Biotech Daily

Wednesday May 12, 2010

Daily news on ASX-listed biotechnology companies

*** ASX, BIOTECH UP:**
- BONE, GENETIC TECHNOLOGIES UP 11%; COMPUMEDICS DOWN 12%

*** MESOBLAST BUYS ANGIOBLAST, ANOINTS SILVIU ITESCU, RAISES $37m**

*** BIOGUIDE BRIEF: MESOBLAST MERGER 'VICTORY FOR ALL'**

*** EDITORIAL: FEDERAL BUDGET A BIOTECH WIN - NOTHING LEFT TO CUT**

*** IMPEDIMED RIGHTS ISSUE RAISES $7.5m, HOPED FOR $10.1m**

*** BPH'S CORTICAL DYNAMICS BRAIN MONITOR PASSES PARTS TRIAL**

*** BIOPROSPECT PRICES SHARE PLAN TO RAISE $3.3m AT 1.8¢ A SHARE**

MARKET REPORT

The Australian stock market was up 0.55 percent on Wednesday May 12, 2010 with the S&P ASX 200 up 25 points to 4573.0 points.

Seventeen of the Biotech Daily Top 40 stocks were up, eight fell, 10 traded unchanged and five were untraded. All three Big Caps were up.

Bone and Genetic Technologies were best, up 1.5 cents and 0.4 cents respectively or 11.1 percent to 15 cents and four cents respectively on small volumes.

Patrys climbed 9.1 percent; Psivida and QRX were up more than six percent; Biota and Phosphagenics were up four percent or more; Cellestis and Prima were up more than three percent; Acrux, Living Cell, Mesoblast and Universal Biosensors rose more than two percent; with Chemgenex, Cochlear, Novogen, Pharmaxis and Resmed up more than one percent.

Compumedics led the falls, down two cents or 11.8 percent to 15 cents with 4,000 shares traded, followed by Avexa down 7.1 percent to 2.6 cents with 45.0 million shares traded.

Clinuvel lost 6.25 percent; Prana fell 3.1 percent; Impedimed shed 2.3 percent; with Alchemia and Sirtex down more than one percent.

MESOBLAST, ANGIOBLAST

Mesoblast says it will acquire the shares in Angioblast it does not own, has appointed founder Prof Silviu Itescu the group chief executive officer and has raised $37 million.

Mesoblast said it had completed a $37 million capital raising to fund the acquisition and advance operations of the expanded Mesoblast group.

The company said the funds comprised $24 million invested immediately and $13 million committed subject to both shareholder approval and completion of the acquisition offer.

Prof Itescu told Biotech Daily that Mesoblast owned about 33 percent of Angioblast, he owned “about 40 percent” of Angioblast and less than 30 percent of Mesoblast.

Mesoblast chairman Brian Jamieson said the company was “delighted to bring the commercial rights to the patented adult stem cell technology platform under one umbrella”.

“Mesoblast shareholders will derive much greater potential benefit from product commercialization and from the broader strategic partnerships or collaborations Mesoblast will now be able to conclude,” Mr Jamieson said.

Mesoblast said the capital was raised from UK and Australian investors at a share price of $1.70, a 12 percent discount to the closing price on May 3, 2010 and was managed by Southern Cross Equities with Lodge Partners.

Mesoblast said that to acquire the remaining 67 percent of Angioblast not owned by Mesoblast, the company would issue 94.6 million of its shares to Angioblast investors.

Together with Mesoblast’s current 140.6 million shares on issue, post-acquisition the Mesoblast group will have up to 235.2 million shares outstanding.

Angioblast stockholders will have the choice of either taking Mesoblast shares or up to 15 percent in cash and the balance in Mesoblast shares.

The company said the cash component would enable Angioblast stockholders who are subject to US Federal tax to fund the capital gains tax resulting from the transaction.

The acquisition is subject to conditions including Mesoblast and Angioblast shareholder approvals and satisfactory due diligence.

