Biotech Daily

Friday August 22, 2008

Daily news on ASX-listed biotechnology companies

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*** BIO-GUIDE: IF MARC SINATRA WAS KING OF CIRCADIAN**

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MARKET REPORT

The Australian stock market was up 1.2 percent on Friday August 22, 2008 with the All Ordinaries up 60.6 points to 5,010.2 points.

Eleven of the Biotech Daily Top 40 stocks were up, 16 fell, six traded unchanged and seven were untraded.

Labtech was best, up 3.5 cents or 21.21 percent to 20 cents, followed by Genetic Technologies up 12.79 percent to 9.74 cents and Cellestis up 8.33 percent to $2.34.

Optiscan climbed 6.98 percent; Circadian was up 5.56 percent; CSL and Polartechnics were up more than four percent; with Arana, Avexa, Heartware, Pharmaxis and Novogen up more than one percent.

Living Cell led the falls, down 2.5 cents or 11.36 percent to 19.5 cents, followed by Impedimed down 10 percent to 72 cents.

Peplin and Viralytics lost more than seven percent; Agenix, Phylogica and Starpharma were down more than five percent; Biota and Sirtex fell more than four percent; Alchemia and Mesoblast were down more than three percent; Ventracor shed 2.22 percent; with Acrux, Clinuvel, Neuren and Resmed down more than one percent.

MARC SINATRA'S BIOGUIDE: CIRCADIAN

At a market capitalization of $43 million, Circadian is trading at a discount of 27 percent to its cash and listed investments of $59 million.

This values Circadian's unlisted technologies, including the $8 million Vegenics intellectual property alone, at a total value of zero. So a probable $20 million is valued at $0.00.

Clearly, Circadian needs to unlock this value for its shareholders. At the same time it would present a clean company like Chemgenex has become and Acrux always was, that is attractive to ordinary investors as well as potential high net worth corporate suitors.

Its current strategy to do this is a mix of drug development and out-licencing based on its Vegenics assets with its $46 million cash and the eventual sale of its other assets, when market sentiment returns, to finance these activities.

I believe an alternate strategy could accelerate the unlocking of this value, gain market recognition for the value of the unlisted assets and leave Circadian in a better position as a successful drug development company.

Central to this strategy is making Circadian look like a drug company, so the market values it as one. The 'new' Circadian looks like the old biotech incubator it once was, with a few new managers and committees. Hence it still attracts a discount.

Since Circadian has the core of a drug development company, this exercise is principally about stripping away assets that are surplus to its needs.

Circadian's holdings in Antisense, Avexa and Optiscan, collectively valued at $13 million, serve no strategic purpose, while Circadian's unlisted technologies, such as Dicarba Analogues and Syngene, are not compatible with Circadian's main anti-cancer technologies. Moreover, Circadian no longer has executives to actively manage these assets. The assets need to go.

Given that Circadian's lead candidate has just entered preclinical testing, its $46 million in cash is more than it needs.

Companies - like people - tend to live within their means. You don't really need that holiday home in the south of France do you, but if you have the cash, why not? For companies, it is even easier for managers to spend the cash, because it isn't theirs and limiting it forces them to focus on what really needs to be done.

Circadian says its cash burn will be between $10-12 million annually and since it has enough to focus on without in-licencing or buying additional technology no additional money should be needed for these activities, so I am inclined to leave it with three years of cash or $36 million. So $10 million can be cleaved from the company.

Some will argue it doesn't make sense to take away money they may need later, but I argue that capital raisings are a true test of a company's competence. Even in this so-called credit crunch year Heartware has raised $31 million and Peplin raised $24 million.

But there are other reasons for reducing Circadian's cash balance.

Having decided to strip the excess assets, the question is what to do with them? The obvious answer is: Give them back to shareholders.

Selling Circadian's stakes in Avexa, Antisense and Optiscan would have to be done at a significant discount at the moment and would wreak havoc on the share prices of those companies if sold on-market.

The best option is to transfer title of these shares directly to Circadian shareholders, who could keep or sell them and provide compensation for those with unmarketable parcels.

Dealing with the cash is easy: shareholders get a cheque proportional to their holding.

The remaining unlisted assets need to be sold or dumped.

The excess assets have one value within Circadian, but a higher value in shareholders' hands. This is due to the discount mentioned above.

An example of what can happen when assets are given back to shareholders is provided by the old Circadian.

In 2004, Circadian announced a capital return of 50 cents per $1.82 share. After this announcement, the stock opened at $1.88 and finished the day at $1.92. In that case, giving away money increased the value of the stock.

When the stock went ex-dividend, the price went from $2.02 to $2.31 when it should have fallen by the 50 cents dividend. Too much shouldn't be read into this, but it does show pulling money out of a company can be done without an equal fall in share price.

The net result of this capital return was a higher valuation of the company's assets.

Ideally, this excess asset stripping exercise should leave the new Circadian with a market capitalization of $44 ($36 million cash plus $8 million in Vegenics IP) with at least $23 million ($13 million in shares and $10 million cash) in excess assets going back to shareholders.

So shareholders could have up to $67 million in assets after the restructure as opposed to the $43 million they have by owning Circadian shares.

Circadian is a well recognized brand; it's also synonymous with its listed investment fund and incubator history and its name needs to change to make the break from this image.

A road show will be needed to convince the market Circadian has changed and to prick investor interest. These extra steps will help Circadian become more accurately valued.

This has been a hard piece to write. The issues in restructuring a company like Circadian are complex and the principles often counter-intuitive. I believe strongly that the plan I have outlined would be beneficial to shareholders, but as an outsider, there are always things I don't know. For any plan to work, these also need to be considered.

