



Biotech Daily

Wednesday November 4, 2009

Daily news on ASX-listed biotechnology companies

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MARKET REPORT

The Australian stock market climbed 0.2 percent on Wednesday November 4, 2009 with the S&P ASX 200 up 8.6 points to 4540.1 points.

Sixteen of the Biotech Daily Top 40 stocks were up, 15 fell, six traded unchanged and three were untraded. All three Big Caps fell.

Living Cell was best, up 2.5 cents or 9.8 percent to 28 cents with 10,000 shares traded, followed by Benitec up 8.7 percent to five cents.

Genetic Technologies climbed 7.8 percent; Phosphagenics was up 6.5 percent; Novogen was up 5.3 percent; Bionomics was up 4.8 percent; Cellestis, Heartware, Mesoblast, Peplin and Prana rose more than two percent; with Alchemia, Biota, Chemgenex and Psivida up more than one percent.

Tyrian led the falls, down 0.2 cents or 10 percent to 1.8 cents with 2.6 million shares traded followed by Phylogica down 8.7 percent to 10.5 cents.

Cathrx lost 7.7 percent; Sunshine Heart fell six percent; Cytopia fell five percent; Antisense was down 4.2 percent; Impedimed and Viralytics were down more three percent; Compumedics and Universal Biosensors shed more than two percent; with Genera, Progen and Resmed down more than one percent.

GENETIC TECHNOLOGIES

Paul MacLeman has taken a giant leap of faith to leave the slowly-developing Hatchtech for the controversy-plagued Genetic Technologies.

The two companies could not be more different. The unlisted Hatchtech has some significant investors, including GBS Venture Partners, and is hoping for results on its head lice egg treatment by the end of this year.

Genetic Technologies employs 75 full-time equivalent staff, has modern offices and laboratory space in Fitzroy, a vault of intellectual property, significant and growing revenues ... and Mervyn.

Genetic Technologies' co-founder and former chief executive officer Dr Mervyn Jacobson faces 319 charges of market manipulation, while his daughter Tamara Newing has been charged with 353 counts of market manipulation and Dr Jacobson's son-in-law and former Genetic Technologies' chief operating officer Geoff Newing has been charged with 192 counts. Apart from the February 1, 2010 date with the judicial system Dr Jacobson owns somewhere between 40 and 50 percent of the company.

So Dr Paul MacLeman has two major jobs on his hands, that if he is adroit, he might be able to turn into the same job: running the company effectively to make it cash flow positive and placating the major shareholder. (A related job is reducing Dr Jacobson's holding, but more on that later.)

So far, the boy from Shore (Sydney Church of England Grammar School) seems to be combining both tasks well. Several new deals have been done and although the cash burn to September 30, 2009 was \$1.1 million, receipts from customers were \$1.965 million, with cash in the bank of \$6.6 million, giving at least a year and a half breathing space. The MacLeman household now boasts two listed biotechnology CEOs – wife, Sue MacLeman is the head of Benitec, which has seen its share of disputes over intellectual property, as has Genetic Technologies.

Genetic Technologies was founded on Dr Jacobson's acquisition of non-coding DNA at a time when some people referred to the space between gene sequences as "junk DNA". It turns out the space is as important to DNA as the space between electrons and planets.

Dr MacLeman has been around the biotechnology sector for most of his working life. Aged 43, he completed a Veterinary Science degree at the University of Sydney, worked for Nature Vet and picked up a Graduate Certificate in Engineering from Wollongong because he had to redesign the company's pharmaceutical factory.

Paul has worked for poultry and pig vaccine developer Imugene and was vice-president of Agenix's animal health division. Along the way he earned a Graduate Diploma in Technical Management from Swinburne and a Masters of Business Administration from Macquarie University's Graduate School of Management.

Well qualified and with solid experience, Paul's appointment came as a surprise to most observers in the wake of Mervyn's rolling of his former CEO Michael Ohanessian and the dismissal of his board, then headed by Henry Bosch (BD: Sep 18, 22; Nov 19, 2008).

Six months to the day later, Dr MacLeman appears to be finding his feet and speaks frankly about his relationship with the major shareholder. He acknowledges Biotech Daily's view that Mervyn can either have 50 percent of a five cent company or 19.9 percent of \$1 plus company. Valued by the market at about \$20 million Genetic Technologies is a long way from its \$110 million market capitalization of March 2007.

