

In this edition...

Starpharma has done it again, securing another significant grant from the NIH in the US. It further validates the company's direction in providing much needed solutions to the transmission of sexual diseases with its dendrimer-based microbicides. For investors, it gives added confidence that the company is cementing its position as a tier one biotech stock.

We also open up discussion on potential merger possibilities following the proposed Alchemia-Mediatech merger, with two possibilities that arguably could be strongly considered. And we update readers on the developments at Cygenics and Cogstate.

The editors

Companies covered: CGS, CYN, OIL, PTD, SPL, VSL, ZTL

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

Starpharma Wins Further Non-dilutive Funding and Validation

Starpharma (SPL: 51 cents) signed an agreement this week with the US **National Institute of Allergy and Infectious Diseases (NIAID)** (an institute member of the US **National Institutes of Health**) for that body to fund a trial of Starpharma's Vivagel in the prevention of Herpes. Starpharma had previously announced a funding agreement with the NIH, in which the NIH would provide funding of \$26 million to support trials of Vivagel for the prevention of AIDS.

Although the actual quantum of funds that will be committed toward the prevention of Herpes trial was not disclosed, what is worth noting about the arrangement is that the NIAID approached Starpharma, and not the other way round. The funding, which as with the first NIH agreement, does not result in any diminishment of commercial rights for Starpharma, can be as seen as something of a coup. It can also be regarded as the validating equivalent, or better, of gaining a partnership with a large pharmaceutical company. The NIAID arrangement is validation that Starpharma's Vivagel is a relevant project area where there are no effective products and the need is very high. The NIAID will also sponsor the filing of an IND for Vivagel for the prevention of Herpes with the FDA.

Vivagel is a vaginal microbicide gel that is applied using a specially designed applicator prior to sexual activity. The active ingredient comprises of a chemical scaffold to which are attached inhibitors of HIV and the Herpes Simplex virus type-2 (HSV-2). Genital herpes is a lifelong infection and is widespread in western countries, with between 15% and 25% infection rates in developed countries.

We estimate that the value of the funding support would be one-third of the NIH grant, or approximately \$8 million. This is because a major portion of the NIH funding is for work, such as API scale-up, toxicology, CMC, and pharmacology studies that would be common to both indications and which would not need to be repeated for the Vivagel Herpes IND filing. Starpharma is capitalised at \$75 million and has an estimated cash of \$16 million at hand.

Bioshares recommendation: **Speculative Buy Class A**

Bioshares

Thredbo Biotech Summit

July 21- 22, 2006



For details, visit: www.bioshares.com.au/thredbo2006.htm

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

Corporate Subscribers: Phylogica, Neuren Pharmaceuticals, Pharmaxis, NeuroDiscovery, Prima Biomed, Biotech Capital, Cygenics, Psivida, Cytopia, Biodiem, Peptech, Starpharma Holdings, Cogstate, Xceed Biotechnology

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