An extraordinary general meeting of Mesoblast shareholders is expected to be held before the end of June 2010.

Mesoblast said that the share price at the close of trading on May 3, 2010, would result in a capitalization of Mesoblast $455 million, not including today’s $37 million capital raising.

Mesoblast’s executive director Prof Silviu Itescu has been appointed chief executive officer and managing director of the group effective immediately.

Prof Itescu told Biotech Daily that the changes would have multiple benefits for the company and its investors.

“The synergies between the companies and having the technology in one company allow the investors and shareholder base to take advantage of the potential of both companies,” Prof Itescu said. “It also allows us to talk to commercialization partners with one voice.”

“Transforming Mesoblast from a biologics company focused on orthopaedic applications to a global leader in the broader regenerative medicine industry should prove to be a pivotal event in the company’s evolution,” Prof Itescu said in a media release.

Prof Itescu said consolidating the technology and assets would streamline corporate operations, strengthen management and assist the rational deployment of resources.

“Mesoblast is now a mature multi-product company with products in late, mid, and early stage development,” Prof Itescu said.

He said the company’s pipeline would be extended from orthopaedics, including spinal fusion and osteoarthritis, to include products for treating congestive heart failure, cardiac arrest, eye diseases, diabetes and bone marrow repair.

Mesoblast was up 5.5 cents or 2.8 percent to $1.99.

MARC SINATRA'S BIOGUIDE BRIEF: MESOBLAST, ANGIOBLAST

The advantages of the ASX-listed Mesoblast and its unlisted US sister company Angioblast merging into one listed company are numerous and include:

* the ability of the two companies to progress with a coordinated strategy, so that the nature and timing of their combined activities can maximize shareholder value;

* free and full information flow between the companies in an area where, due to its infancy, knowledge attracts a premium value;

* the removal of potential conflicts of interest due to asymmetries in the interests of common shareholders, directors and employees of the two companies;

* a broader product offering, leading to a greater ability to tailor multiple product licencing deals to potential licencees;

* an improved chance of eliciting a takeover offer, as the present arrangement means any buyer would have to launch takeover offers for both companies; and

* consolidation and clarity with respect to intellectual property ownership.

The disadvantages are few, of which the most prominent is that the inability of investors to choose between the two companies may lead to some value loss, while theoretically, there may also be a loss of some specialization benefits.

The merger also offers benefits to each group of shareholders. For example, Mesoblast's initial public offer and subsequent share price performance has been very strong. Angioblast shareholders will benefit from the goodwill this has created. Mesoblast shareholders, on the other hand, will become owners of the intellectual property on which the products of their company are based, not just a licencee.

Given the already close nature between Mesoblast and Angioblast, the merger implementation should be about as easy as it can get.

Once completed, the merger will have created a very formidable company structured to benefit all shareholders.

It will also have a truly world class pipeline, with four products in phase II trials.

In my opinion, such a merger represents a victory for shareholders in both companies and Australian biotech, where corporate action is often driven by necessity or a small, but significant, group of shareholders looking for an easy exit.

Marc Sinatra
Analyst

* This brief was derived from a research note contemplating a merger between Mesoblast and Angioblast prepared by Marc Sinatra, under contract, for Lodge Partners.
Neither Marc Sinatra nor Biotech Daily editor David Langsam own shares in Mesoblast, yet.

BIOTECH DAILY EDITORIAL: FEDERAL BUDGET

The Rudd Labor Federal Government's third Budget was primarily neutral for the biotechnology sector – perhaps because there is nothing left to cut.

Apart from the National Health and Medical Research Council grants, the only other programs left after the axing of Commercial Ready grants in the 2008 Budget (BD: May 14, 2008) and the Commercializing Emerging Technologies (Comet) grants late last year (BD: Nov 30, Dec 1, 2009), are the research and development tax credit scheme and the strictly limited funds available through Commercialisation Australia announced by Treasurer Swan in last year's Budget (BD: May 13, 2009).

There's nothing left to cut.

