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Biosashares

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Edition 337

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

In this edition...
With the AGM season in full swing, more than a handful of biotech companies have taken the opportunity to time their annual reporting meetings with announcements regarding new investments or new product development opportunities. Biota announced at its AGM the acquisition of two companies with early stage programs in the field of antibiotics. Starpharma put foward a plan to develop Vivagel as a treatment for bacterial vaginosis. Starpharma also conducted its AGM while in a trading halt, in effect while it completes a capital raising. Capital inflows have certainly opened up for well structured, advanced stage biotechs, with QRxPharma announcing a $23 million placement.

The Editors
Companies Covered: ACR, BTA, HXL, SPL, UBI

	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 - Current)	80.6%
Cumulative Gain	**251%**
Av Annual Gain (9 yrs)	**22.0%**

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Extract from Bioshares –

Wheat Begins to Open Up for Hexima

Hexima (HXL: $0.53) is a Melbourne-based agricultural biotechnology company that is developing disease and insect resistance technologies and a multi-gene expression vehicle.

A development that has taken place in 2009 that augers well for Hexima is the creation of a unified voice by wheat farmers in the USA, Canada and Australia, who contrary to previous positions, are now supporting the genetic engineering of wheat varieties to improve productivity and address disease. These groups have observed the substantial benefits, monetary and otherwise, that have flowed to corn growers who have planted GM corn varieties. Since the 1930s, wheat yields have doubled to 40 bushels an acre in the US, whereas corn yields have increased eight fold to 153 bushels an acre. GM corn varieties introduced since the 1990s have contributed to a 36% increase in corn yields in the US.

The US, Canadian and Australian groups intend to work together to synchronize the commercialisation of genetically engineered traits in wheat crops. Wheat is the largest crop grown in the world, with 223 million hectares under cultivation each year.

Where this is especially relevant to Hexima is in the area of fungal disease resistance technologies, for which it has developed anti-fungal proteins. Wheat is subject to fungal diseases, some of which are closely related to those that affect corn. Hexima has licensed its anti-fungal proteins to Du Pont for use in corn and soybean, but retains rights for wheat, barley and other crops.

With wheat farmers from three export-focused production territories now pushing

Cont'd over

Monsanto's Dispute with DuPont

A patent infringement dispute has emerged between two global seed companies, **Monsanto** and **DuPont**, a company which has licensed technology from Hexima. In May 2009, Monsanto sued DuPont to prevent DuPont from using Monsanto's proprietary Roundup Ready herbicide tolerant technologies in soybeans and corn.

DuPont had been developing a product similar to Roundup Ready called Optimum GAT. While developed as a stand alone product DuPont now seeks to stack Optimum GAT with Roundup Ready. However, Monsanto has refused to grant Dupont license rights. Monsanto is suing DuPont for patent infringement and DuPont has counterclaimed, alleging anti-competitive behaviour. This dispute underlines the strategic importance of owning 'must have' traits.

Without predicting an outcome for such litigation, the dispute, in which one large company is seeking to exert dominance over another large rival, has the potential to increase the attractiveness of smaller technology development companies such as Hexima, which are developing proprietary crop biotechnologies that large seed companies can adopt in order to sustain revenues and profits and maintain their competitive positions.

In our view, a contest between Monsanto and DuPont is likely to place upwards pressure on emerging technology asset prices, such as those owned by Hexima.

for GM wheat, the recent announcement of an alliance between Hexima and the **Australian Centre for Plant Functional Genomics** is timely and strategic. The partnership will explore opportunities to develop traits that address fungal resistance and environmental stress, such as drought, salinity and mineral deficiencies.

It is worth noting that in July this year Monsanto acquired a **Westbred LLC**, a wheat germplasm company, and adding wheat to its portfolio, it is also signalling that it too has observed a sea change in attitudes by wheat growers.

Although the introduction of wheat with genetically engineered traits would be more than a decade away at least, the race to develop new traits and develop varieties with multiple traits is now on. It is more than likely that technologies that improve wheat yields will be acquired by the major seed companies at an early stage if evidence from early field trials is strong enough.
Hexima is capitalised at $42 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.

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

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