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Healthcare & Biotech Update - Backing De-risked Biotech **Advantage to gold standard, Believable managers, Cash Flow**

January 2015

Ranking of covered companies:

Starpharma (SPL) - Buy

Medical Developments (MVP) - Buy

Phosphagenics (POH) - Hold

Companies next in focus:

Ellex Lasers (ELX)

Clover (CLV)

Sienna Cancer Diagnostics (Unlisted)

Why cover Biotech?...Sector about to deliver Cash Flow with reasonable risk-reward

- PAC Partners re-initiating coverage of Australian Biotechnology Sector in 2013 because there were many emerging companies delivering positive cash flow over the next three years to 2016.

What is focus?...”De-risked Biotech” or “Boring Biotech” with Globally Significant Platforms

- We prefer “de-risked biotech” which makes near term positive cash flow by focusing on tangible improvements which are complementary to Gold Standards
- We focus on companies which have potential to deliver globally significant platforms with broad application across human and/or agricultural markets.

What are our key hurdles?...ABC.

- Solid technical **Advantages** over existing gold standard, and preferably complementary work flow;
- **Believable** managers: proactive, proven, consistent and open; and,
- Clear milestones to positive **Cash Flow** within short term.

RECOMMENDATIONS

Emerging Biotech with Positive Cash Flow:

Clover (CLV) MCap \$66m*, **Ellex Lasers (ELX)** MCap \$38m*

Nanosonics (NAN) MCap, \$198m, **Sirtex (SRX)** MCap \$1,045m

Game Changers with 12 -24 month Cash Flow Catalysts:

Starpharma (SPL) – Buy, High Risk, \$ 1.00/share 12 Month Price Target, 65% upside to Share Price \$ 0.57/sh, MCap \$163m

Medical Developments (MVP) – Buy Medium Risk – EU approval expands market significantly from long term Australian base

Phosphagenics (POH) – Hold, Very High Risk, \$0.11/share PT, +22% to Share Price \$0.09/sh MCap \$90m (\$108m post equity raise)

Avita Medical (AVH), Anteo Diagnostics (ADO) – MCap \$102m, Universal Biosensors (UBI) MCap \$74m, Sienna Cancer Diagnostics* (Unlisted)

* We have reports and models on covered companies and data sheets on Watching Brief Companies. Clover, Ellex Lasers and Sienna Cancer Diagnostics are highlighted in this presentation

Recommendation: Buy, 12 Month Price Target \$2.00/share

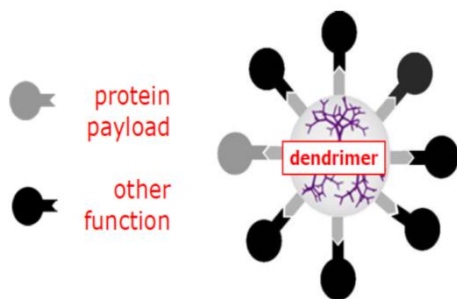
Investment View

SPL has a leading platform technology vs. Australian mid-cap biotech; tangible cash flow milestones within 6 and 18 months; attractive broad applications; and, reputable partners.

Recommendation:

We have a Buy and PT \$2.00/share (DCF).

Dendrimer – Drug Delivery



Source: SPL

Advantages and Believable Management

1 – Barriers to Entry. Many groups started working with Dendrimers in the 1980’s, with Dow Chemical being the highest profile. It is significant that Dow Chemical selected SPL as the “most advanced” of the emerging players in 2005. Dow sold its own Dendrimer development to SPL. SPL has since developed its second generation Dendrimers which are cheaper, and better suited for drug delivery.

2 – Structure. Synthesis of SPL Dendrimers has been accepted by US for commercial application. The Phase 2 and 3 trials of Vivagel® Dendrimer (SPL7013) are the public examples of SPL proving that their Dendrimer structure is stable and safe in the human body.

3 – Drug Delivery. So far the external validation of SPL’s Dendrimer drug delivery potential comes from the large number of top tier partners which SPL across broad human, crop, and animal applications.

Importantly on 14 July 2014 SPL received Special Protocol Assessment from USDA for its Phase 3 Recurrent Bacterial Vaginosis. This validates the stability dendrimer platform, and de-risks the novel treatment process and hurdles. SPL’s two Phase 2 trials have built a solid platform in order to achieve this Phase 3 Trial.

RISKS

- Whilst SPL may have leadership with Dendrimers, there are many Drug Deliver alternatives which will provide competition.
- Bacterial Vaginosis has been a difficult indication for novel clinical trials due to variable usage and impact of placebo gels.

Cash Flow Milestones

30 Jun’14	CASH of \$30m
FY’14F	CASH BURN of \$9mpa
2HCY’14	Commercial sales of Vivagel ® branded condoms in Japan with Okamoto – Approved for marketing on 14 March 2014. We estimate Vivagel ® reaches 1/5 of Okamoto’s 60% market share (\$300m in 2013) by 2020 with a 50% price premium and 12.5% royalty to SPL. \$5m milestone payment CY’14 and building to \$12m/a by 2020.
2HCY’14	Vivagel ® Bacterial Vaginosis (BV) Prevention of Recurrence – Completed and published 205 patient phase 2 trial on 3 April 2013 with delayed recurrence with 1% Vivagel ® . A Phase 3 US trial starts now.
CY’14	Dendrimer platform for Oncology Application (Docetaxel) – Has been partnered (undisclosed). SPL commenced an open study Phase 1 Australian trial in February 2014. Primary objective is establishing maximum tolerated intravenous dose. Half years updates.
CY’14	Dendrimers platform for Agriculture Crop Chemicals – In-house early stage development to be published.
CY’15	Vivagel ® Bacterial Vaginosis (BV) Over the Counter Symptomatic Treatment – Both this & Prevention markets are ~\$1bn/a
CY’15	Commercial sales of Vivagel ® branded condoms ex Japan with Ansell - we expect ex Japan market to be 10x Japan

Office Locations



Melbourne	Sydney	Gold Coast	Adelaide
Level 12, 15 William St Melbourne VIC 3000	Level 9, 56 Pitt Street Sydney NSW 2000	Level 9 Neicon Tower, 17 Victoria Avenue Broadbeach QLD 4218	Level 1, 16 Vardon Ave Adelaide SA 5000
Phone: +6 13 9629 8288 Fax: +61 3 9600 1138	Phone: +61 2 9233 9600 Fax: +61 2 9251 9368	Phone: 1300 331 098 Fax +61 7 5510 4800	Phone: +61 8 7202 1100 Fax +61 8 7202 1199

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield. Buy >20%, Hold 20% - 5%, Sell <5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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