But to succeed where Michael Ohanessian failed and encourage Dr Jacobson to sell down he has to bridge the "huge void" between the current share price and what Dr Jacobson considers a fair price. The way to do it is "by making the business successful to increase the price to the point where he is interested," Dr MacLeman says.

Dr MacLeman runs through the current and expected opportunities for increasing business for Genetic Technologies and says "operationally we are aggressively pursuing those markets".

Licensing revenues can be highly variable and last year the main contributor to increased losses and decreased revenue was the shortfall on licensing revenue. Mervyn continues as a consultant on licensing, but the company recently hired Dr David Sparling as legal and corporate development vice-president to assist both Dr MacLeman and Dr Jacobson in extending licensing activities, along with other senior appointments.

In his six months Dr MacLeman has re-secured the lucrative three-year contract to provide paternity testing for greyhounds. The high-throughput standardized tests are efficient and provide a reliable income.

The company's BRCA1 and BRCA2 tests for genetic predisposition to breast cancer "could be earning up to \$1 million a year" in licence fees if the company enforced its intellectual property rights. But when Mr Ohanessian did that, causing a minor public outcry, Mervyn reversed the decision and not long after rolled his CEO and board. Mervyn made it clear that the company would not enforce those rights (BD: Dec 2, 2008).

"We still do more [BRCA testing] than any individual institution," Paul MacLeman says.

Last year, Genetic Technologies acquired Frozen Puppies and renamed it the reproductive service business. It has earned about \$790,000 in less than a full year. Originally based in one fertility centre in Calga, New South Wales, the business harvests, stores, ships and inseminates dog semen and has opened sites in Ipswich (Queensland), Baulkham Hills (NSW) and Cranbourne (Victoria) as well as Beijing.

"It will be a one stop shop for pre-breeding management and health," Dr MacLeman says. "We can test for wide range of illnesses and provide breeders with clear tests."

He says what might appear to be a simple request, like selecting coat color "is mind-bogglingly complicated" whereas some of the other tests are relatively straightforward. He says one of the critical tasks is selecting for genetic diversity within breeds to avoid inbreeding.

Dr MacLeman says that in terms of revenue, the company's work is about 40-45 percent animal health and 55-60 percent human health.

Apart from genetic testing for predispositions to breast cancer and colorectal cancer, Genetic Technologies has recently become a distributor for Israel's Rosetta Genomics' tests for cancers of unknown origin, mesothelioma as distinct from other lung cancers and squamous compared to non-squamous cell lung carcinomas.

The company also has a distribution agreement with the Maryland-based Trimgen Corp to distribute its cancer management testing products that measure changes in cancer cells to assist in the effective ongoing treatment of cancer.

"We will do a range of deals in that space to allow physicians to manage malignancies better than they do now, Dr MacLeman says.

He said building the oncology business meant that the company could supply testing products for an area of unmet need in which sales representatives could be directed to clearly known cancer centres.

"The other area is paternity testing in its various guises and we do work for the Department of Immigration as well as Legal Aid," he says.

The company continues its contract to provide genetic testing services for the New South Wales Government and Dr MacLeman hopes to continue discussions with the Victoria Government to provide genetic testing for its police and forensic services.

The patents on the original non-coding DNA lapse over the next few years until 2015, but are all packaged together effectively providing protection for all the intellectual property to 2015. Pulling all the segments together and driving revenues from them will protect Paul MacLeman.

Genetic Technologies was up 0.4 cents or 7.8 cents to 5.5 cents.

UNILIFE MEDICAL SOLUTIONS

Unilife says an increase in share price and the appreciation of the Australian dollar have prompted a reduced share consolidation from 12-to-one to six-to-one.

Unilife said that in September it announced its merger agreement the US entity Unilife Corp to move the company to the US (BD: Sep 1, 2009).

The company said that at the date of signing the merger implementation agreement, its share price closed at 69 cents a share.

In establishing the original consolidation rate, and to ensure that Unilife would be able to maintain the Nasdaq minimum listing price of \$US4.00 a share, the company established a consolidation ratio of 12-to-one "that provided a level of security against any decline which might occur in both the Australian dollar exchange rate and the Unilife share price".