While our sector is in the same boat as all the others who won nothing and lost nothing in this austere pre-election Budget, it is the third missed opportunity in a row by the Rudd Government, Innovation Minister Senator Kim Carr, Treasurer Wayne Swan and Finance Minister Lindsay Tanner.

With a maximum $2 million for early stage trials from Commercialisation Australia and absolutely no thought by the Government on how to increase those funds without drawing on the public purse, as recommended by the Biotech and Related Industries Leadership Group (BD Special Edition: Jul 6, 2009), there is nothing available for advancing phase IIb and phase III trials. Meanwhile, the US Government can provide $US800 million to a single company for a phase III trial cancer. Anyone heard of world's best practice?

And it could have been so different. Instead of wasting taxpayer funds baling out old industries, a portion of the Governments 'global bad mortgage crisis' funds could have established a program for innovative industries.

Speaking of which, Biotech Daily has been puzzling over the concept of a Department of Innovation – a Monty Pythonesque oxymoron if ever there was one. A bureaucracy for creativity? Yes, good joke.

Or as last night's media release from Senator Carr headlined: 'Extra funding for textile, clothing and footwear innovation' – that's a bit like well and bucket innovation, isn't it?

David Langsam
Editor

IMPEDIMED

Impedimed has raised $7.5 million through applications for 11,567,763 new shares in its rights issue at 65 cents a share.

Impedimed hoped to raise up to $10.1 million (BD: Apr 1, 9, 2010) and said $4.3 million was raised through applications in the one-for-eight rights issue with a further $3.2 million in applications for additional shares.

The company said it reserved the right to place the shortfall of 3,951,116 shares.

Impedimed said trading of the new shares would begin on May 18, 2010.

Impedimed raised $10 million in a placement on April 9, 2010.

Impedimed fell 1.5 cents or 2.3 percent to 64.5 cents.

BPH CORP, CORTICAL DYNAMICS

BPH (formerly Biopharmica) says 3.6 percent subsidiary Cortical Dynamics has completed a components trial for the Brain Anaesthesia Response (BAR) monitor system.

BPH said the in-house end-to-end trial was part of the scheduled plan to verify the most recent BAR monitor prototypes.

BPH spun-out the Melbourne based Cortical Dynamics last year returning shares to BPH shareholders who at that time held a further 62 percent of the public unlisted company (BD: Dec 15, 2009).

The company said the BAR monitor generated measures of brain activity to assist medical professionals to monitor the depth of anaesthesia of patients undergoing surgery or being held in a coma.

BPH said the Cortical Dynamics team, lead by Prof David Liley, completed improvements to the BAR system to significantly improve the robustness of the system; improve fidelity of the input signals; increase the quality of the data collected; and enable the BAR monitor to detect a wide range of anaesthetic drug effects.

The company said the developments would "allow for a full suite of testing and calibration trials to occur prior to full production and distribution of the monitors".

BPH said the next test and calibration trial would take place by October 2010 and would consist of healthy subjects participating in a single-dose benzodiazepine trial at Swinburne University of Technology.

BPH was unchanged at eight cents.

BIOPROSPECT

Last month Bioprospect said it had placed 7,820,000 shares at two cents a share raising $156,400 and announced a share plan to raise up to $3.3 million (BD: Apr 30, 2010).

Today the company clarified that the five-day volume weighted average price (VWAP) was 2.109 cents and the 15 percent share price discount meant that share purchase plan shares would cost 1.8 cents each.

The share plan record date was May 7, the plan opens today and closes on May 28, 2010.

In April Bioprospect said that each placement share would come with a free attaching option exercisable at five cents by December 31, 2013.

Today's announcement said that shareholders will be able to take up a "loyalty issue of options" of one option for every two shares held after the plan closes with the same exercise price and date as placement options.

Bioprospect has directors including Elias Leo 'The Gun' Khouri, Sen Sgt Anthony Langdon of the Victoria Water Police and staff of Solagran.

Bioprospect fell 0.4 cents or 17.4 percent to 1.9 cents.