



Biotech Daily

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The Year In Review

Biotech Daily Summer Holiday Editorial

While black clouds ruled the biotechnology sector in the demise of Apollo Life Sciences and the falls from grace of Agenix, Alchemia, Avexa, Biota, Genetic Technologies, Progen and Ventracor, the silver lining is quite bright.

The initial public offerings of Genera Biosystems and Fluorotechnics raised funds for companies that have serious technologies and strong potential and the other capital raisings this year give lie to the claim that there is no money for biotechnology.

If you have the right story, the right compound or device, the right board and the right CEO there is plenty of money around.

For the record:

Peplin \$US30.7m (\$A46m); October 2008

Fluorotechnics \$9m; October 2008

Chemgenex \$13m; September 2008

Spinifex \$12m; September 2008

Heartware \$30m; May 2008

Phosphagenics \$9m; May 2008

Genera Biosystems \$5m; April 2008

It is important to put our sector in context. While the Biotech Daily Top 40 Index (BDI-40) fell 55.1 percent in the year to December 1, 2008, the All Ordinaries - Australia's top 500 companies by market capitalization - fell 46.5 percent. The Big Caps of CSL, Cochlear and Resmed climbed 2.7 percent.

We don't want to play statistical games, but adding the Big Caps to the BDI-40, the best 43 life sciences companies fell just 6.2 percent for the year. This is little comfort to the Alchemia staff made redundant or those at Apollo and Agenix, but as a sector we have held up against the mainstream.

The Global Financial Crisis has left the All Ordinaries with seven companies worth less than \$10 million and 16 worth less than \$20 million – far smaller than most BDI-40 companies.

Which brings us to specific score cards. That Progen spent a long time unable to find a use for its \$70 million in cash was a worry, but not deserving of outright condemnation. Dr Roland Scollay was unable to find an appropriate use for Metabolic's \$17 million and following his departure, the company announced a merger with Xceed's Polynovo that resulted in one of several surprising annual general meetings (see separate Metabolic Polynovo update BD; 18 Dec 2008 and Progen Avexa Merger BS 22 Dec 2008).

That said, historic US and UK institutions, Babcock & Brown and the Commonwealth Bank made our sector look cautious, balanced and responsible by comparison.

It's easy to speculate on what companies should or should not do, but without access to the confidential documents that describe the inner workings of those companies, we are just dancing in the dark, as Prof Springsteen might say.

Marc Sinatra and I disagree on the merits of returning cash. A post-war baby-boomer, I like money in the bank. Marc says it is a waste of resources. Let the shareholders decide.

In his analysis of Circadian he says surplus share-holdings and cash should be given back to investors (see *If Marc Sinatra Was King Of Circadian*; 22 Aug 2008). Over several discussions, he won me around to this view, but Progen is different. There is a pool of \$70 million available to our sector. Marc says let the investors decide and if they go to the 19th Century auto industry or 18th Century coal industry, instead, so be it.

We thought Bob Moses' plan to create a single strong company targeting cancer was a great idea and said that Mr Moses and Progen chairman Dr Mal Eutick should be locked in a very small room until they had a deal. This proposal appears to have been overtaken by events.

The sector clearly requires mergers, a proposal everyone agrees to as long as it's not in their listed company. And would someone please give Ventracor \$10 million to complete registration? Any failure of a leading company hurts the whole industry.

Biota chairman John Grant should go and go now

Yesterday, Biota's share price jumped 11.4 percent on the news that director Barbara Gibson had resigned two weeks early. One can only wonder how high the share price will go when chairman John Grant finally understands the meaning of "taking responsibility" for the board's inept handling of the Glaxosmithkline case.

Asked to take responsibility for refusing a \$75 million offer and then being forced to accept \$20 million, he simply refused to understand that shareholders at the meeting wanted his resignation. He said the idea was bizarre. That both *Biotech Daily's* editor and *Bioshares'* editor David Blake are Biota shareholders calling for his resignation didn't seem to compute. He should go and go now.

Biota's board has put the issue of director's competence and the proper composition of a company's board in the spotlight. We have some truly awful boards misdirecting competent chief executive officers and, until last month, Genetic Technologies had a truly excellent board, dismissed at the whim of majority shareholder, Dr Mervyn Jacobson.