Unilife said that since then, "strong investor demand for Unilife Australia shares in response to the positive events occurring at the company has resulted in a significant increase of Unilife Australia's share price".

"This rise ... coupled with the rise in the Australian dollar's exchange rate versus the US dollar" resulted in the Unilife Board deciding to target a higher US listing price and to revise the consolidation ratio.

One share of common stock in Unilife US will be equivalent to six Unilife Australia shares. Unilife fell half a cent or 0.47 percent to \$1.07.

PHOSPHAGENICS

Phosphagenics says New York cosmetics company Le Métier de Beauté will launch “anti-ageing” products using its tocopheryl phosphate mixture transdermal; delivery technology. Phosphagenics said the products were marketed as the “Peau de Vierge Anti-Ageing Collection” and Le Métier de Beauté would begin “a significant marketing campaign focusing on Phosphagenics’ TPM delivery technology as the primary point of differentiation”.

The products will be sold through more than 40 “high-end retailers including Neiman Marcus and Bergdorf Goodman in the US, the Joyce Boutiques in Hong Kong and Liberty in London”.

The company said the marketing push has resulted in features in women’s magazines which Phosphagenics chief operations officer Dr Esra Ogru said had “an enormous and influential readership”.

“The exposure - as well as the launching of the products in the US’ most prestigious department stores nationally - has been a very exciting entry for Phosphagenics into the lucrative global personal care market,” Dr Ogru said.

Phosphagenics said Le Métier de Beauté’s annual retail sales were estimated at more than \$US5 million, with forecasts the brand will generate more than \$US15 million to \$US20 million next year, with the anti-ageing collection contributing \$US2 million to \$US3 million in first-year retail sales.

Dr Ogru told Biotech Daily that the royalty was an “a profit sharing arrangement”.

The US launch will be followed by a 2010 launch of a skin care line in Australia.

“This arrangement with Le Métier de Beauté allows us to enter the profitable personal care market while limiting our financial exposure and maintaining substantial financial upside,” Dr Ogru said.

“By partnering with Le Métier de Beauté, it allows us to remain focused on our core business which is pharmaceutical development,” she said.

Phosphagenics was up half a cent or 6.5 percent to 8.2 cents with 1.3 million shares traded.

OBJ

OBJ says the Minnesota based 3M Corporation will evaluate its Em-patch technologies to enhance transdermal drug delivery.

OBJ said the evaluation would be conducted by the 3M drug delivery systems division.

The evaluation program is expected to be completed by February 1, 2010.

OBJ jumped one cent or 45.45 percent to 3.2 cents with 74.2 million shares traded.

MEDICAL DEVELOPMENTS

Medical Developments will buy back up to 7,000,000 worth of its shares on issue.

The company said it had a total issue of 51,357,651 shares and the buy-back was for “capital management”.

Medical Developments said the buy-back would begin on November 24, 2009 and continue for up to 12 months.

Last year Medical Developments bought back \$500,000 worth of its shares on issue.

The company said at that time it had a total issue of 56,223,494 shares and the buy-back was for “capital management”. On March 18, 2009 Medical Developments said it had bought back 4,865,843 shares for \$827,193.31 or 17 cents a shares

Medical Developments was untraded at 15.5 cents.

SOLAGRAN

Solagran has told the ASX that it was not aware of any information it had not announced which, if known, could explain recent trading in its securities.

The ASX said the company's share price rose from 16.5 cents on October 30, 2009 to 21.5 cents, a 30.3 percent increase, on November 3, 2009 and noted an increase in trading volume.

Solagran said it could provide no guidance on its financial results for the half year to December 31, 2009 but said it expected to begin sales of Ropren in Russia later this month and the directors were "confident this will deliver material revenues to the group in the first half of calendar year 2010".

Solagran fell half a cent or 2.4 percent to 20 cents with 2.4 million shares traded.

NORWOOD ABBEY

Norwood Abbey has appointed Rohan Boman as a director.

The company said Mr Boman was a private investor with a particular interest in resources and his appointment was in line with the acquisition and back-door listing of China coal-trading activities (BD: Sep 14, 2009).

Norwood Abbey said due diligence was continuing on the proposed acquisition.

Norwood Abbey was untraded at 0.6 cents.