but found it far tougher to win support from Australian institutional investors.

Dr McColl — a former CSL and Mayne Pharma executive who has headed Viralytics since 2013 — said the difficulty for the

local funds was sometimes about scale, since Australian biotech companies (aside from the sector's heavyweights) are comparatively small.

The sector also complains that investment guidelines for Australian funds are too conservative and there are few analysts that actually understand the science, as opposed to the US and Britain where there are biotech specialists in the investment community.

"The big winners will be the US investors rather than our blokes," Dr McColl said.

"(But) I think it will change. The thing that will change (it) is a few more success stories. We are

hoping that we will be one."

Viralytics' product Cavatak is in a phase II trial for the treatment of late-stage melanoma and a phase I/II multi-dose intravenous clinical trial for late-stage melanoma, non-small cell lung, metastatic bladder, and castrate-resistant prostate cancers.

The company also has a phase I study initiated recently in superficial bladder cancer with Cavatak delivered by catheter directly into the bladder.

Viralytics now has enough cash to go through to the end of 2016 and will ultimately seek partners to develop its technology. The company, which is valued at about \$79m on its current share price of 43c, hopes to prove the drug's efficacy at activating the common cold virus to fight tumours.

In Australia, 2014 was a difficult year for some biotech investors with a string of companies smashed by the market amid bad clinical trial results and regulatory refusals.

That trend has continued into this year, with larger player Sirtex having \$1bn wiped off its value last week when its shares fell by more than 50 per cent on the back of poor trial results for its liver cancer therapy.

In contrast, the biotech sector in the US is arguably in one of its cyclical bubble phases, with the Nasdaq Biotechnology index — which has quintupled in the past decade — gaining 34 per cent last year. Trading at 49 times projected earnings for 2015, the index is more than twice as expensive as the main Nasdaq index.



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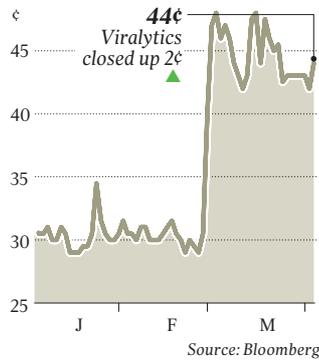
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AMOS AIKMAN

**Australian biotechs are cheap compared to the US**