Biotech Daily is considering the implications of the Biota, Genetic Technologies and Progen issues and will publish an editorial on boards and directors early in 2009.

Again, some of Australia's biggest companies are worse. Can anyone explain why Kerry Packer's son and a soldier are running our airline and whether these brave decisions by the former Howard Government have anything to do with Qantas's industrial problems and an increasing rate of aircraft incidents and accidents? Then there's always Telstra and the Australian Wheat Board.

Despite problems at the board level, Biotech Daily believes both Biota and Genetic Technologies can be great companies. They will take very different remedies, but it is fair to say the shareholders who wield power are to blame for the problems downstream.

Agenix may return to form, but it has been a disastrous year for the company once focused on Thromboview for deep vein thrombosis and pulmonary embolisms. The main game is now China's hepatitis B market - if all the pieces of the China deal can be put back together again. And then there's the matter of the missing \$4 million, which led to a court appearance by former chief executive officer Neil Leggett, but apparently no charges have been laid relating to the matter. We wish the new board good luck.

Avexa and Ventracor are two diverse companies in the same boat, HMAS Cashstrapped. The problem is running out of cash as their respective drug and device near FDA registration, but it raises the question of why no major player is interested in either technology. How can they have come so far, have done most things right, only to fall at the final hurdle? This is the high risk element of our sector.

Ausbiotech is punching 90% below its weight

Finally, there is the question of industry representation and government subsidies. Why is it that the motor vehicle lobby takes up several pages of newspapers for a week as it harasses Innovation Minister Senator Kim Carr and Treasury and we merit a paragraph a fortnight? We are roughly the same size industries in contribution to GDP and workers.

The data below has been collected by Biotech Daily and is accurate but not definitive. That Ausbiotech has 20 staff including many researchers and does not even know the size of its own sector is nothing less than breath-taking.

Senator Carr's office says the automotive sector is worth \$8 billion a year to GDP – whatever that means – with exports of \$5.6 billion a year, a figure confirmed by the Federal Chamber of Automotive Industries. There are about one million new cars registered each year providing \$25-30 billion a year in sales

Medicines Australia says that in the year to June 2008 the total market for prescription and over-the-counter drugs was worth \$8.73 billion.

This does not include devices, over-the-counter diagnostics, herbal remedies, food additives and the animal health market.

In terms of revenue, CSL earned \$3.8 billion followed by Cochlear (\$602m) and Resmed (\$1.3bn). That \$5.16 billion was augmented by \$223.1 million from Biota (\$45m), Arana (\$39.5m), Sirtex (\$38m), IDT (\$31.5m), Cellestis (\$19.6m), Ventracor (\$17.3m), Genetic Technologies (\$15.7m), Pharmaxis (\$9.5m) and Acrux (\$7m). Blackmores earned \$179 million. To give perspective, BHP and RIO had combined revenue of \$136.8 billion.

In terms of value and employees, compare the unlisted Australian branches of GSK, Merck and Pfizer with Ford, GM, Mitsubishi and Toyota. All are foreign-based, privately owned and don't have to report financial data publicly.

Then compare the research staff at the major institutions and universities working directly on life sciences and compare them to all the car mechanics, sales staff and ancillary industries and I'm sure the numbers are in the same order of magnitude. It is possible that we are actually bigger. And while people can choose not to buy another car, they can't choose not to take a \$30,000 a year anti-cancer drug.

We strongly believe that when the accurate detailed data is collated that we shall see we are punching 90 percent below our weight. Our industry deserves far better representation to demand that the Federal Government fund our 21st and 22nd Century technologies better than smoothing the pillow of the infernal combustion engine whose power train loses 90 percent of its fossil fuel-derived energy before it hits the wheels.

Biotech Daily takes the optimistic view that companies like Alchemia, Acrux, Biota, Chemgenex, Peplin, Pharmaxis, Sirtex and many others are strong and deeply undervalued and that with the inauguration of President Barack Obama the world will be a far better place in 2009. For anyone with cash, it's time to go bargain-hunting.

Tomorrow is the final edition for the year and we return on Monday January 19, 2009 looking forward to a brave new biotechnology world.

Happy summer holidays to all our subscribers and all our readers and may you enjoy Chanukah, Christmas, the Summer Solstice and time away from the desk for whichever reason or deity you choose.

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