Marc Sinatra owns shares in Circadian Technologies

CIRCADIAN

Circadian says its revenue for the 12 months to June 30, 2008 fell 72.7 percent to $8,147,757 while it has posted a loss relating to its change of activities.
Circadian said its net loss after tax for the year was $1,147,805 compared to the previous year's profit after tax of $6,295,707.
The company said it had cash reserves at June 30, 2008 of $46.2 million and direct listed investments of $11.2 million with a further $1.6 million held indirectly.
Circadian said it disposed of shares in Metabolic and Avexa with a total realized gain of $4.5 million. In the previous year the company disposed of its 19 percent interest in Zenyth for $12.6 million.
Research and development costs for the year to June 30, 2008 were $3,419,266 compared to $3,155,206 in the previous year.
No dividend will be paid.
Circadian was up five cents or 5.56 percent to 95 cents.

SIRTEX

Sirtex is seeking an urgent hearing of its application seeking injunctive relief restraining founder Dr Bruce Gray from breaching his contractual obligations to the company.
Sirtex said Dr Gray provided notice of his intention to revoke an undertaking that he would not compete with the business of Sirtex (see Biotech Daily; August 12, 2008).
The undertaking is consistent with contractual obligations contained in the Subscription and Shareholders Agreement signed by Dr Gray when the company was established and other employment contracts relating to Dr Gray.
Sirtex previously announced that Dr Gray commenced proceedings against it in the Supreme Court of Western Australia seeking declarations that the relevant provisions of the Subscription and Shareholders Agreement and employee contracts were unenforceable as unreasonable restraints of trade.
The action between Sirtex and Dr Gray is related to a larger matter involving the University of Western Australia (see Biotech Daily; April 18, 2008). The Dr Gray proceedings are at an interlocutory stage and have not yet been listed for a final hearing.
There have been communications between the legal representatives of the parties since Dr Gray's notice revoking his undertaking was received.
Sirtex said Dr Gray indicated that he intended to pursue his revocation of the undertaking but informed Sirtex that it was not his present intention to be involved in any business which was competitive with any part of the business of Sirtex "as it existed in 1997".
The statement by Dr Gray of his present intention is qualified, not in the same terms as his undertaking and not consistent with the contractual obligations referred to above.
Sirtex has invited Dr Gray to reinstate his undertaking and to date he has not done so.
Sirtex fell 10 cents or 4.17 percent to $2.30.

PROGEN

Progen has appointed independent corporate advisory firm Beerworth and Partners to assess its business and operations and develop strategic options for review.
Progen said Beerworth would provide general corporate advice and assist as required.
Progen said the appointment of a corporate advisor was announced in its ASX release (see Biotech Daily; July 23, 2008) which noted the company's "strong cash position following the termination of the PI-88 Pathway phase III study in liver cancer".
Progen was unchanged at 65 cents.

[CSL]

Barclays Group has ceased its substantial shareholding in CSL with the sale of 1,568,392 shares (0.17%) for an average price of $37.82 a share.
CSL climbed $1.47 or 4.06 percent to $37.67.

[BIOTA]

Hunter Hall and associates have increased their substantial shareholding in Biota from 17,652,486 shares (9.76%) to 19,861,515 shares (10.96%).
Biota was down three cents or 4.2 percent to 68.5 cents.

[BIOPROSPECT, SOLAGRAN]

Bioprospect says it is encouraged by a screening trial of Solagran's Bioeffectives on Arabian horses to reduce the effects of equine gastric ulcer syndrome.
Bioprospect said the trial of three horses was conducted under veterinary supervision from the Sharjah Equine Hospital with a group of Arabian horses located at the Albidayer Stud in Sharjah, one of the emirates within the United Arab Emirates.
The stud is owned by Sheikh Mohammed Bin Saud Al Qasimi, a member of the UAE royal family.
Bioprospect said the screening of Bioeffective A was to ascertain any immediate effect on horses that have positively identified ulcers in their stomachs using endoscopic equipment.
The ulcers were graded at the start, during and completion of the trial in accordance with known protocols and guidelines.
A Bioprospect spokesman told Biotech Daily all three horses responded "to some extent".
Based on the encouraging results, Bioprospect said it would look at further evaluation on a larger scale to test the product as a feed supplement and direct drench candidate.
The company said equine gastric ulcer syndrome (EGUS) was "one of the horse industry's most common gastric complaints" and a term used to describe a wide array of clinical and behavioral symptoms that arise from the development of ulcers in a horse's stomach.
Bioprospect said there was a prevalence of the syndrome in horses used in competitive activities such as dressage, racing and show jumping. Gastric ulceration affects a large number of horses and it is quite common to see figures of up to 90 percent incidence in race horses, particularly for horses that are housed on a continual basis.
The cause of the syndrome is thought to be a combination of diet, stress related activity and behavior.
Bioeffective A was administered over a three month period with endoscopic examinations taken on four occasions throughout the trial.
All horses displayed a positive reaction in terms of reducing the grading levels over the treatment period. In one case the ulcers where down-graded from grade III to grade I during the Bioeffective treatment period. The horse received a 'no grading' at the conclusion of the treatment period.
The screening revealed that the horses willingly took the Bioeffective A drench and appeared to actually like the taste.
There were no adverse or anaphylactic reactions to the product.
Bioprospect will investigate potential collaborators to test defined Bioeffective A dose rates and formulations over larger groups and types of horses under veterinary supervision.
Bioprospect fell 0.1 cents or 4.76 percent to two cents with 4.2 million shares traded.
Solagran was up three cents or 6.82 percent to 47 cents.

AGENIX

Agenix has appointed lawyer Nicholas Weston as chairman, effective immediately.

Mr Weston practices in commercial, corporation and intellectual property law and is chairman of the Karma Currency Foundation.

Agenix fell 0.1 cents or 5.88 percent to 1.6 cents.